

Q4 2017 Analyst Call Transcript

ABN AMRO Investor Relations
Wednesday, 7 February 2018
11:00 CET

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

Conference call replay:

https://www.abnamro.com/en/images/Documents/050_Investor_Relations/Financial_Disclosures/2017/ABN_AMRO_Analyst_and_Investor_Conference_Call_Replay_2017_Q4.mp3

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

First of all, I would like to say a few words about the announcement earlier this week, of our Chairman of the Supervisory Board to hand over her responsibilities as Chairman and not to opt for a second term. I respect her decision. There has been quite some coverage in the press and this kind of publicity is of course not helpful, not for the bank, not for our clients nor for our employees. Thanks to our clients and employees, ABN AMRO is in good shape and is making great steps in the area of digitalisation, sustainability and innovation. This is also very much valued by clients and is evidenced by our rising Net Promoter Score. We will continue to focus entirely on our clients. I hope you will understand I will not go into further details on this matter. Let us focus on the achievements and results of ABN AMRO of 2017.

On slide 2, you can see that in the fourth quarter our net profit amounted to EUR 542 million, reflecting another solid quarter. Our commercial business lines continued to perform well, and our cost savings programmes are delivering. We propose a total dividend of EUR 1.45 per share for the year, up strongly versus 2016. This amounts to 50% of the full year result, reported, which benefitted from a number of incidentals.

We have a strong capital position, with a CET 1 ratio of 17.7%. We promise you an update on capital and Basel IV and we will provide this today. Going forward, our dividend pay-out will be 50% of sustainable profits and we have formulated the context for additional distributions on top of this. Combined, these will deliver shareholders' distributions of at least 50%.

First, I would like to remind you of the good track record that we have made since the IPO. The chart on the left of this slide shows our strong profit development, driven by high business returns and declining impairments. I am pleased to say that 2017 was a record year for the new bank, with net profit at EUR 2.8 billion. This result was helped by incidentals, including the sale of private banking Asia.

As promised, we will pay out 50% of reported profit in dividends and therefore, our shareholders will fully benefit from this strong result. Our dividend increases by more than 70% versus last year, to EUR 1.45 per share.

As you know, our approach has been to accumulate capital ahead of Basel IV, as can be seen from the right-hand charts. Our capital position was already quite strong in 2014, at 14%. Since then, we have added 3.6 percentage points, notwithstanding the record dividend pay-out this year.

On this slide, you can see that we have consistently said that Basel IV would have a material impact on us. We guided last quarter that 500 – 600 bps. was possible. Following the Basel announcement in December, we are now in a position to estimate the impact on our RWA, which is an increase of around 35%. We ensured we were well placed for this outcome by building up a strong capital position in the recent years, thanks to our prudent capital management. As a consequence, even today we are well positioned for Basel IV, which in fact will be implemented gradually between 2022 and 2027.

Based on all this, we have set a new CET 1 target range of 17.5% to 18.5% for 2018. Against the backdrop of this clear capital target, we can now better determine shareholders distributions. Going forward, distributions will consist of two parts: a pay-out of 50% sustainable profit and on top of this, we will consider additional distributions when our CET 1 ratio is within or above target range. I will elaborate on this later.

On the next slide you can see that a fair number of transformation projects are underway. These programmes are to streamline and improve the way we run the business, while always looking to improve the service to our clients. I want to highlight the declining trend in staff levels on the right-hand chart. We previously announced a 5-year reduction of FTEs by 13% in 2020. Currently, we are now two years down the road and we are now at 10% below the level at year-end 2015. Looking at the trend in our branch network, we currently have just over 200 branches. Our digitisation efforts in the Retail bank led to fewer clients visiting our branches, allowing further closures going forward. So, we are showing good progress on our transformation programme.

On slide 6 we highlight a number of our initiatives. We are ready for PSD2. Our client applications are ready to include third-party bank accounts. We can turn this functionality on as soon as other banks release their PSD2 APIs. Our own developer portal was launched during Q4. Tikkie continues to grow rapidly. Currently, we are at 2 million users, which is 1 million more than six months ago. There is a lot of interest from business to use this platform to make payment requests. The next area highlighted here is Blockchain technology. We have been

active in this area for a number of years now, which has led to concrete initiatives in real estate, shipping and commodity transactions. Our online wealth manager Prosperity was launched in Germany at the end of last year. It offers wealth management for a fixed fee and a low price entry point. Even though Prosperity is branchless, clients will still have access to a personal account manager. With Franx, we recently launched an online multi-currency account for SME clients to facilitate their international payments.

Over the past year, we have launched new ambitious programs for socially responsible investment, real estate sustainability and circularity. For the latter, we received an award during the World Economic Forum in Davos for being at the forefront of financing new business models based on principles of circular economy. This year, our sustainability efforts were ranked in the top 5% of the global banking industry in the Dow Jones Sustainability Index. We scored 91 out of 100 points in this index, compared to an average score of the banking industry of 58. Our efforts in human rights and transparency, particularly related to social and environmental issues, were rated highly. I am pleased with this score, but I believe we can do even more. Another area where we are making good progress is diversity. The percentage of female employees in senior management has gone up from 23% to 38% since the introduction of the new management structure, as you can see from the chart on the right. I would now like to hand over to Clifford for more details on our Q4 results.

Clifford Abrahams: Thank you, Kees. As Kees mentioned, we had a solid quarter. Our net profit was EUR 542 million. We had quite a few incidentals this quarter, the main ones we disclosed to you prior to our results. In aggregate, the impact of net profit of these incidentals is limited, unlike Q4 2016, where incidentals had a significantly negative effect. We have continued to benefit from low impairments during the year, thanks to the strong Dutch economy. I will now go into more detail of individual line items on the next slide.

The left-hand chart shows our development for mortgages. Volume was up by EUR 1.3 billion in the year, although declined during Q4 – as usual – due to seasonal voluntary redemptions. The mortgage book continued to grow in a strong market, and we maintained our 20% market share, despite increased competition from other banks in longer-dated mortgages. Client loans in commercial banking grew through 2017 and continued to grow modestly during Q4 before the transfer to CIB. Lending in CIB increased by EUR 1.3 billion and was broadly based coming from Financial Institutions, Large Corporates and Natural Resources. Consumer lending was flat during the quarter.

Our reported net interest income was up sharply during the quarter. However, looking through the incidental items and the sale of private banking Asia, net interest income was more or less flat compared to Q4 last year. Mortgages showed higher volume while margins were flat. Commercial banking showed higher volumes in both loans and deposits at stable margins. And the volumes and to a lesser degree margins improved within CIB. Margins improved for domestic deposits both in retail and private banking. Group Functions had higher liquidity buffer costs and higher steering costs. Both Commercial Banking and CIB include the full-year benefit

from the TLTRO, which was recognised this quarter. So, net interest income, our main source of income, remained resilient and we see stable margins and some modest volume growth in our main portfolios.

Fee income during Q4 recovered compared to the previous quarter Q3. Q3 was weak for Commercial Banking and CIB and both showed a rebound this quarter. Compared to Q4 last year and excluding the impact of the sale of the private bank in Asia, fee income increased marginally. Private Banking and Global Markets increased their fee income during Q4. This was offset by Clearing, reflecting lower market volatility and retail due to the lowering of fees charged for payment packages earlier.

Other income overall was up and up in most segments, but mainly reflect the sale of Visa shares, which delivered around EUR 100 million, which was recorded in retail banking. Hedge accounting effects in Q4, 2017 amounted to EUR 54 million and CVA/DVA/FVA was EUR 32 million. Combined, this is EUR 18 million lower compared to Q4 last year. Let me now move on to costs.

There are quite a few incidentals within expenses during the quarter. However, looking through these numbers, we can see expenses were up compared to Q3 2017, reflecting seasonal patterns and down compared to Q4 2016. Personnel expenses are down over the year, reflecting the steady decline in FTE-levels. We took another severance provision in Q4 of EUR 90 million, in anticipation of further FTE reductions during 2018.

Other expenses are also lower when compared to Q4 2016, again looking through incidental items. This is a result of our progress on the various cost control programmes, which Kees discussed earlier.

I will now hand over to Tanja, for an update on impairments and our current capital position.

Tanja Cuppen: Thank you, Clifford.

The strong Dutch economy and the global economic developments resulted in low new impairments. We have a fair amount of reversals, leading to a net release of impairments. IBNI reduced with EUR 7 million, while our model update led to a release of EUR 31 million, mainly within Commercial Banking. Looking at our ECT-portfolio, we booked EUR 33 million impairments during Q4. The impairments added during 2016 and 2017 remain well within the scenarios we modelled for the Energy and Shipping portfolios for those years.

As of January, IFRS9 will replace our current impairment rules. The impact of the first-time adoption is limited, reflecting the benign economic outlook. The impact will be around 15 basis points on our CET 1 ratio, in line with our earlier guidance. Under IFRS 9 impairments are more forward-looking, so going forward we expect more P&L volatility through the business cycle.

At year-end, our CET 1 ratio amounted 17.7%. Looking at the RWA-development, credit risk RWA increased mainly due business growth. It was partly offset by the sale of the Visa equity stake and higher house prices, which benefitted collateral values. Market risk RWAs declined as well, due to lower volatility and financial markets.

The leverage ratio increased to 4.1% at year end on a fully-loaded basis. We issued a new AT1 instrument and the effect of this was partly offset by applying the EBA Q&A interpretation. As you will remember, this has put a limit on the amount of capital instruments, which are eligible at regulatory capital at holding company level. The leverage ratio was further helped by the decline in Exposure Measures, mainly the result of lower on-balance sheet exposures.

As Kees mentioned earlier, we estimated the impact of Basel IV on our RWAs. Based on a static balance sheet and without taking into account mitigating actions, we estimate RWAs to increase by around 35%. The biggest impact is on credit risk in our corporate loans and mortgages. These numbers assume, amongst other things, loan splitting be applied for mortgages and commercial real estate and a flat operational risk RWA. Uncertainties remain, for example due to the room Basel IV gives local regulators to set certain parameters and the fact that it is not always 100% clear how we should interpret the rules. I will now hand back to Kees.

Kees van Dijkhuizen: Thank you very much, Tanja.

As you know, we have been consistent on the need to prepare for possible but significant Basel IV outcome. We now understand the impact more clearly, being inflation of RWAs of around 35%, which Tanja described. We recognise it will take some time before this will materialise. Also, the EU may make some modifications and we will mitigate some of the impact as we adapt the business in the gradual implementation in the period 2022-2027.

Nonetheless, we need to manage our capital prudently through the transition. We have determined what this means for our current capital in Basel III terms, namely Basel IV implementation buffer of 4% - 5% of CET 1 on top of our current target of 13.5%. This leads to a new capital target range of 17.5 to 18.5% in 2018. We are already in this range. This target range is not a static number; it will be reviewed at year-end. We will for example incorporate the possible impact for TRIM as well as Basel IV, SREP and other regulatory developments. We now have a clear target range we wish to operate in and this forms the back drop for our distribution policy.

On this slide there are two components you can see to our shareholder distribution, going forward. First, there is a dividend pay-out of 50% of sustainable profit. On top of this, additional distributions will be considered. So together, shareholder distributions will amount to at least 50%. I will explain each in turn. Our pay-out ratio will be 50% as we feel this level is sustainable under various scenarios, giving a resilient profile, we can expect to

maintain. We will exclude from profit exceptional items of an incidental nature, both positive and negative. For instance, EUR 270 million derivatives SME in 2016 or EUR 200 million sale private banking Asia last year. These items will of course be flagged if they are present in any quarter.

On top of the regular pay-out, additional distributions will be considered if we are within or above the target range of 17.5% – 18.5%. As I mentioned before, this range will be reviewed at year-end to incorporate relevant developments. With regards to capital distribution, it is important [to mention] that we target modest business growth, leading to low single-digit growth in our loan book. Also, we expect any M&A opportunities to be funded from earnings. There is no buffer earmarked for M&A.

Finally, I want to update you on our overall targets. Slide 18 lists our current targets, showing our updated CET 1 and dividend targets. Over 2017, our return on equity was 14.5%. When adjusting for private banking Asia, it amounted to 13.4%. So, we are performing clearly above target for our ROE.

Cost/income is also clearly moving to the cost/income target of 56% – 58%. It was declining in 2016 to 2017 from 66% to 60%. This target of 56% – 58% is set for the year 2020 and we will be focusing on further cost savings and modest business growth to achieve this target.

I have discussed in depth our new CET 1 target of 17.5% – 18.5% for 2018 and with a CET 1 ratio of 17.7% we are within this range.

As you can see, we intend to pay out 50% reported profit for 2017, in line with the old dividend policy, amounting to a total dividend of EUR 1.45 per share.

Before I open up the call for questions, I will briefly summarise. On the next slide, as you can see I am pleased with the solid results for the quarter. Our strategic initiatives are on track, leading to better service to our clients at lower cost. We have had a record year in terms of profitability, helped by the Dutch economy, which is performing very well. Our sustainability efforts have received a number of awards this year. We are actively involving our clients on the topic of sustainability, using our influence to make an impact far beyond our own footprint. As promised, we updated you on capital. We have carefully analysed the December Basel IV announcement, and this has given us good understanding of the impact on our RWAs. It is clear that even today we are well positioned for Basel IV, which is reflected by a new capital target. We have given you the factors with which we will look at when deciding on additional shareholder distributions on top of the 50% pay-out ratio. With that, I would like the operator now to open the call for questions.

QUESTIONS AND ANSWERS

• Pawel Dzedzic – Goldman Sachs

Good morning, thank you for the presentation. A few questions from me. First a clarification on your dividend policy. You mentioned that you consider additional distribution if your capital is within or above the range. Can you help us understand what scope for additional distribution you have when your capital is within the range? I understand that when it is above you can pay out more.

Secondly, just technically. You mentioned buy-backs as an option to return capital. Can you clarify at what point in time you will be ready to initiate such a programme? What needs to happen, and do you think this can take place before the year end.

My second question will be on Basel IV. Your guidance today for 35% RWA inflation implies a hit not that far off from 500 to 600 basis points that you have previously seen as possible outcome. Could you walk us through any mitigating actions that you are considering at this point in time that are possible and if you are looking to review any of your business lines in the scope of perhaps higher capital requirements?

Clifford Abrahams: Thank you. There are three questions. We think about the range as the amount of capital that we want to comfortably operate in, at least until we review the capital range going forward. You asked about scope for capital return within the range: any consideration of distributions while we are within the range will reflect a range of factors, capital but also other considerations, but importantly we want to operate comfortably within that range and so clearly in practice, that would impose a limitation recognising that range is 1%.

In thinking about buy-backs, I would note that buy-backs require regulatory approval, which can be up to three months. Further, we do not comment on our process with the regulator. In terms of the timing of any buy-backs, we do not rule out buy-backs and we do not rule them in. In thinking about additional distributions, we reflect on a range of factors but clearly, we are not ready to do that now as we are at the bottom of the range after IFRS 9 impact and we want to operate comfortably within the range. So, any such distributions will be later.

Maybe I will comment on risk-weighted assets and Kees can pick up more general business considerations. Yes, we said that an impact of 500 to 600 basis points was possible in November, when we last spoke together as a group. The announcement regarding the rules came out a few weeks later, so I do not think it should be a complete surprise that we are somewhat lower: 35% corresponds to the 450 basis points. That is a somewhat lower impact than we were considering at Q3. That reflects the widely reported somewhat more favourable terms when compared to previous consultations, so some of the ratios with somewhat lower

references to loan splitting, and so on. In terms of business impact, Kees, would you care to comment on how we are thinking about the business going forward in relation to Basel IV.

Kees van Dijkhuizen: Thank you very much, Clifford. We have said before that when Basel IV would be in place, at least known, we will analyse all the rules and look into all our business lines how we can adapt here and there ways of doing business. So, that is in process right now. We will take of course some time for that. Then also repricing in this respect is important. That will not happen immediately but over the coming years this will get clearer. So, there are several elements, for instance the European Union that I mentioned. So, there are still a lot of items that should be analysed but also our business lines. That is what we are doing right now.

Pawel Dziedzic – Goldman Sachs: Thank you very, maybe just one quick follow up. When we think about the timing of potentially additional capital returns, that is very unlikely to happen before you update us on your capital position again at the end of the year. Is that more or less correct?

Kees van Dijkhuizen: It will not logically be in the first half of the year presumably but saying something about the second half of the year is perhaps too early, but we will see during the year.

Pawel Dziedzic – Goldman Sachs: Perfect. Thank you very much.

• **Sophie Petersen – JP Morgan**

Good morning. On one of your slides, you also briefly comment on other regulatory impact, including TRIM. Could you just give us an update on how your discussions with regulators are going with regarding with regards to TRIM and also if you are seeing impact from the new EBA guidelines?

Secondly, you also briefly mentioned M&A, that if you have any M&A opportunities those will be funded through profits. At the moment, are you looking at anything or are you planning to expand, new mortgages, or how should we think about it?

My third question is on fees. They rebounded in the fourth quarter; how should we think about fee growth in 2018?

Tanja Cuppen: Thank you Sophie. I will take your first question is on TRIM. As you are aware, TRIM is an ongoing exercise. We have had our TRIM-reviews of mortgages and market risk so far. The final results still need to be communicated. We expect a limited impact so far, but this is a continuing exercise and it will take 2018 and 2019 to basically become fully clear what the impact will be. We see TRIM as front running on Basel

IV. It will harmonise models across Europe, so the impact of TRIM will reduce the impact of Basel IV, in relation to our capital targets.

Kees van Dijkhuizen: With respect to M&A, no, we do not have something in mind at the moment. In the past, we mentioned for instance private banking in France or Germany as examples where we could create a bit more scale.

Clifford Abrahams: Finally, on fees: you see some volatility regarding fees and we call that out. We are pleased that it bounced back in Q4. This is a steadier level. We see some opportunity to grow fees in certain of our businesses, but we see ongoing pressure in others. So hopefully, that gives you the guidance you need, thinking about our fees going forward.

Sophie Petersen – JP Morgan: Thank you.

• **Benoît Pétrarque – Kepler Cheuvreux**

Good morning. I have a couple of questions. I am sorry to come back on the distribution, but I would like to better understand how you think about additional distribution when you are within the range of 17.5 and 18.5. What are the kind of conditions? It looks like you will be somewhere above 18% at the end of the year. Can we expect already more than 50% for 2018? When you hit or are above the level of 18.5, can we assume that this will be a substantially higher pay-out than the 50%-limit?

My second question is on net interest income for 2018. Can you provide a bit of guidance in terms of how you are seeing margins moving into the year? Looking at your replication portfolio and your current rates, do you still see headwinds or are things looking a bit better? I am curious about that.

Finally, maybe you can update us on the cost savings programme, the EUR 900 million you put to the market last year. You have already realised a lot of FTE reductions and cost cutting, so I was wondering where you are in this big programme of EUR 900 million cost reduction by 2020.

Clifford Abrahams: We think a range is the right way to think about our capital position right now. We want to operate comfortably within that range. It is important not to get too mechanical regarding the CET 1 ratio. We do think it is the most important driver, but it is also a way of reflecting the uncertainty regarding the Basel IV implementation and our flight path to full compliance from 2020 onwards. In thinking about the factors that we consider how we are positioned in that range or indeed above that range, the trajectory, our momentum from that – I highlight IFRS 9 as a bit of a wildcard this year – there are other factors to consider regarding capital.

We talked about TRIM but this year, there is an industry-wide stress test underway. We had the normal SREP-process and we have other commercial considerations like the interest rate and the impairment side.

So, these are the things to consider. It is rather a long list. In practice that means, as Kees said, it is not something that is very likely in the early part of this year. Towards the end of this year and in particular as we head into our final and the usual time we pay our dividend, all these factors will be fully considered, and we will clearly update you then. Hopefully, that gives you a bit more colour.

On net interest income, you have seen our margins resilient. We see some positive developments on the interest income from modest volume growth. When you look through some of the incidentals that we called out, I am pleased with how we have managed our margins. Our interest rate remained low and we have also reduced further rates to customers. I think it is fair to say that this process is nearing its end. If rates remain as low as they are for an extended period, we will continue to see some margin pressure in that area. Putting all those factors together is behind our calling it a flattish net interest income.

From a cost savings perspective, we are making progress. You see that through the FTE reductions. I would like to see those also come through in the bottom line, expense savings. We also see cost pressures. It cost us money to save money. You have seen our recently announced wage settlement. That adds to cost inflation and there is money that we want to spend in developing the business. So, it is management's job to manage all of that and hit our targets, which Kees indicated we are comfortable with and remain on track.

Benoît Pétrarque – Kepler Cheuvreux: Just to clarify on the 18.5% and above question: what will happen when you hit the 18.5? Can we think about a substantially higher pay-out ratio than the 50%?

Clifford Abrahams: Clearly, if we are at the top of our announced range, then we are more comfortable. That will support a consideration of distribution. We also need to see where the Basel IV development have risen. As Kees indicated, that will reflect EU implementation. There are a number of other moving parts, but I think as Kees indicated, we are looking to deliver on modest loan growth. So organically, we expect to continue to accumulate capital which will move us more comfortably within our range, which in isolation will support distribution consideration. But we need to reflect on other factors, which the board sensibly need to consider when paying out discretionary additional capital. I am sorry I cannot be more specific, but the nature of our dividend policy now is really to give comfort regarding an underlying 50% but then frankly retain discretion to top that up in the light of business and regulatory developments.

Benoît Pétrarque – Kepler Cheuvreux: Thank you very much.

Kees van Dijkhuizen: Thank you, Clifford. I would like to add one other one, which is also part of the consideration. In the fourth quarter of each year the Dutch Central Bank looks at the 3% Dutch capital add-on. That is also something which will be evaluated by regulators every year.

Benoît Pétrarque – Kepler Cheuvreux: Thank you very much.

• Robin van den Broek – Mediobanca

Good morning. My first question is on operational risk. The RWA inflation you mentioned, is there any consideration in there for potential internal loss effects what the Basel Committee has basically left to the discretion of the local regulator? If you look at the SME derivatives file, you have incurred pretty high additional OpEx and also the compensation scheme might be considered as internal losses, which could potentially further inflate the RWA impact.

Secondly, if you look at the mortgage book dynamics, velocity in Q4 was at its highest level almost historically and house prices of course are very supportive and still the book is up only a very little bit. That is flagging of course the underlying redemption of that book that at some point will go up even further due to the new annuity framework. I was wondering given the comments you make on organic growth, whether there could be something that you might look for a new growth pillar, given the fact that your mortgage book might start to release capital at some point.

The third question is on Payconiq. You have stopped the initiative together with the incumbent banks to work together on that. Can you maybe discuss how you feel Tikkie is positioned on the market and why going for something alone? Could it be a better way to fend off new entrance on the market after PSD2?

Tanja Cuppen: I will take the question on operational risk RWAs. Of course, historic losses will go into the calculation of operational risk RWAs under Basel IV. You also mentioned that this is also subject to local implementation, so we cannot comment on that yet. For our own assessments we have used our current situation, so as of the end of 2017 and we have applied a multiplier of 1.

Kees van Dijkhuizen: With respect to the mortgage book your analysis is right of course. It is a very hard work these days to keep the book stable or have it grow. We have now been able to grow it for some period. If you look at other banks, you will see a decline in the Netherlands, but we have been able to grow it. But there is pressure of course from redemptions here. We expect house prices to increase significantly this year, but volumes will presumably be down. There is no such thing at this moment in time that we look at, for inorganic growth.

With respect to Payconiq it is too early to tell. You should not look at this only from a Dutch perspective. It is more a European approach where also Fintechs and all kinds of other solutions will be there in the payment area. Our decision has been to work further with Tikkie and other possibilities we also see in the Fintech environment.

Robin van den Broek – Mediobanca: Thank you very much.

• Phelbe Pace – Société Générale

Good morning. I just have two questions on your capital planning. The first relates to the 13.5% capital target that you maintain. Can you just say why you maintain a 50 basis points management buffer on the top of your SREP and P2G? A remark that goes along with this question is that if you have factored in a 50 basis point management buffer on top of regulatory requirements, why would you have a need to consider a 5% buffer for regulation to be binding? It is already 40 basis points higher than your estimated capital cost from Basel IV.

Secondly, I just want to get your view about what you expect the ECB to do on future SREP-requirements. Do you think that now the new Basel proposals have been issued the supervisor will be prone to reduce regulatory requirements in the future?

Clifford Abrahams: We are comfortable with our target, so our target is 17.5 to 18.5. We have explained the rationale, which is our 'just in target in the Basel IV buffer'. In coming to that consideration, there are some risks as well as opportunity, so you highlight some opportunities about double counting your buffers. There are some risks in terms of possible unfavourable treatment and further rulings. We have IFRS 9 coming in and the whole sector is learning about the volatility of impairments that that will bring. I think we also need to work through the volatility of the Basel IV capital requirements themselves. So, we understand how it works with respect to our internal models but a cap applied to this standardised approach is new territory for us as well as the industry. So, I do not think it is right to unpick particular elements. That is not the way we thought about it. We have looked at in the round. We are comfortable with this range and I think we have been open that we will review it annually particularly at the end of this year, as things develop, because the whole regulatory process is still evolving, despite the clarity that we saw from Basel IV in December.

Kees van Dijkhuizen: Thanks Clifford. With respect to new Basel regulation leading to other regulators to lower their regulatory requirements, we have no indication from the ECB at this moment in time. With respect to the Dutch regulator I would say that they have of course a Dutch 'add-on'. Their decision-making is not so much that they will lower now that Basel is there, but more how the European integration, the banking union, the deposit guarantee schemes working out with backstops in case of crises and alike. These are the things they look at than just some other regulators have increased their regulatory requirements.

Phelbe Pace – Société Générale: Thank you very much.

• Johan Ekblom – UBS

Good morning. I think we have probably covered capital from every angle, so maybe going back to net interest income. If we look both in the retail business as well as in the private banking and adjust for some of the incidentals, there seems to have been quite an improvement on the level we saw in the prior quarter. Is that a sustainable margin in Q4? Are there any sorts of other effects that we need to bear in mind there?

Clifford Abrahams: Looking through incidentals is an art as well as a science. We see the underlying as more flat, to be honest, so I do not know how you have treated the TLTRO. We have obviously seen the benefit of that going forward, but we booked a full annual amount last year in one quarter. I think we are pleased with how we managed it. Particularly on the deposit side, we remained disciplined on margins and you can see volumes are modestly higher but not significantly higher, despite the benign market conditions. So, we are focused on managing NII as a whole. We see it as resilient and we see the prospects that I described earlier for flattish development going forward, with some pluses and minuses and some risks and opportunities around it.

Johan Ekblom – UBS: Where is the TLTRO benefit booked divisionally? When you say flat, do you mean flat on Q4 ex incidentals or flat on full year 2017, ex incidentals?

Clifford Abrahams: So, the TLTRO is booked in commercial banking and corporate banking. I would say Q4 is the level, but when you look through the incidentals, it has been fairly flat through the year in our view.

Johan Ekblom – UBS: Perfect. Thank you.

• **Adrian Cighi – RBC**

Hi there. Just two follow-up questions, please, one on NII and particularly on NIM. You have seen a pretty meaningful increase in NIM quarter on quarter; can you provide us some colour behind the drivers of this increase? Is this repricing, mix, or other drivers?

One more follow-up on capital, if I may. You have outlined essentially two measures today. One is the 4% to 5% CET 1 buffer and the other is the 50% pay-out target. Now, even assuming 35% risk-weighted asset inflation, you are still generating around 150 basis points of capital per year pre-dividend. So, even opposed to 50% pay-out and some risk-weighted asset inflation or growth, you are still building 50 basis points organically per year. You have ten years before Basel comes into place and you are essentially already meeting the target, given the 4% to 5% buffer, which realistically comes as a buffer on buffer strategy, a very cautious strategy. How much of this is regulator-driven and how much of this is self-imposed?

Clifford Abrahams: There were around EUR 100 million of incidentals in that NIM, so if you look at the chart that we have disclosed you can see that the dotted line is quite close to the trend line. So, we do not see a step-up in NIM in Q4 when you look through those incidentals and I would suppose reflections and some truing-up with regards to mortgage penalties. So, I refer you to my comments earlier regarding the trend.

On capital, there are a few elements there. Being called prudent, I take that as a compliment. We have tried to provide an approach that gives some comfort around resilience of the stated pay-out but also the prospect of incremental distributions when they are there, and in particular those distributions not setting a new platform to grow beyond that. We do not think that is the way to manage a transition in the regulatory developments. I would say your figures are roughly right in terms of organic capital generation. Those were behind our statements that we would expect to move upwards within our capital target range that we are do not have currently at the bottom, reflecting IFRS 9. We are hopeful that moving upwards within that range, given the trends that Kees described. Life is not mechanical. There are a number of other drivers of risk-weighted assets, including credit quality developments and modelling developments. We have all been used to a benign economic environment, where those credit quality developments have been coming through moderating any growth in our risk-weighted assets to date. We need to manage the transition cautiously as well as the economic cycle cautiously. When there is excess capital we have called out what we would do with it, which would be clear consideration of additional distributions.

Adrian Cighi – RBC: Thank you very much.

• **Jean-Pierre Lambert – Keefe, Bruyette & Woods**

Good morning. I listened to the call from the beginning and I still have some clarifications or [angers] about the capital. I am sorry about that.

The first question is, practically, are you going to reevaluate the excess capital quarterly or at the end of the year? So, is it going to be a quarterly process, or will it be a sweep at the end of the year?

My second question relates to the leverage ratio, which is normally a constraint for dividend payments or for you CET 1 management; how do you incorporate that?

Thirdly, there is a trade-off for you between share buy-backs and special dividends. How do you see planning and why do you need to keep these options open?

Finally, M&A, and just to clarify what you said about the M&A buffer: does it come on top of the 18.5%?

Clifford Abrahams: One of your colleagues said that we done capital sufficiently but obviously, there is no consensus there. A few comments. We think about capital all the time, so real time. The more material view would be at year-end and you should not expect to see quarterly changes in our capital range of 17.5 to 18.5. We think that expressing in Basel III – terms give you comfort that you can calculate it and it is clear to everybody, but the major developments that Kees talked about we see happening through the year. So, we would expect the year-end to be the opportunity to do that. If there are material developments, we would need to reflect on those but in thinking about special dividends in particular, the natural time to consider that seriously would be at the year end with our regular dividend.

In terms of leverage ratio, we are pleased with the current leverage ratio of 4.1%. Tanja talked about the drivers. We will look to maintain that at above 4% going forward. We do not think that would be a material constraint on what we have been talking about, but it does need managing. There are regulatory developments in that space as well.

In thinking about buy-backs versus special dividends, we are clear. We are open-minded about any form of capital return, when the board considers it appropriate. Each has advantages and disadvantages, depending on circumstances and frankly depending on the share price. So, we want to keep those open. Regarding special dividends I commented on the timing considerations and buy-backs also require a more formal process with the regulator, which could take up to three months. So, both tools have pluses and minuses and we want to express to you we are open-minded about those, depending on the circumstances. But first, we need to determine whether there is an excess which to distribute.

Kees van Dijkhuizen: What I try to say about M&A is that there is no buffer on top of the 17.5 to 18.5. If we would do small acquisitions, we would finance them from our profit.

Jean-Pierre Lambert – Keefe, Bruyette & Woods: Thank you very much!

• **Bruce Hamilton – Morgan Stanley**

Good morning and thanks for the presentation and the answers. I have one more question on distribution. The message is quite clear that you want to move to the upper end of the range as a comfortable level. I assume you have not thought about trying to make the total distribution progressive, as we think about what you paid for 2017.

Secondly, just looking at SME-demand dynamics in the Dutch market: the loan growth in your commercial book looks pretty good. If I look at the system level data, it looks like growth is being pretty lacklustre on the

corporate. I am just trying to understand if you are taking market share and if you are seeing any underlying signs of improvement, driven by the improving GDP back drop.

Finally, on cost of risk. In terms of the IBNI reserve outstanding, I guess we should, just thinking about 2018 costs of risk, we should assume normalising back towards the cross-cycle average, but I presume you are running below that? Any words you have on guidance there would be helpful.

Clifford Abrahams: I will do with the first two questions and Tanja will deal with the third.

We are pleased with our dividend for 2017. That reflects a step-up from 2016 relating to a disposal but also the cyclical low impairments. We cannot really comment on distributions regarding 2018 beyond the comments we have made but we are clearly looking to sustain the stated 50% pay-out and will consider additional distributions on top of that in the light of the circumstances we described earlier.

Around SME your comments were interesting. We have seen steady growth in the commercial banking book, which we are pleased with. We have introduced a new sector approach to the team there, which is quite a big change for the market in terms of our relationship with our clients. We are pleased we have traded quite well through those material changes. Medium term I am hopeful that will sustain our market share going forward. We are all pleased with the economic conditions, but we do not want to do things we will regret in a few years' time when the cycle inevitably turns.

Tanja Cuppen: Let me give a few comments on cost of risk. Also, under IFRS 9 we will believe that the through-the-cycle cost of risk will be between 25 to 30 basis points. Of course, last year was not a normal year if you correct for all kinds of model changes we have had, the cost of risk would be around six basis points. Our outlook for 2018 is above that number, which was historically low, but well below the through-the-cycle cost of risk.

Bruce Hamilton – Morgan Stanley: Thank you.

• **Bart Jooris – Degroof Petercam**

Good morning. Let me come back on risk cost. Regarding IFRS 9, do you already have a more quantitative view of what that would mean for 2018 impairments?

Then on costs, given that you already reduced FTEs by 10% of your 13%, does that mean that we should no longer see significant restructuring charges?

What do you expect about the ICT-investments this year?

Tanja Cuppen: Thank you. On the expectations for 2018, I cannot add anything to what I just said and that is that it will be above the levels that we have seen in 2017 but still below the through-the-cycle cost of risk.

Bart Jooris – Degroof Petercam: Just to clarify, is that because of IFRS 9 or is it just because you have less releases?

Tanja Cuppen: No, it is not specifically related to IFRS 9. What you will see as a consequence of IFRS 9 is that some of the cost of risk will be front-loaded through the introduction of stage 2 cost of risk but given the economic outlook we do not expect a very major impact in 2018.

Bart Jooris – Degroof Petercam: Thank you.

Clifford Abrahams: But I think just commenting on costs, we are pleased with our digitisation progress. We do expect costs to require further work going forward and it is possible that there are further FTE-trends that are panning out over the medium term. I do not think we are calling the end of FTE-reduction in. Any business in this environment needs to continue to bear down on costs and people costs are an important part of the business.

In terms of restructuring charges: they have been meaningful last year, and this year and we are conscious of the need to continue to improve our processes and work on that. It is possible that there are restructuring charges going forward and we will call those out to you.

In terms of ICT, there are a few things going on. We need to see cost of technology, cost of change as part of our overall ongoing expenses, not as lump sums that are spent and then disappear going forward. We are investing in our new challenger propositions that Kees described. We also have a new Innovation and Technology Director and we will update you further on plans and thoughts around that. We are not looking or expecting major programmes, but I would be disappointed if Christiaan has not got good ideas about how we can improve our business going forward. We will update you further on that later in the year.

Bart Jooris – Degroof Petercam: Thank you very much.

• **Stefan Nedialkov – Citigroup**

I have three questions, hopefully quick ones. The first is on the leverage ratio benefit from the clearing re-definition. You have upped the guidance to 50 to 60 basis points. I wanted to confirm that this is already net of

the off-balance sheet factors. I also want to get some colour on what 'early adoption' exactly means. Are we talking 2018 or 2019, et cetera. That is the first question.

Secondly, in terms of M&A, can you please refresh us on your M&A targets? What type of criteria does a target need to meet in order for you to go ahead, especially with respect to cost of equity, ROI or ROIC, et cetera?

The last question is when you talk about M&A being funded out of earnings and just looking at consensus, consensus as you are basically making anywhere between EUR 2 billion to EUR 2.3 billion per year through 2020, you are paying 50% of that, so that leaves EUR 1 billion or so for an acquisition. Assuming one time's book value, RWA additions, basically lets you buy something for EUR 20 billion to EUR 25 billion in assets. Does that make sense? Am I thinking about it the right way and what sort of EUR 20 billion to EUR 25 billion worth of assets make sense to you from a strategic point of view, domestically or outside of the Netherlands?

Clifford Abrahams: We are calling out the impact on the leverage ratio slightly lower to reflecting growth in the business of clearing and overall balance sheet dynamics. I think the confirmation you are looking for is 'yes' in terms of your first question.

In terms of timing, it reflects the implementation of CRD-V, CRR-II proposals. We do not expect that in the short term in particular not in the time scale that you talked about. What is on our minds is that we do see the likelihood of this benefit in the medium term and we want to reflect that in terms of how we manage it in the short term, which means we are more comfortable being at around 4, knowing there is a prospect of a meaningful uplift in the medium term. That is how we are thinking about it. So, we do not expect that uplift short term, but it is giving us comfort that it is there in the medium term and we think about this in terms of a glide park.

Kees van Dijkhuizen: Regarding M&A, around the IPO we have communicated – and our stance is still the same – that if there would be in the private bank in Germany or France, it could be add-ons which would add scale with impeccable positions and alike, but there are not so many opportunities around.

Your third question is about EUR 20 billion – EUR 25 billion of assets that's not the kind of calculations we are making right now.

Stefan Nedialkov – Citigroup: Thank you.

• **Tarik El Mejjad – Bank of America Merrill Lynch**

Good morning. I think I have another angle to the topic of capital. You guide for a review of your capital return once you are above or within the range but if you look at your capital generation, given the negative migration in RWAs and so on and some growth, you will not be there between 2020 or 2021. Is that good thinking?

Also, the TRIM: I am a bit surprised by your comment. Your term was 'front run Basel IV'. My understanding is that there is no real overlap between the two, but maybe you can tell us why you come to this conclusion that a higher Basel IV will mean a lower TRIM.

On the assets quality review: last time, in 2016, you did not score very well with the draw-down on the stress test was very high. What have you done since then to make sure you pass it better? My understanding is that the Pillar2G is probably highly impacted by that result. Maybe you can actually disclose the P2G as some of your colleagues, to give us more comfort that actually your 13.5 includes some decent management buffer.

My last point is not really a question but a comment. I understand markets want some capital back, but it is clearly stated today that there is no excess capital as such in the medium term. I think you had better keep any capital built and try to find roots for growth rather than hoping for something special which in the end I am not sure will add much to shareholders. But that is my personal view.

Tanja Cuppen: Let me start with your question on TRIM. As you are aware, we have quite a low RWA level for certain asset classes. If that would increase because of TRIM, it would still be below the output for Basel IV. That is why it will reduce the impact of Basel IV.

On the EBA stress test: of course, we have done the full exercise and lesson learned from the last stress test and the past two years a full remediation plan has been implemented to be well prepared for this year's exercise.

On the P2G I cannot give any comments.

Kees van Dijkhuizen: The P2G is included in the 1.5%, which indeed includes the management buffer and the P2G. I think you can make more or less your own calculation.

With respect to growth: what we are aiming for is of course if it is profitable. That is our perspective. So, it is not just growth by itself.

Tarik El Mejjad – Bank of America Merrill Lynch: Thank you.

• **Matthew Clark – MainFirst**

Good morning, I have a few questions on net interest income and growth, and that sort of thing. Firstly, you gave a flattish net interest income outlook last quarter. The yield curve has been materially higher since then and you are still talking about a flattish net interest income outlook from here. Has the higher yield curve really changed anything for you? Maybe you could also talk a little bit about mortgage spreads here, given that the yield curve has moved and the mortgage rates don't seem to have done yet, is it still attractive for you to be writing new mortgages at the current level spreads? Your commentary would be appreciated.

The second question is on CIB loan growth. Obviously, you are pretty strong with a level of 12%. Are you happy with that kind of level of loan growth going forward from a risk perspective? Any comment there would be appreciated.

Tanja Cuppen: On the CIB loan growth: of course, we carefully look at the economic cycle if it comes to loan growth. We have seen in our main sector – the ECT sector – considerable improvement in terms of credit quality and also the modest loan growth projected, we are comfortable with from a credit risk point of view.

Clifford Abrahams: On margins, we hedge our position with respect to interest rates, so we are not all that sensitive to interest rates although we welcome a gently rising interest rate environment. It takes time for the business to adapt to a different interest rate environment. It is possible that interest rates may well be higher this quarter than last, but I think we need to see that persisting and maturing before we call it a general change in trends in the business. So, let's monitor it quarter on quarter and look forward to catching up later in the year.

Matthew Clark – MainFirst: Based on the forward curve as it is, do you still see a headwind from the falling 'calculatory' asset yield 2018 versus 2017?

Clifford Abrahams: Yes, on the deposit side we are looking to actively manage margins and we are reaching towards the end of that. So, we are at an inflection point, which was behind my comments earlier on margins. If rates stayed lower that would put pressure on margins. If rates are picking up, that would relieve pressure on margins but then we need to see where consumer rates move in that direction.

Matthew Clark – MainFirst: But are you talking from the current level as of today or from a kind of a 2017-average level or from a 4th quarter-average level, just because the yield curve has moved so far year-to-date or since the 4th quarter-average? I am just trying to work that out.

Clifford Abrahams: Yes, I understand but we do not manage the business in that way and don't give guidance in that way. We gave guidance earlier keying off Q4 and we will update that later in the year if there is a structural change. Clearly, week to week and month to month you can take a real-time snapshot and form

your own views on the direction. We need to operate the business in a stable way, which reflects some of the stickiness in consumer rates that you referred to earlier.

Matthew Clark – MainFirst: Understood. Thanks so much.

Kees van Dijkhuizen: And with respect the 1.5 P2G management buffer, as mentioned on slide 16 it is 1.7. I am sorry for that!

• **Natacha Blackman – Société Générale**

My questions are on funding. First of all, do you have subordinated debt funding to do this year? It looks like you are now full on the AT1 side.

Second, would you be able to provide an update on timing on non-preferred senior issuance and how much you are looking to do?

Clifford Abrahams: We do not comment on our issuance plans at that level of detail.

I think that in non-preferred senior we are looking to build our MREL over time and take advantage of new market opportunities, which we expect towards the end of this year – early next year.

Natacha Blackman – Société Générale: Thank you.

• **Kiri Vijayarajah – HSBC**

Good morning, just a couple of follow-up questions on your volume ambitions. Firstly, where do you expect your mortgage market share on new-origination in the Netherlands to be this year? Do you expect to be up or down on last year?

When I look across slide 9 and the mix of growth in the different loan segments there, is there any rebalancing we need to think about, back towards the Netherlands when we look at some of the macro indicators or is it more of just the same, where the international book continues to drive growth?

Kees van Dijkhuizen: With respect to the mortgage market over the year, we had 21% market share and in the fourth quarter 19%. So, that is a bit of the margin. The largest bank in the Netherlands – RABO – is at

22%. We like this market share but it is definitely in the end related to making hurdles and doing profitable business.

With respect to growth: this means it is difficult to forecast the mortgage book. We hope flattish or small growth there and with respect to growth of the SME we always guide to Dutch growth. With International we guide to world trade, and we still do.

• **Alicia Chung – Exane BNP Paribas**

Good morning, just one question from me. The underlying cost for 2017 was around EUR 5.2 billion, including the reg cost. If we look at 2018 specifically, what could we expect in terms of investments and cost savings this year? Can you give any guidance around what kind of cost growth we can expect when you combine the two together?

Then more broadly: is it possible, given the way underlying cost is progressing, is it possible that you undershoot your EUR 5.2 billion target by 2020 or is the intention to reinvest any cost savings or any of your undershooting back into the business?

Clifford Abrahams: I agree with your calculations in terms of costs excluding incidentals for last year. We are focused on driving down cost sustainably over time and in particular to meet our cost/income-ratio target for 2020. There will be some movement. We do want to invest in the business and we expect to see that happening further, both technology and client developments but also investments in further cost reductions. We want to see that happening in 2018 and 2019. We are very committed to our cost/income-ratio targets in 2020. Hopefully, that gives you the guidance. It is possible that the cost levels drift up, reflecting those investments but we do not want that to drift up too much, quite frankly, because it is important that the whole business manages costs in a disciplined way and hits that cost/income-target in a way that is sustainable going forward.

• **Maxence LeGouvello – Jefferies**

I have no question on capital; I am just focusing on business. The first question is on the retail and private banking. Can you give us how much assets have been moved over 2017 from retail banking to private banking and which kind of ability do you have to increase the profitability by the transfers on those assets?

The second question is a follow-up on the corporate and institutional banking incremental from Tanja. From the off-shore segment in your interim report you are saying that you have reached the bottom. The comment is meaning that you are feeling more comfortable in terms of managing your cost of risks or are you going to have the ability to accelerate loan growth?

Clifford Abrahams: On net flows, we saw EUR 1.7 billion net flows into private banking and about half that represents a transfer. That is for Q4.

Maxence LeGouvello – Jefferies: And on the full year?

Clifford Abrahams: It is a similar sort of trend.

Maxence LeGouvello – Jefferies: And by how much are you able to increase the profitability because I believe you are going to be able to offer to those clients moving to the private banking more a adequate product. How long will it take to improve?

Clifford Abrahams: That business is a EUR 200 billion private client asset, so we are working hard to deliver value to all our clients and I think we would like to see improved growth and financial performance across that business, so I would not call out that specific chunk of assets in particular. We think those clients are best managed within the private bank.

Tanja Cuppen: And then with respect to your question on CNIB: you mentioned specifically offshore. With respect to offshore we will continue to be cautious and want to see some more fundamental improvements as well. My comment was more broadly as well on the ECT sector.

Maxence LeGouvello – Jefferies: Okay. Many thanks.

• **Marcell Houben – Credit Suisse**

Good morning. I have two questions. First, I would like to come back on your interest rate hedging. Could you disclose the interest rate sensitivity in year 3 or post year 3? You have disclosed year 1 but I would like to know year 3 and if you have just adjusted your hedging programme as some of your peers have done.

The second question is again on Basel IV capital. Am I just right to assume that the 35% risk weight of your inflation is assuming no watering down of the output floor? This seems ultra-conservative to me. Would that in turn also mean that if there is watering down your target would decline by that?

Clifford Abrahams: Just on picking up these questions. With rules that are just out, we think the most transparent way is to provide an estimate on the rules that are published, in line with our best judgment. I am not completely clear what others have done, but I think we have been quite transparent on that. As the rules emerge, we will reflect on our estimates and reflect on our capital range, but as we stated earlier, we need to prudently manage the transition and not snap backwards and forwards in the light of the latest speculation regarding rules.

Kees van Dijkhuizen: Your question related to Basel IV and 35% being too prudent because no watering down of the output floor is included. That is correct. That is not included. To be honest, I do not know what the effect there will be in Europe because the output floor is of course is a real “Basel” outcome. So, I do not know if it is possible to change that. Let’s see. I do not know if in Brussels discussions will concentrate for instance on mortgage and alike, or growth in Europe, SME. So, we do not know yet, but it is too early to tell that this is too prudent.

Clifford Abrahams: Just picking your first question: we hedge our interest rate, we match that, and we are exposed to rising rates. We will disclose that in our annual report when it is out in a few weeks. In terms of our overall position, we have shortened our equity duration towards the end of last year. I do not regard it as usually material, because our overall interest rate position is fairly modest. In hindsight so far, that looks smart frankly, but we need to see how rates develop going forward. You will see a few more details in our annual report when that comes out in March.

Marcell Houben – Credit Suisse: There is a follow-up on the cost programmes. Underlying for 2017 it is roughly EUR 5.2 billion and that is in line with your target for 2020. How much more cost savings would you need to keep this nominal level – EUR 5.2 billion – sort of flat for 2018 and 2019? How many cost savings programmes should we expect to keep it flat?

Kees van Dijkhuizen: We are working on our existing programmes and we think that we can manage the needed cost development in line with the 56%-58%.

Marcell Houben – Credit Suisse: Okay. Thank you.

• **Nick Davey – Redburn**

Good morning, three questions please. The first is a high-level question, thinking ahead of the next three quarters. If I sum total lots of the areas of guidance you have talked about flattish NII and about some pushes and pulls on fees, which alluded to flattish, and you postponed the dividend debate for another year. So, when we tune in over the next three quarters, what are the sort of benchmarks for success? What do you hope to

show us between now and this time next year, by way of progress, just some tangible things to look for, please?

My second question is going back to the revenue and cost dynamic. You are sticking to the 56% and 58% cost/income but again, the revenue momentum at the moment is not as you have planned. At what point would you revisit the shape of revenue and costs aspirations to give us a clearer path of the 56% and 58%, if the revenue environment is tough?

Then the third question is another interest rate and yield curve one, but I just wondered if there is any other help you can give us on the deposit hedge or replication portfolio how it is constructed, so we can understand or make our own estimates from the outside in on where the yield curve would need to get to for you not to be worried about this deposit hedge reinvestment. I think ING were talking about savings accounts with a 5-duration and current account at 7. Does that resonate at all?

Kees van Dijkhuizen: Let me take the first question. When you have a high-income level and a low-cost level, in some circumstances keeping some NII – to give an example – flattish is something we think would be a good result. We already mentioned the depression on the mortgage book as a result of redemptions. So, we have to work hard there. You should also take into account the levels of ROEs we have right now. So, I think that should also be taken into consideration with respect to this question. But we will work hard of course to grow and to diminish costs and the likes, so no worries about that. But you have to take it into context of the figures.

Clifford Abrahams: On replicating portfolio, I actually read the transcript. Those orders of duration are not unfamiliar. We are operating in the same market, following a similar sort of analytical process. I do not think giving specific guidance around that is all that helpful. What we have done is called out some of the pluses and minuses. We have reduced our deposit rates, including bonus rates, so we are able to manage, at least so far, the consumer rates. I think I have called out the challenges if low rates continue in the medium term. That would pressure margins in the medium term. We need to manage margins across the business, including the asset side and on the funding side. That is what is driving our guidance around NII. So, we do not plan to give specific yield curve guidance on specific products but based on what you said that sounds broadly familiar.

Nick Davey – Redburn: Very helpful. Could I just ask a follow-up on the shape of the plan to get to 56% to 58%? At what point, if the revenue environment is still tough, would you update us on maybe a punchier cost aspiration?

Clifford Abrahams: We are committed to the 56% to 58% cost/income-ratio target, because we think that reflects an efficient business in this market rather than a specific number. That triangulated to the EUR 5.2

billion, I think we are broadly on track with those numbers and we will continue to update you. We are also conscious on some of the comments earlier on growth and the need to invest in growth. I think our challenge is to ensure we do both, which is to invest selectively in profitable growth areas but also continue to bear down on costs and digitise processes, so that we are serving our customers cost effectively. Kees updated briefly on that at the start of his presentation and we look to do that on an ongoing basis each quarter.

Nick Davey – Redburn: Very helpful. Thank you.

• **Stefan Nedialkov – Citigroup**

In terms of costs, could you update us on the overhaul of your core banking systems, the simplification process that you started several years ago? Where are we and should we expect more of a cost pressure coming from there in 2018?

Secondly, in terms of the ATM, the consolidation with all the other Dutch banks, can you just give us again some colour on how that is likely to impact the ongoing costs in 2018 plus?

Kees van Dijkhuizen: I think the ATM is actually too early the white labelling. I have not seen figures yet in that respect. I think it is on the EUR 5.2 billion. It will not be very big, I presume.

Clifford Abrahams: That is exactly the sort of thing you would expect us to be doing. It is not hugely material to the EUR 5.2 billion, but it is sensible cost management of the part of the industry. So, I am not sure we have much further to add regarding cost. We have discussed it in detail. What we call our Tops 2020 programme is proceeding well. We gave an update on the migration of the systems to the Cloud at the last quarter. I would not actually call it an overhaul of our core banking system; it is more in terms of a simplification and modernisation of our IT. It remains on track and that underpins our update and our confidence regarding our long-term cost/income-ratio target.

Stefan Nedialkov – Citigroup: Thank you.

Kees van Dijkhuizen: It is 12H30, so I think we need to finish this call. If there are no further urgent questions, I would like to end the call.

I would like to thank you all very much for your attendance to this call. We hope to speak to you later. Operator, thank you as well!