THOMSON REUTERS

# FINAL TRANSCRIPT

## Q2 2016 ING Groep NV Earnings Call

EVENT DATE/TIME: 08/03/2016 09:00 AM GMT

# 08/03/2016 09:00 AM GMT, Q2 2016 ING Groep NV Earnings Call

## CORPORATE PARTICIPANTS

**Ralph Hamers** *ING Group - CEO & Chairman of the Executive Board*
**Patrick Flynn** *ING Group - CFO*
**Wilfred Nagel** *ING Group - Chief Risk Officer*

## CONFERENCE CALL PARTICIPANTS

**Anton Kryachok** *UBS - Analyst*
**Kiri Vijayarajah** *Barclays Capital - Analyst*
**Pawel Dziedzic** *Goldman Sachs & Co. - Analyst*
**Jean-Pierre Lambert** *KBW - Analyst*
**Tarik El Mejjad** *BofA Merrill Lynch - Analyst*
**Benoit Petrarque** *Kepler Cheuvreux - Analyst*
**Alicia Chung** *Exane BNP Paribas - Analyst*
**Bruce Hamilton** *Morgan Stanley - Analyst*
**Alex Koagne** *Natixis - Analyst*
**Anke Reingen** *RBC Capital Markets - Analyst*

## PRESENTATION

**Operator**

This is Gillian welcoming you to the ING's second-quarter 2016 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 development in our business, expectations for our future financial performance, and any statements not involving a historical fact. Actual results may differ materially from those projected in any forward-looking statement.

A discussion of factors that may cause actual results to differ from those in any forward-looking 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 Hamers** ***ING Group - CEO & Chairman of the Executive Board***

Good morning. Welcome to ING's second-quarter 2016 results conference call. I will take you through today's presentation. As usual, Patrick Flynn and Wilfred Nagel are here with me from the Executive Board also to answer specific questions.

Let's turn to the key points.

ING posted a very strong set of results this quarter. The underlying net profit came in at EUR1.4 billion. The underlying business continues to perform very well, with consistent net interest income growth in all segments, and solid quarter results for financial markets as well. Regulatory costs were seasonally lower, as we expected, and risk costs remain low.

Our capital position is also making further progress. We reported a fully-loaded common equity Tier 1 ratio for the Group of 13.1%, and that allows us to pay an interim dividend of EUR0.24, in line with last year.

Turning to slide 3, as also shown by our financial results, our Think Forward strategy continues to drive commercial performance, and that's because we continue to focus on superior customer experience.

In the first half of the year, we've added roughly 650,000 new retail customers, of which 350,000 see us as their primary bank. So we're well underway to reach our target of 10 million primary customers for the Bank as a whole by 2017.

The net promoter score, as you know, is a very important compass for us to ensure that continuously we improve our customer services. The net promoter score in the second quarter came out as number 1 in seven of the 13 countries in which we have retail activities.

Turning to innovations on slide 4, just to give you a bit of a heads-up as to what we've introduced and done this quarter, you see some examples of the new services and innovations that we have launched. All these new applications improved the customer experience as we continued to see an acceleration in the digital adoption and the process of doing more banking through mobile channels.

As an example, the new look-forward feature that we have in the Dutch mobile banking app allows customers to see their predicted or planned payments over the next 35 days, and there has been a very positive reaction on this, with 500,000 customers opting in for this service in the first month, and with glowing reviews appearing on social media.

Clearly, we are using the customer feedback to continuously develop our service and to improve it, and this is one of those things that is very welcomed by our clients.

Also, turning to slide 5, we believe that the financial sector has an important role to play in creating a healthy and sustainable world, and also to reduce our own direct footprint. And one of the steps that ING has made is to join the Ellen MacArthur Foundation, which is a leading circular economy platform.

Our leading position in sustainability was also recognized by Newsweek. In its latest ranking, we are number 1 out of 500 largest listed companies. And also, our Green Bond received important industry awards all over.

So we continue to make good progress on the sustainable lending side within ING as well being involved in a number of [qualifying] financing transactions, and that portfolio, now growing to EUR27.8 billion.

Now let's look at the half-year results on slide 6.

Our underlying net result for the Bank was nearly EUR2.3 billion in the first six months, which was flat on the year. However, there was, of course, a EUR300 million increase in regulatory cost in the first half versus 2015, so it's a real improvement year on year of the underlying performance.

And even though the Bank common equity Tier 1 ratio has increased to over 12%, we managed to achieve a return on equity of 10.8% for the first half, which is well within our Ambition 2017 target range.

On the next slide, you can see some of these key drivers of our underlying results. One I would like to highlight is the net interest income. That shows a 4.4% increase versus last year as we continue to see solid commercial growth supported by relatively stable margins.

Also, the low risk costs support the underlying result, and that came in at 36 basis points over average risk-weighted assets. And our guidance for risk costs for the year remains unchanged for now, with risk costs expected to be flat to 2015 levels.

Well, let's turn to the second-quarter results. We're going to slide 9 now.

So we posted a very strong set of second-quarter results with a EUR2 billion underlying pre-tax profit, which confirms the good business momentum that we have. The result was supported by income growth in all the different income line items, as is shown by the graph on the left-hand side that you see there. We also had a one-time gain on the sale of Visa of EUR200 million. Excluding Visa, the underlying pre-tax result was up 13% over the second quarter of last year, and 53% over the first quarter of 2016.

There were a number of one-offs and volatile items in the quarter, but the net effect of these items was negligible, and we have a slide on that later on. It's really been a very good quarter on the real underlying businesses.

Turning to slide 10, our net interest result was strong again this quarter, up firmly from both the second quarter last year as well as the first quarter of this year. This increase was driven by steady volume growth and stable net interest margins, and I don't think there are many banks showing this positive trend in their net interest income.

When looking at the four-quarter rolling average for the NIM, you can also see -- and it's on the right-hand side of the slide, you can see how we have been able to counter the effect of low rate environment through a combination of rate cuts, asset mix and balance sheet efficiency.

If we go and take a closer look at our core lending, slide 11.

We continue to deliver our lending growth. ING's core lending recorded a net growth of EUR14.8 billion, with about two-thirds of this amount in the wholesale bank, and the remainder coming from all our retail operations outside the Netherlands; and almost equally split in the retail operations between mortgage and other retail lending, as you can see.

That brings me to slide 12 where you see that basically on the left-hand side, you see the equal split between mortgages and non-mortgage on the retail side.

If we look at the quarterly lending growth, this is the highest quarterly lending growth we have seen in the past three years, so that's why we wanted to present you this. This granular breakdown gives you an idea how it is split between retail and wholesale banking. All of our business lines contributing to the growth as you can see.

For instance, the EUR2.3 billion in additional high-yielding mortgage lending in the retail bank is clear there as well. We'd also like to highlight that the single biggest component of growth was our trade and commodity finance business, which is simply a reflection of higher commodity prices translating into balance sheet growth.

Another way to look at our commercial growth is to compare customer lending and customer deposits. One of our levers to offset low rate pressure, we have been working on making our country balance sheets more efficient by originating lending to partly replace illiquid investments, and that's what you see on slide 13.

And you know that changing the asset mix on the balance sheet of the challengers & growth markets away from investments to client-related business has been part of our Think Forward strategy from the start.

What you also see in this slide is that in the challengers & growth markets that we had customer lending outpacing customer deposit growth in the past five quarters, which shows you further optimization of the balance sheet.

This has led overall to a 6 percentage [point] drop in the investment portfolio if you look at the balance sheet for the region as a whole. Replacing these investments with lending creates a better use of the balance sheet and is very helpful in protecting the NIM.

Turning to the next slide on the commission income side, we see that the commission income has also grown by almost 5% over the past year.

There was higher fee income in corporate lending in financial markets, partly offset by a slight decrease in retail investment products this quarter.

Another area I would like to highlight this quarter is the financial markets business. After a weak first quarter, I'm pleased to report a rebound in client activity in the second quarter. And financial markets income is actually quite nicely distributed by product, as you can see in the right-hand side of this slide, with higher income in rates and equity products and securities finance.

So a rebound in the financial markets business. The guys really did a good job there.

Now moving to slide 15.

As you know, our expense base is more and more impacted by regulatory costs, but most of these costs are in fact Q2 is the first and the fourth quarter.

So on a quarter-on-quarter basis, excluding regulatory cost, our expenses are broadly flat. And although we had a one-off adjustment to our cost base this quarter, a number of those, in aggregate, they net off against each other.

The cost to income ratio, although still impacted by higher regulatory cost, is 56.2% for the first half year; but if you exclude the regulatory cost, we're below 50% for the first half of the year.

Clearly, we're working hard to find ways to compensate for the higher regulatory cost over time as well, but the conclusion now is from this slide is that flat -- if you combine flat cost with real franchise growth across retail banking and wholesale banking that you see increasing efficiency, and that's what we're doing. Keep your costs flat, grow your activities, and your cost to income ratio will improve. And it's for the first half year below 50%. Quite an accomplishment.

Then turning to the risk costs on the next slide, slide 16, the underlying quality of our loan book continues to improve. The NPL ratio for the Bank as a whole was broadly stable at 2.3%, and we recorded EUR307 million of risk costs for the quarter.

Dutch retail is continuing to improve, both in mortgages and SME lending. We've taken some modest extra costs in our oil and gas book again, but the overall oil and gas portfolio continues to perform rather well, and that's a reflection of the senior secured nature of our lending which basically is different from some of the other parties in the market. Our exposure is generally senior and secured.

In the Ukraine, which remains a difficult book, we are seeing provisioning tail off this quarter.

Slide 17.

I don't think I need to spend much time here, but it's a further testament to our strong quarterly performance in both retail banking and wholesale banking. I think the strength of our business model is the combination of the two, both focusing on client experience, delivering on a couple of things that we know how to do: digitalization of services, sector knowledge, and a true client focus.

Profit here before tax was up strongly from the previous quarter with nearly all the segments contributing, as you can see.

Slide 18. I'd like just to take some time here to focus on one of our important growth engines, the industry lending business.

As most of you know, we have a long-standing track record in this largely secured lending business. Pre-tax profit for industry lending was EUR462 million in the second quarter, up strongly over both comparable quarters. This was supported by core loan growth of around EUR6 billion, stable asset margins, and a very attractive cost to income ratio.

And the return for this unit is consistently high, in the high teens, as we have shown you in earlier presentations. The asset growth in 2016 has been very strong, but the pie charts show that this was very well diversified across sectors and geographies.

You know the knowledge of sectors combined with the global footprint of our wholesale bank makes us less dependent on particular regions to grow, and that's the strength of our franchise here. And also on this side, I think the teams did a good job.

Another great example of our Think Forward strategy at work is on slide 19, and that's how we organically grow the business in Romania. It's one of our smaller countries, and we don't talk about it much, but the numbers on the slide pretty much speak for themselves how the strategy is working out there.

We have a number 1 net promoter score in the country, and the number of primary customers is growing very fast. And even though we have a good network of branches there, the business model has clearly evolved to digital first.

Higher economic growth is supporting the business, and we're growing much faster than the market while maintaining cost and risk discipline. The returns in this market are very attractive.

Now lastly, slide 20, I would like to take a moment to discuss our strong capital position.

Following the full completion of the sale of NN Group in April, our Group CET1 ratio has made further progress. It's now at 13.1% fully loaded, well ahead of the current 12.5% fully-loaded regulatory requirement.

On top of this, we have set aside the full first-half interim profit of EUR2.6 billion, which provides good cover for our 2016 dividend policy. And also, in line with 2015, we have decided to pay an unchanged interim cash dividend of EUR0.24 per share which will be paid later this month.

If we then look at where we are in delivering on our Ambition 2017, we actually made most, reached most of our Ambition 2017 targets. The exception is the cost to income ratio which is still a little above our target range. But as you know, the dramatic increase in regulatory costs is an important explanation here, and if we correct for that, we're actually just below 50% now. But to offset these regulatory costs, we remain committed to strong cost control across all of our businesses, as you have seen over the last five quarters as well; flat cost.

Now to wrap up, I can say that I am proud to present our best set of quarterly results in many years. We've managed to record strong commercial growth in both the retail and wholesale banking businesses. However, we're like many of us conscious that there are still many challenges ahead and customer behavior is changing faster than ever.

We are constantly working on plans to address these challenges, and because we have a good story to tell, as you can see this quarter, but also going forward, we've decided to hold an Investor Day on October 3 during which we will update you further on our Think Forward strategy. And so we hope to welcome you then to Amsterdam.

But for now, I'd like to open the line for any potential questions that you may have.

## QUESTIONS AND ANSWERS

**Operator**

In the interests of time, we kindly ask each analyst to limit yourself to two questions only. (Operator Instructions).

Anton Kryachok, UBS.

**Anton Kryachok** ***UBS - Analyst***

Good morning, and congratulations on a good set of numbers. Just a couple of questions, please, firstly on the margin outlook.

Margin has held up better, I think, than your previous guidance of high [140s], and this quarter, financial market contribution to NII was rather small, so I would argue that underlying margin picture is even better.

So in this context, I was wondering. What is the outlook on margins for the rest of the year? And can you maybe talk about the first few quarters of 2017 as well, please?

And the second question on the dividend guidance. So the amount of profits that you've set aside already roughly covers consensus full-year dividend payout for this year. I understand you don't want to raise expectations too high, but how shall we think about capital build in the second half of the year, and also the amount of dividend distribution that you're looking to achieve at the year end?

Thank you.

**Ralph Hamers** *ING Group - CEO & Chairman of the Executive Board*

Okay. I'll take the first one. Patrick will take the second one, although Patrick can do both as well but just to share the work a little bit here.

So on the margin outlook, well, we have guided high 140s, low [150s]. I think we're exactly where it is this quarter. It's been a good quarter. If you then look going forward how can we manage margins going forward, if you look at slide -- let me see where the interest rate -- where the savings - slide 28, you basically see what we're currently paying on savings rates in the different geographies. So we have still some room to manage the margin pressure here.

And as you know that a part of the margin is also influenced by the change of asset mix because we're moving our balance sheet percentage-wise more into higher-yielding assets in retail as well as wholesale banking, so that helps as well.

So our guidance for the next couple of quarters is that we can manage the margins around these levels of the higher 140s touching 150.

**Anton Kryachok** *UBS - Analyst*

Thank you. And just on this client savings rate, can you remind us when exactly in the quarter have you cut savings rates in Germany and the Netherlands? Have we seen the full impact of those cuts already in Q2?

**Ralph Hamers** *ING Group - CEO & Chairman of the Executive Board*

Patrick?

**Patrick Flynn** *ING Group - CFO*

Yes. I'll just maybe follow on on that one, a couple of things.

You mentioned FM. We had a good -- we had a rebound in the results in FM, although most of that was in trading income, actually. The contribution to NIM fell 2 bps. That was offset by a couple of non-recurring one-offs, one being in a corporate line improvement from repayment of unsecured debt, but also there's been a bit of a pickup in refinancing of mortgages which contributes EUR20 million in prepayment fees which is not core and will go out in due course.

So I just wanted to make sure you were aware of those two things. They offset, so the 150 is still -- underlying is still good, but there's a couple of moving parts that offset underneath that.

In terms of rate, deposit rate cuts, Netherlands June 23, Belgium mid-April, Germany June 15; so the bulk of the benefit of that will be seen in the following quarter.

Now in respect to dividend, I'm afraid I'm going to be a scratched record here. I suspect this scratched record will play every quarter to the year end. We won't really decide on the full-year dividend until the full year is over, and that's likely to be in February.

It's great that we've got the profit put away; the full dividend was reserved in the first half. We are joking that we can go out and play golf for the rest of the year because we don't need to do anything further to support the dividend; it's there. But we're not going to decide.

Why is that? There are still some uncertainties out there in terms of regulation. We need to know how MREL and TLAC are going to [ultimately] get married and how that pans out. And obviously, we won't be playing that much golf. We're going to be working hard to keep these results going in the second half, but we need to see how this evolves. So the thinking on the full-year dividend and what progressive means is something that we'll only really decide on after the full-year results in February.

**Anton Kryachok** *UBS - Analyst*

Okay. That's very clear. Thank you so much.

**Operator**

Kiri Vijayarajah, Barclays.

**Kiri Vijayarajah** ***Barclays Capital - Analyst***

Just a couple of questions on the risk costs. So you got the step-up in NPLs in the oil and gas book up to 2.8%. When do you think you'd be most likely to see a peak in NPL formation in the oil and gas book? Is maybe 3Q/4Q this year too soon? And could you also give us the coverage ratio, please, on the oil and gas NPLs?

And just quickly on Belgium, is there anything -- we saw the uptick in risk costs in Belgium. Is there anything specific to worry about there? Or is that just coming off just a very benign phase in Belgium?

Thanks.

**Ralph Hamers** ***ING Group - CEO & Chairman of the Executive Board***

I turn to Wilfred.

**Wilfred Nagel** ***ING Group - Chief Risk Officer***

Yes. So oil and gas, indeed, the NPLs are ticking up a bit. A lot of that is related to the same situation that we discussed in the previous quarter, which is the reserve base lending business.

Just to give you a bit of color on that, over the past 18 months we've now seen about 77 bankruptcies in that industry, seven of which ING is involved with. We already talked previous quarter about three of them; and the other four we're seeing a very similar pattern where we expect to come out with either no losses or single-digit per name. So the trend there is very similar to what it has been.

You're question on when do we see the peak of NPL formation, well, that is obviously a bit of a crystal ball. It really depends on what happens with the oil price and how quickly.

We do think that given the current circumstances we are going to see some more NPL formation in the coming quarters. We don't really see a dramatic uptick in risk costs, which is what we ultimately of course focus on most.

As for coverage ratio on that portfolio right now, that's about 23%.

And then on Belgium, there's always a bit of noise in provisioning, and we had in this quarter a couple of individual files that created some of that lumpiness. I don't think we see a real trend there. There's a bit up here, there's a bit down there. On average, the view on risk cost is still that we expect stable to slightly improving levels there, and the original guidance for 2016 being around the 15% is still valid.

**Kiri Vijayarajah** ***Barclays Capital - Analyst***

Okay. Great. Thanks.

**Operator**

Pawel Dziedzic, Goldman Sachs.

**Pawel Dziedzic** ***Goldman Sachs & Co. - Analyst***

Two question from my side. The first one is on your lending growth. So in the second quarter, your core lending increased by EUR14.8 billion. That comes after EUR7 billion in the first quarter, so that's clearly a very good result. And you made several reference in the opening remarks that it was well diversified across product as well as geographies.

So if we look at EUR22 billion growth already in the first half of the year, that puts you closer to the top end of your 3% to 4% annual growth guidance.

Can you perhaps comment on that? Where would you see loan growth this and perhaps next year? And also, do you see any risks that your industry lending with global footprint can experience any headwinds post UK referendum? Is there any sensitivity to that, or rather you think that it has no implications?

And then I have a second slightly different question. During the quarter, there were a number of high profile politicians and policymakers, including European Finance Minister and ECB members, calling for careful calibration of Basel IV. Now these are obviously political statements, but in your dialog with your national supervisors, do you see perhaps any indication that the Basel IV could be calibrated without meaningful implication for ING?

Thank you.

**Ralph Hamers** ***ING Group - CEO & Chairman of the Executive Board***

Pawel, thank you very much. So on the lending growth, yes, so we saw EUR7 billion first quarter and the EUR15 billion now in the second quarter.

Well, the growth itself is not a target. We've indicated that through this strategy we feel -- and through these specific activities and the sector expertise, we feel that we can actually grow; we have a global footprint. So it certainly depends on how the economy, global economy will continue to grow on the one side.

And the other side, as I've indicated as well, part of the growth this quarter is also the increase in TCF on the back of increased commodity prices now. I don't know where commodity prices are going. If they go even further up you will see that continue to increase because this is short-term lending and is directly related to the commodity price, and the dollar as well by the way. So that could go either way.

But the underlying trend, the way we see that the teams are working and how they work with our clients and the deals that are coming through, it's a continuing trend, but it can be [built] per quarter. So you can't just take the first half year even and say, well, let's just do it times 2. We'll see. We still feel comfortable with the 3% to 4% guidance that we basically have.

Now on Brexit, I don't think there is immediate risk on this franchise, but the Brexit second order risk is lower to negative economic growth in the United Kingdom, and with that and effect on eurozone economy and also global economy. So you will see a bit of impact there, but there is no direct effect to be expected.

I'll turn to Patrick for the Basel IV question.

**Patrick Flynn** ***ING Group - CFO***

Yes. We have extensive dialog with both national regulators and via the CFO working groups, so the major CFOs of the major banks, with the ECB, EBA, FSA. What we're increasingly hearing is there's no significant impact. The statement is being -- is gaining resonance, but that is increasingly held as the party line and this cannot have a significant impact.

And then, of course, the next question is what does significant impact mean. Well, we're beginning to hear numbers put against that. I don't think that's been firm yet, but the numbers that we're hearing are some people trying to claim 5%; others saying maybe 10%.

But the no significant impact I think is fairly firmly held across the board that this is -- if [Balfour] is to come in, it cannot have a significant impact, and that includes credit risk, op risk. I think the trading book one is more or less regarded as a given, but the others still have to fit within the no significant impact category.

**Pawel Dziedzic** ***Goldman Sachs & Co. - Analyst***

That's very helpful. Thank you very much.

**Operator**

JP Lambert, KBW.

**Jean-Pierre Lambert** ***KBW - Analyst***

My two questions relate to cost. Perhaps if you could explain the cost save in Belgium, the one-off; if we can expect more of those in other areas or it was really a one-off for Belgium.

And secondly, what kind of major options you see for further cost reductions. This is the area where you highlighted where there's some more effort to do.

Thank you very much.

**Patrick Flynn** ***ING Group - CFO***

Yes. Well, going back in several quarters in the past we've had negative one-offs, and we have to take those on the chin and [they don't help, helpful].

We've talked about being extremely rigorous on costs. We've talked about procurement as being a source. We work hard to get these things and we managed to deliver one saving here in Belgium. It's big. It's probably not something that will be recurring in Belgium; something we will look to see can we do elsewhere. And there are other ideas we're working on as well to see if we can deliver cost savings.

Individually probably not recurring to the same extent and in the same place, but we obviously work very hard to see what we can do to take out cost either on a long-term recurring basis or one-offs, as in this case. And we'll take the one-offs when we get them.

**Jean-Pierre Lambert** ***KBW - Analyst***

Thank you.

**Operator**

Tarik El Mejjad, Bank of America.

**Tarik El Mejjad** ***BofA Merrill Lynch - Analyst***

Just a couple of questions from me, first of all on the Investor Day you are planning to hold on October 3. I asked the same questions to your competitors in Netherlands.

By October 3, clearly, you wouldn't have no more visibility than now in terms of regulation and so on, so what will be really the focus on? Costs, volume growth? What are the areas you'll be focusing on? Is it expected to be like really new targets or just like an update? Because your plan is [expanding] this year, as in 2017, so you still have -- you don't any rush to update that.

And secondly on Belgium, we're hearing there is some re-pricing of assets spreads in Belgium. And are you part of that, and what could be the positive impact of that on your revenues?

Thank you.

**Patrick Flynn** ***ING Group - CFO***

Thank you, Tarik. Yes, on the Investor Day, well, I think why we want to call the Investor Day is just that we're two and a half years/three years into the Think Forward strategy. We are delivering on our ambitions; and you're right, they're 2017 ambitions.

But we're generally already there. We feel that we're doing very well. The strategy is clearly working. But we also see changes on the technology side, on the customer behavior side, the low interest rate environment.

I think we have a good story to tell and we want to update you on how we will take the strategy to the next level: in customer focus, in cross-buy, in digitalization, in balance sheet management; all of those areas just to see -- just to show you and have a discussion with you as to how we take it to the next level. That's why we think it's good to have a session together with you.

Now specifically on Belgium, clearly, we can't comment on whether it's active or not, but what you will see is that where pressure is on the funding side with many of the banks given where savings rates are going, one way or the other, and also in terms of any view of risk weights, you will have to look at whether assets are rightly priced. So there will be some uptick on asset prices as well, and that could offset some of the margin pressures.

You see it a bit happening in Belgium; you see it a bit happening in other markets as well. Either margins stay firm or there's a bit of an uptick. But we see also pressure in other markets. In the investment rate corporate book, just because of the actions of the ECB we see actually pressure on margins. So it's a little bit all over the place.

**Tarik El Mejjad** ***BofA Merrill Lynch - Analyst***

Thank you. Very helpful.

**Operator**

Benoit [Petrarque], Kepler Cheuvreux.

**Benoit Petrarque** ***Kepler Cheuvreux - Analyst***

Two questions on my side. So the first one will be on the corporate line. It seems that the corporate line is running at a much better level than in the past. I think you have been guiding for around [EUR140 million] negative pre-tax in the past. So what could be the new guidance for 2017 on the corporate line?

And I was trying to understand the strong improvement in net interest income in this corporate line year on year. You moved from negative to positive. Is that simply basically coming from lower funding cost? And could you give us a bit of an indication of how much senior unsecured -- let's say expensive senior and unsecured are not going to be renewed in the coming quarters, because it seems that this is positive for you and I in the coming quarters.

And then second question just maybe on the Turkish exposure. Could you update us on the cost of risk, what you see locally given all the programs we have there? And how do you think about the growth strategy in this country?

Thank you.

**Ralph Hamers** ***ING Group - CEO & Chairman of the Executive Board***

Patrick will give the answer on the corporate line and the NIM improvement there, and then Wilfred will follow up on Turkey.

**Patrick Flynn** ***ING Group - CFO***

In the improvement of the corporate line, it's not so much about senior debt which, as you know, is included in there. That doesn't really start to improve 'til the back end of the decade, more 1920 (sic) before we see that starting to run off.

The improvement is -- we called some hybrids in April. They were expensive. You see a little bit of benefit from that. Some internal -- what we call [lions] or internal securitizations redemption which improved. The negative cost that was included there, that's gone.

And our bank treasury which we set up a couple of years ago is working very hard to match interest exposure, basis risk exposure; very granular measurement of the same -- the view to making sure we have no mismatches. And where we do -- when we implemented this, we did find small pockets of risk that we didn't fully understand, and that is now much better managed. And then, once you know what it is, you can manage it out.

And that also, eliminating some of those basis exposures that perhaps we hadn't nailed down so fully two or three years ago, there's also more active management by bank treasuries delivering benefits there as well. So it's a combination of a number of things.

**Wilfred Nagel** ***ING Group - Chief Risk Officer***

On Turkey, well, first of all, looking at Q2, we would note that actually Turkey had a very good quarter and it was one of the best we've seen since we've been active in Turkey in this form.

The risk cost in Q2 was down compared to quarter 1, despite the NPLs coming up slightly. And the levels of NPLs are actually not very far above the global average for ING. It's up 2.8% now compared to 2.3%/2.4% for ING globally. So it's not a bad book by any standard.

The corporate book in particular has been performing very well with only 0.9% NPLs and negligible risk cost. On the SME side, we've seen a bit more pressure, as has been for a couple of quarters. But even there, the NPLs are at 3.3%, which is by anyone's standard a very bad level.

So that was the -- the Q2 situation is quite satisfactory on the whole. Obviously, recent events, we're watching closely what's happening in the market. We're making sure that we manage our risk whilst protecting the interests also of our clients. What we have noticed is that the liquidity in the banking system is definitely sufficient. We've got no issues there. Collateral calls from counterparties are met with no problems. So we're watching it closely, but no immediate big problems.

---

**Benoit Petrarque** ***Kepler Cheuvreux - Analyst***

And just maybe on the corporate line, do you have a new guidance for your pre-tax profit for the coming years?

---

**Patrick Flynn** ***ING Group - CFO***

I'm reluctant to talk about new guidance for corporate line because it can be volatile and it's not a core part of what we do. So I think we've said around [EUR100 million] before, so more or less that's right.

---

**Benoit Petrarque** ***Kepler Cheuvreux - Analyst***

Great. Thanks.

---

**Operator**

Alicia Chung, Exane.

---

**Alicia Chung** ***Exane BNP Paribas - Analyst***

Just a couple of quick questions. Firstly, just to circle back on costs, you mentioned that, obviously, that was one area that is slightly off target.

Given the high level of regulatory costs that are unlikely to go away, how do you expect to meet the cost to income ratio target going forward? Is that predominantly through income growth and just very flat cost management? Where can we expect potentially further cost savings, and what do you see as potential opportunities there?

And then just secondly, obviously, we saw in the press that one of your peers has started changing its terms and conditions to enable it to charge negative rates. I'm just wondering if you expect to do the same in the Netherlands and what your outlook there is in terms of [deposit for pricing].

---

**Ralph Hamers** ***ING Group - CEO & Chairman of the Executive Board***

Well, thanks very much. Yes. On the cost to income, clearly, you know these regulatory costs come quickly and you need time to absorb them and offset them with additional measures. I think there is certainly a couple of headwinds that we have, as banks and regulatory costs are one of those headwinds, but we also have tailwinds. At least for us digitalization is a tailwind. We know that very well; we know how to deal with that very well. We know how to deliver to our customers very well.

Now in that story, you will find that on one side you can generate a superior service to your client by digitalization for which investments are needed which will deliver growth on one side, but it will also deliver cost savings going forward.

So the core element of digitalization and the way we have been working on that, and all of the restructurings that we have announced over the last two or three years, investing in IT on one side and decreasing your running cost on the other side while growing your franchise, so it's a combination of those how we think the cost to income can further improve. And this is one of the reasons why we wanted to have the October Investor Day with you to show you how we do that and where we see that going, and where costs can be taken out while improving customer service.

On charging negative rates, we are in the corporate arena and the more professional arena we are charging negative rates, and so our terms and conditions have already been adjusted for that.

**Alicia Chung** ***Exane BNP Paribas - Analyst***

Useful. Thank you.

**Operator**

Bruce Hamilton, Morgan Stanley.

**Bruce Hamilton** ***Morgan Stanley - Analyst***

Just a follow-up on the Belgium result which looks very strong; just understanding in terms of the sustainability of the NII result. Clearly, you've talked about the reduction in savings rates, some potential re-pricing, but is the improvement in NII in Q2 something that you would see being sustained through further re-pricing?

And then secondly, just thinking through the levers to manage NIM, obviously, you've got rate cuts, asset mix, balance sheet efficiency you talked about earlier. How much more scope is there around balance sheet efficiency? Should we think about it in terms of a target loan to deposit rate, or what further scope is there to improve NIM through that lever?

Thank you.

**Patrick Flynn** ***ING Group - CFO***

Yes. I deliberately flagged Belgium because I want you to be aware that whilst the headline numbers do look good, there are some one-offs in there that do boost the reported results.

Obviously, the cost saving, there was a question earlier in there, boosts the bottom line. The NIM is supported by the -- something that's not helpful obviously long term, which is the refinancings on mortgages.

And also, in the slide on page 25, we show a breakdown of non-recurring items. One of them is bank treasury volatile items. That's where we had a gain on TLTRO I exit into TLTRO II. That was swapped, and that swap was canceled, which gave you a big gain. It's a big part of that number on slide 25, bank treasury volatile items. Part of that was in Belgium as well.

So, yes. The Belgium result is good this quarter, but some of it isn't recurring.

And in terms of NIM going forward, yes, there's a number of levers we've pulled already, and we continue to pull. Balance sheet mix improvement. Clearly, there's -- we did well in terms of the lending growth outstripping deposit growth in Q1.

As Ralph already said, 3%/4% is what we want to try and achieve for the full year. This will be lumpy. Q3 is often not the highest quarter for lending growth so it will move around that number. But improving the balance sheet mix is core to offsetting low rates, and we'll continue to do so.

We also have talked about before about wanting to do more of SME and consumer finance. We haven't succeeded there yet. We're not where we would want to be, so there's still more room there. It's another lever. And ultimately, economic theory would dictate that if deposit margins go down, at some point lending margins need to go up. We're not seeing it. There's not much of that in our numbers so far, but that's something that should happen as well.

So [those are] the drivers, so there is more room on balance sheet optimization.

**Bruce Hamilton** ***Morgan Stanley - Analyst***

Thanks very much.

**Operator**

Alex Koagne, Natixis.

**Alex Koagne** ***Natixis - Analyst***

A couple of questions from my side. The first one is on commission.

Regulators are calling banks more and more to develop a fee business to compensate the impact of the low rates on net interest income. I was just wondering whether you can give a guidance in terms of commission growth going forward. And in your view, what should be the absolute contribution of commission to the revenue of ING looking at the yearly basis, not just for this year, but let's say for the optimal business model of ING?

Second point, I'm just coming back on the common equity Tier 1 ratio. Obviously, you're already ahead of your guidance of your target of 12.5%. I was just wondering whether you can give us any kind of -- or share your thoughts on the kind of management buffer that you have to take into consideration.

And one last question, if I may. I'm very surprised by the very good level of margin and stable margin in your structured finance business. This is slide 18, I think. Can you just give us an explanation of the reason behind these very good performances of margin and why are they so stable through the crisis?

Thank you.

**Ralph Hamers** ***ING Group - CEO & Chairman of the Executive Board***

Okay. Thanks, Alex. Thanks for the questions. I'll take the first and the third one, and I will leave the core Tier 1 ratio to Patrick.

So on the commission side, now if you look at our Think Forward strategy, it is very much focused on what we call the primarily relationships. And why is it so focused on the primary relationships? Because if you focus on those, and if those clients start to see you as their primary bank, they will do more business with you on one side.

On the other side, in a digital world, having primary relationships doing more business with you gets you to know them much better. That in itself will lead to an improved cross-buy, and that cross-buy is the trigger and the driver for further commission income growth.

Now if you compare our franchise with some of our colleagues, you see that the composition of our income is a bit lower on the commission income, and actually we see that there is quite some upside there. But this is one of those subjects that we wanted to discuss with you in the Investor Day in October.

Now on the stable margin in structured finance, well, it has always been a market where there is only a couple of players that really know what they're doing. And so now and then, you see some new players coming in and who think, well, this is an attractive industry, this is an attractive area; let's do some more business here. And then the first time they have to sit down with the client to look at the change of [governance] and all of that, they don't feel comfortable any more.

So it really takes industry knowledge, sector knowledge, client knowledge that you build up over the many years in order to be a strong player there, and that's why you see stable margins there.

On the other side, we also have seen that some of our colleagues are withdrawing from some of these markets, which gives us some more room to grow. And that in itself also helps to preserve the margins there.

So it's a combination of real knowledge, what is this really, and some competitors leaving the markets. And it's also a business that is global and it's a dollar business and not necessarily European based.

**Alex Koagne** ***Natixis - Analyst***

Sure.

**Ralph Hamers** ***ING Group - CEO & Chairman of the Executive Board***

Patrick.

**Patrick Flynn** ***ING Group - CFO***

Yes. In terms of capital, I think the first thing to say is given a 13% fully-loaded core Tier 1 at the Group, and that excludes 80 bps which is in profits that are assigned for dividends, we're very, very strong in terms of capital position. So we don't have to set aspirational targets because we're already there.

There's a number of moving pieces that we'd need to understand better before we'd want to be definitive about management buffers. In terms of phase, one of which is the 3% D-SIFI buffer from the Netherlands or [incremental too] as compared to the 1% G-SIFI, that phases in over three years. The question whether that can sustain given the ECB looking for a level playing field in capital, so that's something we would look to -- want to see ironed out in the coming years.

Also, we are now seeing following the stress test the ECB talking about breaking up Pillar 2 into Pillar 2A and 2B. Therefore, the buffer that's needed for MDA would be off a lower number. MDA buffer versus equity buffer is something we need to work through as well.

So there's several moving pieces here that we want to understand better before we would pin our colors to the mast in terms of what the buffer would need to be. But as I said, the key point is we already have the capital; very strong, the Group 13%. So we're going to wait and see how some of these uncertainties pan out before we talk about what the management buffer needs to be.

**Alex Koagne** ***Natixis - Analyst***

Very clear. Thank you so much. Bye bye.

**Operator**

Anke Reingen, RBC Capital Markets.

**Anke Reingen** ***RBC Capital Markets - Analyst***

I have two follow-up questions, firstly, on the costs where you show on slide 15 quite impressively how the underlying remained stable over the last quarters. And is this something which we should think forward well around the level of EUR2,140 million/EUR2,150 million, or is there anything else which we should consider as having a more -- like with the investments you might be [speaking] about? Or is the stable run rate something we should consider going forward?

And then secondly, on the deposit rates, do you think on some of these retail customer deposits you have reached the floor, or do you think there is potential for you to cut down further?

Thank you very much.

**Patrick Flynn** ***ING Group - CFO***

In terms of cost, what we are trying to do is obviously manage to the cost to income ratio. There's not an absolute target in terms of costs. That said, I repeat we're very disciplined on cost. We have several cost-saving programs, not all of which we've seen the benefit flow through yet. Hopefully, we want to invest and we do to -- particularly in our digital capability to support growth in places like Germany where we've been extremely successful. That can be funded by cost savings, ideally. We work very hard for things like the procurement saving we talked about earlier.

The outcome of all that has been flat. That's good, but it's not necessarily the target. The target is -- fundamental targets are [we], basically, and our lever for that is cost to income around the 50% level, 50%/53%. And to the extent we can keep costs flat, that's good, but it isn't of itself a target.

---

**Ralph Hamers** ***ING Group - CEO & Chairman of the Executive Board***

Then on the deposit rates, yes, so basically, you've seen where we are on deposit rates. You see that in the eurozone there's different rates across different countries, so I'm sure there's going to be convergence with us as many banks that play in different markets so you will see a convergence there. Given the continuing low interest rate environment and even the negative interest rate environment, yes, there may be some pressure.

It's very difficult for us to give any guidance on it, but you see also some markets like in Belgium where there's a legal floor. So it's at 11 basis points there so there's no further scope there.

---

**Anke Reingen** ***RBC Capital Markets - Analyst***

Thank you.

---

**Operator**

As there are no further questions in the queue, that will conclude today's question and answer session. I would now like to turn the call back to your host for any additional or closing remarks.

---

**Ralph Hamers** ***ING Group - CEO & Chairman of the Executive Board***

Okay. Well, thanks very much for joining us on this call. I know it's a busy day for you because there are some other colleagues coming out with numbers as well.

I very much appreciate that you have been here on this call. So we showed you a very good set of numbers, both in customer growth; 650,000 new clients in the first half year of which 350,000 primary; lending growth continuing as well leading to very strong financial results.

As said, we're happy to update you on how we want to take the Think Forward strategy that has created success onto the next level, and we hope to see you in October.

Thanks very much.

---

**Operator**

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

---

# 08/03/2016 09:00 AM GMT, Q2 2016 ING Groep NV Earnings Call