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PRESENTATION

Operator

Good morning. This is Patricia [Karasov] welcoming you to ING Second Quarter 2019 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 statements. A discussion of factors that may cause actual results to differ from those in any forward-looking statements 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. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Good morning, everyone. Welcome to our second quarter 2019 results call. With me are our CFO, Tanate Phutrakul; and our CRO, Steven van Rijswijk.

I'm going to take you through the presentation. At the end of the presentation, there will be lots of opportunity to have a Q&A.

Just to cover the key points for the quarter. We achieved good results in the second quarter with us posting a net profit of EUR 1.4 billion. We see pressure from continuing low, maybe even negative rate environment. But in spite of that, we have shown strong commercial momentum that counterbalances that pressure.

On the retail side, we recorded a net inflow of more than 300,000 primary customers to reach 12.9 million total primary customers with all countries contributing on this one.

Just like in the first quarter, we saw good loan growth, well diversified by business, sectors and geographies. This loan growth was also achieved at resilient markets -- margins, especially in mortgages where we continue to be successful at improving our margins and repricing. This helps us to counter the high margin -- the margin pressure on the customer deposits because of the rate environment as well as the higher KYC-related expenses.

On a 4-quarter rolling average basis, we realized a return on equity of 10.8%., that's in line with our ambition. The CET1 ratio remained robust at 14.5%. Over the first half of 2019, we will pay an interim cash dividend of EUR 0.24 per share.

We further progressed on the rollout of our global KYC announcement program across all countries where ING is present with the FTEs allocated to KYC increasing to now more than 3,000.

And turning to our commercial momentum, Slide 3. As I mentioned, the primary customers grew by more than 300,000, well diversified, and you can see it on the right-hand side across the different geographies. The Benelux adding 75,000, Challengers adding 167,000 across all the different countries, but specifically Germany, Australia and Spain really adding to this. Growth Markets adding 67,000 across all the different markets. So really doing very well on the commercial momentum if it comes to the customers that pick us as their primary bank. And as you know, we firmly believe that primary clients create future value.

The core lending growth was strong at EUR 7.4 billion with the majority realized in the retail markets. Net core lending growth in Wholesale Banking slowed down slightly, but we've signaled that already a few quarters that we would be more cautious in our growth on the Wholesale Banking side.

And deposit growth was seasonally higher. That's driven by holiday allowances in some of the markets, specifically also in the Netherlands and Belgium.

And in terms of the most recent Net Promoter Score, this quarter, we ranked #1 in 7 out of our 13 retail countries. And as you know, we find the Net Promoter Score a very important metric if we look at the -- at how we're doing in the digital and mobile environment and it's certainly also a leading indicator of continued growth in clients and primary clients. So that all looks good.

Turning to the strengthened -- to our commitment to sustainability. Again, real steps and real proof points this quarter. We launched this quarter what we call the Poseidon Principles. We launched those together with 10 other major banks.

Now just to explain a little bit. Under these principles, the banks involved will assess the climate alignment of their shipping portfolios on an annual basis. Of course, this is part of what we call our Terra approach. Remember last time, I took you through the Terra approach, that basically we want to develop our total loan portfolio in line with the Paris Accord. However, if you want to do that, you need to have specific approaches to different sectors, and this is the one for the sector -- for the shipping sector.

Now the fact that we do this one together with 10 other major banks, overall, having 1/5 of the global ship finance portfolio in place, this one will really lead to an impact. And clearly, we are very happy for other banks to join as well if they want.

Commercially, the proof points, we see really increased deal activity with 26 sustainability bond transactions and 12 sustainability loan transactions completed including some first, again, because with our knowledge we can also continue to be innovative on structures and different programs.

Just to give you an idea there, we supported EUR 200 million Schuldschein transaction for our automotive client, Dürr. And that's the first ever Schuldschein financing linked to an ESG rating. So that's in the German market. It's a first.

For Merlin Properties, we acted as a joint sustainability coordinator in the largest sustainability improvement loan in the European real estate sector. And as you know, real estate represents the majority of the carbon footprint both commercial as well as residential. So having these programs there really helps in order to achieve our target as well.

And for Philips, we acted as a joint bookrunner on the first issuance under the Philips Green & Sustainability Innovation bonds framework. And those process will be used to finance Philips' sustainability activities.

That's -- on that then, we wanted to kind of take the opportunity as well to highlight one of our successful platform businesses, that's Interhyp. That's on Slide 5. We've highlighted Interhyp before and that is because it is a real example of how a digital platform evolves over time. Interhyp is, by now, the largest mortgage broker in Germany. It's fully owned by ING. It originated as a fintech, has revolutionized the market, which was dominated by traditional players. We're developing this approach now also and expanding it into Austria. This quarter, specifically, was a record quarter for Interhyp as the mortgage volumes processed exceeded, more than EUR 6 billion. By continuing this strong growth trend, they're well on track to reach 10% market share in Germany.

Now to explain, it's a strongly -- it's a digitally enabled platform. It offers mortgages of more than 450 lenders. A lot of this is digitally done. The connection of the platform into the banks is all IT-driven as well. But yes, there is also independent advice given as part of all of this in order to make this a good advice and a good experience at the same time, and they do that through more than 100 offices.

But here you see how quickly you can develop a platform that is driven by good experience on one side and advice because it is mortgages on the other side. And they have absolutely leading Net Promoter Scores.

So this commercial momentum will continue. First, it's a very important fee-income generator, and it's a very profitable franchise in itself.

Turning to KYC and our management of nonfinancial risks. As you know, we -- as we have indicated to you, we have this global enhancement program. I'd like to give you an update on that one. The number of FTEs now working on KYC-related activities has increased to over 3,000. This is a combination of newly hired FTEs as well as a shift towards KYC-related activities of existing FTEs. As you know, we started this program and rolled out this program already in 2017. We keep implementing this across all of the countries where we are present and where we have our clients. And as part of this program, we are increasingly closing accounts of inactive clients, which is not always an easy process, but we're committed to fulfill our role as a gatekeeper here. Moreover, and you will like that, the cleanup of inactive accounts clearly helps to become even more efficient.

As an update, in Italy, I'm sure that's on your mind. We are in the process of implementing these improvements as required by Banca d'Italia. We're also in discussion with Italian judicial authorities concerning the conclusions of the Banca d'Italia and related investigation. In the meantime, we will refrain from onboarding new customers, but we're fully servicing our existing customer base.

To increase the effectiveness of safeguarding the financial system, we keep working together with other banks because basically as a bank alone there's not a lot you can do, but also cooperating more and more with enforcement authorities and regulators. We think that the action plan that has been presented by the Dutch Ministers of Justice and Finance is really a good step forward. I mean they do see that the role of banks in this one is of crucial importance on one side. But on the other side, in order to really increase the effectiveness of fighting or detecting financial and economic crime, there should be possibilities of data sharing in several areas. But for that, you either need laws to be changed or be able to work on specific waivers. So they have taken up this plan to look at these possibilities in 6 areas specifically and see whether, to a certain extent, client data and monitoring of transaction information can be shared better.

At the same time, we will continue to raise awareness and support for similar activities on a European level because these activities don't stop at the border either. So we think that with everything we're doing and everybody is doing, that's a very good first step. But in the end, you need an all-encompassing approach to this one.

As we see the KYC activities -- KYC-related activities increasing, we also keep developing our own tools if it comes to the improvement of the accuracy and efficiency of our KYC operations. Specifically and especially on the transaction monitoring, we can benefit from artificial intelligence and machine learning, and this actually plays to our strengths and it plays to our strategies and embedded in our strategy and that's an important part of it as well. A few of the examples of the tools that we're working on are highlighted on this slide as well.

Now let's take you through some of the results, the highlights from a financial perspective on the second quarter. Turning to Slide 8 now. The underlying pretax result was just over EUR 2 billion in the second quarter, just below the same quarter of last year. And that's due to a higher risk cost, which we were still relatively low, but we were up versus last year. An increase in income year-on-year more than offset the higher operating expenses.

If you look on a year-on-year basis, the underlying income was a strong EUR 181 million higher, and that reflects a combination of strong loan growth, as indicated already; resilient margins; higher revenues in Treasury; and a EUR 79 million receivable, which is related to the insolvency of a financial institution in the Netherlands.

These positive impacts outweighed the weaker performance in Financial Markets and that was driven by negative value adjustments, which I will get back to that later in the presentation. Also, the positive impacts outweighed the margin pressure that we see on customer deposits because of the low, if not negative, rate environment. That's on a year-on-year comparison.

On a Q-on-Q comparison, so sequentially, the underlying income was up by EUR 89 million. This was mainly driven by the same factors as on a year-on-year basis while the previous quarter included a EUR 119 million gain on the sale of our Kotak stake. So if you correct for that, you see a real increase and the factors explaining that are the same that I mentioned on a year-on-year. So a good performance on the income side for the quarter, both Q-on-Q as well as year-on-year.

Turning over to NII. Just to illustrate, if you look at the NII, excluding Financial Markets, it increased 1% year-on-year. And we saw our margins -- mortgage margins further improving. That's a sign of the pricing discipline in the market and that's one of the levers that we have to counter the increasing pressure from our replicating portfolio. As you know, we replicate a sizable part of our savings every year. And to give you an impression on the pressure there, the 5-year swap curve at this moment is now at a negative 25 basis points. So that's where the pressure is coming from. Now -- that's the pressure.

On the positive side, what we can do in order to counter this pressure, we see repricing of the book. We see growing of our loan book, which we're doing again this year, and the repricing is also happening as we speak, not everywhere, but specifically certainly in the mortgage area. The positive rate environment in our non-euro countries is also helping us. So that's what we have there as well. Furthermore, we charge negative rates on deposits for our professional customers and we see a gradual shift to higher-NIM products, that basically has been part of our strategy for the last couple of years.

With all of this, our NIM, the net interest margin, for the quarter came out slightly lower at 152 basis points, still at the top range of our guidance. So it's continuing at healthy levels there.

If you ask about our guidance until the end of the year, we would think that the NIM would stay at least close to the high 140s. So that's where we think we can go.

Looking into lending now, turning to the core lending, Slide 10 by now. In the second quarter, we grew core lending by a strong EUR 7.4 billion, as you can see here. As we've said, we have strict risk appetite. We don't compromise our structures in Wholesale nor anywhere else. We are looking into repricing. And the good thing is that we are not dependent on one geography or one sector or one business line. And here you see the strength of ING and our business that basically if one area doesn't pick up on repricing or if one area of those banks that are outside -- offering business outside of our risk appetite, we will just leave it and we can grow somewhere else. And again, this quarter, we're showing that the diversification of our business really helps to continue our core lending to grow and that is what you see in this picture. Although this quarter you see a higher growth in the Retail Banking sector, but that is also in line with our earlier guidance on the Wholesale Banking side where we have said that we will reprice and that will have an effect on growth in Wholesale Banking. And we will not compromise on structure in the Wholesale Bank, and we have put caps on leveraged finance and real estate finance, as we have indicated to you in the past. So that limits the growth on the Wholesale Banking side, albeit still growing at 2% to 3% for the year. Overall, if you take the EUR 7.4 billion, it is still, annualized, more than 5%. So well within the range that we have guided to you, which is the 3% to 4%. Actually, it's above the range that we have guided to you in the past.

If you go deeper a little bit, Retail Netherlands saw a modest growth in both mortgages and business lending. It's also because the book is so big. So in order to kind of grow the total book, you also have to produce the runoff of the book, and the new production is at good margins. I think it's a job well done for the team. Also, in Retail Belgium, we see continued strong commercial momentum. Retail Challengers growth continued on its growth trajectory as well, very well balanced both into mortgages as well as nonmortgage lending.

As I earlier said, net core lending growth in the Wholesale Bank is slightly lower than previous quarters, but again, it's because of the caution that we take as well as the fact that the syndicated loan market this quarter was a little bit less attractive.

Turning to fee income. Net fee income and commission income came in at EUR 711 million, that's up EUR 36 million or 5.3% quarter-on-quarter. Diving into that, this was driven by the increase in most retail countries and with higher fees from daily banking and mortgages, but also improved investment products -- fees on investment products.

In the Wholesale Bank, we saw that quarter-on-quarter the deal activity was up, but if you compare the Wholesale Bank with last year, so year-on-year, then you see that the deal activity is just lower than a year ago.

If we look at the year-on-year perspective overall, our fee income was stable overall. That is because the growth that we see in Germany, and that's coming from most autos Interhyp, was offset by increased fees that we are paying to our independent agents in Belgium and that's as a result of switching to more independent branches. As you know, we have gone through this transformation in Belgium where basically we are -- we have closed a lot of branches. But of the branches that stay, we have more independent agents, which in itself is a good thing because that makes our costs more variable. However, these agents we pay on a commission basis and whatever we pay is a negative on the fee income line. So that is why you don't see that effect too much, but it makes variable cost. And you only pay if there is activities for it or new commercial business for it, so -- and that is what you can't see specifically in the slide, but that is an underlying effect that you have to take into account. We also see a bit lower fees on mid-corporates in Retail Netherlands there as well.

So with these developments and specifically also the negative fee income line that comes from an increased independent agent group in Belgium and a different deal there, it might be challenging to reach the 5% to 10% fee growth ambition for 2019, but we do remain committed to this ambition. We believe in it, and we have the intention to grow our fee income to approximately 20% of total income.

And the reason why we feel confident there is that we see 5 main sources for increasing fee and commission income. The first one is around payment packages. The second one is around investment products. The third one is around behavioral fees. You kind of -- I mean these are fees through which basically we try to influence the behavior of clients to do more digital banking rather than physical banking or to go to the ATM less often, et cetera, et cetera, et cetera. Then we see as a fourth source of further fee income, we see third-party products, which will increase on the back of more primary customers and will increase on the back of further improve of the cross-buy. And we expect to increase the fee income still on the Wholesale Bank.

Talking about growing third-party fees as an important driver. You see that the joint venture that we announced 10 months ago with AXA is now already producing products, digital products, through the Internet. We launched travel insurance as well as income protection in Italy. And in

Australia, we launched car and travel insurance through a local partner. So that joint venture that we agreed to less than 10 months ago is now already introducing digital products through the Internet and more to come on that one.

Then turning to Financial Markets. Overall, if you look at this picture, you see that Financial Markets saw the income decreasing, but that was fully driven by negative valuation adjustments and that's mainly explained by 2 factors, and I'll take you through those. The first one is that we had negative model valuation adjustments and those were the result of asymmetry between the derivative positions with our clients, which are often not collateralized while we hedge ourselves on the market on a collateralized basis. So that's an asymmetry right there. For that, we had a negative adjustment, but that will come back over time. And the second factor was the mark-to-market movements on hedges mostly related to macro hedges and because of the spread tightening that moved against us in the quarter. If you correct for these two, you actually see that Financial Markets income has improved 7% year-on-year and that's on the back of stronger client rating results. And if you compare it to last quarter, it was stable-ish around EUR 255 million level.

So together with the cost decreases that we also see this quarter, you see the costs really going down in Financial Markets this quarter and you see more client activity coming up and growing, we see a sign of improvement although we have to continue to really focus on this business as the markets are less predictable and the low-for-long doesn't help, and you see that with many other banks as well. So continuing to look at how this evolves. But for the quarter, it is not as bad as it looks. If you correct for the value adjustments, you see client activity up and the costs are actually going down.

Now to expenses. Expenses, excluding regulatory costs, were seasonally -- which are seasonally lower, they were up by EUR 82 million versus the first quarter and by EUR 105 million year-on-year. Now for both comparisons, there's one major factor that drives this increase that I'd like to take you through, which is a provision that we have taken in Germany of EUR 36 million and that is the second kind of wave of restructuring in view of the agile transformation that we're doing in Germany. So that will help Germany to accelerate its responsiveness to rapidly changing customer needs. And while it will -- while it has increased our costs in the second quarter, with EUR 36 million as mentioned, it will lead to structural annual cost savings of around EUR 12 million. So the business case on the line is one that's really strong.

We see overall upward pressure from increasing KYC-related expenses as we continue the global rollout of our KYC enhancement program. So that's certainly a factor to reckon with. Also, we see a bit of pressure given salary increases. But honestly, if we really look at the total of pressure of costs going up, and specifically if you correct for Germany, you see that the savings that are also coming through because of further efficiency and the transformation programs paying and decreasing costs like we see decreasing costs in Belgium for the quarter, we see decreasing costs in Financial Markets for the quarter, that we're really vigilant on the cost side and making sure that we stay on our trajectory to become more and more efficient.

As said, we will, if we feel there is good business in C&G, we will support business growth in C&G and we wouldn't mind the cost to grow if we feel that produces good business. But the cost discipline is there. We're really on top of this, we look through this and we're on our trajectory to become more and more efficient.

You can also see that in the 4-quarter rolling average of the cost-to-income ratio, that was stable at 55% for the quarters. But if you look at it for -- in comparison to last year, it has actually come down from 56.1%. So we'll continue on that trajectory. But also as indicated during our IR day in March, we specifically look at the underlying operating leverage because that is really showing the impact of our digitalization and transformation efforts.

Turning to risk costs, that's Slide 14. Here you see the different areas of asset quality developments. Risk costs in the second quarter came in at EUR 209 million, that's 14 basis points of average customer lending. On a quarter-on-quarter basis, risk costs were stable. The quarter of last year was low at EUR 115 million and that was primarily driven by release in Retail Netherlands at that moment, EUR 52 million, just to remind you of that. This quarter, we saw an impact from model updates, most notably in the Retail Netherlands where we recorded slightly higher risk cost of EUR 22 million, against Germany where we saw a EUR 25 million net release. So that's on the Retail side.

On the Wholesale Banking side, risk costs were again low this quarter at EUR 91 million with a few individual Stage 3 files, France, the Netherlands and the Americas, but there is no specific trends to be detected either from a geography perspective or a sector perspective. So really specific cases.

Nonperforming loans for ING, as mentioned by the Stage 3 ratio, you can see here as well, stable at 1.5%. And for the remainder of 2019, we continue to expect risk costs to stay well below our through-the-average cycle (sic) [through-the-cycle average] of around 25 basis points of average customer lending.

Now turning to capital. CET 1 remained robust and ended the quarter at 14.5%. That's 20 basis points lower than last quarter, but still well above our SREP requirement of 11.81%, as you can see here. During the quarter -- sorry, as a reminder for all of you, we reserved last year's full dividend per quarter. So normally, in the first 3 quarters of the year, we reserve the full dividend of last year and that makes that we add a limited profit to CET1 per quarter. So that's also in here. So it's very conservative. And during the last quarter, the CET1 ratio benefited from the inclusion of these profits that were beyond what we keep separate, but was impacted by risk-weighted asset growth, specifically in the operational risk assets -- in the operational risk domain and that was caused by an update of the weights of our own risk scenarios and as well as external loss data. So that's where you see the risk-weighted assets effect on CET1, the minus 0.3%.

Now in line with the last couple of years, we will pay an interim cash dividend of EUR 0.24 per share, and I think if you really look at this picture and the profit generation that we have, the capital generation that we have in the underlying businesses with most of the Basel IV impact coming, we remain well placed to comply with future capital requirements.

Turning to the financial ambitions. We're pleased to see here, in Slide 16, that we performed well against most of our financial ambitions, if not all: CET1 leverage ratio, well ahead of minimum regulatory requirements. Producing a very attractive return on equity, if you look at the 4-quarter rolling average of 10.8%, within the 10% to 12% range. Cost/income, as we have indicated on the IR day, is not necessarily how we run our business, but it is an important input factor to get a sense for where we are and what we should look upon. I already commented on that, that's actually improving, but the -- on a 4-quarter rolling average. And we have the financial ambition of 50% to 52%, but as said at the IR day, we didn't put a date there, but we do think that over time that's when you can run a bank. And as said, just to kind of repeat, also for 2019, our policy is to pay a progressive dividend.

Just to wrap it up. Second quarter confirms that we keep executing well in our Think Forward strategy. It's the right direction for our clients, and it's also the right direction in order to counter some of the effects of the low rate environment.

We see continued customer growth, continued lending growth. We see improving mortgage margins and resilient margins overall, apart from savings.

Even if you look through the fees, we see positive developments in Belgium and Germany. And we have AXA starting.

So if we look ahead, we will continue to focus on retaining our commercial momentum, keep the cost discipline while we continue to enhance our nonfinancial risk management. And I'm confident that further strengthening the company and what we're doing is there to enable sustainable success for the long-term benefit of all of our stakeholders.

So let me open the call for questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Mr. Pawel Dziedzic of Goldman Sachs.

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

2 questions from my side, the first one is on cost, and more specifically, on inflation related to the KYC initiatives that you mentioned. Do you expect any further increase in staff numbers and costs when you go to second half of 2019 and perhaps to 2020? And perhaps related to that, are you on

track to complete the bulk of the enhancement program in 2019? I think you mentioned that this is the target during Capital Markets Day. I'm just trying to understand if you still expect cost relief to materialize in 2020 on the back of initiatives that you're completing this year.

The second question is on impact of a potential ECB rate cut and mitigating actions that you have still available. Firstly, can you give us a sense what 20 bps cut could have on NII and NIM over the next 1, 2 years? And if there are any incremental things that you can put in place if that happens? I know you mentioned good commercial momentum, repricing and so on, but would you still consider expanding, for instance, parameter of the clients that can be charged negative rates? Are you in a position to perhaps adjust fee structure for retail clients and so on?

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Thank you, Pawel. So on the first one on costs. So on one side, yes, beefing up KYC, the enhancement, is leading to increased cost because we're actually adding people as well. The 3,000 FTEs that we are indicating are not necessarily all an increase in cost because it also includes the fact that people who already work with us and who are, for example, client -- working in the client domain that their daily activities are more geared towards KYC to get these files in order than otherwise. So that's not necessarily leading to an increase in cost. But then, clearly, there is also additional operational activities for which we are building centers of excellence, and that is an increase in costs. And then, over time, we will have to continue to improve our systems and some of our algorithms, which is leading to increase in costs as well.

Now there is 2 ways to manage this. The first one is that, yes, some of this is what we would call project-related costs. So these are externals that help us to make sure that, from a final enhancement perspective, we get everything done. And that you should see coming down in 2020 as those externals you should see go down in 2020.

Then if it comes to some of the IT or the program-related costs, we are also shifting priorities as we said. You can't do everything at the same time. So also from an IT perspective, we are reprioritizing specific capabilities and capacity away from some of the programs we would otherwise run towards this domain. So they will lead to a bit of an increase of costs, but not that -- you will not detect it in full.

So to conclude, yes, over 2020, you would have to expect some of these costs to come down if -- to the extent they're project-related in the file enhancement area.

On the ECB rate cut impact and the mitigating actions, so there is many different things that we're looking at here and we're testing different things in different markets. We are charging rates already if it comes to the more professional part of the business, if it comes to the larger private banking clients. And now I'm talking euros and other currencies, we started to charge a long time ago. So -- and that will have its effect on countering the negative rate environment certainly. But as said, there is only so much you can do from that perspective.

Then the question is, do you go negative on savings? Or is there other ways you can kind of compensate for that in general? So for consumers, that remains to be seen. I mean that is uncharted territory, to be quite honest. And you have to be -- well, you have to kind of be mindful of the role that you play in the market, mindful of the stability of your deposit base as well, so -- and mindful of the promise that you have made to your clients.

So clearly, we are looking at different levers to kind of compensate, as I indicated. Fees is one of the ways, looking at administration fees around what people do with us as a bank, specifically in those areas where we are a low, if not low-fee environment or a non-fee environment, because you know that the digital banks have been built on the back of almost no fees. So there is quite some upside there looking at fees introduction. And we're testing different markets and different ways. And to the extent we feel that we can pursue that further, we will certainly do so.

So yes, there is a whole menu of things you can consider. You don't want to go full blown into one of those specifically. You have to test the waters here and there and see how customers react and how -- and what your role is in those markets. And clearly, what works will then be rolled out into other markets.

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

That's very helpful. Maybe just a follow-up. Could you quantify the impact of 20 bps cut on NII just to give us a sense of sensitivity what scale it could have and -- yes.

And the second, just on KYC. Would you be willing to disclose size of these project-related costs that could fall out into 2020?

Tanate Phutrakul - *ING Groep N.V. - CFO & Member of Executive Board*

Pawel, this is Tanate. I think we really don't want to quantify a 20 basis point cut on the ECB rate because it's a much more complex roster of actions that we would take. The only thing we would say is that out of the EUR 570 billion of deposits that we have, about 80% is in the Eurozone. And as we indicated in the past, roughly the duration is somewhere around the 5-year mark. But this is all about the ability to reprice, the ability to go deeper negative in certain segments of our deposits. And so it's very much a future action and market response that we would see there.

Operator

Our next question is from Mr. Robin van den Broek, Mediobanca.

Robin van den Broek - *Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst*

The first one, I'll try to phrase it simple because I know there are a lot of dynamics in the background. So basically, on the current macro environment where the euro swaps 5-year point is at minus 33 basis points, are you still confident that you can grow NII in future years given your 2% to 3% loan growth ambition? That's the first question.

The second one relates to the remark you've made on your slides related to TRIM. I'm not sure that's a general remark that you've had there before, but feels like it's a bit more cautious than in the past. So I was wondering if there are certain books where you see more TRIM impacts coming through, maybe particularly on the structured finance books where you might see more headwinds than anticipated before. Any update there would be helpful.

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Robin, on the first one, well, it remains to be seen, honestly. So clearly, you have the pressure on savings side in terms of the -- and the impact on NII there and then where we can see the lending growth. Now the lending growth in itself, as you see this quarter, and now we're getting into kind of where we see actually repricing being picked up, we see actually in large books of ING, we see repricing being picked up, which is the mortgage book in the Netherlands, mortgage book in Belgium, mortgage book in Germany. In some cases this comes at a lower market share, but it's okay. It's okay to have a lower market share from that perspective but we are really looking into where we can reprice. And in the mortgage books generally, we see across the whole franchise, we see that repricing is happening and it really helps us.

In business lending, we see it picked up in the Netherlands. We see flattish margins in Belgium. And in the Wholesale Bank, we see on the lending side, we see flattish margins, but we see a bit of pressure on the real estate finance side if it comes to new production. I'm talking new production here, so how is the market reaction to repricing efforts.

This is what we do as a commercial margin. Then internally, we have moved the FTP as well and that's being picked up by all new production. And obviously, that's already here.

So you see that if we continue to be able to produce a loan book growth of 2% to 3% or 3% to 4% that -- and you can actually reprice, which is what we're showing, that will really counter the pressure that we see on the savings side.

So that's what I can give you on that one. On TRIM, I'm going to give the floor to Steven.

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

Yes. Thank you, Robin. I mean, on TRIM, I don't think that we're more cautious or careful. In the end, we've always said that the impact of -- in the TRIM, the more adjustments that come from the new regulatory technological standards and Basel IV would have a ceteris paribus impact of between 15% to 18%. What we do see now is a matter of timing. So you see actually the impacts of the TRIM on the remaining TRIM exercises. We expect them to come in between now and the next 12 months. So Q3, Q4, you see more of them coming in. And moreover, the redevelopment of of our models coming in as well a bit earlier. It still means that the guidance that we've given still stays, which means the 15% to 18% growth in RWA including Basel IV, which means that we still remain with our guidance of approximately 13.5% over risk-weighted assets under a Basel IV regime.

Operator

Our next question is from Mr. Benoit Petrarque, Kepler Cheuvreux.

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

Yes. The first one is to come back on these mortgage margins, which are going up nicely, basically. This is a very good way to offset for you the pressure from lower rates. Clearly, we tend to see that more negative, like lower rate is obviously very negative for you. But could you give us a sense of the extent you can offset the margin pressure from lower rates with repricing across the book? Will that be really meaningful? I have the impression that could be pretty significant, especially what is going on, on the mortgage side. But could you give us a sense of -- on whether that will be a really very good lever for you to offset the pressure, which is to come from the negative rates?

And also could you give us a bit of an update on the front book margins across the different geographies versus the back book margins on the mortgages?

And then the second question was on the cost side. It's clean -- it's up 3% clean. I think it's quite substantial again. I think we were up 1.5% last quarter. So how do you see cost inflation for the rest of the year, especially H2? And could you give us a bit of an update on the timing of the cost cutting coming in? It seems that it is still a bit slow. We did not see that coming really in Q2, but do you expect more cost cutting coming -- in the coming quarters?

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

I'm going to give the cost one to Tanate. I'll come back to the margins.

Tanate Phutrakul - *ING Groep N.V. - CFO & Member of Executive Board*

I think as -- I think Ralph gave at the beginning of the overall presentation, we do have a sizable cost increase this quarter. And then if you discount the impact of the German provisions, you see that the cost side increasing, as you mentioned, between 2% to 3%, right? But depending on where we are and depending on which segments, the costs are different, right? If you look at the Wholesale Bank, excluding foreign exchange impact, the cost in the Wholesale Bank is roughly up 0.6%. So you see the transformation having a good impact there. Even in Germany, where that cost increase there, and if you exclude the EUR 36 million cost increase, German costs are flat, right? The cost in Belgium is down 4.2%. The cost in Financial Market is down as well, right?

Where you do see some cost increases is in some of the high-inflation markets, like in the Challenger & Growth Markets where I think, year-on-year, excluding that German number, our costs are up 2.9%. But that's in light of a 7.5% growth in income.

So as mentioned before, where we see opportunity for growth, opportunity for revenue strengthening, we don't mind actually making those investment to do that.

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Okay. Then on the lending margins, to which extent can we actually offset against the pressure on liability income? Honestly, you see it this quarter, it's rather flattish. It's a combination of growth and repricing. The repricing you should realize is only on the new production, right? So the effect there is one and the growth is the other. And that's a little bit how you can kind of get a sense for it.

Now if you then go into the difference between front book versus back book, I'm not going to give you kind of the specific margins per area, but in all geographies on the mortgage side, the new production margins are better than the back book.

So it's not only repricing that is an increased price versus last quarter. It is repricing in terms of that new production has a better margin than the back book. So overall, it has a real good impact. But again, it's only on new production. So that is -- it's -- before that trickles down into the portfolio margin, it takes a couple of quarters. Yes? Thank you.

Operator

Our next question is from Mr. Adrian Cighi, RBC Capital Markets.

Adrian Cighi - *RBC Capital Markets, LLC, Research Division - Equity Analyst*

2 questions from my side, please, one on fee income and one KYC. On fee income, very helpful discussion around the 4 drivers of growth for the introduction. However, it's still the growth remains meaningful below your ambition. Can you maybe unpack where among those four you're currently falling short of your expectations and maybe what the sort of a longer-term ambition translates into sort of near term, maybe next year or this year growth targets?

And then on KYC, you mentioned you're in discussions with the Italian judicial authorities, yet you don't take any provision for potential fines this quarter. Is that because based on the judgment you have so far, you don't see any potential for fines? Or is that because there's too much uncertainty on the size of a potential fine or a combination of the above?

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Okay. So on fee growth, where are we falling short. I think we're falling short everywhere if you compare to our ambition because I do think that there is upside in each of these sources. So in daily banking, clearly, a lot of the daily banking fees setting in the past has been done of the back of realizing also some income on your current accounts. That income is actually under pressure because of the low-rate environment. So if you want to make that cost-neutral, one way or the other, you'll have to move in pricing your payment packages in the different markets in which you offer it or introduce it as a principal because in some markets we have not even introduced fees on payment packages. So that's the stream #1.

Stream #2, our behavioral fees. That is actually one that I think is interesting to see how that develops. It certainly has upside because we don't have many of those, but it is also helping us to decrease costs. What do I mean with that? In many of the markets, we don't have, for example, our own ATM network. So whenever our customers use the ATMs of our collegial banks, as we would say, we would have to pay a fee. So introducing behavioral fees in order to incentivize them not to go to the ATM as often is actually decreasing our fee outflow to our commission outflow to the other banks. So that is one that we are actively looking at as well.

On investment products, actually we've seen a real good quarter on fees in investment products this quarter, and the underlying assets under management is increasing to grow. It's not only because of the rate environment. It's also because we gained market share and we offer new investment products in different markets where we haven't introduced the products -- investment products. So that's interesting as well.

Then on third-party products, the AXA joint venture is one that is only now taking off, although only now it's only 10 months ago that we agreed it. So I'm very happy with the team and the collaboration with AXA in Paris where that's basically where we have the JV, that they're already producing products in order to be distributed digitally as we speak only 10 months into this JV. Because as I said, these are not products off the shelf. These are products that we really wanted to make fit-for-purpose to be distributed in a digital way, either through the Internet or the mobile. So also there, I have real ambitions and expectations. So that's one.

And the other side, as I said in the -- when I did my introduction, the fee and commission line that we show is a combination of fees that come in and fees that we pay away. And a big chunk of those, as I had indicated, if you compare it to from where we were a year ago in Belgium and where we are right now, that has actually increased. Now that effect will be neutralized going forward because this is the level to be expected then. And in Germany, we see real fees increases and that's a very promising indicator as well because that's a market where we have been really careful always about introducing fees.

And then last but not the least, which is the Wholesale Banking environment, you know that our Wholesale Banking strategy is to be very customer-focused and looking at cross-buy as much as we do it on the Retail side. We are building up capabilities in what we call strategic products, which are more the fee-driven products. We had a good quarter in Corporate Finance, and we do expect good quarters depending on how the markets develop also in, for example, sustainability, as we have shown this quarter as well.

So honestly, it is really across-the-board and it is really -- it's an area that has a lot of focus from our side and -- yes, so it's -- and that's why I indicated that this quarter you don't see the growth. And maybe in 2019, given some of the negative fee income effect coming through, you will not see the 5% to 10%. But overall, we stand by that ambition. We do expect this to grow to the 20% part of our total income.

On KYC and Italy, I'm giving the floor to Steven.

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

Yes. Thank you, Adrian. In line with our policy, this we will not disclose, particularly our interaction that we have with supervisors, regulators or judicial authorities. Now Italy, of course, we had disclosure in the first quarter already after the press release of the Italian supervisor and ING came out together. What we do not do typically also is we do not tip comment on individual provisions, unless they are material and then we need to disclose, which at this point in time is not the case.

Operator

Our next question is from Mr. Farquhar Murray, Autonomous.

Farquhar Charles Murray - *Autonomous Research LLP - Partner, Insurance and Banks*

Just 2 questions, if I may. Firstly, on fee income. Obviously, the 5% to 10% is not realistic for this year. That's perfectly understandable given market conditions. But does it remain for 5% to 10% in terms of the ambition for, say, full year '20, full year '21? Or should we be thinking more towards 20% revenue ambition that aggregate the proportion instead perhaps with some slower growth?

And then secondly, operational risk-weighted assets went up EUR 6.2 billion Q-on-Q. I just wondered how much of that we might regard as kind of incremental to the Basel IV RWA previous indication and how much we might regard as fronting? I ask because I kind of thought you might have moderated the Basel IV inflation, but you still seem to be indicating 15% to 20% -- 18% instead.

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Well, thanks for the fee income question. So as I said, I think on the positive side of generating fee income, I'm confident that -- and actually, you will see that. However, just to give you an idea. For example, if the growth of Interhyp, for example, in Germany continues and we increase our share of their production, we will pay fees to Interhyp and their contribution to the fee line will actually decrease because of the net effect. So this quarter, we see actually a very positive contribution because we are not as aggressive in pricing in Germany, and therefore, they produce a lot of mortgages for other banks. And therefore, it is positive to the fee income line.

So yes, some of those effects that are not necessarily negative in terms of the total -- or the overall franchise. But given the fact that the fee income line is a net fee income line, you have these distorting kind of effects in it.

If you would look at it from a growth perspective, as you know, the fees that we introduce can increase or the new services, I think also, for 2020, we believe the 5% to 10% ambition can stay.

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

On operational risk, what we have done is we have updated our internal scenarios and also the capital -- our capital and operational risk based on the external database. But indeed, if you would look at a standardized model under Basel IV, you can perceive this as front-loading on Basel IV, and with that, the guidance does not change on the 15% to 18%.

Operator

Our next question is from Mr. Nick Davey, Redburn.

Nick Davey - *Redburn (Europe) Limited, Research Division - Research Analyst*

2 questions, please. The first one on credit demand, if I could just ask you to talk about anything that you're seeing changing particularly in the Netherlands and Germany. And the Netherlands, just on the back of all the high pace of house price growth, it seems now everyone out of negative equity. So just wondering whether there's any change in signs or outlook on credit demand there. And then in Germany, it seems that your pace of growth is slowing where the system is accelerating. So if you can make any comments about that sort of apparent slowing down of your share?

And then the second question on impairments, and I know it's a bit unfashionable to find sort of any value in low impairments these days, but it has been, I guess, 2.5 years of these very low levels of impairments. So you've now said the second half of the year, I guess, stays at these very low levels. I just wonder whether I could tempt you to talk about the next 2 or 3 years if we're all here modeling out low rates for the next 3 years into our margins, whether you'd be brave enough to say these levels of impairments could be here to stay or what kind of economic environment you'd have to see to see a meaningful step-up in risk costs?

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Thank you, Nick. So on credit demand, then we really have to go and make the fundamental analysis of the Dutch economy. So for starters, the expectation around the Dutch economy is that it grows faster than the Eurozone overall, but it is, as most of the economies, also slowing down versus last year. Now if you really dive deep into it, you see the business lending continuing. I mean there is no kind of abundance of growth on the business lending side, not from a demand perspective, also not from a production perspective. So that's okay, I guess.

On the mortgage side, there is many different effects here -- the underlying trend for the housing market should always be the supply and demand. And actually, we see that there is a shortage of houses in Holland. So from that perspective, that imbalance will ensure that new houses will come to the market as well as that there will be continued tension on that housing market.

Then the question is, how does that kind of filter through into your mortgage production? And how does that affect your income on mortgage in the Netherlands? Now there is a different effect because on the other side -- on one side, you see that the people are increasingly repaying their mortgages because the structures that we offer are not interest only for 100% anymore. So people have to actually start repaying on their mortgages. So that, from a total book perspective, has a different effect on your P&L. But we do, as you can see, also this quarter, expect continued growth there.

In Germany, it's -- I think the underlying has always been pretty conservative. I think Germans are pretty conservative in how the housing market develops. And there is quite some competition from banks. Because of the low rate environment, you produce whatever they can produce. We're not in that game. That's just where we are not. So we'd rather benefit then from distributing mortgages that go on somebody else's balance sheet at a rate that we don't like and get a fee for it through Interhyp than having the production at a too low price in our books. Where we can pick up and where it fits our risk appetite and it fits our pricing, we will certainly do so.

So I think the underlying market is not changing in Germany, but there is fierce competition on some parts of the market and we're happy to be a distributor for other banks there.

On NLP (sic) [NPL] , so I'll give the floor to Steven.

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

Yes. Thanks, Nick. So what we currently remain to see is that the NPL levels remain low, the forbearance levels are relatively low or remain low, the watchlist levels have been low or remain low. So we see -- we continue to see stability at the different stages of the performing to the gradually less to nonperforming loans. So in that sense, that is a good sign.

If you look at macroeconomic factors, still growth on -- in the wider -- global macroeconomic context in the markets in which we're operating, albeit the pace is deteriorating in some markets. But also still there, you see limited impact and it has a positive impact now and again in markets when you look at our model updates or our LTV levels. So it's still a good sign.

Now at the same point -- three, and I also talked about that during the Investor Day, I'm being paid also to shave off the peaks in the loan loss provisioning when things are going from high to a low. And in that sense, we set caps on the leverage portfolio.

On the real estate portfolio, we remain prudent in mortgage portfolios, especially not only on pricing that Ralph just talked about, but also on tenures, for example, in the Netherlands. And what you do see there also with the regulation changing is that even longer tenures have shorter durations given the more amortizing nature of all these loans, so that also helps in the risk basis of this portfolio.

And when it comes to diversification of loans, for example, in the consumer loan portfolio, we're growing relatively quickly, albeit the total portfolio of consumer loans as currently with about EUR 25 million is relatively limited. Whenever we grow, we do it in small steps so that we can learn of how the vintages behave themselves over the years. So that's what I can say about it for now. And I heard you say that, can we be brave? I mean I really would like to be brave, but I'm really paid to be prudent. Thank you.

Operator

Our next question is from Mr. Stefan Nedialkov of Citi.

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

It's Stefan from the Citi team. 2 questions on my side. Ralph, you were talking about mortgage spreads on the front book being higher than the back book. Just trying to understand this dynamic a little bit better. Obviously, swap rates are coming down faster than yields on mortgages. Do we, at some point, find ourselves in a situation where the banks, no matter how much they prefer margins over volumes, they are effectively forced to start lowering spreads as well in a low-rate environment, which may be persisting for years to come. So is this a sort of accretion on the front book of mortgage spreads a somewhat temporary event, if you will, and therefore might limit your ability to counter low rates on the replicating side of things? So that's the first question.

The second question is on costs. You guys keep on talking about growth opportunities in Retail and Wholesale, Challenger & Growth Markets. It always sounded a little bit abstract to me. I mean, obviously, you're growing your loan book, et cetera. But what are the sort of growth initiatives that you have in mind, really? Like what are the top 3 growth things that are driving cost growth over the next couple of years?

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Okay. Thank you. So on the first one, the mortgage spreads. Well, honestly, I don't think it's a temporary effect. In the end, it's also about whether you can make the return on capital and that's what we're looking at here as well. If we can't make the return on capital, then we will not produce the asset and then we'd rather generate the capital by freeing it up because we're not growing our loan book and see how we can return in a different way than putting it at work at a below cost of capital rates. So it's not what we want to do.

So on mortgage spreads, we're clearly looking at how we can price for return on capital. And as you know, the Basel impact on mortgages is there. And therefore, you'll have to -- given the fact that these are longer-term assets, you'll have to work on your repricing, as we speak, even with the Basel impact may be not there yet. But you know they will be on your books the moment the Basel will be applicable. So that's why we are cautious there and working on repricing.

The C&G opportunities, the top growth -- 3 growth initiatives that will drive costs. It is just client growth and business growth across. So on one side, we are becoming more and more digital. And therefore, you can increase your operating leverage. On the other side, not everything is digital yet, so you can't fully scale without additional cost. And that's where you will see some cost pressure in C&G continuing if you grow the business. Now that's why we look at these plans from a positive season perspective. So that's why we make judgment on whether we approve plans or not if we feel that within the time frame that we find it important, that we actually see positive scissors. If the plans don't have those, we will not support them. If they're not material, we will not support them either. And clearly, you know that, for example, in Germany where we're large and in Spain where we're large, in Poland and Romania, we're really growing fast and doing a real good job.

Operator

Our next question is from Mr. Omar Fall of Barclays.

Omar Fall - *Barclays Bank PLC, Research Division - Analyst*

Sorry to come back to Stefan's question on front book margins improving everywhere in mortgages, et cetera. So just excluding what you are doing specifically in terms of not participating in lower-returning assets, are you actually seeing contractual customer rates, in general, going higher in your core markets? Or is it just the funding cost swap rates coming down and reflected in FTP? So why do you think that this time is different and contractual rates aren't simply delayed and catching up with lower rates as we've seen several times in the last few years? Is it you think there has been a general epiphany from the competition in your core markets that they should act more reasonably?

And then the second question, which is the CET1 ratios perhaps not progressing upwards as fast as one would hope and capital generation from earnings should be more rather than less challenging in the low rate environment, I'm guessing. So could you just remind us of what levers you have to pull in terms of inorganic capital generation beyond the 70 bps of management mitigating actions that I think you'd flagged in the past. So would you be willing to revisit the Asian stakes? Or are there any other areas we could look at? And where does adjusting the dividends sit in those priorities?

Tanate Phutrakul - *ING Groep N.V. - CFO & Member of Executive Board*

Thanks, Omar. Let me put it another way why we believe our pricing discipline will come through. I think if you look at the negative interest rate environment, it's not only affecting ING, but it's broadly affecting all Eurozone banks, right? And the fact that the compression on savings margin is happening to not just us but to all of the major participants in this market means there is less leverage on how you can actually compensate for that from a pricing perspective. That's why we believe that in some of our big core markets where we have big market share where the market is consolidated, that, that pricing impact is there, right? And I think we lead the way as ING in some of these markets to make sure that we maintain the pricing discipline and perhaps potentially in the short term see a drop in market share. But overall, I think the fundamental challenges for the industry remains, right?

And to give you an example in point of 2 countries where we're in different cycles. If you look at the margin improvement in Belgium, you would expect margin contraction in Belgium. That's not happening partly because of the pricing discipline that we see from ING in that particular market. And in Germany, perhaps then you see slower growth in market share today. But overall, you can imagine what is facing other German banks and we believe over time the market will normalize itself, and the front book needs to improve because the ability to reprice on saving gets less and less over time.

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Okay. On your question on CET1, well, there will always be inorganic levers to pull, but we don't see the need for it. If we just look at the organic development and the capital generation that comes from the core business, the impact of Basel and maybe the timing impact of TRIM on Basel, it's not changing the effect of the total review of models and Basel, and what you asked. So the guidance that we gave 2 years ago, that is -- would kind of lead to an increase of 15% to 18%. And with that, we think that a large part of that we can manage through management actions and that this, over time, will only come into effect with more effect on the input floors than on the output floors. We think that in that time frame we can easily manage the capital situation. So I'm not sure where your question is coming from, but there will always be inorganic steps that you could do, but it's not that -- but we don't think we need them.

Omar Fall - *Barclays Bank PLC, Research Division - Analyst*

Sure. I guess my point was just in the event that you were to need them, what would those steps be?

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Yes. Well, then I have to go into kind of the portfolio and all of that, which is something that we generally stay away from. For now and as you know, everything is strategic until it's not strategic. I think that is what people then tend to say, and that is for us as well. So whatever is in our portfolio is what we support until we feel we shouldn't support it anymore. So that's where we stand. Thank you.

Operator

Our next question is from Mr. Johan Ekblom of UBS.

Johan Ekblom - *UBS Investment Bank, Research Division - Equity Research Analyst of Benelux and Nordic Banks*

Can we just come back to the net interest income? I guess a couple of questions there. First of all, in terms of the replication portfolio, should we think of that -- of maturities of swaps on your balance sheet as being pretty evenly distributed over time? Or are there any sort of concentrated maturities over the next 18 months or so? So that's the first question.

Second question is just on tiering. So if we get tiering from these, do you have any thoughts that you want to share as to how we can assess the impact or how it might be structured? And if not, if you can at least confirm how much money you have at the ECB deposit facility as of the end of June?

And then, finally, just coming back on the comments around mortgage margins. I mean if we look at back book mortgage prices versus front book, the Netherlands still has probably the biggest gap in Europe or close to and you're saying that the improved pricing is just seen on the front book. How big is the margin differential versus if we just look at the yield differential, if you will, just to kind of gauge how quickly those two can balance out?

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

So Johan, thanks. On the latter one, so I'm going to ask you to kind of have a call after -- after the call with the Investor Relations department because we don't have some of the information you're asking at hand as we speak.

I'll take the one on tiering and Tanate will take the one on NII. On tiering, I can't give you my thoughts on it. I don't know how it's going to look like. I can tell you what we have. We have EUR 50 billion at central banks. The vast majority is at ECB. That's where we are. I don't know how their problem is going to look like, but I'll give you my opinion on tiering. I think that it will help banks, but I think that we have to move away from the policy that is currently being anticipated. Banks need a positive yield curve. Banks need an interest environment that is healthy, that is resembling a healthy economy. The discussions and the ideas around how to stimulate inflation I think are not going to help. If you are going to change your policy as we speak, at this moment in time, whereas we all know that the subdued economic growth is due to geopolitical uncertainties, Brexit, trade negotiations, and whatever policy change you make, you have no idea whether this lands on fertile grounds. So I'm not a supporter of further change there.

I also don't see any credit demand in Europe unanswered. So there's no need for further liquidity to be injected in the market that has no unanswered credit demand.

And even further, I actually see that the low-rate environment, if not negative rate environment, is making consumers so uncertain about their financial future that they're starting to save more rather than less. So I think the effect of QE, and whatever you want to call QE or decreasing rates, has dried up and continuing with it in an environment that you don't know whether it's going to land on fertile grounds with unknown outcomes of trade balance negotiations, unknown outcomes of Brexit, is not the time to do it anyway.

So I know it's a firm opinion, but that's where I stand. I think we have to look at how can we move away from this. The governments that we have bought time for to reform by having this easing policy have had their times. And I think, at this moment, we'll just have to look at how can you move back to a normal environment. That works. That works also better for the psychology of producers and consumers. At this moment, I don't see it working again.

No lack of liquidity in the market to answer credit demands, but a decreasing confidence with consumers about their financial future and saving more. It's not working.

NII. Tanate?

Tanate Phutrakul - *ING Groep N.V. - CFO & Member of Executive Board*

So just on that question, I think we don't really have any distribution from that perspective. We do a target 5-year duration on our replication and then we have probably more of a barbell strategy, having short term, maybe 1 to 2 years, and then the 10-year replication, right? But overall, I think as these investments roll off and they are replaced, I think you just see a more uniform, steady compression or pressure on our NII, which as discussed before, we try to compensate on the asset side.

Operator

Our next question is from Mr. Bart Jooris, Degroof Petercam.

Bart Jooris - *Banque Degroof Petercam S.A., Research Division - Analyst*

So on the CET1 ratio, I'm afraid, regarding the increase in operational risk-weighted assets, you told us that it's front-loading on Basel IV. So could you confirm that the increase there is something that is already to be included in the 15% to 18% RWA migration you guided for towards Basel IV? But more importantly, on which owned risk did you increase the weighing and why? Has this something to do with KIC ALM (sic) [KYC AML] troubles we've seen in the market?

And then secondly, on credit RWAs, these remained flat despite strong loan growth because of positive risk migration. Do you expect you can keep up to do that in the future because you stay ambitious on loan growth? Could that be continued with a very subdued credit RWA growth?

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Steven?

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

On the first question on the CET, the answer is yes. So that is already included in the 15% to 18% guidance on RWA increase on the back of TRIM, model redevelopment and Basel IV.

On the second question, yes, indeed, when you develop new scenarios and these are very much linked and guided by EBA guidelines, you are -- you look at specific -- or first of all, the specific own fines and regulatory impacts that you've had over the different geographies over the past number of years. We have internal database in that regard, internal scenarios, and of course, you have an external database, the ORX database, and that's being filled by many banks, which you also then use. And those 2 elements are being used to update your models.

And of course, with regards to KYC or AML, both those databases are also again then filled with new fines and regulatory measures that we ourselves, but also other banks and financial institutions have had and that impacts operational capital. What it does do, though, is that -- also with Basel IV coming in, generically speaking, given these input floors that will reduce RWA volatility also going forward.

And then on the third question, on the positive risk migration, whether that can be continued. Yes, again, this may be brave versus prudent. We are continuously focused on getting good, sustainable loan growth given through-the-cycle capital. And hence, what you especially see with more cyclical portfolios that we become, yes, more aware, if you will, from where we are in the cycle. At some point in time, what goes up must come down. And especially for portfolios, which are more cyclical, we are aware of that. And that's where you see that we start to cap them to avoid having a very well-performing back book but then also good-performing front book, given the fact that we do it at low margins at a portion in the cycle where RWA may or may not increase. That's how we look at it.

Operator

Our next question is from Ms. Giulia Miotto of Morgan Stanley.

Giulia Aurora Miotto - *Morgan Stanley, Research Division - VP and Equity Analyst*

A couple of questions from my side as well. I just want to clarify something on fees. So we heard there are some pressure on commission expenses or fee expenses in Belgium. And if I understood you correctly, these are now in the numbers and you don't expect further pressure there. I was wondering why is this the case? And the reason for my question is that I actually would think in mature markets like Belgium, Netherlands, we could still see some fee pressure and given more transparency and recent regulation.

And then the second question, on Slide 5, which is a very interesting disclosure on Interhyp. I was just wondering how much fees do you make out of this platform. Is that most of your Germany -- of your fees in Germany? Or -- yes, just some indication.

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Well, thank you. So on the negative fees in Belgium. Why will this not go up further? Well, it actually could go up further, but that would mean that we're doing more business. So that would not necessarily be a negative. As I said, the commissions that we pay away to these independent agents or commissions that you pay away to brokers for bringing in business to the bank, and therefore, if they may increase in the future, it actually means that there's good commercial activities happening through these branches. That's one thing.

On the other side, I mean the -- what comes in as a higher negative also has to do with a new contract that has been closed in Belgium with these agents. And that's an effect at a certain moment will be in the numbers and then you can continue to see further growth if we are able to charge more fees in Belgium. So that's one.

And generally, I think fee that pressure in the Benelux, I wouldn't see where that would come from, from a pressure perspective. I do think that also in the Benelux, the introduction of additional products or looking at the costs of some of the activities that we offer to our clients that would normally be kind of paid for through the rate environment, that some of that will need to be covered. And therefore, I do think that, as in other markets, the -- looking at daily banking packages behavioral fees, specifically with the transformation that we're going through in the Netherlands and Belgium, from branches to more digital, that some of that will actually also happen in the Benelux.

Now on Interhyp. The -- if you look at the total fee income in Germany, Interhyp is a material part of that. Having said that, we're not specifically disclosing they're a part of total fees there. But again, as I said, the more we produce for Interhyp, for third-parties, the more fee income we will see. If our share of that increases, then we will have to pay actually fees to them and therefore it will neutralize that effect, but then we will have good commercial activity on our balance sheet. So that's where we are. That's the dynamic.

Operator

Our next question is from Kiri Vijayarajah of HSBC.

Kirishanthan Vijayarajah - *HSBC, Research Division - Analyst*

Firstly, can I just quickly come back to that Belgium fee and commission question, a more kind of a short-term question. Because when I look, last year, there was quite a seasonal dropoff from the first half to the second half. So should we assume maybe something similar this year? Or was last year not really a good benchmark because of all the restructuring that was going on in Belgium? So just maybe on the kind of fee and commission first half/second half dropoff.

And then the second question is more kind of a high-level question on Germany and how you see that market evolving. Because on the one hand, you're seeing the slowing macro impact on exporters. But on the other hand, the listed banks are doing some quite deep restructuring at the moment. So kind of net-net, how do you see that playing out for ING Germany over the next, say, 2 to 3 years, please?

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Thank you, Kiri. I will take the German question and I will give the Belgium question since it is on last year to Tanate because he was there. So Tanate, Belgium.

Tanate Phutrakul - *ING Groep N.V. - CFO & Member of Executive Board*

So just to give you a sense of the transformation in Belgium, right? So prior to our restructuring in 2007 -- '17 and '18, we have predominantly owned branches. So ING operated 70% of the branches ourselves and 30% with these agents where we pay these negative fees, right? Since the reduction of the branches from 1,200 to 600, that ratio is virtually reversed. So now 70% of the branches are with agents and 30% is actually owned branches. So this is the dynamics that plays over the course of 2018. And I think, 2018, there's a lot of transition going from the old system to the new system. That's why sometimes you see a bit of volatility in terms of fees because of these negative fees.

Now going forward, if you look at what we have done with our partners, agent partners, is that we have also renegotiated the contract that we have with them whereby they are not incentivized to only sell based on volume, but they are paid on the margin of both the originated as well as the current base, right? So our interest and the agent interest are aligned to make sure that not only is new business being generated at the right volume but also at the right margin as well. So that's what you should expect to see. Having said that, all these are feeding into our numbers now, so these negative fees are now at what we would call normalized run rate.

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Then on Germany. Yes, well, that's -- I mean, I can do this in a minute, I can do it in an hour. There are so many different things at the same time that are happening to the German market. Clearly, it's a market that, from a banking perspective, it's not the most efficient market. It's a market that's going through major transition and transformation from a customer expectation perspective. That's why we gain so quickly. That's why we grow so quickly. Just also this quarter, on primary customers, 74,000 of the new primary customers that we gained in the quarter are in Germany, which is just over 800 a day, yes? So they keep coming in, they keep coming to us. And that's not because we compete on price, that is the interesting phenomenon. So it is really because we offer a much better experience to these customers and probably also a more stable environment. This makes, by the way, that some of our colleagues there are irrational in the way they try to work and make the market. And that is influencing the market dynamics. And therefore, you see fierce competition sometimes in certain markets if it comes to pricing.

But nevertheless, we firmly believe in a focus on the German market, that with most of the banks going through a transformation, there will be a little bit more inward looking. They will not be as quick in improving the experience to our -- to their customers. They may do -- make irrational moves on pricing of some of the products just to kind of get through the transformation period for them.

Having said that, we have a strong brand, we keep focused on that experience and we're not competing on price as the others are. And nevertheless, we get more than 800 primary customers a day.

Operator

Our next question is from Mr. Jean-Pierre Lambert, KBW.

Jean-Pierre Lambert - *Keefe, Bruyette & Woods Limited, Research Division - SVP and United Kingdom Analyst*

2 questions, please. First one is, is there any update on the risk-weighted assets Basel IV mitigation initiatives you currently are undergoing in terms of timing? Is it related to the TRIM results that you're waiting for? Or are you already taking actions? And any sense of timing of the mitigation efforts?

And the second question is again on timing, but this time for the decommissioning of the Belgian IT. There are some interdependencies with various modules and basically it has been postponed maybe due to priority changes as well in IT. Is there a better visibility on the final timing for decommissioning of the IT platform?

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

Thank you, Jean-Pierre. So with regards to the mitigating actions, these are continuously ongoing. So there's not a particular moment in time that we do that, but we continue to do that, which includes the linking of collateral to certain specific facilities or looking at public ratings for corporates as a result of which you get a decrease in risk weights or a rebalancing of portfolios in the diversification and therefore an optimal mix under the Basel IV constraints from input to output floors. So we are continuously doing that and that's all in the mix of the 15% to 18% we highlighted initially. We continue to do that, and if we see more opportunities, we will do so.

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

And Jean-Pierre, on your questions around Belgium IT, yes and no is the answer. No, it's not postponed because you know that Belgium is going through 2 phases of transition. So the first one is actually the integration of Record Bank. That, operationally, has been done so with the clients having migrated, with the branch networks having been combined and decreased, with the agents being kind of taken on and are working as ING agents partially as well. So that integration is done, and the decommissioning of those systems of Record Bank are to happen in the next 2 quarters. So -- and there is no delay on that. So in the first phase of transformation in Belgium, if it comes to the systems perspective, there is no delay.

Now the second phase of transformation is the one where we basically combine the Netherlands and Belgium, and there is a acceleration on one side and a delay on the other side. The acceleration is happening in terms of offering the OneApp, as we would call it, and the one web environment to all Belgium clients. A couple of months ago, we took the decision to ensure that our Belgian clients will, as soon as possible, be able to benefit from a good digital experience both in the web environment, which is called Home'Bank in Belgium, as well as the app environment, the mobile environment in Belgium. You know that the OneApp is actually developed between the Netherlands and Germany. So the OneApp that has been developed there, it already has some 17 million customers on it. Well, actually, then also be rolled out into Belgium. So we're getting closer to the 20 million customers on the same channel environment, both app and web.

Then there's another part of the IT that at a certain moment will be decommissioned, which is that the way the agents and branches are supported from the IT perspective, has also been rolled out into Belgium and there is about 50% of them working on it right now. We're looking at how that kind of develops and how that helps them and that will continue then as well.

So rather than -- and this is what I tried to explain last time, rather than kind of go to a big bank and everything is done and now we set down everything, we actually are looking at it from the front to back and looking at, okay, how can we wow the customer with having a much better environment for them to transact with us digitally? How can we support the branches and the agents with having the right information in order to service our clients better? Once you have that, you can kind of take out those systems and then you roll it back and then you will migrate products and then, and then, and then.

So there is a change there. It will affect the timing of a full decommissioning, absolutely. But it will also help us to continue our commercial momentum. And that is basically the tradeoff that we made when we took the decision. I hope that helps.

Jean-Pierre Lambert - *Keefe, Bruyette & Woods Limited, Research Division - SVP and United Kingdom Analyst*

Yes. Just to come back on the mitigation. Just to clarify to make sure, the 15% to 18% from the comment, I understand, are after mitigation?

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

No.

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

No, no. That's before mitigation.

Jean-Pierre Lambert - *Keefe, Bruyette & Woods Limited, Research Division - SVP and United Kingdom Analyst*

Okay. Before. Very good.

Operator

Our next question is from Mr. Jason Kalamboussis of KBC Securities.

Jason Kalamboussis - *KBC Securities NV, Research Division - Executive Director Research*

Sorry to come back quickly on Belgium on a couple of things. The one is just if you could -- the decommissioning -- so the Record Bank is second half, that's very useful. Should we assume that the decommissioning, the large decommissioning would not be 2020 but more 2021 event, if not '22?

And also on the fees, I mean a lot has been said about this, but when I'm looking at the quarter in Belgium, net fees and commissions, I mean presumably the agents bring a lot of fees that are investment products. So they are coming as revenue within the net fees and commissions, and a lot has been said about what they get paid. But when I look at EUR 98 million, last year it was EUR 106 million, and it doesn't look that material. So if you could help what I'm missing on this one?

And the other question was more on the cost side. If you look at your cost/income ratio, and I accept that it's not -- for the moment, it's not exactly -- you say that it's not -- you have dropped the target, that it is something you like to look at but not how you run on the business. But if we look at the one-offs in the revenue side and we take them out, your cost/income ratio is around 54.5%. Even consensus is above 55%. So it looks like we are going in 2019 north of 2018. Is there -- I mean looking at that and looking at the increase in costs, the cost inflation, which will continue in Q3, Q4 from KYC, CLA in the Netherlands, et cetera, do you find that at a certain point you will need to take some more actions from the cost efficiency side?

Tanate Phutrakul - *ING Groep N.V. - CFO & Member of Executive Board*

Maybe I address a bit the Belgium piece. I think the IT decommissioning, as Ralph mentioned already, the core bank for Record goes off this year.

And then in terms of the IT expenses for Belgium, I think perhaps I refer back to the presentation we made in Investor Day where overall the programs, the transformation that we expect is from the end of 2018 to 2021, a reduction of staff, some of which are IT staff of a further 1,500 staff. And you see that in the Belgium internal staff continuing to decline over that period of time. But indeed, the decommissioning tipping point is more 2021/2022 kind of time frame. It's not going to be in 2020, okay?

And then on the fee income, I suppose there's a mix there. There's, of course, in Belgium, we have a combination of various fees, whether it's daily banking fees where if there's increase or not increase, they tend to be very much a Q1 event, right? That's where daily banking fees seasonally are done. And the other one which varies from quarter-to-quarter is really investment management, which is an important business for the Belgium market, not only for ING, and that is sometime quite volatile and seasonal depending on when investors -- or retail investors make their investment.

And I think if you look at our numbers in Q1, the investment by retail investor were more modest. And in Q2, based on a campaign, they became higher because people were more optimistic about equity and bond market prospects.

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

And then cost/income?

Tanate Phutrakul - *ING Groep N.V. - CFO & Member of Executive Board*

Yes. And then on the cost/income ratio, I think, as we mentioned before, we look at the cost/income ratio less simply because, from a cost control perspective, given the fact that the revenue number is more pressurized, and I think we look more at operating leverage as a measure of that. And if you look, for example, how we look at operating leverage, we see that, on a rolling basis, the operating leverage is increasing for ING, that, since Q4 2017, the 4-quarter rolling increase in our client balances is somewhere around 6.3%, 6.4% while our rolling average on cost increase is more like 2.9%. So you see that operating leverage being there.

Jason Kalamboussis - *KBC Securities NV, Research Division - Executive Director Research*

You don't find that, at this stage, there is any need to consider anything additional on the cost front?

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Well, clearly, Jason, wherever we find the opportunity to do so, we will always do so. But in the end, we are looking at return on equity as the real primary target for you. And cost/income is just an input there. But again, if we feel there is room on the cost side, we will certainly take it, absolutely.

Operator

The next question is from Ms. Alicia Chung, Exane BNP Paribas.

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

2 quick questions from me. Firstly, what impact do you expect on capital from regulatory guidelines on MPEs? Specifically I'm talking about calendar provisioning.

And secondly, is it fair to assume that your go-to equity Tier 1 target will increase from 13.5% to 13.6% or 13.7% given the activation of the countercyclical capital buffers in Belgium and Germany over the last quarter? If I look at your 13.5% go-to ratio and I assume a minimum Pillar 2G of about 1%, that, that only really gives you a management buffer today of 75 bps. So I would have thought you'd be some -- I'd be surprised if you'd want to eat into that for your countercyclical capital buffer.

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

Thanks, Alicia. Regarding the MPE backstop, what you see is that we are a low MPE or NPL bank. So 1.5% over the total RWA. Most of our loans are secured if you look at the total loan book, so that basically means that the backstop in terms of the EBA guidelines has an element for unsecured loans that starts running after 2 years being into nonperforming and for secured loans starts after 7 years. Now in that sense and also the way that we are providing for and dealing with write-offs of our books, the impacts for ING is relatively benign and manageable and will have not a significant impact on our CET1.

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Then on -- yes, go ahead.

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

With regards to the 13.5% ambition, yes, we are seeing the countercyclical buffers coming in for Belgium and Germany. In the end, they have a number of basis points impact on 12-months rolling basis. We are looking at 13.5% as an ambition, not as an absolute strict target. And then we compare that to the Pillar 2 requirement that we then have, which is currently at 11.8% and then we do some stress testing around it to see whether that buffer or that approximate buffer is sufficiently strong through the cycle. And we do not see a reason with these buffers coming in to take -- change that ambition.

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

Okay. And if you don't mind, just one quick follow-up question on the calendar provisioning. And thank you for your answer, it was very clear. But just on the coverage ratio of your corporate loans, which is a little bit lower versus some of your peers, could you just give us some color around what the duration of your MPEs are there?

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

We don't give color on the -- so I understand the question. But typically, why -- a reason why our coverage ratio on our corporates could be lower is because a lot of our loans in our corporate book are investment grade or high investment grade loans and that limits it. But what you -- what I could say is that in terms of the duration, that the duration in the Wholesale Banking is relatively short.

Operator

Next question is from Mr. José Coll, Santander.

Josema Coll - *Grupo Santander, Research Division - Equity Analyst*

The first one is whether you could give us a sense of which business units you expect will drive the reduction in the cost-to-income ratio?

And focusing on Other Challenger & Growth Markets where we still see a high cost-to-income, so when would you expect to start seeing a significant progress there towards a more adequate cost-to-income for what a digital bank should be and also what level you think that should be?

And my second question is regarding your market share in mortgage lending in Spain, which has been very strong year-to-date. So I was wondering if you could comment on what the drivers of this strong growth have been? Are you offering higher DPs, longer terms, more attractive pricing, more sell-through agents, a combination, I don't know. And if you could also comment on how this growth is being financed, is it the deposits in Spain? Or is it intergroup lending?

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Thank you, José. Well, on the first one, the -- all business units are to drive the reduction in cost/income ratio. Just go back to the recipe that you know very well, which is that in Market Leaders, given a pressure on income, we expect cost to really go down and with that to improve cost/income ratio.

In C&G, we would allow cost to go up if the income is expected to go up us well, and with that, improve the cost/income ratio.

And in Wholesale Banking, we expect the income to be flattish or a little improvement, and therefore, cost should be flat or decrease.

So all of those units are to contribute to the reduction in cost/income ratio. Having said that, again, the -- we really look at operating leverage as the way to measure the effect of digitalization on our business as cost/income has an income component, which is largely influenced by the rate environment that we're active in. And having more volume through the system, this generally through more cost and that is exactly where the efficiency -- the efficiency needs to come. And therefore, the operating leverage is one that we look at that.

The other cost component that we have, which seems to increase is what we call regulatory costs, which, as you know, for ING is close to EUR 1 billion and we have absorbed all of that over the last couple of years.

In terms of the market share of mortgages in Spain, there is just 2 effects to that. One is that we've really looked at how we accept clients from a risk perspective, how we go through that. That has, on one side, helped us to accept the right clients because we were a little bit too cautious on the knockout criteria that we had there. So actually -- we actually now get to see the full risk profile of a client before we accept it rather than that we never got there because of knockout criteria. So that's a real change in the process.

And then the overall commercial process, as you may know, I'm not sure you're our client, but I still kind of recommend you to become a client if you're not, is one that is so much better than whatever can be found in the Spanish market. That is really pushing our market share up. Thank you.

Operator

And the final question is from Mr. Marcell Houben, Crédit Suisse.

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

Just one on the cost side, following up on Pawel's question on how much -- can you give us a sense on how much of the KYC costs are project-related and expected to fall off by 2020?

I suppose a quick one on the ambition for the fee increase, especially in the regions where your loan costs no fee charging for your customers. If you start charging these customers fees, how do you think that will impact your new client accumulation to that respect?

Ralph A. J. G. Hamers - *ING Groep N.V. - Chairman of the Executive Board, CEO & Head of Market Leaders*

Yes. So Marcell, on the last one, clearly, we have said that always that you can't charge fees for something that doesn't add value or doesn't kind of -- is seen as something that is important to clients. So in those areas where we have never charged fees, we have to make it very clear to our customers, but also new customers that what they pay for. So you have to be -- you make it very transparent so you don't -- you shouldn't have like 3 pages of how you calculate those fees on their behavior, which some banks tend to give. So make it very transparent. And then I think we can still introduce them with our positioning as a bank that is clear and easy and delivers on a differentiated experience. So I think we can do it. We're trying -- as I said, we're piloting in different places just to see how that would work.

On the KYC cost, well, honestly, we do think costs will come off a bit towards -- so in next year. But to give you exactly where these are project-related, we don't really have that information at hand, but we do expect some of that to come out next year.

So sorry not to be able to give you a little bit more specific information on that. We'll work on that and see whether we can give you updates going forward on that one.

Just to round it off, if you look at the quarter, we actually think it's a strong quarter from a result perspective.

If you look at the underlying commercial momentum, it is there. It continues to be there. You see that a lot of the effort that we put in over the last couple of years in terms of how we deal with clients, what our proposition is, that despite our focus on improving KYC and the enhancement program, that you actually see customers continuing to come in.

You see loan growth to continue as well, given the fact that we have so many different engines that we can run through. We can actually take those and offer those loans in a repriced environment without working on the risk appetite. We will not compromise on that side. So that's positive as well.

On the fee side, I know how you look at this. I think you have to really dive a little bit deeper into this to get a sense for where this is. We see good fee growth in Germany. We see good fee growth in Belgium as well. We see ample opportunity for it in the future with the recipes that I laid out.

And in the Wholesale Banking side, fee growth is very much dependent on the activities in the markets, and let's see how the markets develop.

With that, thanks a lot for your interest and for your questions. Stay in touch, and have a good day. Thanks.

Operator

This concludes this event call. Thank you for your attention. You may disconnect your line now.
