Rabobank

H1 2019 Results

Analyst webcast & conference call

Thursday, 15th August 2019

H1 2019 Results

Mirjam Bos: Hello. I would like to welcome you to this webcast and conference call on Rabobank's interim results 2019. My name is Mirjam Bos, and I'm responsible for investor relations and rating agencies. Today, our CEO, Mr Wiebe Draijer, and our CFO, Mr Bas Brouwers, will give you an overview of our interim results and discuss current developments. The presentation will take about 25 minutes after which there will be time for Q&A. I would now like to hand over the presentation to Wiebe.

Wiebe Draijer: Thank you very much and thank you all for joining on this call. I will quickly take you through an update on the progress on our core strategic priorities and then hand the floor to Bas to talk about the financial side of the progress made in the last six months. You by now have known that we have a net profit of €1.2 billion, which is lower than a year ago, the first half year 18, largely due to the change in economic circumstances that led to an increase in reservations. I think that's the main factor of the financial developments, and Bas will go into all the details that follow. I would like to take a couple of minutes to take you through the update on strategy. As you by now also know is we are governed by a very clear mission that directs the bank. Growing a better world together' aims at playing a crucial role in the Dutch economy for our customers and in the world of food, under the heading of banking for food. We have four pillars. The first one is the excellent customer focus and over the last half year we've again made good progress, in our minds, on that strategy. You can see that expressed on the outside by an increase in customer confidence appreciation through NPS scores but also through increasing scores of reputation, independently measured. But more importantly we see it through a number of innovations that we've introduced for our clients, digital surface improvements, that makes the lives of our clients easier and more convenient to work with us. We've also launched a new platform for funding SMEs, Fundr, which enables SMEs to get financing within 15 minutes, say, or at least clarity on their financing within 15 minutes. We've also been the first bank to open up entirely under the heading of PSD2. Our API platforms for other banks to create new services for their customers, and we ourselves have had one of the first bank licences for one of our initial start-ups to serve customers of other banks. I think the PSD2 world is here and we are actively playing in it.

We've also launched a number of other innovations on the side of the first pillar of customer focus. What we've also done is we've realised the transformation of the domestic operating model in the Netherlands of our local banking network. We continue to work with about 90 local Rabobanks that serve local communities with memberships and local advisors, but we have set up 14 hubs in which we do a number of the backup – back office activities, but also some of the more specialised client service offerings are being provided from this 14. That has now been implemented, is operating, it's live, and we are seeing the first benefit. It is also fair to say that it's another fundamental shift in the local operating model that we have in the Dutch retail operation.

On the next slide you do see that the continued increase in customer appreciation, as expressed through our NPS scores, continues to increase even over the last half year, six months, but on the right side of the page you see the reputation score. It's a RepTrak score, it's a general score where an independent public is being questioned on the reputation of all sorts of companies, and we are now strongly in the green zone, that's the strong reputation zone, ahead of many other companies and banks in this country.

If I shift to the second pillar, which is where we say we want to be a meaningful cooperative in which the cooperative nature of this bank is relevant to our clients. We are actively bringing to life this cooperative notion in the way we serve our clients on sustainability shifts. We both offer discounts for clients that make the first step on sustainability, but also do we offer specific services that help them identify what they can do best. We do this both in the homeowner domain, we do it in the rural banking domain, and we also do it in the wholesale domain if you look at our green bond facilitation of those companies that have a green step-up.

We do see that back in our ESG scorings, one of which is under Sustainalytics, where we are one of the highest ranked banks in the world. We also continue our strong commitment to the local communities where we operate; again, have offered about €20 million of investment subsidies, support of local community initiatives in each of the local member banks, and we are continuing to do so on a continuous basis.

We will adhere to all the factors that are in the climate agreement that was arranged in the Netherlands, one of the elements of which is that we are going to report on the climate footprint of our clients and are actively working to have plans to help them move to, let’s say, Paris, to make life easy. Both elements are in the climate agreement and we have wholeheartedly supported that and co-signed the agreement in the Netherlands. We want to play an active role in the energy transition as one of the leading banks in Europe on that front.

As we move to the rock-solid bank, the majority of these findings or those bullets on this page will be addressed when Bas talks about the financial progress of the last half year. So let me skip the first two elements of the development of the results and the strong capital and leave it to him, but maybe stop briefly on the last element on this page which is our strong commitment to our role as gatekeeper in the financial sector. It is obvious and clear that there has been much attention in this domain externally but also we internally have given it a lot of attention, have invested even more so in this year than in previous years. I think over the past couple of years we invested a couple of hundreds millions of euros in this field alone with 1,600 professionals active. Working with the first line to help customers understand when they're dealing with money laundering issues or tourism finance issues, and thereby making the system safer for all. We are going to continue that in the coming years.

What is I think relevant on this front is that we've actively stepped up to work together with the public sector, with the public institutions and other banks to jointly address this issue which will more effectively lead to finding and identifying the larger sums of money laundering and the more sophisticated organised money laundering schemes that are floating around which acts on top of the obligations that the anti-money laundering legislation forces us to pursue in individual countries alone. And I hope that that gets more attention in the years to come.

When I address the last pillar of our strategy in which we are aiming to provide an environment in which our employees can thrive and be Rabobank and be motivated by it, we are happy to note that the motivation of our people as measured through our engagement scores has improved, despite the massive changes that are still taking place on many parts of the bank. More than 80% of our people indicate they go to work happy and we tend to believe that’s because of what they can do and how we offer a place to work for them. We have achieved also great progress again on further diversifying the leadership of the bank. 33% of our senior leadership is now female and we’re going to step up our activities on the further cultural diversity dimension so that the full potential of people working with the bank have a chance to also lead the bank.

Finally we've made a shift this year, this first six months of this year, in adopting what we call, under the heading of simplified scale, new ways of working in which multidisciplinary teams work horizontally together with more independence, with also more clear goals to achieve, with shorter cycles, about 2,500 people have been submerged in this new way of working in Utrecht, and we see great potential in that for accelerating our development of new propositions for our clients.

With that I would like to end what I have to bring in this initial introduction. Let me just say one thing which is that we are confident that despite the more difficult economic circumstance we've been able to further make progress on our strategy, and we're confident that that will continue to do so in the coming years, but that the economic cycle and environment does create a more difficult setting for banks to operate in, and particularly the low interest rate environment is an element that forces banks to think more openly about new service models, and our engagement with the company, Eneco, is an example of how banks and Rabo in particular is looking for new ways of serving clients and to extend the service offering as our clients go through significant shifts. Bas, I leave it to you here.

Bas Brouwers: Thank you, Wiebe, and I will take over by first showing you the hopefully familiar financial ambitions that we set ourselves for 2020. Starting with our capital position we show sound capital ratios both in terms of CET1 and our MREL buffer. CET1 around the 16% area and there we're clearly above the 16% target by which we anticipate on both Basel IV and TRIM future capital regulations. Our MREL buffer landed at 27.8%, and as you know that's fully consisting of subordinated instruments, compared to our latest target of over 28%, and therefore you can conclude that our additional issuance volume is very manageable. What's not in the picture is our total capital position, CET1, including tier 1 and tier 2 securities. The number is 24% and therefore we can state that we are having a best in class total capital buffer compared to peer banks in the eurozone.

Our return on invested capital is down because of the lower profit level that Wiebe already mentioned: €1.2 billion over the first six months. And of course this number's also somewhat down because of our relatively high capital position. Further cost savings led to a decrease in our cost/income ratio by 1.5% point compared to the full year 2018, but here you see, and it counts as well for our underlying cost income ratio that we are fairly – well, quite a lot - above our target of 54%, but this is a story that we have been telling already for some time. The persistent low interest rate environment is not changing; it is getting worse. Also our investment level for digitisation and also compliance, AML, CDD, is increasing over the last couple of years.

Looking at our total wholesale funding position, still close to the target that we set around €150 billion, even €1 billion lower compared to last year, and here I think it's good to know the context: once we set this €150 billion target, it was at the moment that we did not have our covered bond programme in place yet and also NPS was non-existent. And these latter two instruments are actually not only diversifying our funding sources but also leading to a higher maturity, bringing down the annual funding need for refinancing.

So for me with the context of today, I would say that €150 billion is a fairly conservative number to have as a target.

The next page shows our semi-annual profit development compared to the last couple of years and actually in a nutshell you can very easily declare the drop-in profits compared to the previous two periods. In 2017 and 2018 we still had the very extraordinary situation that we had negative credit impairments, so net releases of our credit provisioning process, and in 2019 so this year, we see a trend to normalisation of our credit levels, and I will come back to that later in the presentation.

What we also saw somewhat lower income, mainly driven by a lower other income. There we had to derecognise divestments of non-core businesses that we did in 2018. Our fee commission income moderately increased and our total interest income was more or less resilient still to the lower rate environment with a decrease of 1%.

Further costs reductions, 5% compared to the same period last year, partly compensated these negative impacts. And as you are used to, we also tried to show you somewhat more colour on the underlying development of our profits, and we do that by looking at our gross profits, so profit before tax. So the 1.2 billion that you already heard, net profit, translates into a pre-tax profit of 1.6 billion which is visible on the right – on the bar at the right-hand side of the picture. And that we correct for the exceptional items and the exceptional items are mentioned in the table below: fair value items, so accounting volatility that in the end have a zero impact on our results; also a slight increase for the compensation that we pay to our clients from the derivatives framework. And in this case, it’s only legal interest for compensation payments we still have to make. And you see a slight addition for our restructuring provisions and that has to do with the continuing transformation of our Dutch banking system – of our Dutch banking presence.

What you can also conclude is that the total level of exceptional items over the three periods is more or less equal, and therefore the reason for the profit decrease is exactly the same as the reasons we just saw with the decrease of our net profit. And if you would correct for the biggest differentiator in the profit development, our credit losses, you arrive at our gross results: total income minus total costs. You see that we reduce – that the profit was reduced by 3% compared to the same period last year and even 6% up compared to the second half of last year. And this decrease can mainly be explained by the divested activities I was already referring to.

Then I would like to go into a little bit more detail for the different P&L components starting with our top line. The total decrease in underlying income of 4% and what is clearly visible from this picture is that it is fully driven by a lower other income and the underlying reason for this is that the first half year of 2018 still consisted of the results of the divested activities. One of those was BPD France, our residential area developer in France, but we also sold FGH bank, the remaining part of our commercial real estate portfolio from that bank that we acquired years ago. And we had a positive revaluation of the loan book of ACC, and that’s a company where we sold the final piece earlier this year.

Another reason for the decrease is the somewhat lower results of our markets and corporate investments division that had a very strong first year in 2018 and the market conditions were somewhat worse and that was visible in their results. As mentioned, net fee and commission income is still increasing; actually already increasing for a couple of years, with a moderate number, 2%, compared to the same period last year. Higher provisions in our Dutch business for payments services, and insurance products that we sell, and also assets under management, together with an increase in our leasing fees are compensating the negative effects from the Bouwfonds investment management activities that we also ran down last year.

Then a major component of our total topline, that's our interest income: a fairly flat line but underlying there's something happening. Of course we feel the margin pressure on our savings deposits and our current accounts where we apply a floor – call it a natural floor – on the deposit rates that we offer our clients. So it's just above 0%. So that is having a negative effect on our topline, but that is so far more or less compensated by healthy margins on our new lending business, already going on for a couple of years. In most of the regions and products, margins were stable and in some product categories we saw an increase in margins and that was mainly visible for the mortgages in the Dutch market.

When we take a somewhat longer historic view you see that the stability is not only there since the last one and a half years but it's already there for a couple of years, both a fairly stable absolute level of interest income, and also the margins are fairly stable. The margins are somewhat positively inflated from a lower balance sheet total.

When I look at the different business segments that we have, only in the Netherlands we saw a decrease in the total interest income that was partly volume driven, but also the repricing of our loan book was not exactly matching the negative impact on margins on our savings and payment accounts. For the rest in our international business and also Leasing, we see an increased volume. For the Rural business that's especially visible in Australia. And in Brazil, we see some margin pressure; in Wholesale for our whole loan products group activity we see stable margins, and for Leasing the margins are more or less at the same level as compared to 2018.

Then turning to the cost development, also here a structural trend of decreasing staff costs. Of course this is the consequence of the continuing reductions in FTEs although in the first half of this year there was a stabilisation of the number of FTEs that is working for Rabobank and I will come back to that on the next slide.

Also other expenses clearly down. Here also a little bit help from the divested activities and also compared to 2018 we did not have negative revaluations of the real estate in own use, our own offices that was adding to the costs in 2018. If you would translate this to a cost/income ratio, we have already mentioned the 64%; 62% when we correct for the underlying items and actually it's probably good to remind as well that our cost/income ratio includes all the regulatory levies and that has a total impact on the cost/income ratio of four to five percentage points, which is relatively high, and also compared to other jurisdictions in Europe a very high number which is mainly related to the banking tax in the Netherlands.

On the next slide you see what I was already referring to: a stabilisation of the total workforce. This is actually the net number. We see further decreases in the Dutch business model which in this case is compensated by growth in Leasing and the Wholesale and Rural business where we also see our lending book growing and we are also hiring more people in the areas of Compliance and IT, amongst other further topics, AML and CDD.

When we turn to the development of our loan book and our total deposits, let's start with the dark blue part, the Dutch mortgage book. When we look at new production, we have a market share of new production of 21.4% which was more or less 1% up compared to last year. And therewith we are the biggest mortgage provider in the Netherlands. But this let's say positive impact on volumes is partly compensated by the market dynamics: our clients still prepay their mortgages on higher levels than we have seen over the longer history. It's already somewhat lower compared to last year, with a low interest rate environment still stimulates people to repay their mortgages at earlier moments in the life cycle of the mortgage. And next to that we're also balancing the total volume of our balance sheet by entering into distribution transactions, so we also entered into a whole loan sale transaction in the first half of this year.

Our SME business more or less stable, €1 billion down. This billion can be for the biggest part explained by the reduction of our commercial real estate. The total exposure that we have now is €20 billion. That was the number that we already announced a couple of years ago and this number fits well within our risk appetite. And for our international business you see two numbers: the €114 billion still includes the non-agri portfolio of RNA and as you know RNA is our retail bank in the US where we came to a transaction or we announced a transaction with Mechanics Bank where we sell the non-agri business of this portfolio.

And for accounting reasons we already have to take out this portfolio from our lending book and it's classified as held for sale. So if you make a like-for-like comparison we still should look at the €114 billion which means that our total book increased by €5 billion, half of which was achieved in our wholesale business, around €1.5 billion in the Netherlands and €1.5 billion abroad, and the remaining part was in our rural business mainly in Australia and New Zealand.

Leasing, still increasing at the pace that we know from the past, €2 billion in the first half of 2019.

Our total deposit base actually the same story as with the lending book. We have to make the like for like comparison and there you see that our total deposits grew by €12 billion. €2 billion was achieved by RaboDirect. After the rundown of RaboDirect Ireland last year, you see that our operations in Germany and Belgium are growing. The other €10 billion comes from our Dutch operations: €5 billion from private clients and €5 billion from corporate deposits. And the first number is somewhat inflated because of holiday allowances that are being paid in May. So a bit of a seasonal pattern what we see there.

Then I would like to spend a few words on our impairments, which as mentioned before are the main differentiator for our lower profit. After the two extreme, I would say, years where we had the releases exceeding the additions to the provision levels, 2017 and 2018, you see that in the second half of 2018, impairments were increasing already, and that trend continued in the first half of this year. When I explain the delta of nearly €0.5 billion there are two generic factors. The first one is that we apply a less optimistic economic scenario in calculating our generic provisions. That is done for the whole portfolio and one of the conditions of IFRS 9 as well. Secondly, the period of huge releases of provisions being built in the past seems to be over and therefore we did not benefit any more from huge releases in parts of our portfolio.

When I look at the different business segments, in the Netherlands provisions were around €20 billion; mortgages were still negative with a negative number of 10% and the SMEs plus €30 million. And what you also can conclude is that the mortgage book is an extremely stable book. Also for example looking at our LTVs, which were 80% in 2012 and came down to 61% at this moment. Our international business was impacted from a couple of big negative developments with some of our clients. That was visible in France, the Netherlands and Brazil. And in Brazil it was actually related to the sugar sector what was already mentioned when we disclosed our numbers of last year. And the sugar sector is still at historically low prices and some of our clients are suffering from that development.

Leasing is kind of, well, small ticket leasing. So it's vendor leasing that our business model contains, and therefore you don't see specific files, but this is completely due to the more negative macroeconomic scenarios that we apply and therefore total provisions for leasing increased by €50 million compared to last year.

On the next slide we see I think also a familiar picture as we are already working on the optimisation of our balance sheet for a couple of years, and we see the four categories here: funding diversification is continuing, since the launch of our covered bond programme we already issued €11 billion, and we also introduced an ABS programme for DLL, making it also less dependent on funding from Rabobank, in total €3 billion since we started with that programme.

As I already mentioned, the balance sheet flexibility, not only by portfolio distribution but also by the launch of Vista last year which is a purely originate to distribute model, and we see in the third category our balance sheet optimisation, the focus on our core business, whereas announced we entered into the sales transaction with Mechanics Bank. That transaction by the way will be closed in the second part of this year; we expect end of Q3, and therefore also the book profit that we will make on this transaction and also the positive capital impact is not visible yet in our semi-annual numbers.

Also ACC, the remaining book in Ireland, that transaction will be closed very soon, and then as I said the whole company has been dismantled. And finally, we are in a rundown of our retail activities in Indonesia.

And then I would like to switch to our capital position: 16% last year, 15.8%, so a slight decrease. Of course our profits are positively contributing to our capital number. On the other hand, we also saw an increase in our loan book and that led amongst others to higher risk weighted assets, so that is compensating more or less the addition from net profits. And there's one specific item that is related to the call that we did for tier 1 securities. That were securities issued a long time ago in US dollar, and as it's an equity instrument we have to account for these instruments at historical rates. And the moment that you call these instruments, you will find a negative FX impact in this case as the dollar appreciated since the moment that we issued these securities. So that's a one-time effect and therefore we lend it at a 15.8%.

This number is still well above the 14%. As I said, anticipating Basel IV and also TRIM, and it could be that TRIM will accelerate the growth towards our Basel IV capital levels in the next couple of years.

The other side of the coin is that the call of the securities – of the AT1 securities - had a negative impact on our capital ratio, is that the total distributions that we pay out of our profit, our net profit, is gradually decreasing over the last couple of years as we can replace AT1 securities issued in the past with much more favourable coupons when we refinance these instruments, and that has also been happening already over the last couple of years, and that will continue going forward from the €482 million that's mentioned for the first year of – for the first half of this year. Over €100 million was related to the call that we did for the €3 billion US securities and therefore we expect total distributions to come down further in the foreseeable future.

Then our MREL position. As I already explained you see in this picture that our requirements according to the latest information that we got went down from just over 30% to 28.5%. And with our buffer of subordinated instruments we are very close to this target; officially no transition period has been communicated for Rabobank because also our preferred senior instruments are still counting towards MREL buffer, which makes us quite comfortable in also meeting the requirement fully with subordinated instruments.

Our funding profile, or let's say the funding issuances that we have been doing over the last couple of years and also this half year. We are well ahead – we are well on the way in achieving our total funding needs which were set for this year, up to €12 billion. And you will also see that our new programmes, the covered bonds and NPS are making up the majority of the issuance that we have been doing. So in that sense quite well on track.

That brings me to the end of let's say the introduction. As mentioned by Wiebe, we are operating in more challenging conditions. Visible in higher credit losses that impacted our net profit development. Underlying you could say that we have still a resilient interest income line, where we were able to manage our costs further down, capital in the sound region I would say, and we see that the core of our bank is growing with the €5 billion growth of our loan book and over €10 billion of our deposit book. And we have with the latest divestments that we announced more or less closed or finalised our divestment programme and therefore I would say on most of the strategic targets that we have set we have seen progress. And therewith I would like to open the floor for questions, for which both Wiebe and I are available.

Operator: Ladies and gentlemen, we will start the question and answer session now. To register for the question and answer queue please press *1. Your questions will be answered in sequence. As mentioned before ladies and gentlemen, questions can only be asked via the conference call and not by the webcast. Furthermore when asking your question, please turn off the sound of your computer and please be aware of the possible delay between the webcast and the call. If you have a question, please press *1. Thank you.

The first question is from Mr Alexander Latter, PGIM. Your line is open, please go ahead, sir.

Alexander Latter: Hi there, guys. A few questions from me, mostly around the rise in provisions and how that breaks down amongst the IFRS 9 bucket. So could you just sort of clarify, the rise in the loan loss charges, is that having to top up provisions on existing NPLs, or is it a rise in stage 2, sort of not yet deemed NPL but sort of deteriorating credit? So for example, are the agribusiness issues that you've had in France and Brazil – were they already impaired or are they in stage 2? And then a related question: how has the stage 2 loans that are more than 30 days past due progressed in the half year? And do you think that at a Group level as the provisioning cycle seems to be turning, you may have to increase Group coverage from the sort of 20-30% it is now to a higher level at a Group level?

Bas Brouwers: Thank you for your question. Yeah, what you can conclude is when you look at different stages of IFRS 9 provisions, and we have a total provisioning level of €4 billion, all in all the stage 1 and stage 2 are making up a relatively small part: it's around 20% of our total provisioning levels. And the changes, the dynamics have also been not really big in absolute terms. What we saw is that by applying the more/less favourable macroeconomic scenarios over the whole run, we see higher provisioning levels for stage 1 and for stage 2. However this was on total level partly compensated by – how do you call it? - better credit qualification for our running business in the Netherlands. So that was a kind of compensating impact for these negative macroeconomic scenarios.

The additional provisions that we did, was partly due to clients that were already in stage 3 and that were needing – that were needed additional provisioning, so that was partly add ons to existing clients in difficulties, and partly it also relates to new clients that had to be provisioned because of a change in the underlying conditions. When you ask about the coverage ratio, that's 20% for us, and I think compared to other regions and countries, this is a relatively low number. Historically we have a relatively low number. That number came down further by the divestment of our real estate portfolio, which was having a relatively high coverage ratio. And we can relatively well explain that by the high collateral that we have in most of our core lending franchises. So if you look at the collateral ratio compared to our total NPL amount, you see that we have significantly higher collaterals. So what can happen is that a client enters into an NPL situation, but the level of provisions is not only exposure minus future cash flows of these specific clients, but also the expected monetisation of your collateral. And that latter impact is the – well, the most important explanation that our coverage ratio is relatively low compared to other banks.

If you look back in history 30 years, you can see that structurally, the loan impairment charges that we book are outperforming or exceeding the total write off that we do in our portfolio. So this is already a situation that we have seen over the last decade.

Alexander Latter: Sorry, so if I could just follow up on that comment on the collateral: so you don't think that with these – your economic outlook kind of deteriorating, you might not have to, kind of, reduce the valuation on the collateral and replace that with impairment provisions?

Bas Brouwers: This is part of the regular process that we have. Indeed, market outlook can have an impact on the valuation and the haircut that you apply for your collaterals. So that is what we are always doing. And one part was already covered by the less optimistic macroeconomic scenarios that we applied. On the other hand the economy is still growing, so there is also in parts of the world a more positive outlook on the collaterals that we have. It's hard to predict; I think growth projections in the global economy are coming down. But still for Europe for example it's still positive last year and also for the major economies in the world for next year. So the question is how quickly will this happen?

Most of our collaterals are also assets that are attached to the underlying loan, so it's not – it's fixed equipment, immovable collateral that most of our lending business is connected with.

Alexander Latter: Great. Thank you very much.

Operator: The next question is from Mr Joe Hopkins, Morgan Stanley. Your line is open. Please go ahead, sir.

Joe Hopkins: Hi there and thanks for doing the call. I've got three questions, one on MREL, one on Basel IV, and one on capital as well. On MREL, you state that your MREL requirement is set as a percentage of TLOF, which is currently 9.64%, and this is based on the calibration on the BRRD, the EBA, RTS, etc. The only reference we can find to TLOF in the MREL policy is the 8%. So could you just talk us through how you get to that – how you get the RWA calibration there please? Do you want my other two now or shall we stop there?

Bas Brouwers: I'm not sure that I get your question right. We look at the most binding constraint. For us that's not TLOF, so in that sense the figures that you show on this page are the binding constraint for us which adds up to the 27.8% that we currently have as a buffer. Sorry, that's the 28.5% of the current levels of requirement.

Joe Hopkins: So the 9.64% you talk about is just the 28.58% expressed as a percentage of TLOF?

Bas Brouwers: Exactly. And it's higher than 8% and therefore the 8% is not binding.

Joe Hopkins: Okay, that's clear. On Basel IV as well, your disclosures are very helpful in estimating RWA inflation and I was just interested to understand a bit more about how those mitigating actions will take you from that 30-35% range down to below 30%. So can you give us a bit more detail on what the real benefit could be there for mitigating actions?

Bas Brouwers: Yeah, from a quantitative point of view we stick to the guidance that we gave that we'll manage this below the 30% number. It's actually a combination for many things. It can have to do with an additional data exercise where we can actually change the classification for the different categories by adding and enriching our data. What we also see is that we can steer, of course, with the different businesses in the pricing. We have some repricing capacity in different markets. I think what we also see is that we can enter into asset distribution transactions where we can steer the total assets as soon as Basel IV kicks in.

Joe Hopkins: Okay. Sure. And how would the repricing in different – what sort of repricing could you do that would reduce RWAs?

Bas Brouwers: It depends a bit – that's correct what you're saying, so one part is a RWA exercise, and as I mentioned that is looking at where do we want to be active and in which markets we can reduce RWA impact by enriching our data, or by steering on what product categories do we want to be in and in which we potentially have to decrease our activities. And the repricing is indeed another impact that is not impacting our RWAs but it is compensating for our higher requirements which are then compensating by higher returns.

Joe Hopkins: Understood. My final one was on regulatory capital. And you mentioned that replacement of legacy AT1 with more cost efficient CRD 4 compliant AT1. And I just wondered if you were planning on replacing any of the legacy bonds that were called in the first half of this year.

Bas Brouwers: Well, we already anticipated on these specific calls last year when we already prefinanced the calls that we recently did. There are also some instruments up for call in the coming period and of course depending on market situations we will again assess whether it makes sense to refinance these instruments in advance, yes or no.

Joe Hopkins: Great. Thank you.

Operator: Ladies and gentlemen, if you have a question, please press *1 on your telephone. So *1 for your questions. The next question is from Mr Jeffrey Berry, Fidelity. Your line is open. Please go ahead, sir.

Jeffrey Berry: Thank you for the call. I just have a quick question about customer due diligence. One of your major peers commented on being requested by the DNB specifically to do sort of a formal review of all of their retail customers and you made some comments already about the actions that you guys are taking on CDD, but it sounded like more of an internally motivated proactive type stance rather than a sort of supervisor mandated approach. And I was just wondering, does that seem like a fair assessment of the situation, or would you say you're probably on a similar boat but maybe describing things slightly differently?

Wiebe Draijer: No I think it is not entirely as independent as you describe it, but it is the fact that I can't comment on what other banks have to do because I don't know. But we are intensifying our involvement because it is important. We are as you know under this legislation – you need to classify, with a good evidence, customers in different risk buckets. And one of the things we are actively steered by the regulator – or in discussion with the regulator on - is a specific subcategory of our clients, a small group compared to the total, where we have to provide more evidence that they're for the right reason in the low risk category. That's a specific area that we need to correct but on the whole it's more driven by the overall ambition to have this on the forefront of our priority and do it right. The 1,600 people that are involved globally, there's at least a significant chunk of increase over the last year that is related to this one job that we have to fix but I expect this number to go up in the years to come.

Maybe the second comment to make is that I also expect the shift of these attentions to go more to transaction monitoring than to fixing files, so to speak. The active monitoring of client behaviour is much more powerful as a source of identifying potential risky activities or doubtful activities than it is to have a proper file. And so we are fixing files on the one hand but on the other hand are actively investing in how you can be more smart, intelligent, clever about transaction monitoring.

And the third comment I make is we actually think there is a lot more potential still by collaborating with other banks and the public sector to do that at the same time so that you can see patterns across financial institutions and using other data sources that the public sector has their hands on that we can't see. If you do that as a three partite collaboration, you're actually much better to see the big, sophisticated anti-money laundering schemes that are being designed by very clever people.

The independent files do not provide sufficient insight, at least in our minds, to do that effectively.

Jeffery Berry: Very helpful. Thank you.

Operator: There are no further questions. Back to you, Mr Draijer.

Wiebe Draijer: Okay. Thank you. Thank you for your engagement, your questions and your presence in the call. We are confident with the progress that we have been able to achieve in the last half year on our strategy despite a more difficult economic environment. You can see some of that in our results, but you can see hopefully more of our progress in the additional indicators that we are making progress on our strategy. We're confidently looking ahead but we do feel that the more stressful environment will hamper the way banks operate, even more in the years to come. One thing that I wanted to highlight in the close is that we are actively looking also for new ways in which we can serve our clients as they go through the energy transition, the sustainability moves that the world has to go through; and one of the combinations that we're exploring is with a company called Eneco, and there's not a lot we can say about it because the process is ongoing, But I expect that you will see more ways in which we are going to provide new service offerings to our clients and that that's something that the financial sector has to contemplate in many forms in the years to come as the economic environment and the low interest rate environment forces banks to rethink their revenue model in the future.

Thank you for your attention and we hope to see you again in six months' time.

[END OF TRANSCRIPT]