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Q1 2019 Analyst Call Transcript

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

Conference call replay:
https://channel.royalcast.com/abnamroinvestors/#!/abnamroinvestors/20190515_1

Kees van Dijkhuizen: Good morning everybody and welcome to our investor and analyst call of the Q1 results. Apologies, we had a connection until one minute before the meeting started and then something went wrong. We do not know why, so we are on another set at the moment. Sorry for that.

I am joined here by Clifford Abrahams, our CFO and Tanja Cuppen, our CRO. I will take you through the progress we made on the execution of our strategy and financial targets. Clifford will then go through the details of our first quarter results and after that Tanja will update on developments in our loan portfolio.

I will run through the highlights of the first quarter. I am pleased to see good progress on embedding our strategy. As we expect the economic and interest rate environment to become more demanding we are taking the necessary actions. We remain focus on strict cost discipline and as you can see continue to trend down. We have actively de-risked part of our loan portfolio in 2018 and I am pleased to see this reflected in improved impairments this quarter. We have made further progress in sharpening our business focus with the announced sales of our majority stake in Stater and our private bank in the Channel Islands. That makes us now a focused onshore private bank in our markets the Netherlands, Germany, France, and Belgium.

There is more to do in our corporate bank to improve ROE but our target of RWA reduction is now largely delivered. Our Basel III capital position is strong and we are well positioned to manage the transition through TRIM and Basel IV. In this more demanding environment we remain clearly focused on our financial targets.

So our strategy execution is well on track and I will update you here on slide 3.

As I said in my introduction, we are making good progress in executing our strategy. We are increasing income through new sustainable propositions such as a mortgage facility allowing homeowners to invest up to 25K in energy efficiency measures for their homes and a mortgage solution for seniors to cash out home equity without selling their property. We are the first large bank in the Netherlands doing that.

We also introduced a new app Kendu, a digital platform offering asset management services for investments starting at EUR 50. We are working on building a future-proof bank through a continued IT improvement, product and process rationalisation and optimisation while maintaining firm cost and pricing discipline.

Strong compliance is a license to operate and we remain vigilant in detecting financial crime. So, we are further scaling up our FTEs to accelerate our client due diligence remediation programmes and we are making the necessary progress here, too.

I would now like to update you on the economic environment and the effects on our business. We have recently revised down our economic outlook for this year and next but the Dutch economy remains resilient with Dutch GDP expected to continue to outperform the Eurozone. During the quarter we grew our commercial banking book by almost 3% from Q4 to Q1, reflecting the strong Dutch economy. Also the Dutch housing market remains robust, although we see some signs of its cooling off with house prices increases slowing and transaction volumes moderating.

While competition in the Dutch mortgage remains strong, we saw our mortgage market share stabilise at 14% this quarter. Looking forward, we see clearly positive developments in our mortgage pipeline, so our market share will increase in Q2 again.

We also expect the ECB to keep interest rates on hold for longer, at least till the end of 2020 and pressure on deposit margins will remain. So, as the income environment becomes tougher, we are working hard to mitigate this through our focus on margins, developing new revenue opportunities and further reducing deposit rates. We also continue our strict cost discipline to mitigate headwinds related to general price inflation, compliance and regulatory cost. As I said, we remain focused on our financial targets.

I remind you here of our capital story. We are strongly capitalised under Basel III, as we have built up capital ahead of Basel IV and we are comfortably within our target range. Our Basel IV ratio at year end 2018 was 13.5% before mitigations and over 14% including mitigations. At Q1, this is largely unchanged. So we are already well capitalised for Basel IV and already well positioned to meet our Basel IV target of 13.5%. We do see headwinds going forward from TRIM model and provision reviews, but these will largely impact our Basel III capital ratio only. If so, we will lower our Basel III target range accordingly.

Following the legal merger over the summer, the leverage ratio will no longer be an issue.

Now, I would like to hand over to you Clifford.

Clifford Abrahams: Thank you, Kees.

Our net profit during Q1 was EUR 478 million. This quarter our net interest income and fees are lower. I will explain the reasons for this later. I am pleased to say that both operating expenses and impairments are down in Q1. Tanja will give you more background on our cost of risk at 15 basis points.

First, I will go through these results in more detail, starting with net interest income development on slide 7. Here, we will first run through Q1 and then discuss longer-term trends in net interest income.

As you can see on the right, Q1 net interest income was down EUR 69 million versus Q4 last year, reflecting elevated liquidity management costs, various one-offs in Q4 and a limited impacted from continued low interest rates. The elevated liquidity management costs relate to our non-euro liquidity position, which was temporarily higher in Q1, largely related to Brexit. We prudently increased our non-euro position ahead of a possible no-deal Brexit at the end of March. This led to a shift of around EUR 40 million of interest income to other income quarter on quarter. The remainder of the decrease in net interest income of EUR 30 million from Q4 last year related to various small one-offs in Q4, positive ones, and only to a limited degree less than EUR 10 million, due to the adverse effect of low interest rates in Q1.

I consider around EUR 1.6 billion to be a normalised level of net interest income this quarter.

We continue to see net interest income in 2019 to be slightly lower than 2018. While we expect total lending volume and asset margins to remain broadly stable this year, deposit margins are gradually declining due to low interest rates. The pressure on our NII will continue into 2020 if interest rates stay low through that year.

As Kees mentioned, we are working hard to mitigate the impact of the low interest rate environment. For example for MoneyYou, we have lowered our savings rate in the Netherlands by 5 basis points to 20 basis points in early May and there is still room for some further reductions in deposit rates for MoneyYou and other savings accounts.

Fee income is down modestly compared to Q1 last year. For private banking this reflects lower client assets following the market downturn late 2018 and more clients opting for execution-only. Clearing income was also affected by lower market volatility in Q1 2019. In particular, it is good to see the equity markets have recovered strongly from their lows at the start of the year and this should feed through to improving fees in the private bank later in the year. You can see that Q1 is more or less in line with Q4 fees, adjusting for the annual payments to ICS that took place in Q4.

We expect total fees to remain stable in the short term, growing after that as our growth initiatives start to kick in.

Other operating income was below our EUR 125 million guidance in this quarter. As you know, the EUR 125 million is based on the average we have seen through the past few years and we stick to our guidance. But this quarter, private equity gains in particular were very low and we took a provision of EUR 34 million for client compensation to SME derivatives and this is booked in other income. I am pleased to say that we are nearing the end of settling compensation relating to SME interest rate derivatives.

I am pleased with our performance on cost, which continued to trend down. As you can see from the left-hand chart personnel expenses continued to decline, reflecting lower FTEs. We have achieved a 12% reduction of FTEs since year-end 2015 and are well on track to reach our target of 14% in 2020.

Other expenses, excluding incidentals and levies, are stable despite pressure from compliance and regulatory costs. Please note that regulatory levies were very high this quarter at EUR 161 million compared to EUR 131 million in Q1 last year. This is due to the fact that last year, part of the SRF contribution was in fact paid in Q2 and not in Q2. That is not the case this year. This exacerbates the seasonal effect of levies this quarter on return on equity and cost income.

In the right-hand chart you see we have delivered further cost savings of EUR 37 million versus Q1 last year, bringing total cost savings delivered since 2015 to a run rate of around EUR 740 million. As you know, we target a total of EUR 1 billion in cost savings, including CIB. We are on track to reach cost base of around EUR 5 billion by 2020.

I will now hand over to Tanja to pick up impairments on slide 10.

Tanja Cuppen: Thank you, Clifford. First quarter impairments are down compared to all quarters last year with a cost of risk of 15 basis points. While the impairments we have seen are predominantly in the same specific sectors in CIB as last year, I am pleased to see they are considerably lower. This is partly due to active de-risking of specific portfolios in offshore and diamonds in 2018 and for diamonds we continue to focus on reducing our exposure to this sector. Inflows and provisions are low this quarter.

In CB we have seen a number of small impairments across multiple industry sectors. We reconfirm our full-year expectation of below the through-the-cycle cost of risk of 25 – 30 bps.

Now, I will hand back to Clifford who will take you through the capital ratios.

Clifford Abrahams: Thank you, Tanja. Our Basel III CET1-ratio for this quarter was 18.0% and comfortably within our target range. This quarter, we did not add part of the interim profit to CET 1 capital, unlike previous years. This follows stricter interpretation of the rules in close consultation with the regulator. If we would have accrued profit based on 62% pay-out of sustainable profit as dividend, which was the pay-out ratio of last year, our CET1-ratio would have been 16 bps higher. Of course, at the end of the year we will add full-year profit not paid out as dividend to the capital position in the normal way.

During the quarter, our RWA increased from seasonal volume recovery, TRIM & model reviews and the private banking acquisition in Belgium.

We are pleased with the progress made by CIB to refocus as the targeted RWA reduction of 5 billion is now largely delivered. Our reported RWAs to CIB are 36.9 billion, down from 38.8 billion at Q1, 2018. The 36.9 billion includes around 3 billion for TRIM & model reviews, so excluding these we are already around 34 billion versus 39 last year like for like. We expect headwinds from further TRIM, model and provision reviews, which will mainly impact our Basel III number, so we will lower our Basel III target ratio accordingly.

As Kees mentioned, our Basel IV CET1-ratio remained largely unchanged compared with year-end 2018. Basel IV also does not include interim profits and Basel IV is more stable than Basel III, as it is not affected by TRIM and model reviews.

Our leverage ratio is 4.1% and on completion of the merger the leverage ratio will improve by around 20 bps. So, it will no longer be a constraint.

As Kees said, we have a strong Basel III capital position and are well positioned to manage the transition through TRIM and Basel IV. I would now like to hand back to Kees to update on our targets.

Kees van Dijkhuizen: Thanks very much, Clifford. So, we are well on our way to achieving our financial targets and I would also like to emphasize that both ROE and CI-ratio reflect seasonally high regulatory levies this quarter. If we divide regulatory levies evenly over the year, the CI ratio would be over three points lower, at 60.2%, and the ROE around 1% higher, at 10.2%.

I am pleased with our cost performance and our capital position and capital generation remain strong. We expect a further impact from TRIM & model review under Basel III and if this materialises we will lower the capital target range accordingly.

Before we go into Q&A, I would like to briefly recap the highlights. All in all, I am pleased with our progress and operational delivery on our Banking for better strategy, which will underpin our future financial results. Our Basel III capital position is strong and we are well positioned to manage the transition through TRIM and Basel IV. While the environment is becoming demanding, we are taking actions to deliver on our promises and we remain focused on our financial targets.

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

Pawel Dziedzic (Goldman Sachs): Good morning and thank you for the presentation. I have two questions and both are on your top line. The first is on the comments you made on NII pressure and in particular on slide 7. So, if we strip out all the impact of liquidity management and take on board your comments on strong mortgage pipelines and potential mitigating actions to still on deposits, do you still expect to be able to deliver the NII run rate of 1.6 billion for the rest of the year? Can you maybe give us an idea about that? In other words, you showed in the slide 29 million of other NII decline and how recurring that would be in the coming quarters.

The second question is on your other revenues and it is essentially how comfortable you feel about your income guidance of around 125 million you gave us before. Again, we can strip a number of one-offs this quarter and we still end up with quite a lower number. So any comment there would be helpful. In particular on private equity, do you expect it to rebound of how the sale of part of your stake and the impact last year on the run rate.

Kees van Dijkhuizen: Thank you very much, Pawel. Regarding your first question on the development you mentioned, I think that is fair to say. If you take the 40 million as mentioned, we are above 1.6bn this quarter. With an improvement of the mortgage portfolio we expect – at least in the coming quarters; we cannot make a forecast for all the quarters this year or next year – for the next one/two quarters 1.6bn above should be possible. The guidance for other income stays at 125 million and, as said, private equity gains were very low this quarter, at 10 million and 150 a year ago. That very much depends of course on the stock exchange. We cannot give that as a separate part of the 125m but in general, you can use the 125m for the coming quarters.

Pawel Dziedzic: That is very helpful, thank you.

Nick Davey (Redburn): Good morning, three questions please. The first one is to ask to comment a bit on the move towards not accruing any earnings into capital. I understand your comments and the release about prudency but it is an unusual step. You are obviously making the point about the discussions with regulators, so could you give us any insights into what that discussion is actually about if not about dividend, because no other bank is reading the rules in the same way as you are?

The second question is on domestic mortgage margins. One of your orange peers is more enthusiastic these days about the trend in margins, so I just wondered whether you had seen anything that makes you equally enthusiastic.

The third question is on Dutch corporate lending trends. Just looking at some Central Bank data seems to suggest an increased problems through the quarter in terms of Dutch corporate lending. Yet, when I look at your balance sheet trends there seems to be quite encouraging growth. I am just trying to square those two to see if you are seeing anything changing in terms of corporate appetite and/or if you are offsetting that with international growth.

Kees Van Dijkhuizen: Thank you, Nick. Clifford will answer the first question and I will take two and three. Domestic mortgage margins; yes, we see increased margins indeed due to the development in long-term interest rates and also the market developments in general with players in the market and less in the market. That is the reason why we also guided that our 14% market share last quarter, Q1, will increase in Q2. So, we are positive about that because margins are very important here. As we said, we have been disciplined. That was the reason we were only at 14% in Q1 and we see improvement going forward.

Dutch corporate lending, yes, we have had a very good quarter with 2.8% growth on a quarterly basis. That is actually a yearly of over 10%, so that is not something we normally guide for or expect for this year. But this was a good quarter and we do not see at the moment people in trouble and not taking up loans at this moment in time, so let's see. We did well in the first quarter, very well, but we are still positive about the market also for the rest of the year.

Clifford Abrahams: I will pick up the approach to interim profit and spend a little bit of time on it, so we are all clear. Just to make the obvious statement, the money is still in the bank so this is merely a reporting thing but an important one and that is why we have highlighted it. We do not feel we are being prudent per se; this follows a stricter interpretation of the rules in close consultation with the regulator. The rule in question is CRR, article 26.2 and you need approval of the regulator to book interim profits as capital. The relevant clause is the institution – that is us – needs to demonstrate to the satisfaction of the regulator that any foreseeable charge or dividend is being deducted from those profits. In our case, our dividend policy is a minimum of 50% plus additional distributions, so a strict interpretation of what I indicated means that we are excluding the full amount. I would say it is theoretical, so we are making no commitments or comments about dividends at this stage but it reflects that strict interpretation when we have a lower bound to our pay-out ratio but not the upper bound. My expectation is that this approach would be adopted across the sector but one needs to take into account the dividend policy in the context of this rule. I hope that is clear and I am happy to pick up outside the call.

Nick Davey: Thank you.

Benoît Pétrarque (Kepler Cheuvreux): Good morning, I have a few questions. The first is on net interest income. Just to come back on your 1.6 billion guidance, it seems that we are going to stay around that level in the coming quarters. Just looking into Q1 it seems, as you indicated, a 10 million drag from low rates quarter on quarter, is this type of pressure the pressure you also expect in the coming quarters and also going into 2020? Is that something we can plug in the models?

My second question is on the Originate-to-distribute model you plan to implement on the 20-year+ mortgages in the Netherlands. Have you started to produce for third parties and how much fee would you expect from that?

My last question was on the NPE coverage ratio. That was one of the items you mentioned last quarter. Do you have an idea about the impact you could expect and could you guide a little bit more on these items specifically?

Kees van Dijkhuizen: With respect to the guidance around interest I would say that regarding the 1.6 billion let's be careful to not really above guide above that. That is the right thing we guide because there is of course upward pressure from more mortgages. But as said, there is also downward pressure from Interest rates developments in general.

With respect to the Originate-to-distribute 20 years mortgages – I think also the 30 years mortgages – that is work in progress. I think we want to do our first deal this year. That is the plan. What fees are aligned to it is not yet clear at this moment in time. Let's see what the first charge will be and then we can update you on that.

NPE, Tanja?

Tanja Cuppen: The developments on NPE are that the European Commission has approved regulations in the meantime, which force us to take a prudential back stop in Pillar 1 for newly originated assets. We also have ECB guidance and we need to see how we deal with our existing NPE from before these dates. All these measures are coming in right now and I think we can update you in Q2 on what all these new regulations mean if you bring them all together.

Benoît Pétrarque: Thank you very much.

Adrian Cighi (RBC): Hi there, three questions from me, please. The first is on cost. The environment has deteriorated quite considerably since you set the initial cost reduction target. Do you think you have the ability to increase this a bit further?

The second is a follow-up on the cost of risk. Your guidance remains unchanged to 25-30 bps. Potentially a meaningfully increase from the Q1 level. Do you see any reasons for this to increase or is this just a particularly conservative guidance?

And then on Basel IV, just a clarification. You said it remains largely unchanged quarter on quarter, despite the Private Bank acquisition and the lack of the organic capital build. Are we seeing some of the initial results of mitigation or what explains the unchanged, despite the headwinds?

Kees van Dijkhuizen: Thank you, Adrian. Clifford will answer your questions on cost and Basel IV and Tanja will answer the one on cost of risk.

Clifford Abrahams: So picking up on costs. In terms of the more demanding environment we have seen some pressure on income from lower/longer that we discussed earlier in the call. That is likely to extend into 2020, so in that sense income has got more demanding, which challenges the cost/income ratio.

And then on compliance and regulatory costs, yes, we do see incremental costs coming through. I think, as Kees said, we are focused on our financial targets. So next year the target of 56% - 58% cost/income ratio remains our target. We reconfirm that in November and then in February this year it has become a little bit more difficult to achieve but we are working hard to deliver on further cost savings in order to mitigate the headwinds we see regarding costs. You will recall the presentation we gave particular around IT at our Investor Day and we are working hard to deliver more for less in our IT area.

Moving on to Basel IV, we were just trying to call the difference between Basel III and Basel IV. Basel III is down 0.4% in the quarter and Basel IV is down less, a negligible amount, which is why we reconfirm this largely unchanged. That reflects the movements you have talked about earlier. It is less the benefits and mitigations that we expect to see over time and more related to the fact that the TRIM and model review impact, that had an adverse impact on Basel III – we have disclosed the amount, a little over a billion – does not carry through to Basel IV because it is on a different basis. So, those two approaches are converging slightly during Q1.

Tanja Cuppen: And then your question on cost of risk. Of course, we are pleased with the impairment levels this quarter but you cannot extrapolate these forward because some of the provisions are quite lumpy and we also remain cautious on these sectors. We shared that with you before. Especially in Oil and Gas and also for the Diamond sector we remain cautious. That is why we stick to the guidance that we have provided before.

Adrian Cighi: Thank you very much. Very helpful.

Benjamin Goy: Good morning, two questions please. One is a follow-up on cost of risk in particular. In your commercial bank we have seen the trend to be around 60 million the quarter or 60 bps roughly. Initially, this was driven by a single sector and now it feels broader. Is that also the guidance going forward for this segment?

Secondly, on cost. You have a rather conservative approach to capitalising software investments. The European Commission might change that and you could get benefits in your capital if you capitalise. So, I am wondering whether there is something you are currently thinking about, changing your approach.

Kees van Dijkhuizen: Thanks Benjamin. Tanja, can you take the first question and Clifford the second?

Tanja Cuppen: Yes, on commercial banking, indeed we see the cost of risk levels for CB in a similar range as we saw them last year. Right now, impairments are taken more across sectors. There is no real trend to be seen there. We still see some elevated provisions in the Healthcare segment but apart from that it is actually across sectors. It is too early to say that there is a trend but definitely certain sectors are struggling a bit more and then you need to think of agri business and retail, where clients are struggling. But as said, it is too early to say that it is a trend. We do not provide cost of risk guidance by segment, so I cannot fill you in there any further.

Clifford Abrahams: Ben, I will pick up the approach to IT. As you know, we charge our IT spend through the P&L so there is very little capitalisation going on which we think is the right thing to do in terms of running the business. We have been following developments closely. We understand that EBA will opine on this principle by the end of next year, so it come into force in 2021, so it is a little way off. We will monitor it closely to see if there are potential benefits. We want to be consistent in our reporting but also we want to be aware of regulatory developments and adapt to that. So, we do not take a principle approach here. We are open minded and we will follow developments as they take place.

Benjamin Goy: Thank you.

Bruce Hamilton (Morgan Stanley): Hi, good morning. Firstly, one on capital. I realised that we are converging between Basel III and Basel IV but could you just remind me of what the TRIM impacts were in

Q1? And then any sort of quantification of TRIM and the guidance on NPE through the rest of the year? Which should we expect will be bigger and how will they fall across the quarter?

Secondly, on the NII you were looking to 2020. In terms of mitigants, could you just summarise again what those are? I think you mentioned deposit costs although I did not think there was much scope there. I guess volumes would be another but is it going to be more driven by faster fee growth trying to offset NII or is there something else that would help?

Finally, on the cost of risk. I guess the coverage ratio has dropped and you give an explanation in the report but it is sub 30% so optically it looks quite low. Can you remind us of the reasons why that is not the case or what we should bear in mind that drives the coverage ratio lower than some of your peers?

Kees van Dijkhuizen: Thanks, Bruce. Clifford, can you take one and two and Tanja number three?

Clifford Abrahams: We call it TRIM and model reviews and the amount we took in Q1 was 1.3 billion in addition to the 5 billion in Q4. TRIM is a process that will take place over time but it is important for us as management to see the early signs of TRIM and book the possible effects of that earlier if we see it is appropriate. So, we are seeing somewhat of a phasing in of that as some of the information comes to light regarding TRIM and it is quite possible there will be further impact of model reviews this year ahead of the final determination of TRIM, which may well extend into next year or even beyond. That we are clearly flagging in in our disclosures this year.

On NPE I make a broadly similar point. There are a range of rules regarding NPE that come out of EBA and the ECB many have a point to 2020 and beyond but it is possible that the effects of this take place earlier, which is why we have used the term ‘provision reviews’ which captures NPE but possible other factors. So, I cannot give any more specific guidance to that but it may be that the effect is earlier than the formal target dates, which extend off into the future. Perhaps Tanja can comment further when she responds on the cost of risk.

On 2020, we have been clear on the more demanding environment but also the action we are taking. Kees talked about volume and we will pursue volume where we can profitably. We gave the example of mortgages where we have been encouraged by recent developments. I think we gave the example of MoneyYou but we are also looking carefully at how and where we are passing on negative rates, so our corporate clients receive negative rates but it can be appropriate to extend that elsewhere. Particularly clients who have very large balances and we will consider that, particularly if rates stay low for longer. So, we do see some scope there as well as fees, whether it is new products or Originate-to-distribute, which Kees talked about. We are working hard on those initiatives in particular.

Tanja Cuppen: On your question with respect to the coverage ratio, indeed, that has dropped a bit comparing Q4 to Q1. The reason for that is, as is mentioned in the report, that we have written off some exposure with a high coverage ratio. We are also focusing on our non-performing exposure, especially when that has been around for some time to actively work that out. That is one reason. Secondly, we saw some new inflow where we took some impairments as well but at a lower coverage ratio. So that combination led to a drop but 30% is the level you should think of. This is just the outcome of the developments in the last quarter.

Alicia Chung (Exane BNP Paribas): Good morning, just a couple of questions. Firstly, on costs. Cost discipline has clearly been very encouraging for a number of quarters now and ABN has tended to surprise on the upside. Underlying costs came in comfortably under 5.1 billion last year. I suppose my question is can we expect an improvement on this this year, given that you still expect to have a further 150 million of cost savings to come in your strategic plan? In absolute terms, can we improve on the less than 5.1 billion underlying that we saw last year? In particular, now that you have completed the RWA deleveraging in CIB, can we expect a greater focus on restructuring the business from here, particularly given that staff numbers are still 4% or 5% higher than they were two years ago?

And then just to go back on the point on provisions and coverage ratio. I appreciate that of course that part of the reasons for the drop in the coverage ratio from 32% to 29% was because of the de-risking of the portfolio but can you help us to try and understand why we are still reducing the NPL coverage ratio at a time when you have concerns around head winds from calendar provisioning? Particularly when I look at your coverage ratio in CIB for example versus peers it already looks quite low and I would not necessarily assume that it is because you have a lower risk business mix.

And then one final question on your capital targets. You have flagged that the Basel III and Basel IV ratios now appear to be converging because of TRIM and model updates that are affecting Basel III. You said that if that convergence continues, which you expect it to, you will update your target CET1 ratio which is of course along a Basel III basis. At what point do you expect to update that ratio and how should we think about how that one will move going forward?

Kees van Dijkhuizen: With respect to cost I would say, as Clifford already mentioned, we are very much focused on that, especially when there is pressure on the income line, as explained. Clifford mentioned all the examples where we are working on. So indeed, we want to bring down costs, also on a notional value, absolute value. With respect to CIB indeed, in general by the way, the leverage ratio was constraining sometimes some parts of CIB, for instance the Clearing department. So, that is helpful that this constraint is presumably no longer there somewhere over the summer. That is good.

Tanja will answer your second question and with respect to your last question on capital targets, converging and updates. We said accordingly, so that depends. If a lot happens in the second quarter we might do it after the second quarter. If not much happens we might do it later but it will be driven by what happens underlying. We will do it like that. But the second quarter could be the first moment.

Tanja Cuppen: On the coverage ratio, you are alluding especially on CIB. As you mentioned, it is indeed related to the fact that we have been de-risking that portfolio. We have very much focused on the more cyclical segments there. You see that back as well in the amount of impaired exposure in this business line and that is explaining as well; taking out the assets with higher provisions influences the coverage ratio. I feel comfortable with the coverage ratio that we have today for this business. As said, levels around 30% is what you should think of for us.

Alicia Chung: Thank you. And just to circle back on the costs, you mentioned that you of course aim to bring down cost but is that in 2019 or is that more for the later years?

Clifford Abrahams: We are focused on the target for next year and we have indicated around 5 billion. I have given you a sense of headwinds. There are genuine headwinds. We are upgrading our focus and resources around compliance in particular, as we should. So, that 5 billion has become a little bit tougher which is why we are working hard on it. I will not give any further guidance on 2019 versus 2020. Clearly, while we feel well provisioned for our existing cost plans, if we come up with extra things there may well be cost associated with those so we are managing all that carefully with a view to delivering on our commitments for next year.

Alicia Chung: Thank you very much.

Kirishanthan Vijayarajah (HSBC): Good morning everyone, just a couple of questions on the scaling up of the due diligence capabilities there. Could you just give a feel of where you are in the process in terms of ramping up the FTEs? One of your close peers is talking about special projects within that, so maybe some of the costs are falling away in 2020 or is it more a case of all the build that you are doing is recurring costs that you are putting on?

And then a similar topic but on the revenue side, are you finding any kind of client relationships that need to exit because they do not meet the higher due diligence requirements? Just some colour on how that whole project is impacting your business. Thank you

Kees van Dijkhuizen: Thanks Kiri. With respect to due diligence we are stepping up at this moment in time with 85 million we took as a provision in Q4, especially this year and next year, so for a two years' period. Having said that and as Clifford also mentioned, it depends of course on developments going forward. At this moment in time we have 1,000 people already working on it. The extra 400 are planned to remediate backlogs, especially in commercial banking and in our credit card department. We have set up a special project here called Detecting financial crime with allocated people and budgets and a lot of focus. So, it is really on top of the mind of the bank at this moment in time but it is too early to say something about after 2020. We hope that we have solved the problems anyway and that we are able in our processes to have it more engrained there and lower cost again going forward. But it is too early to speculate about that.

With respect to client relationships we do not comment on that but indeed, of course our due diligence can lead to exiting clients. But we do not comment on that publicly. But it can be a result. But it is not harming our business in a way that you would see that in our figures.

Kirishanthan Vijayarajah: Got it. Thanks.

Albert Ploegh (ING): Good morning. I have two questions. First, coming back on the TRIM and model reviews. Clearly, it is more worthwhile to look at the Basel IV impact, as you alluded to and that you will reflect also going forward your Basel III capital target in case of future impacts. Can you say something on the timing of that potential review of the target? Is it still possible that it will occur somewhere in the second half of this year or is this a Q4 kind of general update when we move into 2020? That is my first question.

The second question is a bit broader on the topic of M&A. With the NII headwinds probably being there longer than maybe expected back at the Capital Markets Day, in terms of order of priorities, is M&A higher on the agenda to look a bit more proactive to certain files than before? Anything you can add on the M&A appetite is welcome. Thank you.

Kees van Dijkhuizen: Thanks Albert. With respect to your question around the review. As said, it may be the next quarter, it may be the quarter after the quarter. It is depending on what happens around TRIM & model review in that quarter, which is Basel IV related. Depending on what happens we will come up with a review of the target or a lowering of the target at that moment in time. So, it can be from Q2 onwards potentially.

With respect to M&A, we have been open to bolt-on acquisitions in private banking for some time already. Just to illustrate, SocGen last year and before in Germany two times. We are still open in Germany, France and Belgium for bolt-on acquisitions in private banking. We also look at other areas where we can find fee options or interest-generating options, so we are looking more broadly. It will be bolt-on if we do it and a broader M&A discussion is a different one. We are working on a stand-alone basis and that is what we are going to continue in the future.

Albert Ploegh: Thank you.

Marcell Houben (Crédit Suisse): Good morning. I have two questions. On the fee side and especially in the retail business there was a significant drop quarter on quarter whereas as I thought the high 90s was the run rate. Is that all driven by online brokerage, so people not trading much in the first quarter? I thought the majority was just current account pricing and that was stable going forward.

Secondly, I know it is quite early in the year but just a narrative on capital and excess capital return; is it your ambition to grow the capital base beyond for example 18.5%? If we assume ceteris paribus that the capital target has not changed would you aim to grow this capital base or do you think we will never see a higher CET 1 ratio of 18.5% for example?

Kees van Dijkhuizen: Thank you, Marcell. With respect to the fee side, perhaps Clifford can take that question. With respect to capital return, it is indeed, as you say, early in the year. We will not say a lot about dividend yet. 18.4% last year went down to 18.0% in Q1 and we expect to have, due to Basel IV elements, TRIM and the model reviews earlier on. That will lower the difference between Basel III and Basel IV, so that is actually more a downward pressure on the CET1 Basel III than an upward pressure. I am not going to say anything about "never something" but the pressure is more in the other direction, I would say.

Clifford Abrahams: Maybe just a little bit building on that, maybe just a different angle. Clearly, we are in a transition period between Basel III and Basel IV and it is a challenge. We continue to feel that the right way to communicate the target range is Basel III because that is our reported basis but the principle is that we want to keep them well aligned. This quarter we said that Basel IV is unchanged from Q4 when it was 13.5%, so well capitalised and 18.0% is in the middle of our current Basel III range. They are well aligned. TRIM and model reviews makes them misaligned and then we will look at it. As Kees says, it could be as early as Q2. It is the alignment that we are looking for to ensure that we manage that smooth transition.

Regarding fees, looking at the sequential trends, Q4 was a little bit high. So Q4 in retail benefitted from the ICS payment, our credit card business, and that was a high single-digit amount. If you look at the quarters year on year you see that they are more or less in line. There is some seasonality to our fees and that explains most of the movements between Q4 and Q1. Kees commented on the outlook going forward regarding fees.

Marcell Houben: Got it. Thank you.

Stefan Nedialkov (Citigroup): Hi, a couple of questions. A lot of questions on TRIM and let me throw mine as well. TRIM basically 3 billion of RWAs. Thus far you have guided overall Basel IV inflation of 30 to 40% of RWAs effectively, so we are really only talking about 10% of the Basel IV impact having been phased in. Would you say that there probably is another 10% to be phased by 2020, so overall really the vast majority of the Basel IV impact will happen from 2022 onwards rather than being front-loaded before 2022? I would just note that that is different from your other orange peer, who is phasing in 80% of the impact in the next one to two years. Do you agree with this statement or not? That is basically my question.

My second question is on cost. Retail banking costs surprised positively. We do not really have too much granularity in terms of what has driven that. Could you comment on that and how sustainable is that going forward?

Related to the question on costs, when do they start talking about head winds on the cost side of things from compliance? You indicated in the pre close call that compliance cost on an ongoing basis are likely to rise from 100 million to 125 million per year. That is just a 25 million negative delta. In the context of 5 billion cost base it does not strike me as a huge negative delta, yet you are talking about compliance cost pressures. Am I missing something here?

Kees van Dijkhuizen: Thanks Stefan. With respect to TRIM and the 3 billion we mentioned, if we take Q4 of last year and Q1 of this year it is already 6 billion. That is more year to date already. Forecasting this is not easy because it depends very much on what regulators discuss with you and decide around discussions. So, it is not easy to forecast but the figures you mentioned are low for what we would expect. The two times 10% is low, I would say.

Clifford Abrahams: Regarding retail I am looking at the sequential. I think it is important to just break out some of the incidentals. Q4 to Q1 retail costs were down a decent amount. You have to look through the allocation of levies and also, because Q4 is a heavy levy quarter, in Q4 we booked the provision for CDD remediation. A lot of that fell on retail. So, I do not think I would be calling out specific trends on costs regarding all our businesses. I think the retail bank is focused on costs because some of those income head winds are landing on that business in particular. But if you look at it over time the performance is more or less in line with some of the other businesses.

Stefan Nedialkov: Thanks. And just to follow up on the compliance. The pressure is about 25 million extra per year.

Clifford Abrahams: We have booked a provision for compliance costs. They were for some very specific programmes, so we expect the run rate of compliance-related costs to go up from roughly the 100 that we have seen in previous years, of that order of magnitude. As Kees said, we are not expecting an imminent reduction in those costs. We are not going to declare victory and stand down the teams. I think we expect the environment to remain rightly focused on this and we are putting the resources behind it appropriately.

Stefan Nedialkov: Okay. Just to confirm here, you are saying that the pressure from compliance costs is around 25 million per year. Is that correct?

Clifford Abrahams: We have given previous indications. I do not want to update every quarter on compliance costs. We see compliance and regulatory generally as a source of head wind on costs, which is how we characterised it. But we remain focused on our overall targets and I think the guidance we have given for the next year remains appropriate in that context.

Stefan Nedialkov: Thank you.

Jason Kalamboussis (KBC Securities): I just have a couple of questions. Coming back on M&A, there has been news mentioning that Degroof Petercam in Belgium would be open for discussing a sale. I am sure that you cannot comment on specific files and cases but putting that aside and given that it would be something that could be worth just north of 1 billion, I was wondering if your bolt-on would extend to what you would call your running profit, so you set fire power, you would look at it and within your running profit – which actually goes roughly to 1 billion – it is something that you would consider. Or do you find this is exceptional? In general, if you could comment, would you go for a larger deal at this stage because it could help to alleviate the pressure that we can see over the next couple of years, at least on your top line?

My second question is on diamonds. 7 million low but you know it can change a lot in the quarter. I just wanted to have an outlook and a comment if there is, in general, some improvement in the market, reverse to what we have seen last year or if it still very much a market that has not shown any such signs.

My third question is on NII. From both questions that came on it, is it fair to assume – just in general – that this quarter the 10 million is roughly the impact that we should assume, so that this year the 10 million per quarter you absorb it by increase your market shares, et cetera? As Bruce was mentioning, in 2020 it is roughly a good number to use, everything else being equal. Of course, there are actions you can take to alleviate that but without giving guidance for 2020 is the 10 million per quarter a good figure to have in mind.

Kees van Dijkhuizen: Thank you Jason, for your questions. M&A Degroof, we will not comment on that of course but on your more general question on what kind of size we would look into, if I take the last three deals I think two were in the range of 5 to 10 billion assets under management. I would say that is not the case that we would only look at 5 or 10 billion. It might also be larger, so we will look at every specific situation and of course specifically at the business case around that.

Tanja will comment on the diamonds. With respect to the NII guidance for 10 million and absorbing it by volume growth, I would say that is the right guidance. So, we can confirm more or less this reasoning you had.

Tanja Cuppen: On diamonds indeed, as you mentioned, we had limited additions to provisions this quarter. As I mentioned already, we remain cautious with respect to this market. It is a market under pressure. You see consolidation and competition also from 'artificial' diamonds. You see pressure on the sector and we expect that to remain. So, we remain cautious as well.

Jason Kalamboussis: Thank you very much.

Raul Sinha (JP Morgan): Good morning. Maybe a couple of questions. On fees, we have had the discussion already but I just wanted to link back, especially to your comments at the Investor Day where you talked about stable fees in the short term and then modest pickup from growth initiatives. I was wondering if you could refresh for us a little bit the timing; how do you expect the growth initiatives to kick in maybe over the rest of the year into next year in terms of driving that fee income line?

The second question is slightly more specifically on the stage 3 book. If I look at the disclosure – please correct me if I am wrong – the stage 3 corporate loans are up with something like 600 million in Q1 from 4.3 billion to 4.9 billion. You have talked about inflows and outflows and obviously there is the point of coverage is very clear, but my question was more if there is any colour you can provide in terms of what sectors is driving that? A 600 million increase in the stage 3 corporate loans is quite a big number.

Kees van Dijkhuizen: Thanks Raul. Clifford will answer question one and Tanja question two.

Clifford Abrahams: On fees, I will give an update. I think we have made disposals of some fee-heavy businesses and that is a head wind on our number. So, I think we should factor that in. I also think that Q1 was impacted by the downward movement in equity markets at the end of Q4. So, there are some short-term factors that were impacting the number that is perhaps extending out the period from which we hope to grow fees. If I look at the prospects going forward, whilst I am pleased with the fee initiatives working – Kees talked about the mortgage fund and Kendu and all of these will add fees in due course and taking the mortgage fund as an example – it will take a few years to build up to a meaningful stock on which we will earn fees that would be meaningful to the 400 million or so that we reported this quarter. The same is true for investments. But going forward this year, clearly markets can be volatile, we were pleased to see the market pick back up again. In the value of our investments that is meaningful to fees going forward. It is more those tactical, cyclical things that will drive the movement in the next few quarters as we work on these more medium-term fee initiatives.

Raul Sinha: Got it.

Tanja Cuppen: And then on the stage 3 book and the inflow there. It is too much to say that there is a trend in certain sectors but I can call out a few. We saw some inflow from offshore energy, the sector that we have very much in focus. We also saw some inflow in short sea shipping and in food and beverage. The rest is across the board. As mentioned, looking at these files and also the impairment levels that we felt are appropriate there are below the coverage ratio that we have for our total book. That explains the coverage ratio as well.

Raul Sinha: Thank you. That is really helpful. I was wondering whether these are largely domestic or largely international in terms of exposures.

Tanja Cuppen: I think it is a combination. Some of that you see domestically and some of that is international. It is really a combination and I would not have the numbers to say it is really 50-50 but it is not purely domestic at all.

Raul Sinha: Thank you so much.

Robin van den Broek (Mediobanca): Good morning. My first question is related to a comment your peer made in the Netherlands and that is that they were using higher FTP rates for the lending side of the bank, basically implying that commercial rates were up and lending margins were sort of flat. To me that gives the impression that the higher credit spread movements of Q4 were passed on within the bank. Given the sizable tightening of credit spreads year to date year to date I was just wondering whether that is sustainable or not. We have talked about rates as a pressure factor. Credit spreads are down as well. On the mortgage side you are more supportive of the margin but is that not just more of a factor of the lack of pricing in new commercial rates or is this really something sustainable? That is my first question.

Secondly, and sorry for coming back to this, my question is about lowering the budget. You said that this depends on the significance of the move between the quarters that you could potentially update in Q2 but apparently 6 billion of RWA uplift on the back of TRIM and model update was not high enough. So I was just wondering if you could give us a number there.

In relation to the gap between Basel III and Basel IV I think last year we were expecting some tail wind on the operational risk RWAs to come through due to meeting the disclosure requirements of the ECB. What happened to that? Is there still something to come or does this not even matter under a Basel IV scope?

My last question is just a confirmation. I was just wondering about the pro-cyclicality under Basel IV. Presumably, because it is mostly output floor-driven I presume that it is not a reason at all to be above your target range on capital.

Clifford Abrahams: I will try and tackle most of that and maybe Tanja can chip in on operational risk, if I need help. On FTP, I saw those comments. We have a similar methodology by which we pass on credit spreads. If they go up we seek to pass that on. There is some smoothing around that. It is not all automatic. We have a methodology there but I think we behave in a similar way.

In terms of mortgages there are a number of things going on. Competitive behaviour, where the pension and insurance companies are, where the other banks are, we find it helpful to focus on our own measures of hurdle rates and profitability and let the (market) share take the strain. As Kees said, we are encouraged by the pipeline. I cannot forecast how long that will be maintained.

Around the target range – I am happy to tackle this again – I would refer back to the comments we made about alignment. We do not want to keep moving the Basel III range as our Basel IV numbers change or TRIM changes. Our strategic focus is to meet the 13.5% under Basel IV early in the phase-in. Based on that, we triangulate the appropriate Basel III target that we will seek to maintain, where it remains aligned with that Basel IV goal. So you pick Q4. You can make the case for Q3 why we did not raise the target range, but we do not want to keep moving it around. We have a view of forward-looking developments and we try and factor that in. But it is clear as of today that we are well capitalised under Basel IV, unchanged from year end 13.5% and comfortably within our range. They seem quite well aligned. If TRIM moves them out of alignment we would change the range to bring them back into alignment.

Tanja Cuppen: On op risk I can say that the model in the meantime has been reviewed by the regulator and as a consequence we could reduce some of the add-ons. But as you see, and it is also in our quarterly report, we have also updated scenarios for the developments in the market and that led net-net to somewhat of an increase in operational risk RWA. This is of course under Basel III. Under Basel IV we do not expect a big change for operational risk but the exact guidance is still uncertain there, so we need to wait as well for the regulator to settle to exactly know what it will be for operational risk.

Robin van den Broek: To come back on the first question, could you just say whether credit spreads coming down directionally is a head wind and whether that has been absorbed in the 1.6 billion NII guidance?

The sixth question was on the pro-cyclicality which I think is still open but I am happy to leave that behind.

Clifford Abrahams: We do not have anything further to add to the 1.6bn. I think we are getting too granular in terms of micro movements. I can confirm what you said. Basel IV is a more stable metric and less influenced by credit because we are quoting the fully-loaded end state position and that is part of the rationale for the stability we have seen in the last quarter or two. As you say, happy to discuss this offline.

Robin van den Broek: Cheers, thanks. Sorry for the magnitude of questions.

Kees van Dijkhuizen: No problem. Thank you very much. Operator, there is still one question?

Jose Coll (Santander): Hi, three quick questions, please. The five year Euribor swap is down more than 20 basis points year to date, so I wonder if you can quantify how much of the 30 million fall in various impacts in NII would be due to the swap or portfolio repricing and what level of impact you would expect in the coming quarters?

Secondly, does the cost income guidance of below 65% by 2022 include expectations of interest rates hikes? If so, how much and when?

The third question is do you expect that Basel IV will have an impact on the MREL requirements? In other words, do you think that the MREL requirement as a percentage of a risk-weighted asset will remain constant when calculated over Basel IV RWAs?

Kees van Dijkhuizen: Thanks, Jose. Clifford, can you take questions one and three?

In your second question you mentioned 65% but it is below 55% in 2022, which we have communicated at our Investor Day. It is mentioned in a way that it is related to the at that moment in time economic forecast, so both growth, interest rates and alike. So, it is linked to that. Of course, we will see later on how these things develop.

Clifford Abrahams: I will answer your first question in this way. The 30 million that we call various was not impacted by the interest moves you referred to. If you look at the quarterly movements, it was related to positive one-offs in Q4 and not negative one-offs in Q1, that 30 million, which is why we are guiding to the around 1.6 billion, just to reflect the FX swap impact that we took earlier. We can take any further details there offline.

Around MREL, in the short term we are focused on the RWA-related target, so to the extent that we take TRIM and model review additions to Basel III RWAs that will raise the MREL requirement in the short to medium term. In the long term it is possible it changes but I do not really want to speculate at this stage on possible regulatory relief that may in fact not take place.

Jose Coll: Thank you very much!

Kees van Dijkhuizen: Thank you. Operator, I would now like to conclude this Q1 results update. I would like to thank you all very much for your questions. Goodbye and thanks!

---End of call