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PRESENTATION

Operator

Good morning. This is Peter, welcoming you to ING's Q2 2017 Conference Call. Before handing this conference call over to Ralph Hamers, Chief Executive Officer of ING Group, let me first say that today's comments may include forward-looking statements such as statements regarding future developments in our business, expectations for our future financial performance and any statement not involving a historical fact. Actual results may differ materially from those projected in any forward-looking statement. A discussion of factors that may cause actual results to differ from those in any forward-looking statement is contained in our public filings, including our most recent annual report on form 20-F filed with the United States Securities and Exchange Commission, and our earnings press release as posted on our website today. Furthermore, nothing in today's comments constitutes an offer to sell or a solicitation of an offer to buy any securities.

Good morning, Ralph, over to you.

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

Well, thank you. Good morning, everyone. Welcome to this quarter's Results Conference Call. As always, I'll walk you through some of the highlights in the presentation that we've prepared for you. With me, are CFO, Koos Timmermans; as well as our new Chief Risk Officer, Steven van Rijswijk.

On the key points, Slide #2 for you there. We posted a net profit of nearly EUR 1.4 billion for the quarter at the 6% year-on-year increase. We continue to record a good lending growth, resilient margins, basically what you see this quarter that are well diversified geographical and product footprint provide for a strong foundation for this growth.

I'd like to specifically highlight the strong growth in commission income, which was up 17% versus last year, and that's a sign of our Think Forward strategy paying off in terms of improving the customer experience, the growth in the primary customers that we have been talking about with you all the time and the increase of the cross-buy.

Now on the retail side, we welcomed our 10 millionth primary customer this quarter and add another 250,000 primary customers in the quarter alone. And this all contributed to a healthy fourth quarter rolling average return on equity of 10.8%. And our group CET1, capital activity one, capital position remained stable at 14.5%. Just like last year, we declared an interim cash dividend of $0.24 per share.

Turning to Slide #3, just to give you where we are on the commercial development. Also in the second quarter, we maintained that strong commercial momentum there. We continue to focus on customer acquisition. We managed to reach the interim target of 10 million primary customers, 6 months ahead of schedule. And as you can see, many of our countries are contributing to this growth. So it's not a single country that is delivering this growth, it's truly all over. It's very well diversified with more engines of growth in number of customers and primary customers there, as you can see.

Now core lending and deposits move in sync. If you take it on a first half of 2017 basis, both growing at EUR 12.1 billion. And these results, you can't have if you don't have highly satisfied customers. And that's why, for us, the Net Promoter Score is such an important KPI for all of our businesses. And I'm happy to see that from debt perspective, we were ranked #1 in 7 of our searching retail markets where we are active. But also on the Wholesale Banking side, we measure Net Promoter Score and take customer feedback all the time in order to ensure that we keep improving for our customers.

If we then turn to the update on the transformation program just quickly, some of the important steps, during the quarter, we made good progress in the market leaders. We have started to introduce the agile way of working in Belgium now as well. At the same time, we are going through the different product designs and we have found more than a thousand differences in product offerings between the numbers in Belgium. And we have now reduced them to 65 accepted ones. So we are truly, truly making progress in making sure that we come to share to customer propositions, which is a condition to -- for integrate the way we work between the 2 countries and build one platform across.

Now I'm direct on the Model Bank, we have further expanded to central development capabilities for that Model Bank and we have started to internally test the digital platform for the Czech Republic with 4 key banking products. So also there, we're making progress.

In Germany, we continue to further digitize the business through project Welcome. And we have a couple of new features for our clients that are well received, so that's working well as well.

And then on the Wholesale Banking side, our cash management dashboard and integrated to inside business that we have talked to you about in the past as well, that's now being rolled out to -- and available to 4,600 clients in all of the 20 European countries at this moment. So also making true progress on our commercial offering in the Wholesale Banking on the back of the digitalization of our business there.

Now in order to support the creation of the go-to platform that we've talked about with you during our Investor Day 9 months ago, you see a couple of examples of how we are and we're making steps into that direction. We keep developing our education app, Yolt, in the U.K. Yolt has now been released in open beta, which basically means that it is now available to thousands of new users out there and there's no limit there, and we're running our -- for our staff with these new users and see how we can further improve. Now we clearly see Yolt as a step towards banking the future and improving the customer experience through what we call open platforms, which basically means that what you offer to your clients is not necessarily limited to your own product or your own service, but you open yourself up to third-party providers as well.

And as you know, we just don't develop these things ourselves. We also partner with external fintech's on these kinds of things. And since we're a strong believer in open banking, we've made an investment in fintonic in Spain, and that's a platform that aggregates transactions across banks with a single app. And the app also provides financial advice.

Then again innovation is not just about assets, it's about culture as well. And I think structuring, that's a differentiating factor or distinguishing factor that we, as ING, have. So we ran another Bootcamp, Innovation Bootcamp. We've got almost 800 new ideas from employees in 22 countries, and we have 3 winners that we will invest in to further develop. You can see that there is -- we have innovation in our DNA, and we keep coming up with new approaches.

Also, I'd like to remind you, once again, on how sustainability is embedded throughout our organization. Some of the main sustainability themes that we have within the firm are around Energy Transition, the Circular Economy, Water and for instance, through our participation in important industry forms. We tried to play a meaningful role in facilitating society shift to sustainability. You see a couple of examples here. One way to contribute to this shift is our financing of sustainable projects and clients that are environmental and social outperformance in their sectors. We talked to you about the deal we did, the syndicated loan we did for Philips last quarter. That was the first ever signed syndicated loan with interest rates linked to the company sustainability rating, but now we made similar loans to more companies as you can see with EDF and Barry Callebaut.

During the quarter, we also acted as the book runner on the first option social covered bond for Kommunalkredit. So you see that we're acting in many dimensions here in order to support sustainability and the progress -- environmental progress.

Now keeping with tradition, which is Slide #7. I'd like to focus a few minutes on Challengers & Growth Markets, where you can clearly see that the Think Forward strategy is delivering results. Primary customers are up strongly. Headcount remains flattish. Commission income up 21% there as well. So you see strategy at work here. We've been optimizing the use of our balance sheet by growing the customer lending, both in Retail Banking as well as in Wholesale Banking. And we do that faster than deposit growth, and that has a positive effect on the loan-to-deposit ratios. A good part of the lending growth aside from the Wholesale Banking growth in these markets is also now in higher yielding consumer and SMB lending, which together showed 10% increase in the first half.

Another point to make here, and it's showing the success of our approach here is the growth of the investment products business. And you see this is accelerating with assets under the management now up 10% year-to-date, and this is an important anchor for commission income, which recorded earlier, set to 21% increase year-on-year in these markets.

Now here, you see the strategy of a disruptor at work. This is how fast growth can be, how diversified lending can be and how diversified income can be, also as a digital bank.

Turning to the half year results from a return on equity perspective in the net underlying result perspective. Net underlying result was nearly EUR 2.6 billion for the first half year, which is a 14% improvement for the same period last year, which actually included, as you may remember, a EUR 200 million one-off gain on the sale of Visa shares in the same period a year ago. So that would make the comparison even better. Now even though the group common equity Tier 1 ratio has increased to 14.5% from year-end 2016, we managed to achieve a healthy return on equity of 10.8%, and that is supported by, and then on the next slide, the net interest income, which showed, excluding FM, a 3.8% increase year-on-year, very much a result of a continued lending growth supported by relative stability in margins.

Our growth in fee income, you see here as well, for the total buying of nearly 15% year-on-year. That's broad-based, reflects improvement in almost all segments and products. So all geographies, all segments are contributing to both the interest growth as well as the commission growth.

Now let's turn to the second quarter results, and let's start with the growth of our lending franchise on Slide 12. On the second quarter, we grew core lending by EUR 6.4 billion, which is at the higher end of our loan growth guidance of 3.4% -- 3% to 4% of the year. This quarter, we again saw the strongest contribution from the retail Other Challengers & Growth markets. However, the growth was again broad-based, also saw a strong performance by Retail Belgium, Retail Germany, Industry Lending and Wholesale Banking as well. So a good well-diversified picture here as well. So that's the growth of the core lending. But one element for you to get a good understanding of the growth is the effect that the foreign exchange has brought to the growth of our lending portfolio because the 6.4%, as if we exclude the FX impact, the FX impact itself, particularly as a result of the weakening dollar, is EUR 7.3 billion. So the EUR 7.7 billion that you see in this slide -- on slide -- on Page 12, EUR 7.3 billion of that, so basically almost everything is foreign exchange on the dollar book, the weaker dollar.

The underlying result, turning to the next -- so let me see where are we -- I'm skipping the page, I'm sorry. Let's skip to Page 11 here, which is on net income. So that was the growth, the net income on the back of that in interest income has grown 3.2%. We see some modest pressure on lending margins in certain areas. Savings margins were supported by further core savings rate adjustments as well. You see that the net interest margin on Slide 11 remains in line with our guidance range. It's at 151 basis point for the quarter, which is the slight drop of 1 basis point versus the last quarter. That can be fully explained by lower net interest income in financial markets. So that's the growth of the result. The core lending growth on 12, we have done.

Now we turn to slide 13 on the commission income. Commission income rose by an impressive 17% year-on-year in the quarter to EUR 714 million, and that increase was available in all segments and nearly all products with 40% growth in the retail Challengers & Growth Markets. Now in the Challengers & Growth Markets, the commission improvement is driven by increasing numbers of primary customers, buying more products as we diversify our product range available through digital channels.

Wholesale Banking fees, although were also up, this can be more volatile quarter-on-quarter, but a very good result for Wholesale Banking on the fee side as well. Financial Markets income was down compared to the very strong quarter of last year, particularly lower market volatility led to less client activity. And sequentially, Financial Markets revenues held up, which you think is a good result, certainly in view of the softer markets that we see.

Turning to Slide 14 now. As you know, the expense base remains impacted by regulatory costs, which is why prefer to look at the 4-quarter rolling average, if it comes to cost/income ratio. Now that 4-quarter rolling average of cost/income ratio ticked up slightly to 53.6%. On the regulatory cost side, this was broadly unchanged and we benefited somewhat from a downward adjustment of the DGS contributions in Belgium.

The underlying expenses were up by around EUR 100 million quarter-on-quarter, but this can be largely explained by a legal provision in Luxembourg as well as higher expenses related to our digital transformation to support business growth. Now these higher investments are partly offset by ongoing cost savings initiatives.

Turning to the risk costs. The risk environment remains benign with the overall NPL ratio for the bank at 2.1% for the quarter. Retail risk cost remain well below our though-the-cycle average of 40 to 45 basis points. Low loan loss provisioning and retail balance is an important factor in this. Risk loss were substantially lower again due to the improved macroeconomic environment, housing market conditions are really improving as well in most, if not all, of the countries in which we're active. So that is really helping us there. The risk was for the Wholesale Bank, which is at 36 basis points of average risk-weighted assets increase in the second quarter. And that is because the impact from releases was smaller compared to prior quarters, but also we booked a few larger files with Structured Finance in the quarter. But overall, we remain at a level below the through-the-cycle average also in a Wholesale Bank.

Turning to Slide 16. The group CET1 ratio stable at 14.5%. The capital position benefited from the inclusion of EUR 0.5 billion profit for the quarter as well as the overall positive FX impact, but that was broadly neutralize due to an increase in risk-weighted assets reflecting the lending growth itself and also some model updates.

As we explained last quarter, we decided to reserve an amount equal to 1/3 of the 2016 total dividend in each of the first 3 quarters in 2017, and this treatment of interim profit is aligned with our aim to pay a progressive dividend over time. Also, as far as policy, likely that last year, we aim to pay an interim dividend after the half year results. And the cash interim dividend has been set now at $0.24 per share and will be paid out later this month.

Now if you then turn to our ambition in 2020 and how we are performing versus our own ambition there. We continue to perform well, making real progress on the financial targets with both the CET1 as well as the leverage ratio ahead of the regulatory requirements. Also, happy with the progress that we're making on the cost income side. We'll keep doing more in order to reach our target range here. We have again reached important milestones with respect to the transformation programs, which help us in that regard, maybe not on a quarter-by-quarter basis. But certainly as a trend, you can expect that the cost/income ratio over time shoot move closer and closer to the ambition level. And finally, the 4-quarter rolling average return on equity was at a strong 10.8%.

To wrap up and before we open for questions, I think the conclusion is that we performed well against our ambition 2020 targets. We see strong commercial momentum continuing in both Retail and Wholesale. We see more and more customers putting their trust in us and value our services, value our offering. We increase the primary customers. And on the back of that, we create true value for this franchise, and we'll be able to maintain our profitable growth in general going forward.

So let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is coming from Ms. Sofie Peterzens, JPMorgan.

Sofie Caroline Elisabet Peterzens ***JP Morgan Chase & Co, Research Division - Analyst***

Here is Sofie Peterzens from JP Morgan. I have 2 questions. So my first question is on your hedging program. Could you just remind us how much of the (inaudible) risk and interest rate risk is hedged on the sensitivity to movements in currency under [the rates] based on the P&L and capital? And my second question is on your Challenger & Growth Markets. Given that you have a maturity online banking platform, how are you getting all these new customers? And could you just talk a little bit about how you can expand your revenue base in these markets going forward even further?

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

Sofie, I'll start with your second question and then Koos would answer your first question there. Yes, what we see in the Challengers & Growth Markets, you really have to go back to the origin of how we build these banks. And with the introduction of Internet, many banks basically saw internet as an additional channel and they start to kind of deliver their offers and their services through Internet as well and the same with mobile, but what we do is exactly the other way around. We take these channels as the prime channel for dealing with our customers and then you come to a completely different service delivery and it's completely different experience, which is different changing in itself. All of these customers including these, so expect from a bank the same experience that you can expect from a tech company, which has to be personal, instant, relevant and seamless. And that's a level of expectations they have, and we invest in that heavily in order to make sure that we get there. Now on the back of that, you see that the Net Promoter Score is improving. And the Net Promoter Score itself will tell you that the way customers see us is far beyond the experience they get from other banks, and that itself causes client the democracy through which we get more and more clients. And with these more and more clients that come in buying one product from us, you will see that, over time, we are able to make them real primary bank customers, and the primary bank customer also have their salary account with us. And if somebody who has a salary account with us, also in a digital bank, thinks of us as their main bank and therefore, are likely to buy more products from us. So the way we can continue to grow is by, first, growing the number of customers. Secondly, turning more customers into primary customers. Thirdly, making sure that these primary customers take more products from us. So it's cross-buying, not a cross-sell. This is a digital bank, so we're not selling products, but the client is actually buying products. And for that, we have to make sure that we make more products available as well. So you now see the growth in assets under management, so we expect some growth there to continue. We're thinking about releasing more insurance-like products on it as well that could help commission income as well. But it's basically how you grow your client base, how you grow your primary client base and how do you grow your product offering. It's all of those 3 through which we feel confident that this growth can continue. With that, I'd give it over to Koos for your first question.

J. V. Timmermans ***ING Groep N.V. - CFO, Vice Chairman of Mgmt Board of Banking, Members of Exec. Board & Head of Ing Market Leaders***

Sofie, on the hedging part, maybe, indeed, we have had an exceptional quarter because the dollar had a significant move. What you normally see is what we do, is we try to adjust our capital for our composition of risk-weighted assets. So what you've seen this quarter is a decline of our risk-weighted assets because the dollar weakened, but at the same time, then you lose some money on your centralized hedges because your long dollars in your capital against it. And the two of them, you see them roughly netting off. So if you see EUR 4.5 billion less risk-weighted assets and you see a EUR 0.4 billion lower FX reserve in your capital, then it means like the hedges in general worked. And your interest rate risk, let me make a distinction of 3 points. Our capital, what we do is we reinvested normally long from an interest rate perspective, so 7 years. If you look at your savings, mortgages, but also Wholesale Banking loans, in general, we try to hedge. So our purpose is not to take a bunt on the rates, but we hedge according to how these behave. So the risk we take there is more a residual customer behavior risk. Then you could say, do we have any delivered open interest rate positions? Maybe opportunistic on the back of client business in financial markets. If you look at the treasury over the last year, the answer is not really because we have had a period of prolonged low and flat yield curve. So that was not worth it. So that's, in general, the short version of our hedging program.

Operator

The next question is coming from Mr. Benjamin Goy, Deutsche Bank.

Benjamin Goy *Deutsche Bank AG, Research Division - Research Analyst*

Two questions for my side please. First, you mentioned you had a few larger case in the fee lending on the loan loss side. I was wondering whether we are talking about 1 or 2 larger cases that mainly drove the loan losses at potentially in offshore? Or is it broader base, let say, 5 to 10 cases? And then secondly, Ralph, you just highlighted again the challenger strategy and the digital first approach, but is there any country where you feel you could grow faster or your market position will be better and you can't gain more customers if you would have a more significant branch network in any of your challenger markets?

Ralph A. J. G. Hamers *ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia*

I'll start with that, and Steven will come back to your first question. Well, in the challenger markets, we have -- we generally have a concept, which doesn't need branches and we try to have an offering that is fully digital in every respect, whether it's a client on-boarding or whether it is taking out of products and no more savings product or even mortgage product. Now clearly, in order to generate some of these businesses, for example, in the mortgage business, we are dependent on some brokerage distribution in some countries. In Germany, for example we have, next to ING-DiBa, we have the largest German mortgage broker called Interhyp, and that distribute not only for us, by the way. So they take the interest of the client as a starting point and then advise on what is the best mortgage for them, and sometimes that's an ING mortgage and sometimes it's a mortgage of one of our colleague banks in Germany. In Spain, we have around 26 branches, which basically means that, in largest cities, we have 2 to 5 branches. And through that, we cover 80% of the economy. And again, if you do all your transactional business digitally where you do some advice business through face, you don't need that many branches because people don't need a daily advice or weekly advice or even a monthly advice on their mortgage. If they take out mortgages, they may do this 3 times in their lifetime. If they take out investments wise, they make take that once a year, maybe once every 2 years. So proximity of branches, if you only limit the activities to advice, is less important than -- proximity of branches, if you still do transactional activities in branches. And we don't do that. So transactional activities are free digital for us, and therefore, we can either work without a branch network or in some cases, with a very limited branch network. And that's the way we continue to grow. Steven?

Steven J. A. van Rijswijk *ING Groep N.V. - Chief Risk Officer & Members of the Executive Board*

Yes, Benjamin. So in industry learnings versus finance, this is 1 larger case, which partially is in the oil and gas space and partially in the metals and mining space, and hence, why we also see NPL ratio increasing on both sides. But that is just 1 case.

Operator

The next question comes from Ms. Alicia Chung, Exane.

Alicia Marianne Chung *Exane BNP Paribas, Research Division - Analyst on the Pan-European Banks Sector*

Just a couple of questions from me. First, see on IFRS 9. Do you have any update on what the Day 1 impact would be? And also, is there any color that you can give on how we should think about the ongoing P&L volatility from IFRS 9? What does that mean for ING's normalized provision levels and how we should think about the potential management buffer if you cope with that volatility? And also, any thoughts about loan pricing going forward? And then secondly, PSD2 is coming into effect next year. Are there any immediate effects that we should consider in the first year as you wouldn't of a third party for that?

Ralph A. J. G. Hamers *ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia*

Okay, I'll take your first question and Koos will take your -- I will take your second question and Koos will take your first question. On PSD2, actually PSD2 may bring quite a change to the banking market in Europe, and it is the idea behind PSD2 that will bring major change and major open competition to Europe. So what we're doing in order to prepare for that is that we have a large program to make sure that we can live up to the expectations and the requirements that banks need to have in place at that moment in time that PSD2 is inactive. So that's more from a technical perspective. From a commercial perspective, we're actually quite happy with PSD2. But those -- it plays very well for us in our strategy as a challenger, as a disruptor. So it will help us in growing our customer base. It will help us in building open platforms in which third parties, other banks may offer their products as well, and it will be -- through that, we will be able to give a complete dashboard for our customers across different banks and in order to ensure that we know already what can be done. That's why we are building platforms ourselves at this moment. That's why we are doing Yolt if it comes through the aggregation approach through open banking. Because in the U.K., we can do this already. That's why we purchased Fintonic in Spain. Because in Spain, you can also do that already. And that's also why, in the inside business portal, the offering that we have for our Wholesale Banking customers, we already now give them the option to also upload information from third-party banks in order to get a full picture there. So I think it really helps us in our strategy. We are making sure that, internally, we are prepared to fulfill the requirements on one side. Strategically, it helps us. And on the payment side, specifically, as you know, we have the initiative of Bitcoin in some major countries through which we feel that already. We are ahead of PSD2 in opening up that payments market through direct deputing by on-boarding other banks so that customers have a flawless and seamless experience across banks, not having to wait for PSD2.

J. V. Timmermans ***ING Groep N.V. - CFO, Vice Chairman of Mgmt Board of Banking, Members of Exec. Board & Head of Ing Market Leaders***

Yes, Alicia. Maybe on the IFRS 9, if you look at day 1 impact, our estimation currently is that, that is relatively modest. So it's up to 35 basis points fully loaded. The point is that the numbers are still draft and preliminary. The reason is -- our portfolio composition can still change, market circumstances can change so that clients move to a different transition phase. You also have the issue that all the model stake still need to be validated, or most of the models. So it's a bit in that sense in rough estimate, but we feel comfortable with the Day 1 impact. If you look at the volatility over time, that is a bit more concerned. So It's a good question, but we don't have all the answers yet. If you -- so we will further elaborate on that once we are there, but we don't have a good handle on that -- on this moment. If you look at what does that mean for P&L and for loan pricing, well, the first observation is that IFRS 9 does not change the characteristic of the loan itself. It changes the timing of when you take the provision. So it will only have an impact in as far as we need to hold higher capital buffers to buffer our provisions and to be able to pay you in predictable dividends. So if capital buffers are slightly higher because we want to have something in reserve, then that could have been impact on loan pricing. But it's -- we see that as a very indirect effect.

Operator

The next question comes from Mr. Marcell Houben, Crédit Suisse.

Marcell Houben ***Crédit Suisse AG, Research Division - Research Analyst***

I have 2 as well. First of all, on loan loss provisions, previously you guided for EUR 1 billion for the full year, which I'd take a look at the other first half, it's around EUR 360 million. Do you still feel comfortable with EUR 1 billion for the full year? The second one was the legal case in Luxembourg. Could you just elaborate a little bit more and explain a little bit more what exactly is? As well as can you give us a little update on the AML per case, please?

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

Steven?

Steven J. A. van Rijswijk ***ING Groep N.V. - Chief Risk Officer & Members of the Executive Board***

Yes, thanks, Marcell. Yes, we do still feel comfortable with the EUR 1 billion. Indeed, the loan loss provisions for the first half year have been a bit below the 50%. But as you can see in the second quarter, and it mean that goes for every quarter at a -- as a composition between releases and new loan losses. Retail Banking in that sense has shown a decent first quarter, it should be a bit more predictable. What you see typically in Wholesale Banking at that is more lumpy. So a couple of cases, we can certainly increase or decrease the loan loss provisions for the next quarter. At that sense, we remain at the EUR 1 billion provision over for 2017.

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

And if you -- Marcell, if you look at both legal cases, both cases are ongoing. So in that sense, we are a bit restricted in what we say. But if our first domain on Luxembourg hear what we can say, it is a discontinued business. It is a business, which actually was already discontinued in the year 2000. So it's really an older case. If you look at the AML part, as you know, we are being investigated by the Deutsche authorities relating to the on-boarding of clients, the money laundering and their corrupt practices. There, we have not yet taken a provision on this as we're not able to estimate reliably what the size or timing or the fine or the penalty might be. So at that matter, it's still under investigation and we are still cooperating with the authorities on that. So that is all we can say about it at this moment.

Operator

The next question comes from Mr. Stefan Nedialkov, Citigroup.

Stefan Rosenov Nedialkov ***Citigroup Inc, Research Division - Director***

It's Stefan from Citi. I just downloaded the Yolt app; actually, it looks pretty cool. So congratulations from that. And I had 2 questions beyond the fintech dimension here. In terms of the Dutch risk-weighted assets, I noticed the risk density went up by, call it, 200 basis points in the quarter. Can you just give us some color on what is causing that? And secondly, on Belgian fees, those came in again quite strong this quarter, almost on par with the first quarter, which is seasonally -- tends to be quite strong. Can you just give us some color on what type of products on the insurance side or asset management side exactly your customers are buying? And what are the economics on those products for you?

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

Yes, Stefan. Thanks for the compliment in Yolt. So on the second question, so what is driving the Belgian fees? It's really the assets under management and the fees that we make on that, not only selling them, but also managing these portfolios. Actually now, the Belgian market is a market with a higher appetite for investments -- for equity investments, for -- because no -- there is no central banking system as much developed as it is. For example, the nullness of people where you take care of their own savings, therefore, as the savings surplus market, now the savings -- the yields on savings in Belgium for almost all banks is at the legal minimum. So therefore, consumers and customers are looking for returns. Listen, that's why you see a continuous inflow in our investment products, and that is basically driving those fees in Belgium. On the Dutch risk-weighted assets, I will give that to Steven.

Steven J. A. van Rijswijk ***ING Groep N.V. - Chief Risk Officer & Members of the Executive Board***

Stefan, if you look at the press release, you see a composition in terms of the RWA. There is an increase in terms of RWA of EUR 0.5 billion, but it's a composition of a number of factors. But one of the largest factors in the plus is a EUR 5.3 billion in more updates. A large part of that is attributable to the Netherlands regarding more updates for bridge mortgages.

Operator

Your next question comes from Mr. Benoit Petrarque, Kepler.

Benoit Petrarque ***Kepler Cheuvreux, Research Division - Head of Benelux Equity Research***

Two questions from my side. The first one will be on the net interest margin: good loan growth, had stable margin this quarter. What type of kind of NIM guidance you are putting to market now after the slight increase of market rates we have seen in the quarter. I think you have been talking high 40s, but you have been running in reality at a low 50s for several quarters now. So what type of kind of NIM guidance are you giving us now? And could you also come back to the margin pressure in Germany? NIM is a bit under pressure despite the savings cuts in Q2. And then the second question will be on the cost base. It is a small miss, I've got underlying cost growth at between 1% and 2% this quarter year-on-year, you have been getting for flattish cost growth in the past. So what type of kind of growth level we are going to see? Is that the cost growth we should expect given you are growing the business clearly primary accounts and loan growth?

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

It's Steven. On the NIM guidance, as Koos already indicated at, we basically hedge our commercial balance sheet. So basically, the fact that the interest rates move up per se, that's not necessarily change our NIM because we managed it through how we price. The NIM guidance going forward and for the year, we had indicated high 140s and low 150s, that's exactly where we're coming out. In some lending categories, we see some pressure. In some others, we don't see margin pressure. We still have room to maneuver on the same size. But for the next 2 quarters 2017, we can -- we're still guiding around this level, high 140s, low 150s. Specifically, in Germany, the margins there, we announced a rate cut at the end of the first quarter. Improved margin came in through that. However, that was offset by a lower investment income in the German book. Some bank treasury, more technical effects as well, a continuous inflow of savings at a lower replicating rate as well and a mortgage market, which is bit competitive at this moment, and we basically are very disciplined in the way we price our margins in Germany like everywhere, on a return on equity basis. So that more or less explains what's going on in Germany. The cost growth, if you take the one-off in Luxembourg away, you see a bit of cost growth. We have never guided flat cost. Maybe that's what you're expecting, but we have never guided that. We've always guided cost to income trends because we're investing in our franchise, we're investing in digitalization of all of our franchises. And therefore, on a quarter-on-quarter basis, you may see some movement on the cost side. But what you should really take into account is the trend of cost to income because, in the end, we're investing to grow, we're investing to get more clients, to get more business. And that is what you will kind of expect, basically, the return on the investments. Now we have indicated how we think this will develop across the 3 different businesses that we have that are marketing this business. These investments are truly to decrease cost because we don't expect too much growth on revenue side. In the Challenger & Growth, we actually expect cost to continue to increase, but we also expect revenues to increase faster and, with that, to improve cost to income ratio. And for the Wholesale Banking side, the investments, we'll make sure that we become more and more efficient in the more operational areas of the Wholesale Banking. But given the fact that we're growing our franchise successfully, we also need more people in the front office. And that's where you see a cost increase versus a cost decrease in the operational part of it. So for the Wholesale Banking side, given the current strategy, we expect a flattish cost, maybe a bit increasing but, again, a decreasing cost to income ratio if you take it over a longer period of time.

Operator

The next question comes from Ms. Anke Reingen, Royal Bank of Canada.

Anke Reingen ***RBC Capital Markets, LLC, Research Division - Analyst***

Anke Reingen from RBC. Just on IFRS 9, a follow-up. Would you still -- I mean I understand there are still some uncertainty on the P&L, but would you still think you can reiterate your previous guidance of the normalized loanable charge of 40 to 45 basis points across the cycle? And then on the risk-weighted assets, I reckon you report that you said there were some model updates, which increased the risk weightings on Dutch mortgages. And I just wondered if you can say what the risk weightings are on the Dutch mortgages? And should we expect more of these to come? And is this anything like in light of potential regulatory changes or there's nothing to read too much into that?

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

Steven?

Steven J. A. van Rijswijk ***ING Groep N.V. - Chief Risk Officer & Members of the Executive Board***

Okay, Anke. I mean, in terms of your first question, IFRS 9, like Koos already said, IFRS 9, in and of itself, does not change the risk of our loans or our loan portfolio. What it could have -- the impact IFRS 9 could have in terms of volatility is that sometimes the timing of our loan loss provisions need to be different than they were in the past, but we still are investigating that. When do loans move to a different state and, therefore, how much do we need to provide. In that sense, and that is the capital impact that Koos was talking about, in terms of volatility, if we want to get assurance on dividend policy, does that mean that we need to build in additional levels of capital or not? But when you purely look at the loans and the risk appetite framework that we have, the 40 to 45 basis points in terms of our risk across -- through the cycle, this will stand. Then we come to the increase in Dutch mortgages; and (inaudible) there are always right about more updates. but in this case, it was about the -- largely about the Dutch mortgages. I believe the risk-weighted on that was about 11%, so that will grow to a more appropriately 13% to 14%.

Anke Reingen ***RBC Capital Markets, LLC, Research Division - Analyst***

And should we expect more of this model updates to come through potentially in preparation of regulatory changes? Or has that nothing to do?

Steven J. A. van Rijswijk ***ING Groep N.V. - Chief Risk Officer & Members of the Executive Board***

Yes, I mean -- typically, I mean we have hundreds of models and, every year, more are being reviewed and, what we call, they are -- these are backed assets based on actual performance. After these reviews, they will go to the ECB to actually validate them. And based then on their approval, we will update these models. So that's an ongoing normal course of business for us as a bank.

Operator

The next question comes from Mr. Bruce Hamilton, Morgan Stanley.

Bruce Allan Hamilton ***Morgan Stanley, Research Division - Equity Analyst***

Two questions, one just sort of returning to this debate on IFRS 9. I know there are still some moving pieces, but can you at least give us a bit more thinking behind -- your current thinking on sort of capital and buffers and how much that might move depending on the outcome and given what you know today. And then secondly, just again looking at the impressive growth in assets under management, which is driving fee, both in the challenger markets and in Belgium. Can you talk a bit more about the economics? Is this -- are these assets managed by third parties where there's a sort of fee share? Or are you actually managing portfolios yourself using present investments or other? I'm just trying to understand how the economics of that works.

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

Koos?

J. V. Timmermans ***ING Groep N.V. - CFO, Vice Chairman of Mgmt Board of Banking, Members of Exec. Board & Head of Ing Market Leaders***

Yes, really, on the capital side, what I said, so the initial part, when we adopt it, it's not going to have any implications on us on the capital. I mean, it's a modest effect that we will have there, but it doesn't do anything but really to test this volatility. Like if you go into a more downward cycle and the effects that has that your clients move to a different stage where you have to provision more, that's a more difficult one to say. At the same time, what you do know right now is that if you look at our total provisioning per quarter and as a percentage of profit, it is not that your profit will totally fall off a cliff, I mean, that is what we don't expect. But yes, you do see something different in the cycle. I mean if we look at this over the longer period of time, then always what you see is that at the end of the credit when our powers really work, we have re-leases. So we have never under provisioned, but the recognition and the balancing over time, how that will exactly come out, we don't know yet. But I mean you'll be the second one to know.

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

So just on assets under management. So it's a mix of everything a little bit. So in Germany, we have a big online broker. And the more traffic, the more money you make. In some markets, we actually have some asset management, some structured products business as well. And so these are partially ongoing fees in the Netherlands as well as in Belgium. But at this moment, the boost is really on the back of the further distribution of new products, literally growth underlying and that is generally a third-party product. We generally have open architecture, so it's a sale of ETFs and funds to our clients. And you can expect more of this because, more and more, we are building what we call digital financial coaches. And in Spain, we have built one, where we basically take the situation of a client and digitally we come through a certain advice. It's for the client to decide whether to move from savings to assets under management, and we are replicating that model into Italy at this moment in time. We are collaborating with some robo algorithms as well and testing that in Germany. So it's an underlying trend. It is becoming more and more digital, also the investment business there. And we are an attractive partner for many asset managers for the distribution. We have 36.5 million customers. And so you can expect some growth there through our private relationships, through our digital financial coaches that we are building. So that basically how you can expect how to develop -- how that business will develop.

Operator

The next question comes from Mr. Matthew Clark, MainFirst.

Matthew Clark ***MainFirst Bank AG, Research Division - Director***

A couple of questions, please. Firstly, on the Dutch mortgages. Could you just talk a bit more about reentering the 20-year fixed rate market and what that means for volumes and margins going forward? Is it reasonable to think we can see flat volumes in the Netherlands from here onwards now you're writing business in that subsegment again? And then second question is on the treasury drag in the corporate center, that was quite a big delta from the first quarter to the second quarter there. I think it was EUR 110 million negative in the first quarter and EUR

90 million negative in the second quarter. Just wanted to check whether that was due to the kind of a lower funding drag or whether there's -- and so we can expect it to run at that rate going forward or whether there was some other lumpiness that was driving that EUR 20 million-or-so improvement in the treasury line second quarter versus first quarter.

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

So we actually didn't have a product beyond 10 years in the mortgage market in Netherlands because we were very cautious to enter into that market on the back of, and clarity around the mortgage credit directive and the basically the guidance around breakage costs that would come in potentially in the future on these -- on the back of these products as well as the clarity around Basel IV in terms of the risk rates. So you don't want to create a huge legacy and you don't want to build currently a huge legacy just because there is a market demand for mortgages that have an interest rate tenure beyond 10 years. Now on the kind of the guidance around the mortgage credit directives, through the markets authorities in the Netherlands, there is much more clarity there. So on the back of that, we are now cautiously entering to this market. But we are also distributing that in that market for third parties. So it's -- we don't keep everything on our book there either. For the Corporate Line, I refer to Koos.

J. V. Timmermans ***ING Groep N.V. - CFO, Vice Chairman of Mgmt Board of Banking, Members of Exec. Board & Head of Ing Market Leaders***

Yes, so on the Corporate Line, maybe the first thing, Matthew, is that what we decided, and that's already straight after the crisis, is to fund our loan portfolio longer. And the cost of funding that longer took central at that time because we felt like you don't want to retroactively change the margin of our business. So that is the first part and we call that the legacy. Now actually, what you saw is, same period last year, that was partially offset because we had the TLTRO, we picked up money, but we also reduced the old -- former TLTRO, and that meant we had to clean up some swaps. And on that, we made an incidental profit. So in fact, Q2 2016 was a bit more beneficial. And now we are back to our normal hundred million run rate which, over the longer period of time and then, I think, we're looking at around 2020, you will start to see the decline.

Matthew Clark ***MainFirst Bank AG, Research Division - Director***

Okay, just coming back to the mortgages. What's the practical impact on volume growth from you reentering into this market?

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

That's going to be limited, that's going to be limited. It's just that we want to service our clients. There was a demand for this product, and we have this product now. So we don't want to lose on that opportunity to build that relationship with our client. But we'll stay cautious around it.

Matthew Clark ***MainFirst Bank AG, Research Division - Director***

Okay. And just to be clear, you weren't distributing third-party products in 20-year space before either?

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

No, we weren't.

Operator

(Operator Instructions) The next question comes from Pawel Dziedzic, Goldman Sachs.

Pawel Dziedzic ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

I have 2 more questions. The first one is a follow-up on fees. And I know you made already a few remarks on the call today. But when you look at the growth rate overall for the bank, which is in the mid-teen range, does it strike you as high? Or is it sustainable going forward and, in particular, in the retail? Because the remarks you made today, for instance, on the fees in places like Belgium, it seems that you would be able to at least defend the level of fees where they are now. And also on growth challenger market, in particular other growth and challenger markets, again, comments throughout the call suggest that the growth there is very much underlying. So it would be helpful to understand how you think about overall growth rates and outlook for the fees going forward? And then the second question is on Basel IV. Again, your peer ended the summer warning that the outcome of Basel IV might be very harsh. How do you see the process currently? Do you expect it -- do you expect to see any clarity over the coming months? Or perhaps not in -- how do you adjust thinking about your dividends based on the outcome?

Ralph A. J. G. Hamers *ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia*

Yes. On the fees, I remember the discussion that we had like a year, 1.5 years ago when basically, many people were discussing with us our business model that we were too dependent on interest income. And basically, we said, well, that's the strength of our franchise because we have upsize in the fees. Whereas what we see in many markets is that we're -- that our colleagues are under pressure in being able to charge fees because there is more and more consumer agencies and protection coming up as a consequence of which you can't just charge fees for things that don't add value. And our model, our business model, has always been very, very, very clear. You can't charge fees for things that don't add value. And we won't. Now having said that, given the fact that over time, we are moving certainly in the challenger and the growth markets, we are moving away from a savings versus mortgage business much more to a primary relationship business. You'll see that, that relationship will generate interest in products that we can distribute digitally on the back of which we can make fees. So on the back of that, you can expect, and we do expect, fees to continue to increase. That's one thing. Second element there is a bit of pricing, what are the optimal fees also in product that we already charge fees like payment accounts in some markets like in the Netherlands and other markets where we're basically looking at how can you optimize, vis-à-vis client behavior, to get them the right package that belongs to their behavior. Now you can work on that. So in markets in which generally it's a higher fee market at a maybe more -- or may even be -- a bit more pressure coming. But given the fact that our business model has never been high on fees, we actually expect this to be a strength of our model because we see quite some upside if we can really continue to move to a primary digital bank. That's on fees. On Basel, I'll give the word to Koos.

J. V. Timmermans *ING Groep N.V. - CFO, Vice Chairman of Mgmt Board of Banking, Members of Exec. Board & Head of Ing Market Leaders*

Yes. On Basel, we are still living with the uncertainty there. And so yes, we know the industry studies of the Mackenzie where they look at more than like 25%, we have also seen Morgan Stanley studies. And even -- there are some higher outliers in there. What I know on the process part is that, yes, there will be a meeting in September in Basel and, of course, there is the IMF in October. So those are key dates where we will currently look at. Does that mean that we can tell anything on the implications on dividend? The answer is no. I think it is too early for that part. I think what is more important for us to do as a bank is you look at your loan pricing. And what we have done and what we already indicated in the past, we have always said like we work with higher capital requirements for more than 5-year tenure loans simply because we think that has to do with the phase-in, and we felt like we want to make sure that we had adequately priced for that. So that's the only precautionary measure, all the other things, we'll basically be running ahead on the facts, which we cannot do yet.

Pawel Dziedzic *Goldman Sachs Group Inc., Research Division - Equity Analyst*

That's very clear. And could I come back, just one follow-up on fees. So you mentioned basically that fees were strong among markets and products, but other challenger markets are [for a --] for more different regions. Would you be able to give us a sense, if all -- how does your fee growth there split across different geographies? Does the implementation and phasing of Model Bank help to accelerate the growth? And are there pockets of potential growth ahead of you?

Ralph A. J. G. Hamers *ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia*

Well, the exact geographic split, I refer to the Investor Relations department, if you want to get more insight in that. Coming back to then your question on the Model Bank, yes, it will help us. Why will it help us? Because through the Model Bank, we're actually building a cross-border platform. And given that's a cross-border platform, we will be able to introduce new products much quicker in specific countries than we are doing currently. And the incremental cost of introducing a new product in a country will be much lower given the fact that we will have a standardized front-end in the way we interact with our clients as well as a standardized back-end. So yes, it will help us build primary relationship across the different geographies that, otherwise, would be much more expensive to build. And it will help us to ensure the cross-buy across different products, and the product offering will be much broader in all of the different geographies that are subject to the Model Bank because the incremental cost of introducing products will be must lower. So that's certainly the idea.

Operator

The next question comes from Natacha Blackman, Societe Generale.

Natacha Blackman ***Societe Generale Cross Asset Research - Research Analyst***

Please could you talk about your funding plans for the rest of the year, particularly the holding company's senior and subordinated debt? You've done a reasonable amount already so far but, obviously, this credit environment is quite favorable right now, so interested to hear your thoughts on that.

J. V. Timmermans ***ING Groep N.V. - CFO, Vice Chairman of Mgmt Board of Banking, Members of Exec. Board & Head of Ing Market Leaders***

Yes. Overall, Natacha, we have said that in effect we are relatively fully funded. So if you ask like do we need additional funding to fund asset, the answer is no. So normally, what we do is we look at our runoff in our portfolio of senior debt in, particularly, the operating company; and then we try to replenish that with a bit of (inaudible) paper in the holding. And so that is the normal way how we try to do it. So anything that runs off, we replace. Now there might be times that we fund run that a little bit because we think that credit spreads are good or an opportunity is there. But normally speaking, I would say, funding requirements are quite modest. And if you look at the runoff portfolio, you'll see a bit like what we would continue to issue.

Operator

The next question comes from Ms. Martina Matouskova, Jefferies.

Martina Matouskova ***Jefferies LLC, Research Division - Equity Associate***

I just want to go back to Slide 3 where you have 400,000, new primary customer, which I think is impressive. And you are 6 months ahead of your target. Can you just maybe comment a little bit more maybe where the growth is coming from in Q2 and provide expectations for the rest of the year? And also you had the internal releasing at Czech Republic, can you give details on the new 4 products introduced? And what is your view on the primary customer growth in that country?

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

Well, as you see in the presentation, you see that, the growth of primary customers is truly across the different geographies. So Germany traded because we already have a high customer base of more than 8 million customers. You can expect the primary customer growth to continue there. In Australia, we're doing very well as well; Poland, Romania, doing very well. It's truly across-the-board, and we don't see a reason why the growth that we have seen not only this year, in the first half-year of this year, but also over the last couple of years, why that would decrease going forward. So we expect the primary customer growth to continue across all of these geographies. Specifically in the Czech Republic, this is something that we are working on, it's not live, so it's still something internally. So I will let you know when we open up for clients beyond what we currently already offer in the Czech Republic.

Operator

The next question comes from Mr. [Bart Horsten] of (inaudible).

Unidentified Analyst

Big lines of my questions have been answered already, so some small follow-ups. First of all, Basel IV, we did catch some questions from your side, how we view it if it would be like a long implementation phase, should you go directly for fully loaded or for phase-in. So I'd like to return the question and ask if you have already established a view or an evolution in your view on that. If there is a long implementation period, would you more go for a phased-in or directly at the fully loaded impact, regarding the bill, above your capital? And then second question on the fees and commissions once more, in which way are they related to a more positive financial markets? I appreciate you saying you're also introducing new products on which you can get fees and stuff. But we did -- saw a strong growth in your assets under management also, so could you give us a flavor on, is there a part of the growth that is influenced by the beneficial financial markets and how big is that part?

J. V. Timmermans ***ING Groep N.V. - CFO, Vice Chairman of Mgmt Board of Banking, Members of Exec. Board & Head of Ing Market Leaders***

Yes, so on Basel IV. Well, first of all we -- of course, we have the uncertainty like how much capital do we need to build up, but let's set that aside. The question is should we go immediately for fully loaded or a phased-in? First thing to note is this is not 2007. And so that means like it's not that the expectations should be there that we'd be there as of tomorrow. So in that sense, some leniency is there. On the other hand, suppose there is a 10-year phased-in, we would become, in such a case, call it, a category 2 bank, so you need to show linear progression towards your new capital requirements. Now normally, you want to be ahead of that because you want to be certain to pay dividend. So expect that even although we might not be there on Day 1, we are not going to wait exactly 10 years if that is your phased-in to do it. So normally speaking, it will be somewhere between 5 years and 7 years that you want to get there. That's the current rough way of thinking. But then again, we haven't seen any proposal yet. But that is as far as we can say it.

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

Then on the fees, it's clearly something of interest, we're very happy with that. So basically, you see the fees growing both in Retail Banking as well as Wholesale Banking. And the Retail Banking, it's truly on the back of growth across different products, including the assets under management. I'll come back to that. And the Wholesale Banking, it is partially financial markets, it is partially a couple of deals that have to be enclosed. But it's always a little bit more lumpy in the Wholesale Bank. Certainly, the EUR 297 million of fees in the Wholesale Bank is -- at least 50% of that is what you could say structural or sustainable. Now the Retail Banking fees specifically, it related to the market performance of our asset under management. Honestly, if you look at the last 3 quarters, the markets have not really moved up, they've moved down a little bit, so it's truly on the back of inflow. And then inflow is increasing for 2 reasons. First, it's creating for consumer, the alternative between a low savings rate, which is everywhere in Europe at this moment, and the potential upside of investing. And secondly, as I said, it is on the back of our offering of digital financial advice and showing the alternative for customers. And therefore, it's -- the increase is largely driven on the back of inflow.

Operator

The next question comes from Mr. Vardhman Jain, Macquarie.

Vardhman Jain ***Macquarie Research - Banks Analyst***

Firstly, do you have any sort of update on the TRIM review process? Any sort of initial colors, thoughts on that, because some of the banks in Europe have started giving some guidance on that. And secondly, on the cost side, if you could give more detail on where exactly are you seeing the cost savings. I mean, some of the cost savings that you mentioned in first quarter and second quarter, if you could give a bit more color on that, that would be helpful.

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

On the cost savings, the cost savings that you currently see, Vardhman, are the savings that are coming from the programs that we have started years ago. So just to remind you, the programs that we still have running are the forward and now programs, so it's basically a program on further efficiency in the Netherlands. It's the power IT program, which is there for further efficiencies on the IT side that we have had already invested in. It's the Wholesale Banking TOM, it's a continuous investment for the efficiency of the operational side of the Wholesale Bank. And there's the Belgian transformation program that is still also showing of benefits. So the savings in the first and second quarter are truly coming from those programs that we have reported you that will lead to savings in FTEs and headcount, in savings in efficiency of IT as well. So that's where the savings are coming from. Against that, now, in the first 2 quarters, are the first steps in our investment in the transformation program that we announced in October. And that's how we should kind of see the balance of the cost growth. For an update on the TRIM, I will give to word to Steven.

Steven J. A. van Rijswijk ***ING Groep N.V. - Chief Risk Officer & Members of the Executive Board***

Yes, Hermann. I -- on TRIM, a number of quarters ago, all right, the TRIM exercise started. So in the past number of months, the teams have been very busy with providing data sets to the ECB. The focus currently is on the mortgage portfolios in the Netherlands and Belgium as a need portfolio in the Netherlands as well as all of our trading models, so that will be the first phase. But the real on-site inspections of the

ECB will only start after the summer in September. And then a second phase, that is in 2018, there will be a focus on the lower PD portfolios, including a number of the portfolios in mortgage and Wholesale Banking.

Operator

And the final question will come from Mr. Alex Koagne, Natixis.

Alex Koagne ***Natixis S.A., Research Division - Analyst***

Alex Koagne from Natixis. One very quick question from me, again on fees. Thank you very much for all the detail but, in terms of dynamic, should we expect fees to grow at the phase higher than 5%? Or should we expect it to be in that region, which you delivered we saw last year?

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

Alex, who else has been asking questions like this?

Alex Koagne ***Natixis S.A., Research Division - Analyst***

You know how I've been very focused to that, the fees income, so...

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

No. So for the Wholesale Banking side, as I said already, it's much more chunky and lumpy and, therefore, is really difficult to predict. But you can expect that on the back of the larger deals that we do on the Wholesale Banking that, across a year, if we grow our book, our lending book, the way we have been growing, that you can expect the lending asset growth of like 3% to 4% also to be the growth on the fee side because there is some kind linear relationship there, which is on the Wholesale Bank. And then clearly, so here and there, you will have some more opportunistic businesses on the back of which we make fees as well. But the real engine, clearly, is the lending engine, and with that comes fees as well. Now on the Retail Banking side, it is really a structural change in the business model as a primary bank and offering more and more products. So the more products that we onboard in the Retail Bank that come from third parties, the more fees you can expect. And whether fees will grow higher than the 5%, we would hope so, and we would certainly work on it. But again, we don't charge fees for charging fees. That's not how we deal with our clients. And so it has to be on the back of a true added value, a new product that we introduce that our client is then buying. Again, we're not selling, and so we see opportunity for further growth and disputing insurance products in challenger and growth markets that we're working on with a couple of partners and further growth in the asset management with a couple of partners that are very interested in our digital distribution power. So if we can get those new products going in a digital way then fees can grow higher than the 5%.

Vardhman Jain ***Macquarie Research - Banks Analyst***

Okay, if I may? Last question, please. Just to understand, at which stage of the discussion regarding all the litigation would you start to take provision? I mean, what is the trigger? Is that when you see -- or you start to have discussion about around the (inaudible)? Or I mean what is the trigger to start to book provision for litigation?

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

Good question. Koos will comment on that.

J. V. Timmermans ***ING Groep N.V. - CFO, Vice Chairman of Mgmt Board of Banking, Members of Exec. Board & Head of Ing Market Leaders***

I think there is always 3 parts hold the importance. The one is, is an (inaudible) error, or penalty or something more likely than not? The second part is, is that penalty going to be a financial obligation? And the third part is, can you assess reasonably anything of the height of that? And that -- so all these 3 criteria need to be met, and then you can book a provision. So that is what we've always done and that is what we will continue to do. But clearly, if we don't provide, then the criteria have not been met.

Ralph A. J. G. Hamers ***ING Groep N.V. - Executive Board Chairman, CEO, Chairman of Mgmt Board Banking & CEO of Mgmt Board Insurance Eurasia***

Okay. Well, that ends our analyst call for today. Again, thanks for calling in. Thanks for your questions. I really appreciate that. It shows the interest that you have in our franchise and the way we're developing. The quick summary of the second quarter is a continuous commercial growth in a number of clients in the primary relationships, in the lending book, in the savings book. It's across the different sectors, it's across the different geography. We're not dependent on 1 or 2 main geographies, it's very well diversified, both from a lending growth perspective as well as from a fee growth perspective across products. You see that the strategy that we started a couple of years ago are focusing on primary relationships than a cross-buy through that, it's really working out in order to diversify the income away from interest income, also into fee income. And with that, we, for the quarter, realized a return on equity of 10.8% with still strong capital buffers at 14.5%. Thanks a lot for the attention. For the ones who haven't gone on a holiday, I wish you a great vacation. Thank you. Bye.

Operator

Ladies and gentlemen, this will conclude the ING's Q2 2017 conference call. You may now disconnect your line. Have a nice day.