Q2 2017 Conference Call Transcript

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

Conference call replay:
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Kees van Dijkhuizen: Good morning and welcome to the analyst and investor call on ABN AMRO's second quarter results. Together with Wietze Reehoorn and Alexander Rahusen, our CFO a.i. we will share our views on the results and thereafter we will be open for QandA.

We are diligently executing our strategic initiatives to grow our activities. Costs are being controlled and the IT transformation is progressing well. We have invested in new and digital products.

For Q2 2017, this resulted in a net profit of EUR 960 million, up 45% year on year, and leading to a ROE of 20%.

Net profit benefitted from the divestment of our private bank activities in Asia and the Middle East, which had a net effect of EUR 200 million.

In addition, we made some refinements to our risk models, which led to a release of approximately EUR 100 million pre-tax. If we exclude these items, the ROE amounts to 14%.

Alexander will discuss the result in more detail later during the call.

Let me talk about progress on strategy. If we look at our growth strategies, we see that in our domestic business we are currently showing growth, predominantly SMEs with 6% on a yearly basis in the first half year, and mortgages, helped by our investments in further digitalisation, digitalising our product offering.

Within commercial banking, we are looking now to grow also in countries surrounding us, targeting mid-size corporates with multi-bank relationships. We are currently building small sales teams on the ground and the first deals are already being booked.

With regard to cost we said that by 2020 we would fully compensate cost increases due to inflation and investing in growth and innovation. We are on track here as well.

Let me move to the topic of sustainability. We are gearing up for a new initiative. Almost two thirds of our client lending consist of Dutch real estate financing and most of our business lines engage in real estate financing. ABN AMRO is committed to making residential and commercial real estate in the Netherlands more sustainable.

We aim to improve the average energy efficiency of our own and our clients' properties from an energy label D to an energy label A by 2023 – our own properties – and 2030 our clients' properties. This represents a reduction of 2 Megatons (Mt) of Carbon Emissions in the Netherlands, which is equivalent to the annual emissions produced by 800,000 passenger cars.

We will focus on making clients aware of opportunities for improving sustainability of their properties by offering online tools and advice in addition to financing products.

The transition to sustainable real estate is a long-term commitment and we will develop and announce further products, initiatives and tools over time.

Innovation is a very broad subject, which I would like to limit myself now to the upcoming revised Payment Service Directive, PSD2. We are not only ready for PSD2 but we are also developing products that can benefit from open banking. A number of our current products are pre-positioning our bank for PSD2. For example, our peer-to-peer payment application called Tikkie is rapidly approaching 1 million users, making it the largest peer-to-peer payment service in the Netherlands. Currently, Tikkie uses an external online payment service to transact payments. Once PSD2 goes live, we will bypass this platform eliminating the cost we currently occur.

Tikkie has now also been rolled out to the business market, where companies can use the platform for a fee. Transavia Airlines now using Tikkie for the on-spot payments for additional services such as excess baggage. Another example is the University of Groningen that has started using Tikkie to remind students to pay their tuition fees, replacing the more cumbersome debt collection process.

Finally, I want to mention the Hackathon, we recently organised in the summer. This event allowed fintech companies to experiment with our API-platform. The Hackathon was a success, as it generated several ideas for new products. It also demonstrated that developers are able to rapidly build applications that integrate directly with our systems.

This is just a flavour of what is going on and how we are preparing for the future. Let me return to our targets on slide 6.

We have made clear progress in recent years but also the last quarter. Cost/income in Q2 amounted to 54.9%. Excluding the impact of the private banking divestment the Q2 cost/income amounts to 58.6%, which is moving towards our target in 2020 of 56% to 58%.

The ROE for Q2 amounted to 20%. Excluding the divestment and the refinements to the risk models the ROE amounted to 14%, which is above the target range of 10% to 13%.

Our capital position improved further with a fully-loaded CET1 of 17.6%.

RWAs declined, especially in the corporate and institutional banking, driven by a lower Dollar as well as lower commodity prices.

Our leverage ratio improved by 20 bps. to 3.9%, as we also managed the exposure measure down.

We will pay an interim dividend of EUR 0.65 per share compared to EUR 0.40 last year. For the full year we intend to pay 50% of reported profit over the full year results.

Lastly, Basel IV. There are a lot of different opinions on where it will end up. We want to be prudent, as you know, and build up a capital position that is able to go with any possible outcome. We still expect an agreement to be reached this year. However, if by the end of the year there is still no outcome on Basel IV, we will present an updated view on our capital position in Q1 2018.

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

Alexander Rahusen: Thank you, Kees. On slide 7 we show the results for Q2 2017. Let me first point out that we are comparing underlying results year on year. Q2 2016 underlying results exclude provision for settling client compensations related to SME derivatives of EUR 271 million.

Looking at the segments, most were able to show higher profits. Retail remained unchanged, however last year Retail booked a EUR 100 million gain on a stake in Visa Europe. Excluding the gain, the operating result improved by 7% driven by growth in mortgages and delivery of our cost reduction efforts.

Private banking is showing the EUR 200 million after tax gain on the divestment. If you exclude a release related to the sale of the Swiss activities booked in Q2 last year, the result for private banking is flat year on year.

Both our corporate business segments showed better results. Commercial banking showed a 12% higher profit, mainly due to EUR 107 million impairment release. Corporate and Institutional banking benefitted from better results for equity participations and CVA, DVA, FVA-results. This was partly offset by an additional provision for project costs to settle client compensations related to SME derivatives.

On slide 8, you can see that NII amounted to EUR 1.6 billion, unchanged from the previous quarter but up 1% year on year. This increase compared to Q2 2016 is mainly volume-driven.

Total outstanding mortgages are EUR 151 billion, up EUR 0.3 billon from last quarter as the Dutch housing market continues its upward trend.

Our market share for new production was 21% over the last quarter, which is around our natural market share.

The loan volume for Commercial banking, which consists of our SME portfolio, again showed an increase.

NII was also helped by non-performing loans migrating to performing.

ECT, part of Corporate and Institutional banking, recorded a higher portfolio year on year.

Looking at deposits, the rate paid on Retail savings stood at 15 bps. at the end of the quarter and at 10 bps as per the end of July.

Margins on deposits for Commercial banking declined somewhat.

Client rates are zero for most clients with negative rates charged to a selective group of clients.

On slide 9 you can see that fee income declined year on year, mainly as a result of the private banking Asia divestments. Correcting for this, fee income remained flat for the group and private banking showed an increase.

Stock market sentiment improved compared to Q2 last year, leading to higher fees and higher client assets. However, within Retail fees climbed as a result of a reduction in fees charged for payment packages.

Other operating income includes EUR 255 million from the sale of private banking Asia in Q2. Excluding private banking Asia, the run rate was above the EUR 125 million indicated earlier because of relatively high private equity participation results – EUR 52 million – and positive hedge accounting-related income of EUR 68 million.

At first glance, the expense line on slide 10 does not show the underlying trend, which is lower costs. Expenses increased by 9% year on year due to a number of factors.

First, we booked EUR 56 million in expenses related to the private banking divestment. Second EUR 54 million of additional costs were booked for handling the SME derivatives settlement. Furthermore, personal expenses include EUR 25 million of additional restructuring provisions.

If you exclude these costs as well as regulatory levies, we see a decrease of EUR 43 million thanks to progress made in cost savings programs.

The effects are also visible in our FTE levels, as these declined by 1,183 over the last twelve months, including 300 related to the private banking Asia divestment. Lower FTE levels were partly offset by a wage inflation and higher pension costs. FTEs for non-employees declined by 475 to around 4,200. This reduction is the early result of a number of cost savings programs. However, we have quite a bit further to go still.

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

Wietze Reehoorn: Thank you, Alexander. Ladies and gentlemen, good morning. Let me take you to slide 11, the loan impairments.

This slide shows that for Q2 overall, 14 bps. of releases were booked. For Dutch SMEs a net release of EUR 107 million was booked. Mortgages showed a release of EUR 40 million. The releases were driven by the good performance of the Dutch economy as well as some refinements to our risk models. Approximately EUR 100 million of releases are due to model refinements and are there for incidental.

For SMEs we went from a model based on individual assessment to a collective model, which enables better modelling of the fact that some of the files will cure.

For mortgages, we refined our model, which allows us to better capture the current economic circumstances and, in combination with these significant improved Dutch housing market, this has led to an additional release.

Corporate and Institutional banking recorded EUR 67 million of impairments. Excluding ECT, the other businesses all showed releases.

Let me take you through slide 12.

The on-balance sheet loan portfolio decreased by 8% during this second quarter versus Q1, 2017. This decrease is explained by a weakening US Dollar, as the vast majority of the loan portfolio is Dollar denominated, and lower commodity prices. In Dollar-terms, the energy portfolio grew, particularly in the US whereas the transportation portfolio remained stable.

Declining commodity prices, especially oil prices, led to a decrease of the utilisation within commodities.

Impairment charges for Q2 2017 amounted to EUR 82 million and were almost equally divided across the three sectors.

Loan impairments for transport and oil and gas related exposures have stayed within the loss scenarios we gave last year. Impairments for oil and gas remained even below the mild scenario and impairments for transport are currently between the mild and the severe outcome.

We are able to cope with these impairment levels and continue to write new business where we see opportunities. We are also expanding into a number of new and adjacent sectors, being food production, renewables, utilities, and basic materials. We have done some initial deals in these sectors.

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

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

Bénoît Pétrarque (Kepler Cheuvreux): Good morning. My first question will be on the capital. Assuming there will be no deal on Basel IV by year end, would you agree that a 50% pay-out is probably a bit low for ABN, looking at loan growth potential? I would like to get your view on that, on distribution going forward, potentially.

My second question is on the PB business, so net new money of EUR 3.2 billion. Where does it come from? Have you seen some inflows in discretionary mandates? I would also like to know in which asset class it went, just to get a feel about a potential impact on the fee line going forward.

Then on the volume side. Clearly, the domestic market is doing well. Commercial banking posted 1.6% loan growth quarter on quarter. What is the loan growth outlook for the Netherlands for the rest of the year? Could you share that with us?

Kees van Dijkhuizen: I will start with the first question and then Alexander will take the other two.

When there is no deal, your question was whether 50% was not too low due to not a high loan growth of the bank. If there is no deal, we want to come up with an analysis within six months' time on where we stand, what we expect around Basel. Hopefully, there is clarity. If not, we have to make a guess-timate there and then of course we also have to make an assessment of our future capital position, related indeed to growth of the business, growth of the market, and so on. Now, it is too early to draw conclusions. It has been 1st January, then it was summer, then September, now it is October: nobody knows. If there is no agreement, we will communicate our position to investors but now it is too early to come up with a conclusion yet.

Alexander Rahusen: Your second question was on the net new asset growth. I do not exactly know by heart what percentage is cash and what is investments. At this moment, I would expect it to be more or less in line with the portfolio that we currently have. We see growth in the Netherlands and we see that also in some of our activities outside the Netherlands, but I would expect it to be broadly in line with the composition of our current portfolio.

When we talk about the loan growth outlook for the rest of the year, I will start with the mortgages. As I said earlier, the mortgage book has shown some growth over the last quarters. Our guidance is that we more or less expect the size of the book to remain flat going forward, so that we will be able to compensate redemptions with sufficient writing of new mortgages.

If you look at the Dutch SME book, we have seen some growth for the last couple of quarters. We would expect to see some more growth going forward on that book.

With respect to the Corporate and Institutional banking book, disregarding the effect of the commodity prices and FX, we have seen growth there over the last number of quarters. That is in line with our growth strategy, in which we said that we would like to grow in that particular activity. So again, there we would see further growth taking place going forward, but please bear in mind that on an absolute level the FX and the commodity price effects can have a dampening or, depending on the direction, an increasing effect on face value.

Bénoît Pétrarque: Thank you very much for that.

Benjamin Goy (Deutsche Bank): Good morning. I have two questions on cost, please. Stripping out the negative one-offs you mentioned in the quarter and also the regulatory levies, I get to more or less an underlying cost base of EUR 1.2 billion in the quarter. Should we take that as a run rate going forward or are there any cost inflation projects or investments likely to increase?

My second question is specifically on the SME derivatives. You booked another charge in the second quarter. How long can we expect this topic to drag on or do you expect to find a final conclusion in the next month on that?

Alexander Rahusen: On your first question: we still need to pay regulatory levies. That is not in the EUR 1.2 billion with stripping out everything. First of all, I think we should take that into consideration. Secondly, yes we will be confronted with inflation and wage drift going forward and, as said earlier, our long-term cost goal is to keep the costs flat compared to 2015. I would like to reiterate that we still firmly believe that this is an achievable target and that we will be able to free up sufficient means to compensate for wage inflation, for the additional regulatory levies and for the additional costs with respect to innovation and digitalisation. I do not want to allude too much to the exact development of our costs between now and 2020; the only thing that we can state is that we have seen until now underlying a positive trend as of the result of the various cost measures that we have taken and which have resulted in the number that you have seen in the second quarter of this year.

Kees van Dijkhuizen: SME derivatives, indeed, an addition this quarter. We hope indeed that this is now the last one we have to realise. Having said, of course every quarter we have to look into this issue again. But we hope that this was the last addition.

Benjamin Goy: Thank you.

Albert Ploegh (ING Bank): Good morning, a few questions from my side. First, I would like to come back to the Dutch mortgage book. The risk-weighted asset density declined slightly now to 10.9%. How do you look at this trend, also in relation to the ECB TRIM-exercise?

My second question is on the mortgage book. You mentioned it to be more or less flattish going forward. Should I see that also a little bit in the context of you trying to manage the margin on the book, so that you are willing a sacrifice a little bit of market share, which seems also to have come down a bit in the second quarter.

My third question is on the risk models, the two models that have been reviewed. Can you give a little bit more colour on that and can we expect any more models to be also explored for further optimisation?

Wietze Reehoorn: I will take the first and the third question. The first is on the somewhat lower risk weight on the mortgages compared to the last quarter. The reason is simply because we have seen an improved credit quality, better credit ratings, and better collateral value i.e. a lower RWA. You asked what would be the result of TRIM in respect of the mortgages but we do not know yet. It is one of the portfolios TRIM is looking into in our bank, we will have an outcome at the end of this year. I expect some findings there, so probably we will see some impact there.

As to your question on the refinement of the models, which has an incidental input and effect of EUR 100 million. Part of that actually is an IBNI-release. There are two models. It is the model for the SME-type of clients we have, the impaired and defaulted clients. We switched from a manual to a collective model, which has the better impact of cure activities and cure rates of clients, which we now see into releases. So, it is also dealing with improved collection processes, et cetera.

The other one is on the residential mortgage. There we moved to a point-in-time model. That is regarding defaulted and performing portfolios. That explains that part of that benefit is in an IBNI-release. My guess is that we will see for the next quarters somewhat smaller releases from that.

Your question was what kind of other model changes we could expect. As you know, in the last analyst call we explained something on operational risk. There were some additional risk-weighted assets. We still expect that we will see EUR 2 billion to EUR 3 billion reduction in risk-weighted assets as to operational risk end of this year or the beginning of next year. That's it.

Alexander Rahusen: Regarding your second question, yes indeed, we manage our mortgage book on the basis of optimising our net interest income, which entails that we indeed look at our volume in relation to the margin that we produce on the book. So, as stated earlier, on the one hand we believe that 20% market share is our natural market share but on the other hand, if we see opportunities to increase our market share with margins that we find sufficiently attractive, we are happy to increase our market share. If we see pressure on the margins or the margin development, we also accept somewhat lower volumes. All in all, we look at the development of the book on a margin and volume basis. That is how we manage our volume.

Albert Ploegh: Thank you.

Alicia Chung (Exane BNP Paribas): Good morning, I just have a couple of questions. Obviously, we are still seeing some fee pressure from payment fees in Retail banking, mostly on the business segment side this time some of the payment packages but also some higher competition in fees from Commercial banking. How should we think about that going forward, also as we think about PSD2, which of course is coming into play next year. It sounds like you have been positioning yourselves for that now, but can we assume some structural pressure on the payment fee side from that as well?

The second question is on NII. Are you able to quantify how much of the NII uplift in Commercial banking was due to the release from weak performing loans? Also, how should we think about margin pressure and market share pressure going forward from 2017 to 2018, because that seems to be one of the points that you have flagged a couple of times.

Alexander Rahusen: On the payment packages: yes, we have seen some price cuts in the recent year. At this moment, I do not foresee any changes for this moment. With respect to PSD2, you can look from an offensive and defensive side. Indeed, we are positioning ourselves to also play an active role and take benefit of the possible developments as a result of PSD2. However, given the quite big change that the competitive landscape might show as of the introduction of PSD2, it is too uncertain for us to exactly assess what that will look like and whether that will net-net result in fee income increase or in fee income pressure. Therefore, current insight in how we will compare to our competitors is still too foggy. So, for me it is very difficult to give you guidance from that angle.

With respect to your question on the income as a result of the loans being active again: on group level the effect is marginal, minimal, I would say. I am not able to give you an amount but the only thing I would say is that this is an effect we see every quarter, also in Commercial banking given the fact that we have seen quite some releases going forward. The only reason that we mentioned it in this quarter is that it was maybe somewhat higher in this quarter than in other quarters but again, also here this is not a meaningful big event in the second quarter; it is just to give you some colour to what extent the NII is also being influenced by the effect. Clearly, given the improvement of the economy we will probably see this effect going forward.

On margin pressure: yes, the market is becoming competitive again and that will entail, similarly as with respect to our mortgage volume, that we will constantly make an assessment to what extent we find the pricing attractive compared to the risk return.

Alicia Chung: Thank you. Would it be fair to assume that the current net interest margin stability that we are seeing so far, will continue or would you expect more pressure going forward on a group level?

Alexander Rahusen: If you are talking about the SME book in the Netherlands it has indeed been quite flat over the last quarters. So, I would view that as flat going forward, flattish. If we talk about the Corporate and the Institutional bank, there we have embarked on growth towards clients that have a lower risk profile. That entails that we are also happy with margins slightly decreasing there because of the pick-up in the credit profile of that particular client group that we are now looking at.

Alicia Chung: Okay. Thank you.

Jean-Pierre Lambert (Keefe Bruyette & Woods): Good morning, I have two questions. First of all, how much of the risk-weighted assets quarter on quarter reduction has been driven by FX and by model change?

Secondly regarding the day-one effect you are going to see on the IBNI-provisions: do you expect the volatility under IFRS9 to be higher than the IBNI-provisions? Could you give an indication of what you expect?

Alexander Rahusen: So, the impact of the RWA-reduction was EUR 2 billion related to credit RWA. A good part of that was indeed related to the FX movement that we have seen. Partly, it was also related due to the commodity price that has gone down. I do not have an exact number for you now of the exact FX-part with respect with respect to the RWA reduction on credit risk.

Wietze Reehoorn: Let me take the second question on the impact of IFRS 9 and the compensation IBNI and impairments going forward. The last one is very difficult to assess at this moment but as we have said in the communication we expect the so-called first day impact, which by the way we will not phase in because we think it is rather small. It will be lower than the 45 bps as in the broader EBA-assessment. Your question was about volatility. We expect more volatility in the impairments going forward. That is actually a result of the IFRS9 methodology. Again, this has nothing to do with the risk profile of the bank or the risk in the book or whatever. The only thing that is changing is the timing of the impairments. We are further refining our models right now and we have to see what will happen in the near future and at what moment exactly for example the stage two impairments – the higher impairments for the lifetime expected loss – should kick in. Again, we expect a small impact on day one and going forward more volatility in terms of impairments.

Jean-Pierre Lambert: Thank you very much.

Matthew Clark (MainFirst Bank): Good morning, I have a couple of questions. Firstly, on mortgage margins. Could you just give us an update on where your front book mortgage margins are relative to your back-book mortgage margin? From the outside, it looks like mortgage rates have not picked up as much as swap rates so maybe there is some pressure there. Perhaps you could comment.

Could you also comment on the swing in corporate center net interest income? That is quite a big move in the second quarter versus the first quarter. Is that sustainable going forward?

Finally, on Basel IV: do you have any thought on whether you would want to move quickly to full compliance with a fully-loaded Basel IV ratio on day one or would you be prepared to use transitional measures to get there over time? Any thought there, please?

Alexander Rahusen: As earlier mentioned, we have seen the margin on the total mortgage book improve over a long set of quarters and as also earlier indicated, our prediction was that in the second quarter of 2017 the improvement in our total book would flatten out. That is exactly what happened in this quarter, so in this quarter the total margin of our book remained flat. So, margins redeeming are the same as mortgages that we are writing.

Matthew Clark: And do you expect that to persist?

Alexander Rahusen: That is a difficult question because that depends on the further development of the competition. Difficult to exactly guide that. We are happy with the total margins we see in the book and we will try to find the right equilibrium in terms of margins and volumes to maximise our net interest income on the mortgage book.

Our net interest income at group level was primarily driven by higher liquidity buffer costs that we have incurred this quarter compared to the first quarter or the first half of last year, mainly related to our LCR-ratio.

Kees van Dijkhuizen: With respect to Basel IV you asked whether we will use fully-loaded from the start. That is typically a question that we will discuss in the next six months. We will give you an update in the first quarter of next year. That is absolutely one of the questions.

Matthew Clark: Just coming back to the corporate centre and the net interest income, should we see the second quarter as a run rate level or is that atypical of the way your LCR is currently? How should we judge? What is the normalised level there?

Alexander Rahusen: The net interest income at group functions is to a certain extent also a technical line, given that many effects ultimately come together in the net interest income line at group functions. They relate to LCR but also to the way that we internally transfer price. So, you have probably seen that there is quite some volatility on that line, sometimes above zero and sometimes below zero. I would think it will best to take just a number of quarters, look at the average of that and take that as a run rate going forward.

Matthew Clark: Okay. Thanks very much.

Anke Reingen (RBC): I have two questions. The first is on your provision guidance. Previously, you talked about 25 to 30 basis points. Does this apply under IFRS 9 and also considering your earlier comment about shifting towards lower risk portfolios?

Secondly, on the leverage ratio. You seemed to have changed the potential benefit from a change in the clearing exposure treatment from 40 to 50 bps reduction. Has there been any recalculation or anything else? Why has this changed in spite of the higher leverage ratio in the quarter and the lower leverage exposure?

Wietze Reehoorn: I will take the first question on guidance on risk cost, cost of risk. As already said, IFRS 9 has nothing to do with the risk profile of the bank nor with risks in books or loan books, whatever. It is simply a difference in timing of taking the impairment and that in itself causes some volatility. But it has nothing to do with the risk profile of the bank. So, the guidance we have given on group level for cost of risk – 25 – 30 bps – stands where it is at this moment.

Alexander Rahusen: Could you please repeat your second question? I did not exactly catch your question.

Anke Reingen: It was about the change in your guidance about the potential benefits and the leverage ratio from a change Clearing exposure. Before you said it is about 30 – 35 bps. benefit to the leverage ratio and now you have changed that to 40 – 50 bps. benefit. The leverage exposure has come down quarter on quarter, so I just wondered how that has come.

Alexander Rahusen: So, there are actually two questions. The answer to your first question is that we have updated our impact analysis, as stated in our quarterly report. This is how we currently look at it. But please, bear in mind that the timing of this possible release is still very unclear and it is probably the thing that we are mostly focusing on. If it were to come there would be a significant impact.

Secondly, yes we have seen a decline in the second quarter compared to the first quarter. This was also partly related to market movements we saw in the last couple of days in the second quarter of this year.

Anke Reingen: Thank you.

Bart Horsten (Kempen & Co): I also have a few follow-up questions, first on your loan growth. You referred to loan growth outside of the Netherlands and in other markets. Could you indicate what markets that are and what percentage of your loan growth now comes from foreign countries?

My second question is on your interim dividend. You pay out EUR 0.65, which is a pay-out ratio of 40% If I remember correctly, last year it was around 45%. Why is it lower now in combination with the fact that you still stick to your 50% pay-out for the full year?

My final question relates to potential share buy-backs. Recently, you had approval from the AGM to buy back shares. How likely would it be that you buy back shares for instance in the next sell down by NLFI before you disclose your new capital plan in Q1?

Alexander Rahusen: Your first question relates to loan growth outside the Netherlands. What I can share with you is that the Corporate and Institutional bank showed growth of EUR 0.6 billion in the second quarter if we eliminate the FX-effect and the effect of commodity prices. Half of that relates to growth in the ECT portfolio, which is almost predominantly outside the Netherlands. So, that gives you a good indication of our loan growth outside the Netherlands. There is small, small growth with respect to the initiatives and with respect to commercial banking outside the Netherlands, but that is significantly smaller.

Kees van Dijkhuizen: With respect to your question on interim dividend: you should take into account that last year we had a negative SME derivative item in the reported profit of around EUR 270 million, which made us decide to give 45%, so actually the yearly figure, also on the interim. This year we have a positive effect in PB Asia but also the incidental one-offs in the risk models. So this year, we have a positive one-off of 275 net and therefore, we decided to do 40% while keeping the 50% on reported for the year intact.

With regard to share buy-backs we will not communicate on if we would ever do that upfront.

Bart Horsten: Thank you.

Vardman Jain (Macquarie): I just have a couple of questions. The first is on your cost savings programme. You mentioned at several places that you saw the benefit from your cost savings this quarter. Could you quantify those cost savings for us? Where exactly did you see those cost savings coming through? Is that from the plans that you announced last year or is it still from the TOPS 2020?

My second question is on the loan growth. You mentioned you are seeing smaller loan growth in the commercial banking outside the Netherlands. Could you give a bit more colour, given that your strategy is to grow in the selective markets outside the Netherlands?

Alexander Rahusen: The benefits that we see are the results of various cost program initiatives. First of all, we see the initiative of the TOPS 2020 programme that was announced a couple of years ago. That has resulted in lower cost for our third-party provider and that cost reduction is visible in the general and administrative line item.

We also see further reduction in staff and non-staff FTEs because of the reduction on the retail digitalisation programme. In addition to that, we also see the benefits of the cost programs that were announced last year. So, we have a program with respect to reducing the costs for our control and support functions. That resulted in a reduction in internal and also external staff in our group functions. In addition to that, we have also seen a reduction in staff because of the program around digitalisation and innovation, which has resulted in a reduction on staff in our TOPS activities, which are also booked in group functions. By the way, you can see more on that on slide 10 of the presentation. That gives you a good overview of the cost developments over the last quarters.

Regarding to your second question: if you look at our strategic announcement that we had last year you see that on the one hand we said that we would also look in financing around the Netherlands mid-corporate clients, especially in Belgium, France, and Germany. So, we are in the process of developing that business. In addition to that, we also have asset-based financing activities in Germany, France and the UK, where we have also seen some developments.

Vardman Jain: Thank you.

Damien Souchet (Morgan Stanley): I have two questions. In Private banking, I think you indicated that more than half of the net new assets in the quarter were driven by internal client transfers from Retail banking. Is this a process that is completed as of today or do you expect further onboarding of Retail clients into your Private bank in the coming quarters?

My second question is on the risk-weighted assets. You had this EUR 3 billion increase in Operational risk RWAs I the previous quarter due to regulatory addons and this number remained flat in the second quarter. Do you still expect this increase in RWA to reverse and what would be the timing for this, please?

Alexander Rahusen: I will take the first question. We have not finalised that program. However, we are more than half way. You would expect the next one or two quarters to see some more flows because of the change in limit through our numbers.

Wietze Reehoorn: Let me answer the question on operational risk. The risk-weighted assets there indeed were more or less flat this quarter but we still expect the addition of EUR 2 to 3 billion in the first quarter will be reversed in the second half or in the beginning of 2018.

Damien Souchet: Thank you.

Marcell Houben (Credit Suisse): Good morning. I have two questions left on Opex. Could you elaborate a little bit more on the investments in digitalisation and innovation, the EUR 0.2 billion? How much of it has already been implemented by now?

To come back on the capital return: can you confirm that we can exclude any special dividends or share buy-backs before the end of the capital review in the first quarter of 2018?

Alexander Rahusen: Regarding your first question: when we announced last year we would increase by 2020 the amount of investments in innovation and digitalisation by EUR 200 million compared to the year 2015. That has been the announcement. We have not given you exact numbers with respect to how much that would be within the intermediary years. However, whatever I can say in addition to that general announcement is that part of the additional investments in innovation and digitalisation need to be financed by the savings that we are able to generate. So, I would say that compared to 2015 we have increased already our investments for innovation and digitalisation but I cannot give you an exact number on that.

Kees van Dijkhuizen: With respect to your question on capital return I think we have stated now for many quarters that we await Basel IV before doing anything. Now, we have made the announcement that in the first quarter of 2018 we will look into our capital position again. I would like to stick to those statements.

Marcell Houben: Fair enough. Thank you.

Tarik El Mejjad (Bank of America Merrill Lynch): I have just a few follow-up questions. first on capital return. I just want to understand here your thinking around that because you wait a few months know what is happening in Basel IV and then decide to do what you do you with excess capital. What do you think will change in the next six months if there is no deal in the next October meeting? If there is no press release in October, no one knows what is happening and then another meeting is scheduled in February, would you just consider that basically nothing has happened? You have always been highly concerned about Basel IV, so I am surprised by this reaction. Would that mean that any special dividend or higher pay-out will be quite symbolic, slightly higher or should we expect something like a transformation?

My second question is on the leverage ratio. Thanks for the update on the impact of the new rules on derivatives exposure but what about the negative impact from the credit conversion factors? Previously, you have indicated around 15 basis points; how much is that now?

Kees van Dijkhuizen: I will take the first question on capital return. As I said, when it would be the same as in the last 6, 12 to 18 months that all the time there is postponement and so on, there will be a moment in time when in the first quarter, we will see at that moment in time what to do. It also depends on the state of play around Basel. But in Q1, if there is no agreement, we will come with communication on our capital position.

With respect to the question around Basel IV and that we have always been very cautious there, that is correct. We still are, because as you know Northern European countries and also countries with low risk weights from mortgages are seriously influenced by discussions around a 70-75 output floor.

Alexander Rahusen: Your second question is on the impact of credit conversion factors. I do not think that has changed since earlier announcements.

Tarik El Mejjad: Thank you.

Stefan Nedialkov (Citi group): Good morning. I just have a follow up on Tarik's question. In terms of your guidance, is it correct for us to assume that with Basel IV we have a definite answer? Obviously, you get the go ahead and you can give us your capital guidance but if Basel IV has not been cleared, then you are very likely to give guidance KBC-style, where you basically put in a buffer relative to your peers on the basis of the Basel IV impact. That is my first question.

The second question is what currently the risk rates are on Dutch mortgages. I apologise if this has been asked already.

My third question is how we think about the FX-effect on capital. Is it fair to assume that obviously your underlying exposure in US Dollars is US Dollars and that is not hedged i.e. you keep capital in Euro terms and that Euro capital base is not hedged and therefore, you get benefits like we just saw in the second quarter.

Kees van Dijkhuizen: Your first is a good question but we still have not decided what we will do then. It is too early to tell. The risk weight on mortgages is 10.9%

Alexander Rahusen: With respect to your third question, we hold a small amount in capital in US Dollars.

Tarik El Mejjad: And most of it would be in Euro terms basically? Therefore, you get the unhedged benefits?

Alexander Rahusen: Correct.

Tarik El Mejjad: Okay. Thank you.

Brajesh Kumar (Société Générale): Good morning all, just a quick question from me. Could you give some colour on your issuance plan for the rest of 2017 and early 2018, especially around sub-debt? You have said you are looking to meet the 4% leverage by 2018 and that may include some new issuance So, when can we expect you to be in the AT1 market?

Talking about 8% MREL: where are you on potential NPS issuance?

Alexander Rahusen: Indeed, we said that we would be above 4% by the end of 2018. As earlier mentioned, there are various instruments to get there. Capital generation, management of our exposure measure and sub-debt are all still relevant and applicable. I have no intention to talk about what we are going to do and when but we still have the three elements in our position to manage the leverage ratio towards our target.

Brajesh Kumar: Okay. And what about NPS? Any colour on that? What is happening there, non-preferred?

Alexander Rahusen: Unfortunately, we do not have news on that since the last quarter. Very unfortunately for us because it is an important piece of legislation that we are still desperately waiting for. As soon as possible we will let you know.

Brajesh Kumar: Fair enough. Thank you.

Matthew Clark (MainFirst Bank): Just a follow up on your comment earlier. I appreciate that you do not want to and will not signal any intention to buy back ahead of time but I just wanted to check whether you have all the necessary regulatory approvals in place, so that it would be an option if you wanted to. Or would you need to seek special additional permission from these ECB before you could do that?

Kees van Dijkhuizen: Sorry Matthew, no comment.

Matthew Clark: Thank you.

Robin van den Broek (Mediobanca): Good morning. First of all, it seems that cutting the deposit rate in the Netherlands has still been a mitigating factor to manage your margin. You are now at 10 bps. in the Netherlands after three cuts this year. Once we are at zero, presumably this mitigating factor is no longer going to be available. Should we assume margin pressure to increase after that point?

Secondly, can you remind us about the TLTRO funds you have taken and how you are accruing NII on this? Presumably you are using zero per cent but you are growing now, so I was wondering to hear your thoughts on potentially booking 40 bps. or 20 bps. on the TLTRO funds. When will that decision take place?

Thirdly, you have talked about M&A in the past for Private banking for example in Europe. Are there any files on the table here?

My fourth question is whether you can remind us what part of your balance sheet is in US Dollars. Quarter to date the average US Dollar on spot has already decreased by 7%, so there are potentially some NII slippings for the third quarter.

Alexander Rahusen: I will take your first question. It was around the deposit rate of 10bps. We have managed it down to 10 basis points now. As said also in the previous quarter, we are not in the position and not allowed to give any guidance with respect to pricing of our deposit rates going forward. So, I am not able to give you any guidance going forward on that.

Your second question is on TLTRO. Yes, at this moment we use the zero per cent as a basis for booking the interest that we pay or receive on the TLTRO. So, in the numbers for Q2 you see the zero per cent and indeed, once we have sufficient proof and comfort with respect to the growth of our portfolio, we will be booking the minus 40 basis points going forward.

Wietze Reehoorn: With respect to your question as to use the USD exposure in the balance sheet – approx 10% to 15% of our total loan book is in Dollars. However, bear in mind that a large part of that is being booked in the Netherlands, so the capital being hold to that is in Euros.

Kees Van Dijkhuizen: You asked whether we have files on the table regarding M&A. You know we never comment on that, so sorry!

Robin van den Broek: Maybe to come back on the margin question: if there are no deposit cuts possible anymore, will margin pressure increase? Maybe that is the right way of putting the question.

Alexander Rahusen: Yes.

Robin van den Broek: Okay. Thank you.

Phelbe Pace (Société Générale): Hello! I have two questions, first of all on the NII trends in Commercial banking. You reported continued pressure on deposit margins this quarter and mentioned that only a selected group of clients are charged negative interest rates. Do you plan to change your policy on this at any point this year?

My second question comes back to the CIB and the portfolio shifts you operated towards better rated clients. You still recorded a quite elevated number of impairments this quarter despite this. Can you just give us a bit of colour on when you think you should get some positive effects from this change of portfolio mix and cost of risk trends in the CIB?

Alexander Rahusen: Regarding your first question, indeed we have seen margin pressure. Again, I cannot comment on what our policy will be going forward with respect to pricing negative rates to clients. The only thing I can say is that we are always looking at this but I cannot give you any forward guidance on that.

Wietze Reehoorn: In your second question you talk about the shift towards being increasingly targeted to the better-rated clients instead of the current situation. To put it somewhat into perspective: we are of course facing down-turn markets in the ECT markets. That in itself justifies why we have been coming out with these scenarios a couple of quarters ago. Especially in areas around the offshore services and oil-related services we face some issues but still, the scenarios being given there are holding up to this moment. You may expect that as we are now from the business perspective writing more business with the better-rated clients in for example the commodity markets, you may expect that over the next year we will slowly see ticking in some of the advantages of that. But bear in mind that this is something different than the scenarios of the impairments being given in those specific business segments.

Phelbe Pace: Thank you very much.

Kees van Dijkhuizen: If there are no further questions, I would like to thank you all for participating in this call. I would like to briefly wrap up.

As we have shown, we have been diligently executing our strategic initiatives, growing our activities and costs being controlled. We have worked hard on our IT transformation and we are progressing well. We have invested in a lot of new products and digital channels. We are of course also very proud of our sustainability initiatives this quarter.

That leads me to conclude that we are on track to achieve our 2020 targets. With that, I wish you a nice day or a nice continuation of your holiday. Thank you very much!

End of call.