16Q3 Trading Update – BinckBank N.V. Conference Call 24 October 2016, 10:00 cet

Mr **Germyns**: Good morning and welcome to you all for the BinckBank presentation of the third quarter results of 2016. This conference call is somewhat different from the other calls we had in the past. For the first and the third quarter we slimmed the quarterly report a bit down. Nevertheless, we wanted to give you the opportunity to ask all the questions you might have in the Q&A session.

This morning we published our results, which were exactly in line with the estimates of you, analysts, at least for the EPS. Just as for the second quarter we had EUR 0.11 for the third quarter, bringing it to EUR 0.34 year to date.

The absolute net profit was lower than the estimates. We think that in spite of the market circumstances we can be positive about the future. We worked very hard in the last months on the roll-out of the strategy and also to fix some issues from the past.

Evert and I will take you through some of the headlines of the press release. The results were more or less in line with the first two quarters. Also in the third quarter the market sentiment was less favourable than in 2015. There is also a certain seasonality in the quarters and traditionally, the summer period is a slower period for investors. We saw that the number of transactions only dropped with 5% regarding Q2, which is rather positive for this time of the year. Also, after the Brexit referendum the volatility of the market dropped a bit.

The net fee and commission income per transaction increased due to a higher average size per trade. Interest income rose 18%, mainly derived from the Dutch mortgages portfolio but Evert will elaborate on that.

In the third quarter we completed our buy-back programme for a total amount of EUR 25 million and therewith ending the 2016 buy-back.

Now, I will hand over to Evert who will guide you through the financial position and the consolidated Q3 results.

Mr. **Kooistra**: Thank you, Vincent. Good morning, I will give you a brief update on the Q3 financials. The adjusted net earnings per share for the third quarter came in at EUR 0.11, which is in line with the analyst consensus. Despite lower income from operating activities and higher operating expenses, the earnings per share stayed the same as in Q2 at EUR 0.11. This is due to the EPS-enhancing effect of the share buy-back program.

We are happy to report an increase in interest income again. The net interest income in the third quarter increased with 18%, from EUR 5.8 million in Q2 to EUR 6.9 million in Q3. The increase is primarily the result of the mortgage portfolio that we bought from Obvion mid-July. The interest income recorded from mortgages amounted to EUR 1.6 million. The size of the mortgage book at the end of Q3 is EUR 405 million and the pipeline is EUR 108 million, of which EUR 80 million consists of signed mortgage proposals. So, we are well on track to achieve the target of EUR 500 million for this year. The average yield on the mortgage book is 186 basis points and the average risk-weighting is 26%.

Collateralised loans in the second quarter remained stable. At the end of Q3 we had EUR 476 million in collateralised loans compared to EUR 480 million at the end of Q2. The average yield on the collateralised loans is approximately 375 basis points.

The size of the investment portfolio decreased from EUR 1.8 billion at the end of the second quarter to EUR 1.6 billion at the end of September. The average yield in the investment portfolio slightly increased with two basis points, from 42 to 44 basis points. In the third quarter, BinckBank redeemed bonds for EUR 208 million in nominal value and on these redemptions we lost an average yield of 54 basis points. We purchased bonds for EUR 49 million in nominal value with an average yield of 112 basis points. The bonds bought were primarily US dollar-denominated bonds, yielding substantially higher than Eurobonds. The duration remained stable at 1.2 years and at current reinvestment rates, the yield on the investment portfolio is expected to decline towards 34 basis points by the end of 2016.

To conclude on net interest income, we are positive on the developments in Q3 and we are on track for the year-end target of the mortgage book.

Now, let's move to net fee and commission income. Despite the fact that the market sentiment in 2016 remains less favourable than in 2015 and the summer season normally being slow, it is fair to conclude that transaction volumes have not further dropped in Q3 and stabilised around EUR 1.8 million transactions for the last two quarters. In Q3, we executed approximately 100,000 transactions less than in Q2 but when we take out the Brexit-effect in June and considering the low volatility in Q3, we are positive on Q3 transaction volumes. The average fee per transaction also increased by 2.2% from EUR 10.0 in Q2 to EUR 10.25 in Q3.

Assets under management decreased in the third quarter by 4% from EUR 1.5 billion to EUR 1.4 billion. The net outflow over the third quarter was EUR 78 million. We have not done any marketing activities for Alex Asset Management in Q3.

Other income from operating activities: in Q3 we saw positive developments on the income on the turbos due to the renegotiated contract with our partner. We were able to claim a bigger part of the spread income. We also saw increased software development activity levels at our subsidiary company Able.

Now, we move over to adjusted operating expenses. The total adjusted operating expenses increased with 3% compared to the second quarter of 2016. Total adjusted operating expenses for the third quarter were at EUR 28.5 million compared to EUR 27.8 million in Q2.

Employee expenses decreased by 4%, from EUR 12.5 million in Q2 to EUR 12 million in Q3. The decrease reflects lower productivity levels during the holiday season. At the end of the third quarter BinckBank employed 630 FTEs.

Depreciation and amortisation slightly decreased versus the second quarter. Total depreciation and amortisation costs, excluding the Alex intangibles for the third quarter, were EUR 1.0 million versus EUR 1.2 million in the second quarter of this year. The depreciation for the Alex intangibles is EUR 5.4 million per quarter.

Other operating expenses in the third quarter amounted to EUR 15.5 million versus EUR 14.1 million in the second quarter. The increase compared to Q2 is mainly due to higher external staff and advisory costs and the [retrospective] adjustments as from 1st January of the revised bank tax in Belgium. The total marketing costs in the third quarter were EUR 2.5 million versus EUR 3.3 million in the second quarter.

Lastly, the financial position of BinckBank. IFRS equity amounted to EUR 397.0 million as at the end of the third quarter, which is a net decrease of EUR 8.8 million versus the second quarter of 2016. The net decrease in Q3 is mainly the effect of the interim dividend paid over 2016 and the completion of the share buy-back program during the third quarter (€ 6.8 million).

The share buy-back program has been completed in the period from 19th February up to and including 23rd September. 4.6 million shares have been bought back with an average cost per share of EUR 5.386. The capital ratio decreased from 36.3% in Q2 to 33.2% in Q3 as a result of higher risk-weighted exposure amounts, due to the mortgages on the balance sheet.

The leverage ratio at the end of Q3 was very solid at 6.9%.

Now, I hand it back to Vincent to round off.

Mr. **Germyns**: Thank you, Evert. Going forward in the fourth quarter 2016: what we saw in the month of October was somewhat 5% to 10% better than October 2015. This is a positive signal. Cost control remains key. We allowed ourselves to have a temporarily higher cost/income-ratio due to the investment and the roll-out of the new strategy but in the longer term we will bring this back to 65%.

During the last months we worked very hard on the delivery of the redesigned Binck services, especially in the segments Investing and Saving. We have the Binck ‘Laten beleggen’ proposition for Belgium. This is a new form of discretionary asset management under the Binck label, which will be launched by the end of the year. This new service will also contribute to pursue our mid-term goals for assets under management. Then we have the launch of the savings broker in the coming weeks. We will start with a pilot of the savings broker in the Netherlands.

I would now like to answer all the questions you might have. Operator, please start the Q&A session

## QUESTIONS AND ANSWERS

- **Cor Kluis – ABN AMRO**

Good morning, I have a few questions, first of all on the expenses. Normally in the third quarter of the year, you always have some VAT-releases and holiday releases in the expense line. Was that also this quarter and, if so, could you indicate what the level was in this quarter?

My second question is about the Safened-partnership that you will start in a pilot in the fourth quarter. Do you already have all the licences in place to start or are there still DNB-licences or other regulatory licenses required?

My third question is also about your new initiative in Belgium. You talk about discretionary asset management services; can you elaborate a little bit more on that? Is that a kind of Alex Asset Management initiative or is it somewhat different?

My last question is about fee and commission income, the EUR 24.8 million. Could you split that up in asset management fee, transaction-related fee and other fees?

Mr. **Germyns**: Cor, I will take the second and the third question and Evert will take the first and the fourth. First of all, your question about Safened and regarding the licences. We do not need extra licences. The Safened-proposition has been discussed with the AFM and DNB. It is not that it still depends on some licences. For us, we can go ahead. This is not a problem or might not be a blocking factor. Everything has been discussed and everybody agreed on it. So, we will keep in touch with the regulator but it is not that we have a potential blocking factor, that we still need some licences. This is not an issue.

Then regarding the asset management product for Belgium: is it the same or is it comparable to Alex asset management? It is comparable to the extent that we will also work with an asymmetric risk model. It is also a model, which allows relatively low entry fees. You have the possibility to start with portfolios as of EUR 25,000 as well. Those are the similarities with the Alex Asset Management product. On the other hand, it is based on a CPPI –technique, so it is not comparable to the Alex product to that extent. The technicalities of the product will be completely different and will be more based on ETF. We will use some ETFs in the product. So, it is not comparable. It is not an investment with direct lines like we used to do with Alex asset management. But we will release some extra information in the coming weeks and months.

Mr. **Kooistra**: Then your question on the cost side. The holiday release is in there. That is why the employee expenses are a little bit lower compared to the second quarter. Regarding the VAT-releases we used to have a catch-up in the past in Q3 – that is correct – but we now book it on a quarterly basis, so it is not explaining any differences anymore versus previous quarters.

Fee and commission income: fee and commission income from asset management is EUR 3.5 million for the third quarter.

**Cor Kluis – ABN AMRO**: And for the transaction-related fees?

Mr. **Kooistra**: That is primarily the other part but we can give you the split-up through IR.

**Cor Kluis – ABN AMRO**: Ok, thank you.

**Rosine van Velzen – ING**

Hello! First of all, I have a question on the operating expenses. How much is related to the initiatives and how much to the one-offs?

My second question is on TOM, the associates. Could you elaborate on what explains the drop quarter on quarter of EUR 0.4 million in the line of associates?

My last question is on the share buy-back program. As it is already completed, is there any chance a new program is likely to start?

Mr. **Kooistra**: On the share buy-back program: we have no intentions to start up a new program at this point.

Then your questions regarding the operating expenses, I do not fully understand your question and what you mean by 'one off'.

Mr. **Germyns**: Maybe the question is more to what extent the operating expenses are related to the instalment of a new strategy. Is that the question, Rosine?

**Rosine van Velzen – ING**: That is correct because in the group 'other operating expenses' we see an increase and I do not think that is only related to the bank tax of EUR 0.4 million.

Mr. **Kooistra**: Well, we do not split it up between running the company and changing the company, so I cannot give you the split. All the costs that we incur for the new strategy are incurred in the operating expenses but this is not the way we split up the costs externally.

What was your question regarding the results from associated companies?

**Rosine van Velzen – ING**: No, not the results from the associated companies but the value on the balance sheet. It was 1.6 in the second quarter and now it is down to 1.2 million. Could you give some colour on what explains the drop?

Mr. **Kooistra**: Well, that is our investment in TOM. We do capital injections once in a while in TOM and then the investment amount in the balance sheet increases. But TOM makes a loss, so every quarter we do the NAV-adjustment and that reduces the investment. So, it is net asset value accounting.

**Rosine van Velzen – ING**: And did you do a capital injection in the third quarter?

Mr. **Kooistra**: No. We will do one in the fourth quarter again.

**Rosine van Velzen – ING**: Thank you.

- **Hans Pluijgers – Kepler Cheuvreux**

Good morning. I have a question on marketing expenses. Could you give some feeling on this sequentially, did you invests more in marketing un Q3 and especially looking at Q4 and next year with the launch of the new products? Could you give some feeling on what you are planning there on marketing costs?

Mr. **Germyns**: Regarding the marketing expenses in Q3, no, we did not do some special marketing. Basically, there is also some sort of seasonality in the marketing expenses, which we have in Q1 and Q4. Those are the most important quarters for us. Regarding the budget for marketing expenses 2017 we are still working on the budget, so we cannot fully disclose what the marketing budget will be but for sure, when we launch those new products, they will need some marketing efforts but then we are talking about a couple of millions. So, it is not that we will have a marketing budget that will be exploding in the coming year. It will be relatively stable. If you compare it with the marketing expenses this year, they will be pretty much in line and maybe a couple of millions extra but not that they will double or something like that.

Hans Pluijgers – Kepler Cheuvreux: Thanks!

- **Bart van den Wijngaard – Ratio Capital**

Good morning. Could you provide an update on Alex Asset Management litigation in terms of how you expect this to develop and what your assessment is of the financial impact on BinckBank?

Mr. **Germyns**: There is no extra news to signal, so we can refer to what we had in the second quarter and the half-year report. It is not that we received extra claims. We had between 180 and 190 claims, totalling between EUR 4.7 million and EUR 5 million, something like that. Nothing has changed from that end. We have no extra news to mention.

**Bart van den Wijngaard – Ratio Capital**: Previously you expected an earlier decision, a ruling by the Kifid. Now that is expected for the fourth quarter. Could you then provide some extra colour on what is happening over there?

Mr. **Germyns**: Like you said, we expect it in the fourth quarter. I think it will be somewhere in the month of November. We will see what happens.

**Bart van den Wijngaard – Ratio Capital**: And if Kifid has a negative ruling, what are the possibilities then for BinckBank? How should we look at that?

Mr. **Germyns**: It is quite difficult. We cannot organise something based on assumptions like these. First of all, let's look at what is coming out of Kifid and then, if needed, we will take the appropriate measures and that's it.

**Bart van den Wijngaard – Ratio Capital**: Ok. And I had a question on the adjusted EPS-calculation because you reported an adjusted EPS of EUR 0.11. What is then the number of shares used in the calculation, that you are close to 64 million. It seems rather impossible.

Mr. **Kooistra**: I do not have it here at hand but we can give it to you through IR.

**Bart van den Wijngaard – Ratio Capital**: Thank you.

Mr. **Kooistra**: It is based on a pro rata number of shares because of the share buy-back, but we will get you the proper share number.

**Bart van den Wijngaard – Ratio Capital**: Thank you.

Mr. **Germyns**: As there are no more questions, thank you very much for attending this conference call. We will meet up for the end-of-year report, somewhere in the beginning of February. If you have further questions, do not hesitate to contact Véronique from IR. Have a pleasant day and thank you.

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End of call