Q2 2019 Analyst Call Transcript

ABN AMRO Investor Relations
Wednesday, 7 August 2019
11:00 CET

Participants: **Kees van Dijkhuizen:** , CEO; **Clifford Abrahams**, CFO; **Tanja Cuppen**, CRO

Conference call replay:
https://channel.royalcast.com/abnamroinvestors/#!/abnamroinvestors/20190807_1

Kees van Dijkhuizen:
Good morning everybody welcome to the investor and analyst call for ABN AMRO Q2 results. I am joined here by Clifford Abrahams, our CFO, and Tanja Cuppen, our CRO.

I will take you through client due diligence, the progress we made in the execution of our strategy, how to how we are managing the bank in a lower interest environment and update you also on our targets. Clifford will go through the details of our second quarter results and run through capital. Tanja will update you on developments in our loan portfolio as well as regulatory focus items.

Turning on slide two to our revenues through the highlights of the second quarter. I am very pleased with our strong financial results and solid operational delivery during the quarter. Our NII is strong despite the low interest rate environment and our impairments are, like last quarter, moderate and well below through-the-cycle cost of risk. Our Basel III capital position remains strong and we are well positioned to manage the transition through TRIM and Basel IV.

We have declared an interim dividend of EUR 0.60 per share, 50% pay-out of half year, in line with the pay-out of last year.

We are making good progress on our strategic execution; our cost savings programs and the CIB refocus. We are taking the necessary actions to continue to deliver in this more challenging economic and regulatory environment going forward. We have further increased our focus on detecting financial crime and this quarter, we recorded an additional cost provision for client due diligence.

Let me take you to slide 3 for more detail on this. I want to be clear that we are fully committed of course to complying with all Anti Money Laundering and terrorist financing legislation. We are pleased with the Dutch cabinet's to jointly combat financial crime. We see this as an important initiative towards improving cooperation between the government and banks and among banks and in an effort to make society even safer and to prevent financial crime.

Our client due diligence foundation is in place and we are further strengthening and enhancing our activities in this area. The CDD workforce has tripled since 2013 to more than 1,000 people fully committed to detecting financial crime and this number will increase substantially in the next few years. The CDD review of the main CAIB portfolios, private banking clients and high-risk retail clients has been undertaken. We are making progress on the exploration of CDD remediation programs in commercial banking and ICS, as announced in Q4 2018.

Recently the Dutch Central Bank determined that we also review all our retail clients in the Netherlands. Consequently, we will undertake further measures and extend our CDD remediation program for which we have made an additional provision of EUR 114 million. The program will ensure that all clients in the Netherlands have an appropriate risk and transaction profile and this will enhance transaction monitoring and the filing of unusual transaction reports. Sanctions, such as instruction, fines may be imposed by the authorities. In general, across the bank we will take all remedial action necessary to ensure full compliance with legislation. Strict compliance is a license to operate and we remain vigilant in detecting financial crime and we will continue to make the necessary investments.

I will now update you on the progress of our strategy on slide 4. Sustainability is a key pillar in our Banking for better strategy and I am very pleased that ABN AMRO was announced as Western Europe's best bank for Sustainable Finance by EuroMoney this summer, a clear recognition that every part of the bank is looking to have an environmental or social purpose.
We have received also the award for the Netherlands best investment bank for local leadership, emphasizing our strong local market position and focus on sustainability in terms of profitability as well as impact on the environment. During the quarter we invested in two solar projects and enhanced our front office to Casy, to accelerate sustainability shift for our clients.
We want to reinvent the customer experience and continuously look for partnerships that can enhance the service to our clients. A good example is our recent partnership with YES Corporate Finance to serve our SMEs with M&A advice.

On the next slide, I will update you on an example of customer experience and our IT transformation.
We are a front runner in video banking which is a key enabler in moving clients through digital channels, driving operational efficiencies while improving Net Promoter Scores. We are seeing high adoption by a retail clients; two thirds of our mortgage meetings are done via video banking. For Private banking clients the first adoption is good for 20% and Commercial banking has just started to roll out video banking. We aim to do the majority of clients via video banking by 2020.
We are steadily reducing IT spend to move to close to 12% - 13% of IT cost/income ratio in the coming years. We are increasing the use of cloud-based services and have started to further transform IT towards smaller teams combining development and operations, or DevOps. Further streamlining and automating the process of developing software will lead to significant efficiencies.

Now I would like to update you on the interest rate environment and the actions we are taking on slide 6. You all know the interest rate environment sharply deteriorated. The 5-year SWAP rate at the end of June for instance decreased by 24 Bps. versus Q1 2019 and 56 Bps. since our Investor Day last November. This mainly impacts our deposit margins, as there is limited scope to reduce deposit rates further and it is hard to pass on negative rates. In contrast, our asset margins have remains resilient across client lending and we remain focused on margins over volume.

I am pleased with the development in our books. We saw a strong performance in our mortgage book and our market share is now at 17% from 14% last quarter in the last quarter of last year. We expect it to further improve. We also saw some growth in our Commercial banking loan book. Both reflect the healthy Dutch housing market and the broader economy. Nonetheless, assuming current interest rate expectations we expect ongoing pressure on our NII going forward. Clifford will elaborate on this. We are working hard to mitigate the NII headwinds by 1) developing more fee business, by focusing on originate-to-distribute platforms, investing property investment products like Kandu, partnership initiatives and cross-sell. This quarter we started our originate-to-distribute platform for 30-year mortgages and 2) delivering on existing cost programs and looking into further cost actions.

Our cost/income ratio is under pressure due to both low-for-longer as well as an increase in regulatory compliance costs, despite our mitigations. Therefore I regard our 56% - 58% target for next year as very challenging. We remain focused on our financial targets in this more challenging environment.

We are strongly capitalised on the Basel III and well-positioned for Basel IV. Our Basel IV ratio is largely unchanged versus year end 2018, excluding profit accrual. We see more regulatory focus on capital regulation and that focus is much broader than Basel IV, namely TRIM and model reviews, NPE and provision reviews as well as the effects of the worsening economic outlook across Europe. We have already booked some additional RWAs reflecting TRIM and model reviews and this quarter we recorded the supervisory capital deduction of EUR 0.2 billion following the ECB review including provisions. We expect further regulatory impact going forward. We actively engage with the regulator and our prudent capital management reflects the current economic and regulatory outlook, as well as our approach to sustainable dividends.

Our interim dividend is set in a mechanical way being 50% of our half-year profit in line with last year's pay-out resulting in EUR 0.60 per share. We are within our capital target range and expect to be well placed to consider additional distributions and pay out at full year results.

Now, I would like to hand over to Clifford to take it you through our second quarter results.

Clifford Abrahams: Thank you. As Kees mentioned, we are pleased with our strong second quarter results and net profit of EUR 693 million euros, slightly higher than last year. This quarter our operating income increased mainly due to strong NII despite the low interest rate environment. Operating expenses excluding CDD provisions continue to trend down, reflecting cost savings and lower FTEs. I am pleased that impairments are moderate this quarter at 18 basis points. Tanja will give you more background on this.

I will now guide you through the individual line items on the next slides but first, our client lending on slide 9.

I am pleased that our mortgage volumes are somewhat higher this quarter. New production increased by around 40% compared to Q1, while redemptions were stable. Our market share recovered to 17% this quarter and is rising from here into Q3. This reflects improved mortgage market conditions, as we remain strictly focused on margin discipline. We are delivering on our CIB refocus and improved discipline. As a consequence, our CIB client loans decreased further in the quarter mainly in Trade and Commodity finance, while SME lending saw some growth reflecting the resilient Dutch economy which continued to outperform the Eurozone. We expect this growth to continue in line with Dutch GDP.

Q2 net interest income is strong this quarter and as you can see on the right, this reflects lower liquidity management costs and positive one-offs offset by lower interest rates. We estimate the impact of lower-for-longer to be around EUR 13 million this quarter compared to EUR 10 million in Q1. Interest rates have declined further this quarter. Assuming current interest rate expectations, we expect around EUR 20 million euros sequential quarterly NII impact into 2020 mainly through lower deposit margins. The increase in NII in Q2 is largely driven by the normalisation of liquidity management costs, as our Q1 non-euro liquidity position was at a temporarily high level reflecting Brexit readiness. The risks of a no-deal Brexit in October remain and we have prepared for this but as we have made changes to our liquidity management approach, we do not expect any large movements in NII in the future. The remainder of the increase in NII of EUR 62 million in the quarter is related to various small positive developments in Q2 of which EUR 45 million related to incidentals. Though I consider the normalised level of NII this quarter to be somewhat above EUR 1.6 billion, for the remainder of this year we expect NII to be around EUR 1.6 billion per quarter. Kees explained earlier that we are working hard to mitigate the impact of the low interest rate environment.

Now turning to fees and other income. These are higher compared to last quarter. Excluding the effect of the sale of Stater, since we lost one month's contribution in June of around EUR 7 million. We expect total fees to remain stable at around EUR 400 million in the short term, growing modestly after that as the growth initiative mentioned by Kees starts to kick in.

Other operating income remains stable at around EUR 100 million in the quarter excluding the gain on the sale of Stater which was around EUR 130 million. For now, we feel comfortable with our guidance of EUR 125 million per quarter for other operating income.

Now moving to costs on the next slide. I am pleased with our performance on costs which continue to trend down. As you can see from the left-hand chart personnel expenses continue to decline reflecting lower FTEs. Other expenses, excluding incidentals and levies were slightly higher compared to Q2 last year as IT investments are high this quarter. The CDD provisions in Q2 and Q4 relate to external resources only. In addition, these specific programs will require internal resources which will be expense when incurred. Alongside this we see our running costs for compliance increasing further. Altogether, quite some cost headwinds from compliance building up.

In the right-hand chart you see we have realised further cost savings of EUR 54 million versus Q2 last year, bringing total cost savings delivered since 2015 to a run rate of almost EUR 800 million. As you know we target a total of EUR 1 billion cost savings and we are on track to reach a cost base of around EUR 5 billion by 2020 and we are on track to reach a cost base of around EUR 5 billion by 2020. As Kees explained, we are working hard on further cost actions to mitigate general inflation and increasing regulatory and compliance costs.

I will now hand over to Tanja to pick up impairments on slide 13.

Tanja Cuppen: Thank you, Clifford. The second quarter impairments are moderate, like Q1 and amounted to EUR 129 million with a cost of risk of 18 basis points.

In CIB there were no material impairment charges for energy offshore and diamonds, reflecting our active de-risking. The charges and CIB were spread over several smaller industry sectors. For diamonds, we have further reduced the loan book by around 20% this year. CB impairments were low, reflecting the healthy Dutch economy. The lower coverage ratio for mortgages is a result of the refined default definition for regulatory purposes, relating to unlikely-to-pay triggers. This led to higher stage 3- loans and as a result to a lower coverage ratio but did not affect the portfolio quality. We reconfirm our full year expectation of below the through-the-cycle cost of risk of 25 to 30 basis points.

I will now update you on regulatory focus items on slide 14. Kees already mentioned the more demanding regulatory environment and I will update you on three other specific focus areas of the regulator, starting with non-performing loan regulation. Although we are a low-NPE bank, we are impacted by the new rules. The Pillar I or prudential backstop regulation came into force in April of this year and prescribes minimum loss coverage for newly originated non-performing loans as of April 2019. The ECB also published some additional guidance which applies to loans defaulted after April 2018. We expect the combined impact of the prudential backstop and the ECB guidelines to have limited impact at first, gradually building up in later years. However, the supervisor expects us to phase-in minimum coverage levels for the existing stock of NPEs during the period for 2020 to 2024. Separately, following an ECB review we took our supervising capital deduction of around EUR 0.2 billion this quarter, ahead of the phase-in of NPE minimum corporates.

During the phase in from 2020 to 2024 we estimate the annual impact to be of a similar order of magnitude. There are some uncertainties here and we are working on mitigating impacts to restructuring, work-out and loan sales. But the NPE implementation will have a meaningful impact on capital generation but should not materially impact our current strong capital position. NPE and provision reviews impact capital and so are relevant for Basel III and Basel IV and leverage ratio.

Let me get to TRIM. TRIM is a regulatory assessment of harmonised internal RWA models. So far, we have included the impact of mortgages and market risk models. Currently, our corporate lending and specialised lending portfolios are in progress. We have already included some add-ons in our RWAs, reflecting preliminary feedback. We expect TRIM to be finalised in the course of 2020 with further impact on Basel III RWAs. TRIM and model reviews are a clear focus for us, the regulator and our approach to capital management. However, they are not expected to materially impact Basel IV fully-loaded RWAs, for which we are already well capitalised.

Earlier this week, the EBA presented its response on Basel IV implementation using the quantitative impact study of European banks. The response remains close to a full and unconditional implementation of Basel IV. We remain comfortable that our Basel IV assumptions and approach.

I will now hand back to Clifford who will take you through the capital ratios on slide 15.

Clifford Abrahams: Thank you, Tanja. On the Basel III capital position the quarter remains strong with a CET1 ratio of 18%, excluding half-year profit and well within our target range. If we had accrued half-year profit in line with the pay-out ratio of last year's 62%, our CET1 ratio would have been 18.4%. Compared to last quarter the CET1 ratio excluding half-year profit remains stable reflecting a decrease in RWA offset by the additional supervisory capital deduction.

It is good to see CIB now operating around its targeted RWAs excluding TRIM and model-related add-ons, reflecting the refocus. The legal merger between group and bank has been finalised benefiting the leverage ratio, which is partly offset by the additional supervisory capital deduction. As Kees said, we have a strong and stable Basel IV capital position at around 13.5%, again excluding half-year profit and excluding planned mitigating actions all within our capital target range and expect to be well placed to consider distributions above the 50% pay-out of sustainable profit at full year results.

I would now like to hand back to Kees to update on targets.

Kees van Dijkhuizen: Thank you, Clifford. Our financial results year to date and Q2 are strong. Our returns are good and our capital position is also strong. Our results reflect the benefit of our strict pricing discipline and our operational plans delivering.

Going forward, our cost/income ratio is under pressure due to both lower-for-longer as well as increasing regulatory and compliance costs. Therefore, as said, I regard our 56% - 58% target for next year as very challenging. We expect to operate at the low end of our ROE target range of 10% - 13%, while low rates persist.

Our capital position and capital generation remained strong and we are well-positioned to manage the transition through TRIM and Basel IV. We recognise the importance of distributions to shareholders. We want our distributions also to be sustainable. We announced an interim dividend of EUR 0.60 cents, a 50% pay-out in line with last year's interim and are well placed to consider additional distributions on top of the 50% pay-out at full year results. We are focused on our financial targets in this challenging environment.

Before we go into Q&A I would like to briefly recap the highlights on slide 17.

As said, I am pleased with our strong financial results and solid operational delivery this quarter. We remain focused on our financial targets. At the same time, we see headwinds from the economic and regulatory environment and we are taking the necessary actions, like further strengthening and extending our CDD remediation programmes.

Finally this quarter I announced that I will not serve a new term of office following the end of my current term, which will expire in April 2020. I remain of course fully committed to further accelerating the bank strategy and pursuing our purpose together with our employees and clients in the months ahead.

I would like the operator to open the call for questions.

Robin van den Broek (Mediobanca): Good morning everybody. Now logically, the first question is on NII. I think your 20 million sequential drop per quarter implies roughly EUR 6.2 billion for 2020. I was just wondering if you could talk a bit about the assumptions that are underlying that guidance. Maybe you can specify it on loan growth, Euro swaps curve and margin expansion. During the IR call this morning, you highlighted that it assumes basically 20 Bps. of ECB rate cuts going forward, but I was under the impression that your replicating portfolio of 185 billion basically as is invested between the two to four years Euro swaps curve. I was under the impression that that gives most of the NII headwinds. So, any confirmation there would be helpful.

My second question is on the AML-KYC efforts you have done. It seems that these are imposed by the Dutch Central Bank. You also make a comment of potential fines. I was just wondering how comfortable are you on that specific case? Can you confirm or deny whether there have been any reviews into your operations over the last years whether or not criminals have been able to abuse your system without your cooperation? Any comments that would be helpful. Thank you.

Clifford Abrahams: On NII we guided to EUR 20 million sequential reduction as you say. The way we have done is we have looked at our views of future interest rates and we publish those as a bank, ABN AMRO. We compare that to the current interest rate environment, the yield curve, the swap curve that Kees showed on his slide. Those are pretty much in line. We saw rates coming down further through July and these views I set out reflect our views broadly at the end of July. The ECB rate cuts that the market anticipates are reflected in our view of interest rates and also reflected in the yield curve going forward. Clearly if that turned out differently the yield curve would be different. But then we apply that yield curve to our replicating portfolio as you indicated. That results in a smooth impact from NII from declining rates. So the headwind, the way we think about the headwind is the is the current 5-year swap compared to the swap five years ago, divide that by 5 and that gives you an idea of the annual impact. And we have translated that into a quarterly net interest income figure to arrive at 20 million per quarter. So, I have made the point that that is an up to date figure. We talked about around ten in May, because interest rates were low then and they are just lower now. So we think it is helpful to update it but frankly, it should not come as new news. What we are doing is being transparent on the indication of the impact on NII. We have assumed a flattish balance sheet for the rest of our loan book and asset margins broadly as now, and no benefit from possible tiering from the ECB. Things may turn out differently but that should guide you to risk and opportunity in the NII figure I gave earlier.

Robin van den Broek: Clifford, maybe one follow up on that. Thinking your non-maturing profit and in the presentation last year you were more referring to the 2-4 years Euro subs investments horizon and now you are applying 5 years.

Clifford Abrahams: The way we think about it – to simplify things – is a duration of around 3, so an average duration of 3. Each year you have a maturing, a 5-years swap from five years ago and then a new vintage that struck today. So that should give you an idea of how that sort of pipeline works its way through and consistent with our presentation of last year.

Kees van Dijkhuizen: Robin, to your question around AML-DCC: indeed, the Dutch Central Bank did an investigation like they do also with other banks. The Dutch Central Bank did an investigation like to do also with other banks and then did with us. And, as I mentioned before, in private banking already before the Panama Papers a couple of years ago and also in international corporate banking, we did this AML-CDD work already. We have intensified as you know in Q4 our work with respect to the credit card business we have and also Dutch corporates. The last portfolio is Retail. Of course we have an approach there, and of course our all clients are in the transaction monitoring systems, but the Dutch central bank wants us to do that quicker and different here and there. That is the reason why they have now told us to do that. We are discussing the timeframes. We have taken in the provision of 114 and also for transparency reasons we have mentioned that a sanction like for instance an instruction and/or fines may be imposed by authorities. We have no indication about any finding at this moment in time and level. So we cannot say more about that.

Robin van den Broek: Thank you!

Farquhar Murray (Autonomous): Good morning gentlemen, just two questions from me. Both actually relates to the NPE-coverage discussion outlined on slide 14. First, 0.2 billion in Q2 19 is clearly a capital deduction but could you actually be clear whether the outstanding fees components over 2020 to 2024 also capital deductions or instead an increase in the capital required presumably under Pillar 2?

Secondly, could you give any colour around which books are driving the impacts we are seeing? is it coming from low coverage so perhaps the mortgages, or is it coming from longer vintage NPLs, so the diamond book?

Tanja Cuppen: On your first question with respect to NPE and how that will be taken in the future: that is still a topic of discussion. For now the most conservative approach is to take it as a capital deduction. But this may change over time when discussions develop further.

Could you repeat your second question on NPL?

Farquhar Murray: I am trying to understand which books in terms of loan books are actually triggering these impacts. Is it coming from low coverage books such as the mortgage book or is it coming from longer vintage NPLs, for instance perhaps the diamond book?

Tanja Cuppen: It is really across the board and it is very much focused on our collateralised lending. We are well collateralised and provisioning levels can be lower than in the end the 100% after seven years of prudential backstop that we need to take. I would say it is more in the corporate space than in the mortgage space.

Farquhar Murray: Thanks.

Raul Sinha (JP Morgan): Good morning. Can I just go back to what we have been discussing on the call and then firstly on the NII? Can you talk a little bit about what management actions or mitigating impacts there could be to this 20 million replicating portfolio have been? My understanding seems to be that this is the headwind that you are getting from the replicating portfolio and obviously against that you probably got some asset spread widening and higher mortgage market shares. So, could you help us think through how big the impact of these mitigating actions might be?

Clifford Abrahams: I will take that. We wanted to be clear on the impact of deposit margins and that reflects the 185 billion portfolio that we have in respect to deposits. That is a big item. The elements that can mitigate that impact are volumes – Kees talked a bit about the volumes that we are seeing – and we are encouraged by our performance in the mortgage market at good margins. But that in order of magnitude is a smaller figure. We need to be realistic about that in terms of volume growth. We are also cautious about accelerating growth on the asset side at this point of the cycle.

Around margins there is an interesting development. It is clear that margins or mortgages are much stronger now than they were during the last cycle. We are pricing for our returns and we will only do mortgages if we see adequate returns. But it is possible that the low interest rate environment and the challenge on deposits is feeding through to price discipline across the market on the mortgage side. So, we are currently seeing benefits from that. We have also indicated opportunities around fees. So, the figures we have given reflect our view of the current market. If the market changes, as the overall competitive position responds to low deposits, clearly we expect to benefit from that.

Then lastly, costs. We have been consistent and our track record shows that we remain disciplined on costs. Our guidance there is maintained.

Raul Sinha: That is really helpful. Can I ask a second one please on customer due diligence? Are you willing to put any kind of figure on the FTEs that might need to be added? Obviously, you talked about the challenging cost/income ratio for next year but you did not talk about below 55% aspiration. I think you had

2022 there but obviously, that would also be impacted to some extent. Or should we think of that still as very much a target?

Kees van Dijkhuizen: With respect to C/I I would say that they are both still targets. We have not withdrawn from those targets but of course the 2020 is the closest by. As we mentioned, due to the developments we see this as becoming very challenging. When we mentioned the 2022 on the Investor Day in November last year, we also mentioned that it was based on existing economic and interest forecasts at that time. Those are of course quite different than today, so we have not yet updated yet. It is still three years ahead, so who knows. Of course, the interest environment is completely different right now but we have concentrated ourselves on 2020.

Regarding your question on FTEs we are working on that. It is not so much a constraint money-wise. It is more that we want to add those people in a way that it is efficient and that they can do a good job and that they are not there without being properly guided to what to do. I would say there will be a couple of hundred at least in the coming years.

Raul Sinha: Thanks very much.

Benoît Pétrarque (Kepler Cheuvreux): Good morning. On your NII guidance, I would like to talk a bit more about mitigations, especially around the pricing of deposits. Obviously, we are in a negative interest rate environment; what is your view on the pricing of deposits, maybe moving into negative territory in private banks? We have seen many banks or at least a couple of banks moving into negative territories, also some very close competitors to ABN. What is your view on that? Will you consider that? I just wanted to make sure that it not in your assumptions. Also, what will be the impact of 20 bps. application of the tiering on your ECB money on NII? That would be useful.

My second question is on the NPEs. You are working around mitigation but I was wondering if you could talk a bit more about the potential impact of the mitigation actions. Are you planning more active or aggressive restructuring or even sales of exposure in the coming months?

Then finally on Basel IV. Where are you on the 20% mitigation around Basel IV risk-weighted assets?

Kees van Dijkhuizen: Thank you, Benoit, I would like to make one preliminary remark and then please, Clifford and Tanya, could you answer the questions?

We are cautious in communicating rates. We once had a remark from the competition authorities that they do not like financial institutions actually to guide too much around rates because your competitors of course also listen in to these calls. That is actually why we are cautious with respect to saying we are going into negative territory because that also gives guidance. Having said that, perhaps Clifford can say a bit more about it?

Clifford Abrahams: Let me pick up some of the other points. On our general savings account, we still pay two basis points to Retail, so we lowered that from three to two and one basis point is about 10 million per annum. In the Private Bank, for very large balances, it is common practice in the Netherlands to pass on negative rates. If you have a look at websites it is clear, so that practice is already there. Corporate clients pay negative rates already, in CIB and the Commercial Bank.

Benoît Pétrarque: It seems that clients with balances of EUR 2.5 million also get 2 bps at ABN and I was wondering if this is correct.

Clifford Abrahams: I am not going to comment on particular thresholds. I made the point that retail and general savings are 2 bps. I think I used the words ‘very large clients’; maybe we are thinking about different numbers here, Benoit. It is an exception on the Private banking side, currently.

On tiering, I would note that we have 30 billion balances with central banks, currently. You can do your own numbers. It is not clear on what rates would apply to what balances in particular …

Kees van Dijkhuizen: If at all!

Clifford Abrahams: If at all, indeed! But work that out. The numbers are disclosed in our 2Q report.

On Basel IV and our approach to mitigations, we have indicated 20% as you say. As and when they are delivered, we reflect them into our estimate of our current Basel IV number. We have not given the number actually in Q2. We said it was around the year end at 13.5% but our current figures includes quite a small element of mitigations that is moved from a kind of opportunity to a fact. In fact, our list of mitigations continues to build as we get more experience and time to study it. Broadly speaking, that 20% remains intact. The comment Kees mentioned is of our Basel IV being unchanged from year end, excluding retained earnings. We gave that figure to be around 0.4% in respect to Basel III, so it will be around that, a little bit lower from Basel IV. So you can see we are really quite comfortable under Basel IV currently.

Tanja Cuppen: And then on NPE: as said, we are working on mitigating actions. We are already working on the velocity in our NPE portfolio, the normal work-out but also loan sales and portfolio sales. You have seen that in the past already. So, I do not expect any extraordinary actions at this stage. You need to remember we are a low NPE bank with 2.3% in stage 3 and these are low levels that we are comfortable with.

Benoît Pétrarque: Thank you very much.

Benjamin Goy (Deutsche Bank): Good morning. Two questions please, from my side. First on impairments; would you call for the offshore, energy and diamonds book the worst is behind us and we should not expect any hiccups in H2, but also in light of stage 3 loans being down in the Corporate book but stage 2 is up, but how is the outlook for H2?

My second question is on fees. You mentioned the 400 million run rate in the near term. Maybe you can remind us what are the key initiatives that we should expect to first pick up and drive fee income growth from this level?

Kees van Dijkhuizen: Thank you, Benjamin. Tanja on impairments and Clifford on fees?

Tanja Cuppen: We have definitely de-risked in the sectors that you mentioned, so offshore energy, and diamonds but we still focus on these sectors. These sectors are still under pressure, so I do not say we do not see anything anymore there but the risk has definitely been reduced.

You asked a question about stage 2 and our Corporate loans. As I mentioned last quarter, we indeed see a little bit that the watchlist is slightly increasing. We do not call it a trend but you see some pressure, given also the slowdown in the economy. But it is a slight increase.

Clifford Abrahams: Let me comment on fees; they are around 400. I mentioned one month of Stater is 7, so three months is around 20. So, we are seeing some re-basing of fees to around 400 million. I just quickly run through fees across the businesses. All our businesses are focused on fees, for different reasons. Let me give some examples. In the Retail bank, we launched a week or so ago our originate-to-distribute proposition for 30-year mortgages. That is new to the bank. We are optimistic about that making a meaningful contribution. In the Private bank we saw positive net flows in Q2 and some recovery of the market. We have obviously seen a set-off back in July but our fees are struck generally at quarter end for the next quarter or six months. So, that will help in the short term. And then we expect to see the contribution of our acquisition of SocGen Belgian business and further acquisitions, should we do those in Private banking going forward. On the Commercial bank, Kees gave an example of a partnership that we are pursuing. Those are examples of fee-generating propositions. The Commercial bank (CIB) has already commenced originate-to-distribute, so we get an example on the commercial real estate side. Where we see the market perhaps being a bit at the end of the quest cycle and we are concerned our own risk appetite, we take the opportunity to use our platform of relationships to originate assets, earned fees in partnership with another financial institution. We are looking to do that in a more meaningful way in the Corporate Bank, where we have been building our capability over the last few quarters. I am quite pleased with that and see a considerable potential to do that over the next few years. That will come through slowly but build up over time over the next few years. That should give you a flavour of the momentum that we have on fees. There is a lot of work going on and that will come through over the next number of quarters.

Benjamin Goy: That is helpful, thank you. Just one follow-up. The stage 2 increase was rather broad-based, so no specific sector or anything?

Tanja Cuppen: No, we do not see any trends in specific sectors.

Benjamin Goy: Thank you.

Stefan Nedialkov (Citigroup): Good morning, two questions on my side. Let me start with NII and then front book versus back book margins. Could you provide some colour in terms of mortgage lending, corporate lending, what you are seeing in terms of the alternative mortgage providers, are you more focused on the shorter end still, are you seeing pricing discipline across the whole curve or only at certain points?

My second question is on the NPE capital deduction. In terms of the tools at your disposal, is it fair to think that you might be able to find some fire power in extra deleveraging in the CIB business, beyond the 5 billion of reduction that we have already seen? Maybe some other businesses are still quite low-returning, especially in the current low-rate environment. Could we see a bit of RWAs taken out of that to offset the NPE capital deduction over the next couple of years?

Clifford Abrahams: We are pleased with our margins on the front book mortgages. They picked up a little bit and that has allowed us to improve our market share. So, I would not call out particular segments, as we are priced to deliver our hurdle rates with very little cross subsidy. So we can speculate on the reasons for that but we are seeing good margins in that area. The overall margin of the book is pretty constant quarter on quarter. That is true on the Corporate side. I think on CIB we are seeing decent margins because we are refocusing and on the SME-side we are just cautious about some of the end-of-cycle behaviour. We are seeing some evidence of weakening terms, financial and non-financial and we are staying disciplined and our margins broadly consistent with the back book currently.

Tanja Cuppen: Let me comment on NPE. First, it is important to know that for the current RWA reduction that we are doing we are using a risk perspective there as well. We look at the higher-risk segment in that RWA reduction exercise. Secondly, it is important to consider as well in terms of the impact of NPE that this mainly impacts when NPEs get quite old, say over seven years. You see that happening more at the smaller end of the portfolio, so think about CB as opposed to CIB where we have more mitigating actions available. So, that is something we take into consideration as well when looking at our portfolio.

Clifford Abrahams: Can I comment on the RWA reduction in the Corporate bank? Stefan, you asked if there is scope to reduce it further. We are pleased with the actions the Corporate Bank has taken to date. We have delivered on our target that we announced last year. We would like to see that stabilising around that level. You have seen already some benefits of that action already coming through in terms of the ROE is picking up. We are pleased with that. I do not expect or plan for further material reductions from here. We want to see the benefits of the refocus taking place, the cost reductions coming through as well as the improvements in the operating model that I alluded to earlier. We are pleased with the progress that that business is taking currently.

Stefan Nedialkov: Great. Thank you!

Nick Davey (Redburn): Good morning, everyone. I have three questions. First, there have been a couple of passing comments about looking again at costs or thinking a bit more about costs. I appreciate you are sticking to the 5 billion of cost guidance when compliance costs are rising but I just wondered if you had in the calendar between now and the end of the year a kind of more formal revisiting of the cost plan in light of this [bearishness on revenue or was it a bit more and just a generic comment?

The second question is on market share trends in the Netherlands. I take your point that over time you have aimed to get back to a front book market share in line with the back book but if we take it was we read your NII guidance you are talking about 4% NII decline next year. My question would be, in that kind of a terrible environment why care at all about market share and why not do absolutely everything you can on price to protect the P&L and worry about market share later?

The third question would be just around the language on dividend which in the outlook statement is retained. You still see yourselves as well positioned to consider pay-out above 50%. Obviously, there is now the comment about potential sanctions on the KYC-element, so did you review the dividend language into this quarter? I know it is early in the year to be thinking about this but I just wondered A) how long this Retail review might take and B) what it would take for that dividend language to be changed, if at all.

Kees van Dijkhuizen: Clifford, if you can do the cost then I can do the market share and the sanctions.

Clifford Abrahams: On costs, all I can say there is that we set out our cost plans at the November Investor Day, and that our approach to cost management is a continual focus on consistent improvement. Do not expect big-bang announcements in response to one quarter reduction of interest rates. I mean we are focused on our financial targets, and Kees indicated they are challenging. We also said that we are working hard on cost discipline. And that is the behaviour you could expect going forward, which is a sustained approach to optimising costs, not big bangs.

Kees van Dijkhuizen: With respect to your remark about 4% decline NII and then the market share discussion around mortgages: indeed, the decline around NII is, as Clifford explained, driven by deposits and the replicating portfolio there. With respect to the asset side, it is more that with respect to volumes and margins, we more or less expect a flattish development in both ways. But our largest portfolio is mortgages. As Clifford mentioned it already, we are not predominantly market share driven. As you know we had market share more than a year ago, which was 20%, and we went down to 14% due to discipline. Our drive is whether we can make hurdle and we stay disciplined on that. What we have noticed now in Q2 is that we can both improve our margin. Our margin on new production in mortgages in the second quarter was higher than the margin in the first quarter, while also increasing market share from 14% to 17%, while we expect that trend actually to continue in the third quarter.

At this moment in time, of course, no guarantee in the future, we work from a disciplined approach, make good margins and then the market share is more or less a result. But of course, we are happy when it increases because in the second quarter now, our mortgage book decreased compared to a decline in the first quarter. I hope that gives an answer to your questions.

Then with respect to dividends and then the language around being well positioned: that language has not changed yet due to the sanctions remark, because we do not know anything about that at this moment in time.

Nick Davey – Redburn: Thank you very much. Any idea of timing of the retail review?

Kees van Dijkhuizen: No. Not really.

Nick Davey: Thank you.

Bart Jooris (Degroof Petercam): A lot of my questions have been answered, but some follow-up here. Today it was announced that the DNB expect banks to look at also clients that have legal tax avoiding schemes in place. Do you expect any further impact on that regarding your KYC - CDD costs? Also, could you give us a reason why the DNB asked you to speed that up? Is that company-specific or is that sector specific?

And then on impairments. You made a lot of comments on the worsening outlook of the economy. Do you have any IFRS9-impact already in your second quarter impairments or do you expect any in the remainder of the year?

Kees van Dijkhuizen: With respect to legal tax avoidance, our stated policy has been already for some time is that of course tax evasion is not allowed anyhow, but also with respect to legal tax avoidance we are discussing with clients that we like them to have a tax treatment around the products they have from our bank, which is in line with that product. To put it differently, all kind of fancy structures around it, we are not fond of. We discuss that and that is part of our tax policy as a bank. It is also one of the metrics that we take into account with KYC around clients'. Tax behaviour.

With respect to whether this is sector specific? It is the Dutch Central Bank and the Dutch Central Bank focuses on banks and insurance companies, so they do not make remarks about companies, but...

Bart Jooris: Sure, but the fact that you have been asked to speed up the review of your Retail clients, is that something that is especially for you or does it also take place at for instance ING?

Kees van Dijkhuizen: We do not know, because we have now been transparent about our case. And actually, we do not know about other banks.

Tanja Cuppen: And then your question on provisioning levels. You explicitly referred to IFRS9 stage 2 provisioning. As I mentioned, we see a slight increase into Stage 2, but the provisioning level there is with EUR 179 million. It is a limited amount. Maybe it will increase somewhat based on a more negative outlook, but I do not expect that will be significant in 2019.

Jean-Pierre Lambert (Keefe, Bruyette & Woods): Three questions, please. The first one is on the actions you can take on the deposit front. You sold some MoneYou activities in Belgium. Can you sell in other countries? Is that under consideration? What is the sensitivity of those sales in terms of NII impact? Then the negative rates, what are the pockets where you do not apply yet negative rates to your clients? Is it in Clearing or is it in other areas?

The second question is to come back on the cost actions. You referred in the past to standardisation of products, which is a slow process. Can you accelerate that or undertake new action?

And the third one is more general on Brexit. You say you are ready but what do you mean by that? What could be the impact on your loan portfolio according to your simulation?

Kees van Dijkhuizen: Thank you very much, Jean-Pierre. Well, questions for you, Clifford and perhaps the Brexit one as well as a UK citizen?

Clifford Abrahams: I am ready for Brexit; I got my passport!

On the actions on deposits, yes, you are right, to focus on moneYou in Belgium. That was a strategic decision but also a financial one. That is basically a deposit franchise. And in MoneYou, we pay a deposit rate, not just in Belgium but elsewhere, Germany, The Netherlands, because that is the nature of that piece of business. And if we no longer have those deposits, then we look at the opportunity: where would we get that funding elsewhere? In wholesale, in short-term is negative, as we have discussed. So there is a P&L benefit from that. We will disclose more about that in Q3 when we expect that to close. It is quite small, but it demonstrates some of the things we have been thinking about. We still pay deposit rates on MoneYou, and that is our online bank. It is quite sensitive, so when rates come down – and we have pulled the rates down quite recently – you tend to see outflows and at least from a financial point of view, that is a win-win. We need to have regard for the franchise there, but we have been pulling that particular lever and see further scope to do that.

I think on negative rates, as of today, as I mentioned earlier, we pass on negative rates in our Corporate bank, in the Commercial bank, not all clients but certainly the very large ones, more on wholesale-related clients. And in the Private bank, I would call it on an exceptional basis or for really very large balances. So it is not something we do generally, and it is not something, I think, that is generally applicable currently in The Netherlands.

I think on Brexit, actually, I might ask Tanja to comment on Brexit. The question is on readiness. I said I am ready!

Tanja Cuppen: The bank is prepared as well. In terms of our activities in the UK we have the right licenses to continue. So we are prepared for that. And then the question is, of course, what it means for the overall activities in The Netherlands. We expect that it will mainly be a second-order effect. We have carefully worked with our clients that have direct exposure to the UK to see whether they are well prepared, and if we have concerns, we put them on the watchlist in the meantime. But I am most concerned about the second-order effects in terms of slowdown of economic growth throughout Europe and also in The Netherlands. And of course, we are always prepared for that. We have, for the most vulnerable sectors to a downturn, we have limits in place. There you need to think of leverage lending, for example, commercial real estate where we always focus to make sure we can deal with the downturn as well.

Jean-Pierre Lambert: And on the cost actions perhaps as well. I was asking about the standardisation, which is ongoing. It is a slow process, but can you accelerate or involve more segments into that process?

Clifford Abrahams: You can call it slow but it is a steady process. We have made progress, and we expect to make further progress over the next few quarters. And that underpins our approach to cost management. Factors such as that were behind our guidance regarding costs. So we continue to make progress in that area. I think I gave an example of KYC, which we are doing across the bank in one centralised unit to get the benefits of consistency and effectiveness. We see plenty of scope to do that across the bank. That is a steady work that will take a number of quarters to come through.

Jean-Pierre Lambert: Thank you very much.

Albert Ploegh (ING): There are two questions from my end left. First of all, sorry to come back to the remarks on KYC and the potential for fines and sanctions. I know this is a sensitive and difficult topic maybe to give comments on, but should I see the comments on fines in the context of what you already know and expect today potentially? Or is this more a general risk statement ahead of the actual Retail clients review in the Dutch portfolio? That is my first general question on that.

The second one is on capital management and the language around dividends, which was also earlier asked but maybe from a bit different angle. It is clear that the banks like yours are strongly capitalised or preferred by the regulator to take as much as possible of any frontloading of any changes in capital regulation. We also hear what you say today on the near-term outlook for earnings, which, if everything stays the way it is, is likely lower earnings next year than this year. So how should I read your comment on being in a position to pay more than 50% pay-out and the remark on sustainable distribution? Should I see that more in a context like you were aiming for something like a stable absolute level dividend of EUR 1.45 compared to the last two years, which already requires you to pay more than 50%? Any comments on that? Again, that is already a very attractive yield level compared to where your stock is trading today.

Kees van Dijkhuizen: Thank you very much, Albert. Now with respect to your first question, we just do not know about fines. So that is the reason why we cannot say anything more about that, if there will be a fine, and if so, the amount.

With respect to capital management, indeed, as we also mentioned in our press release, on the one hand the message is clear that we are well placed within our capital range and expect to be where we are within our capital range and expect to be well placed to consider additional distributions above the 50% but on the other hand, we indeed also mentioned the interest of the regulator in this area. And of course, already, a lot have been mentioned around TRIM and NPEs. So it is the TRIM, it is Basel IV, it is models which will be related to TRIM but also NPEs. So there is a lot around and the regulator is also very much interested in that. Also when there is a lower-for-longer environment, they also take that into account and we also take that into account. So our policy is actually this 50% and at the end of the year we want to do more. As mentioned, we think we can do more. Last year, indeed, it was EUR 1.45, which was the same as the year before. But yes, we mentioned the words 'sustainable dividends' but when profits go up and down really seriously, that has to be reflected in your dividend. Last year we decided indeed to do 62% and EUR 1.45. At this moment in time, we cannot give guidance for this year. We will take everything into account, our forecast around earnings, we engage with the regulator about capital and, of course, the NPE calculations we have right now. We will take all that into account and then decide on the dividends.

Albert Ploegh: That is clear. Thank you.

Johan Ekblom (UBS): Just two questions remaining from me. First, coming back to the mortgage market. So when we think about the new originate-to-distribute 30-year mortgage product, should we view that as kind of incremental business that was not open to you before? Or would you expect it to be cannibalisation on your existing business from that? So should we expect that to have an impact on the balance sheet mortgage volumes?

Then the second question is just quickly on the retail banking fees. They had quite a strong pick up in the quarter. Anything in particular driving that? Is that temporary effects? Or is this kind of new fees introduced to counteract the negative margin headwinds?

Kees van Dijkhuizen: With respect to the originate-to-distribute mortgages, it is on top, because we do not do a lot of business with 30-year mortgages, almost nothing. So, this will be on top. It will not be on our balance sheet because we will offload the fee in the originate-to-distribute, so it just generates fees. And of course, we are getting clients, so that is good.

Regarding Retail banking fees: we increased payments for accounts. So that is a structural increase on the retail side.

Johan Ekblom: Just to follow up on the 30-year mortgage product. When we think about the revenue stream from that, is that a one-off upfront fee that you will book? Or is that something that you will amortise over the life of the mortgage, so it will be very small volumes to impact to begin with?

Clifford Abrahams: It is market practise to charge origination fee and then a servicing fee. So there will be some booked upfront like a general facility and then ongoing fees. It will take time. If you work through the numbers – I am not going to disclose our pricing – it will take time to build up. So it is more of an annuity income in the 30-year, given you expect the loan to be in place over time. So the idea would build up over time. I think it is a pretty modest contribution to 2019 in terms of fees, but then build up over time as the vintages of loans build up.

Johan Ekblom: Thank you.

Giulia Miotto (Morgan Stanley): I have two questions on two hot topics. I want to go back on the replicating portfolio, please. If I understood you correctly, the way you came to this EUR 20 million quarterly impact is by looking at 5-year swaps five years ago and 5-year swaps today, the difference and then the impact on about EUR 180 billion of replicating portfolio notion. Now if I look at this, I had a much higher impact because the 5-year swaps give years ago was one percentage point higher. So can you help me clarify that?

Secondly, on page 30 of your report – and this is related to NPE – I read that during the phasing period, so 2020 to 2024, you estimate the annual impact to be of a similar order of magnitude. So now, in this quarter, we saw a 20 basis points impact. Does this mean that you expect 20 basis points impact per year going forward related to this? Or what does this mean exactly?

Clifford Abrahams: The way we derive the EUR 20 million guidance was actually based on a full analysis of the yield curve of the dynamics of our portfolio. That is how we derive the EUR 20 million per quarter. The example I gave as the 5-year was a simple way of understanding it that makes a number of assumptions. However -- and I think we are happy to take this off-line – but your figure of 100 basis points is about right. But given it is a 5-year replicating curve, that will have a 20 basis points impact, and then you have to work through the quarterly impact because all the numbers we have been talking about are per quarter and sequential. So if you work that through based on the numbers that you have indicated, you get to about EUR 20 million. We are happy to pick that up offline.

The short answer to your NPE question is yes, but we have not given numbers going forward. We said around that order of magnitude, but the EUR 0.2 billion is a little under 20 basis points for 2019.

Giulia Miotto: So on the second question, you expect an incremental 20 bps negative impact on capital from NPE per year over the next four years and this is both from Basel III and Basel IV?

Clifford Abrahams: Well, yes and no. We said a similar magnitude, but we do not want to give...

Giulia Miotto: Okay, I will not hold you to 20 bps. exactly, just the order of magnitude.

Clifford Abrahams: We said we were going to mitigate and Tanja gave guidance. We expect some further clarifications of the rules here but we are giving you an order of magnitude capital impact. We will leave it at that.

Giulia Miotto: Thank you.

Kirishanthan Vijayarajah (HSBC): Yes, a couple of questions on the capital. If your deemed to be generous with the dividend; do you worry that you could potentially get hit with a heavier fine? I know you cannot give much visibility on that but is that something we should worry about? Or in your mind, are those two very separate issues?

And then just on the leverage ratio. You are showing a pro forma of nearly 5% leverage ratio. Does that alter the way you steer your balance sheet, maybe go after some of the more leverage-hungry business lines within CIB?

Kees van Dijkhuizen: Thank you. No, with respect to dividend, we guide given the knowledge we have around the fine, which is actually not much. So the moment we know more about that, we would also look into our dividend in the end this year. If there will be a fine and if it will be this year, then we will take that into account of course, also if we have new knowledge about it. But at this moment in time we have not taken it into account.

With respect to the leverage ratio, this 4.9% is actually for 2021. That is a pro-forma figure. The regulator does not work with that at this moment in time, so we just show you that we are well placed going forward. At this moment in time, we cannot use that figure with respect to regulatory approach.

Clifford Abrahams: Building on that, we have the benefit of a legal merger and you see that we have not just added it straight on because we have reduced some of the constraints on those businesses that are at a good ROE but a little bit more leverage-hungry, as you say. I think one of the challenges of excluding interim profits is that it has depressed the leverage ratio through this year. We expect it to pick up end of year as retained profits really strengthen that ratio. And that will free us up a little bit to think about some of those opportunities that you just mentioned.

Kirishanthan Vijayarajah: Thank you.

Tarik El Mejjad (Bank of America Merrill Lynch): Just a couple of questions, please. The first is on cost. For the EUR 5 billion target, I really struggled to understand you keeping this target to be your guidance. You indicated that the changing cost/income was driven by obviously pressure on revenues but also higher compliance costs and IT in this quarter. So how do you manage to offset these? Because I think someone asked the question but I it was not clear about the answer really. Do you not think the EUR 5 billion is at risk? Clifford said you do not expect anything big to be announced, but should you not announce something because really you need to maybe do some more efforts to offset this pressure that you expected a few quarters ago.

My second question is on capital. So the EUR 200 million capital reduction or 20 bps is for CET1 ratio but also for the leverage ratio. So, is it correct to think that on a pro-forma basis for the leverage ratio you would be at 4.1% today, if we assume around 20 bps impact? And is the topic of leverage ratio being low not back again?

Clifford Abrahams: We are very careful about what we say publicly about targets and guidance, as you would expect. Kees indicated, that the cost/income ratio is challenged and it is primarily challenge because of income and not costs. The cost guidance of EUR 5 billion is on track that we said. We announced that through last year. We are on track for that and while we see incremental cost inflation coming through, we are confident enough in our cost actions to indicate that but in the round, we are on track with EUR 5 billion. We have been clear that we provided for the CDD costs. There will be some further internal costs but clearly, we booked the chunk of those costs in Q2 now and Q4 last year. So we do not need to book it again next year. So we are comfortable with our EUR 5 billion guidance, we are comfortable retaining our targets, recognising that the cost/income ratio target is challenging. I think on the leverage ratio, the 4.2% already reflects the capital reduction that we discussed earlier for 2019. So it is already in the 4.2%.

Tarik El Mejjad: Yes. I understand that but for the 2020 to 2024 period, since you basically give us a pro-forma including all the CRR and all the positives, so is it fair to put also the negatives, which is potentially 80 bps or...

Clifford Abrahams: But we also do not include future retained profit. I think we have been transparent in our disclosure and you can draw your own conclusion.

Tarik El Mejjad: Thank you.

Alicia Chung (Exane BNP Paribas): Just a couple of quick questions from me. Firstly, just going back on the capital, taking it up a little bit of level, is it fair to say now that you have pretty much guided to, and to some extent or another, quantified all the key regulatory headwinds going forward that are known so far, and so we can, in essence, feel comfortable and draw a line under that? Or are there any other capital headwinds that you see on the horizon, even if it is difficult to quantify right now? And I am specifically thinking about the ECB guidelines on the definition of default and what the implications could be for ABN or anything else.

Secondly, just going back to the fines regarding the Customer Due Diligence processes. Can you just give a little bit of context firstly around what was driving this? So is it the case that the authorities have actually uncovered specific suspicious transactions? Or are they just a little bit unhappy with the processes, but they have not uncovered anything specific? And if they have uncovered any suspicious transactions, can you quantify how many? Can you also give a sense of which authorities are investigating it? Is it that just the DNB or any other authorities? And is it fair to rule out a criminal investigation at this stage?

Kees van Dijkhuizen: Clifford, can you start with capital?

Tanja Cuppen: Let me take that one, given that it is related to the definition of default. Let me stress that a new definition of default does not change our risk profile or our expected loss. So it will have some impact on the numbers but we will have to review our models to calculate RWAs. And that is something we plan for and that will be included. At this stage, I do not expect that this review and recalibration of models will have an impact beyond what we see as the impact for Basel IV. So to your question whether we see any other headwinds coming on capital: not at this stage.

Alicia Chung: Thank you.

Kees van Dijkhuizen: With respect to your question about fines and about transactions and alike, it has been an investigation around our operating and how we have our client files in place, that we for instance understand how an account is being used, being retail or business transactions. That is one part of the investigation. I do not want to come to that investigation with respect to the report we had. They have now told us to remediate files, as I already mentioned, in the transaction monitoring. We have all retail clients at this moment in time but files should be done in a different way to get a better feeling also around the clients and their risk profile.

It is the Dutch Central Bank and the prosecutor, both authorities are possible here. To the best of our knowledge we are not part of a criminal investigation. We have not spoken with prosecutors.

Alicia Chung: Thank you very much. If you do not mind, just one more question. Just going back to your NII guidance and just trying to understand a little bit around the flex around that; obviously, you have given some helpful views as to the potential mitigating impact. If rates stay the same past 2020, so we see no change from here, can we expect further pressure on NII for a while afterwards or should we expect to see stabilisation in 2021?

Clifford Abrahams: I think we had guided for the next few quarters. I think best way of doing it is to look at the 5-year swap rates over the last five years and you can see the movements five years ago, and that will give you a guide. So we see some flattening at that point. But I do not want to speculate further about when or if rates might pick up.

Alicia Chung: Thank you.

Omar Fall (Barclays): Three questions. At the time of the Investor Day last year, you said that the vast majority of the CIB loan book matured by the end of 2022 or 2022, I believe. So could you square that with the fact that you expect such a long-dated phase-in of the NPE review to 2024, when this is presumably mainly coming from the CIB book, were you excluding the NPE specifically in that comment at the time or is it just the longer duration, the bias is more to CB assets at commercial banking?

Secondly, could you just tell us what the stock of surplus deposits is at the ECB today?

Lastly, sorry to come back to the question on CDD, but I do not think it was answered. Very simply, have you or the regulator actually found any evidence with historical wrongdoing through the networks by certain actors in any of the business lines?

Tanja Cuppen: First, the question on NPE. So the phase-in period is based on when assets hit this 7-year point being longer as an NPE. This is indeed a mix of mainly CB and CIB and, to a much lesser extent, the retail portfolio. Some assets in CIB are longer dated and will be later in this phase-in and others will be earlier. But it is indeed a mix of CB and C&IB. So I do not see an inconsistency with the guidance on it at Investor Day.

Omar Fall: Got it!

Clifford Abrahams: Just on the cash balance. It is in the quarterly report and it is around EUR 30 billion with the central banks. Tiering may or may not apply to all of that. You will have to draw your own conclusions.

Omar Fall: Sure!

Kees van Dijkhuizen: And with respect to the last question, what the instruction of the Dutch Central Bank with respect to our bank presumably will become – as I said, we do not have it yet but we expect it to come – it is concentrated on having files of all our retail clients better in place then we have them right now. So that is concentrated on the files, Know Your Customer, understand what they are doing with the accounts and have the profile in place so that you can also do better transaction monitoring on top of that.

Omar Fall: Understood. So the answer is there is no historical wrongdoing. It is a process issue.

Kees van Dijkhuizen: If we can say something about wrongdoings and the regulator coming to the final decision on that, we will, of course, communicate about that.

Jason Kalamboussis (KBC Securities): Yes. Just very quick questions. Is it fair to say that with all these process with the regulator any, even bolt-on M&A should be off the table for now? That would be my conclusion but could you confirm it?

My second question is on diamonds. Tanja mentioned minus 20% in your exposure. Is it fair to say that the exposure should be around EUR 600 million?

Kees van Dijkhuizen: Thank you for the two questions. Let me start with the first. We have mentioned bolt-on M&A, so it is not off the table but of course, when we do a thing like that we, of course, have to look into that carefully, execution-wise and the likes, where in the bank it is happening, and so on.

Tanja Cuppen: On the diamonds, indeed it is 20% but the total exposure is somewhat higher than what you mentioned. You will have a different number in mind but I do not recognise the EUR 600 million.

Jason Kalamboussis: Could you give us an idea of where it is?

Tanja Cuppen: We do not disclose the exact number, so I do not have it at hand.

Jason Kalamboussis: Thank you.

Pawel Dziedzic (Goldman Sachs): Thank you for the presentation. Two clarifications, if I may. do you see a scope for costs to drop below EUR 5 million in 2021? I wonder, given all your comments as to where the cost base will go. Related to that, if we take on board all your remarks today on NII headwind run rates for fees, et cetera, do you see yourself being in a position to improve operating efficiency beyond 2020 or should we expect cost income to be broadly flattish in the lower-for-longer environment?

And then a clarification on the provisions that you took on KYC this quarter. Can you give us a sense exactly what they relate to? Are those only external cost related to the incremental review or is there anything else within that? And does it capture in any way the costs of this CDD ramp up, the several hundred of employees that you plan to hire over next years? That would be my questions.

Kees van Dijkhuizen: On your second question the answer is ‘yes’. It is external cost and it includes the couple of hundred increase, although the couple of hundred increase is internal and external. But it is external costs and it is only related to this retail operation.

Clifford Abrahams: I do not want to give fixed guidance regarding cost, but I think what I can say is that we are working hard on costs. The KYC investment is going to be there for a few years but not in the long-term at this sort of level. We see plenty of scope for further cost efficiency. I highlighted in our presentation in November and our recent IT event for the sell side, when we talked about hitting the sweet spot of 12% to 13% IT costs and so on. So we feel positive about further scope and cost reduction over time, but we need to recognise there are some near-term headwinds that we are having to deal with. And that is in the interest of safeguarding the bank and managing extensively in a tough regulatory environment but also a volatile economic environment. We do not want to whipsaw the business because rates went down. What we want to do is manage the bank in a sensible way over time to safeguard the client side and deliver on profitability targets that we have indicated.

Kees van Dijkhuizen: Thank you very much, Clifford.

I think we are ready. There are no further questions, I understand. It is also 12:30, so I would like to thank you all very much for all your questions and conclude actually our Q2 results update.

Thank you, again, and goodbye.

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End of call