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PRESENTATION

Operator

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

Good morning, Ralph, over to you.

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

Well, thank you, operator. Good morning, everyone. Welcome to the [first] quarter's results conference call. As always, I will walk you through this presentation. I'm pleased to welcome our new CFO, Koos Timmermans, as well as our CRO, Wilfred Nagel. And Steven van Rijswijk, who will take over from Wilfred Nagel this year joins us for the first time as well.

If we go to the key points then. ING Group posted a net profit of over EUR 1.1 billion. The underlying pretax results improved 39% year-on-year to EUR 1,650,000,000. We continue to record good lending growth, while operating expenses were stable, again, this quarter. We had another quarter of low-risk cost as well.

Would specifically like to highlight our Wholesale Banking results, where we particularly -- which were particularly strong, helped by a good quarter for Financial Markets and higher commission income.

On the Retail side, we added another 150,000 primary customers, which will help us to drive cost by in the coming years. All of this has contributed to a 4-quarter rolling average return on equity of 10.8% and a cost income ratio that continues to make further progress, and we are now at 53.1%. Our group CET1 capital position increased 30 basis points to 14.5%.



As you can see on Slide 3, we maintained good commercial momentum. Executing our Think Forward strategy continues to drive customer acquisitions, as we added another 300,000 new customers, of which 150,000 primary customers just this quarter. I'm happy to see that our customers continue to value our services and the experience that we provide, which has led to being ranked #1 in Net Promoter Score in 8 of the 13 retail countries, and that's up from the 7 countries last quarter. So as our customer promise reach every day, we try to become a little bit better, it is noticed by our customers.

In our Retail Challengers & Growth Markets, we made good progress in diversifying our balance sheet and generating additional fee income, that's what you can see on the slide as well. Fees were up 28% year-on-year. Consumer lending as well as assets under management have been growing fast.

As I said before, and I think that you will see that going forward, we add customer numbers, we add and we increase the higher share of primary customers as they buy more product-generating high fee income, this will ultimately enable us to deliver higher customer value, and in turn, higher shareholder value. So customer growth now will lead to better value in the future. And this trend, we continue to demonstrate quarter-after-quarter.

An update on the transformation, Slide 4. It's probably one that is starting to look familiar to you as we keep you posted and updated on our large transformation programs. We are very pleased that we've managed to reach an agreement on a Social Plan with our trade union partners in Belgium. I'd like to thank all parties involved for the constructive dialogue that we have had in these past months.

Also the other transformation programs remain well on track. The central IT team in Madrid is reaching the scale needed to support a Model Bank and is preparing now for a rollout into the first challenging market, which is the Czech Republic for us.

Germany, with its own Welcome project, has now fully digitalized its account opening process and has substantially increased the consumer loan processing speed as well by investing in digital.

And then on Slide 5, we show you some of the most successful innovations, Payconiq and Twyp. As you remember, we launched Payconiq in Belgium. We now have more than 25,000 retailers sign up. We have 2 million customers sign up. And we are now planning for the rollout of Payconiq in the Netherlands as well in collaboration with other large Dutch banks.

In Spain, we see more and more consumers using Twyp as well as Twyp Cash. At the end of the quarter, there were more than 530,000 registered users for the 2, of which 330,000 for Twyp alone. And of that 330,000, 40% are non-ING client. So basically you see that through this, we actually also gain more customers. And in the end, we can hopefully turn them into ING customers as well.

While these are both examples of innovations that we developed in-house, just like Yolt, as you may remember in U.K., we are also partnering with fintechs to strengthen our leading position in financial innovations.

Now let's turn to the first quarter results. And Slide 7. On the top left, you can see the strategic roadmap until 2020, stated the menu as to how we think results will develop in each of our regions. We see that top line growth in the Retail Benelux is slowing. Absolute cost savings clearly become visible, as underlying cost went down 10% year-on-year.

Retail Challengers & Growth is growing revenues as fast, and we provide more and more products to our larger customer base.

At the same time, we're investing in model banks, we're investing in Welcome to digitalize the businesses. So you can also see that reflected in the cost base. But again, the cost base, you may see going up in order to generate the scale to have a cross-border offering. So in the end, that is certainly going to be translated into further efficiency.

Lastly, the Wholesale Bank delivers good growth on the back of low risk lending and improved Financial Markets result in this quarter. And you see strong positive jaws versus the expense line, so real, good results for the Wholesale Bank this quarter.

Turning to Slide 8. You can see that our underlying pretax result came in at a strong EUR 1,650,000,000. Corrected for the seasonally higher regulatory cost and the absence of positive volatile items this quarter, we actually delivered a very strong result of EUR 2,100,000,000, so EUR 2.1 billion, pretax, which is up from the previous quarter and strongly up year-on-year.

Now the underlying result benefited from a robust net interest income, which is up both comparable quarters, as you can see on Slide 9. In the quarter, we continued to grow our mortgage book. We also recorded good growth in our Retail and wholesale lending. The NIM, the net interest margin remains in line with our guidance range, came in unchanged at 152 basis points. Clearly the low-interest rate environment continues to be a drag, but overall lending margins remained broadly stable year-on-year, though we are now starting to feel the pressure in the wholesale bank.

Coming to growth, in the core lending growth, Slide 10. First quarter, we grew core lending by EUR 5.7 billion, which is in line with our loan growth guidance for the year of 3% to 4%. This quarter, we saw strongest contribution from other Challengers & Growth Markets as well general lending and working capital solutions in the wholesale bank. And although there was no net growth for Industry Lending this quarter, we see good pipeline of deals and expect growth next quarter.

Also important to note here is that we keep having financial momentum in region of Belgium. So with all the transformation going on, our colleagues are very much focused on the clients and making sure that we continue to service our clients very well and you can see that in the growth here as well.

Turning to 11, Slide 11. This quarter we achieved an important milestone, as you can see from a portfolio perspective. For the first time, mortgage represents only 50% of our lending book, as we continue to grow our nonmortgage lending faster than we grow mortgages. So you see that the component of mortgages in value is still going up but in percentage is going down.

And you may remember from our Investor Day back in 2014 that this is exactly what we wanted to achieve, a 50% -- 50% of our lending book in mortgages and a further diversification by 2017.

Meanwhile, half a year ago on the latest Investor Day, we indicated that our ambition is to go grow even further in 2020 to 48%.

From a geographical standpoint, the balance now represents just over half of the lending portfolio, and we expect this to come down further to 46% by 2020, with strongest growth foreseen in the Challengers & Growth Markets as we build sustainable balance sheets in our deposit-rich countries. And this is all a process that you know very well and we continue to execute into that direction. And you can basically see that there is a move of concentration risk, we're moving away from the concentration risk in mortgage in our balance sheet and getting a much more balance in the [first 5 franchise] going forward.

Turning to commission income, something that we discussed last quarter as well. Commission income rose by an impressive 12% year-on-year to just over EUR 680 million. Commission income growth was visible in all segments, nearly all products as well, with an above-average contribution from Industry Lending and Retail Challengers & Growth Markets. In the Challengers & Growth Markets, commission growth is driven by increasing members of primary customers buying more products as we diversify our product range available through digital channels. So basically you see strategy at work here.

In Industry Lending, the fees were also up, though this, as you know, can be volatile quarter-on-quarter, because it has to do with the number of deals that we close.

The Financial Markets, we did very well this quarter. We booked EUR 321 million of total income. The unit had a tailwind from supported market conditions for client activities and credit, equities and capital markets businesses.

Moving to the operating expenses. As you know, the expense base remains impacted by regulatory costs. First quarter is always a heavy quarter in that regard, with over 50% of our full year regulatory expenses. And this year, they come out in line with last year, more or less in line with last year, you see the gray bars in the slides. Excluding regulatory cost, our underlying operating expense were actually slightly

down this quarter, 4-quarter rolling average cost/income ratio improved further to 53%, and that's just north of the target range of 50% to 52% that we have for 2020.

Turning to the risk environment. I think I can be brief on the risk cost this quarter. The risk environment remains benign, and that means that the NPL rates just keep trending down. Risk costs are coming down and came in around last quarter's number, just over EUR 130 million, about 17 basis points of risk weighted assets against our 40 to 45 base points through the cycle average, as you know,

Turning to Slide 15. In keeping with presentations that we've had in the past quarters, I'd like to highlight one of our countries, this time it's Australia. Had a very strong quarter, as you can see from the income graph on the right-hand side bottom, that's where you see the income increase. Australia is a business that we built from scratch in 1999. Now services 1.7 million customers. And to start with, it was a narrowly defined savings and mortgage business, but we have successfully been expanding the product range. This quarter we launched Android and Apple Pay. We also started selling home and content insurance. We've enhanced our offering of regulated savings products as well. And this in turn means that we (inaudible) more and more customers into primary. And we attract more and more primary customers. And in fact, over 40% of the new customers directly joining us as primary now. And also here, you see evidence that a digital bank can become your main back. It shows the attractiveness of our franchise. Also there in Australia, and you see that this model is completely in line with our strategy.

And as a testament to the success that we deliver superior customer experience in Australia, we have a #1 Net Promoter Score in the country, and we've had it for many years. And it's not just having a #1 Net Promoter Score, it's also that the next best competitor is trailing us by as much as 27 points. So that's a real big difference, and that's why you see so many customers joining ING as a primary relationship.

Turning to the capital position, Slide 16. Group CET1 went up 30 basis points over the [year end] 2016. And that's mostly due to a reduction in risk-weighted assets as well as the inclusion of for the first quarter profit in capital. In order to be consistent with our progressive dividend policy and to allow for a smoother development of our capital position, we decided to reserve an amount equal to 1/3 of the 2016 total dividend in each of the first 3 quarters, so that's what you see here. And that makes that we can also reserve part of the dividend as part of our capital going forward, part of the profit as part of the capital going forward.

And as different from the past year, where we set aside all of the profits to decide at the end of the year how much of the profit could be released back to capital.

Now the CET1 remains well above regulatory requirements, requiring a TLAC. We made significant progress in the quarter by issuing over EUR 5 billion of group senior paper. And I think it's worth mentioning that we already exceed our 2019 TLAC requirement of 21.5% now.

In summary, Slide 17, we continue to perform well against the stated 2020 financial targets with both CET1 and leverage ratio well ahead of regulatory requirements, as you can see. I'm also happy with the progress that we make on the cost income slide and we will be doing more in order to reach our target range there. Obviously, the transformation programs that have been set in motion will help us in that regard. And finally, the 4-quarter rolling average return on equity for the group has improved further to 10.8%.

Now as I mentioned at the start, Wholesale Banking had an excellent quarter, so I'd like to spend some time on how the Wholesale Banking franchise has performed this quarter. Turning to Slide 19 for that, we booked an underlying result before tax of EUR 813 million in the Wholesale Bank, which is a 55% improvement versus the first quarter of 2016. Industry Lending remains the largest contributor to this result, but other product groups also delivered improved results. And as you can see from the graph, bottom right, the lending book is very well-diversified, with the portfolio actually being skewed towards Challengers & Growth, the U.S. and the Asia now, so very well-diversified and really into auto markets and just the Benelux. That diversification, as you know, is part of what we want to deliver as part of the Wholesale Banking strategy, but it also enables us to deliver a return on equity that is comfortably over 10%, and that's what you can see on the slide as well.

While net interest results still account for the majority of the revenues in the Wholesale Bank, the contribution of fees is also growing, as we focus on becoming the primary bank for our corporate clients. We operate the Wholesale segment at a cost/income ratio of 45%, which, I

think, in terms of (inaudible) puts us probably in the top quartile of the corporate banks. So it kind of shows how efficient our network is in 40 countries, supporting our offering to our international clients.

And while the lending growth has been impressive, we've not compromised our standards and expressed in basis points of risk -- average risk-weighted assets. This quarter, the risk was for only 9 basis points.

Now turning to Slide 21. I'm very proud that the Wholesale Bank is also leading in the way in terms of innovation, in terms of sustainable lending. And here you see again a couple of examples of deals and transactions we have done in the first quarter. Together with the quality training from Mercuria, for example, and a major French bank, we successfully completed the first test of a large oil trade using block chain technology actually. And I want to point out that this, the Easy Trading Connect, it was actually the winner of the 2016 ING Innovation Good Camp out of some 800 submissions within ING. So we're very excited about the potential of this technology block chain in order to make these processes faster, safer and much more efficient.

Turning to a deal that we did for one of our clients, Royal Philips. For them, we acted as Sustainability Coordinator for new innovative loan, where the pricing of the loan is actually linked to the client's sustainability ratings as well.

And furthermore, we continue to contribute to more sustainable and to a more sustainable growth by participating in a sustainable loan, for example, for Green Highland, that's a project in Scotland, as well as being the lead manager for the first corporate green hybrid bond for Tennet, which is a Dutch electricity grid company.

To wrap it up, Slide 23. We -- I think we can safely conclude that we continue to have strong business momentum in both retail and wholesale. I'm happy to see that we continue to make progress in our digital transformation and that we keep improving the customer experience. And before I open the call for questions, I'd like to take the opportunity to thank Patrick Flynn for his professionalism and his dedication over the last 8 years as our bank's CFO. He has done a wonderful job for us over difficult times, and I want to, also in front of this audience, wish him very well for the future.

Now let me open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Benoit Petrarque of Kepler.

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

First question will be on NII sensitivity. I know we are still in a low-interest rate environment, but we might try to feel a bit forward in terms of what ECB could do in the coming months. What will be the sensitivity to kind of 100 bps increase in interest rate on NII. I think you've disclosed year 1 effect, which is not really relevant. I think most of the positive effect (inaudible) year 2, 3 and even 4. So could you provide a bit of sensitivity here? And then second one will be on the cost. I think, clearly very good achievement in this quarter, flat cost year-on-year despite the growing income. So how should we think about cost growth in 2017 considering the ongoing cost-cutting actions you've taken? Can we hope for flat cost on (inaudible) excluding regulatory costs?

Ralph A. J. G. Hamers ING Groep N.V. - Chairman of Executive Board, CEO, Chairman of the Management Board Banking and CEO of Management Board Insurance Eurasia

Well, Benoit, I'll take the second question. And then Koos Timmermans will take the first question. so Koos?

J. V. Timmermans ING Groep N.V. - CFO, Head of ING Market Leaders and Vice Chairman of Management Board of Banking

Yes, Benoit. Only the interest rate sensitivity, as you know, that we gave the number at the annual report, which has like a 1% [chalk up] gives us EUR 224 million in the year. What that does is it takes full assumptions into consideration, like longer term financing for mortgages, but also it takes an assumption on how much do you track with your savings. And particularly, this tracking is very important because what we use is sort of the average tracking experience of we had in the past. And therefore, it's already difficult to give a sensitivity because it's

heavily based on the tracking assumption. But if you then want to go further in year 2 and 3, then you really have to sort of think ahead on how you have to respond on your clients. This is the reason why we are a bit careful in giving more numbers on this, because really client interaction is the most important one, so we rather stick with the number we gave you right now. The other thing I can say is if gradually interest rates move up by 1%, it's for sure better than a shock because then in that case, you don't need to readjust your funding for mortgages so quickly.

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

Okay? On the cost side, Benoit. Yes, so we had a very good first quarter on the cost side. And as you know, we keep very, very much focused on the cost element of our franchise. But as I've indicated in the presentation, we have a specific menu where basically we expect costs over time to go down in the market leader environment, costs image in the Challengers & Growth environment to go up. But we also expect income to go up faster over time in that part. For the Wholesale Bank, it's a bit the same. It's -- some of the transformation programs in the Wholesale Ban will make sure that the costs go down. At the same time, for the growth, we also add people in some other areas. So over time, we expect flattish to a bit of an increase. Now one thing I wanted to indicate here is that in the first quarter, if we come to the transformation program and the investment that we announced for the transformation program, that in the first quarter the bulk of basically of that part of the budget in order to invest has just started. So you should expect for our first year investment that over the next quarters, the investments will go up and that will have an effect on our cost base as well.

Operator

Next question comes from Ms. Alicia Chung of Exane.

Alicia Chung Exane *BNP Paribas, Research Division - Research Analyst*

Just a couple of questions for me. First of all, would you give us an update on where you now are on TRIM? So what you understand about the process so far? Obviously, it's been a little bit of a black box, how far you are along this process. And also, where do you expect the main areas of debate to be particularly for ING? Then secondly, just on the restructuring in Belgium, you gave a little bit of an update in the middle of the quarter where you talked about what the agreement that you came to. What was the final number of compulsory redundancies there? And then finally, if you have any update, and I suspect it's probably a bit too early, but on the investigations into the (inaudible) case, that would be great.

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

Okay, I'll give the first question to Wilfred.

Willem F. Nagel *ING Groep N.V. - Chief Risk Officer, Chief Risk Officer of Management Board Banking and Member of Executive Board*

Yes, on TRIM, this is obviously a multiyear process and that has only just kicked off. The beginning of the real deep dives into the models for ING will be after the summer in September. The initial focus is going to be mainly on retail, specifically Belgian and Dutch mortgages as well as SME. At a later stage, obviously also the market risk side of things will be looked at and that will start with incremental risk charges model as well as the far models, but that's more likely going to be late this year or early next year.

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

I will take the question on Belgium and then Koos will follow on your final question. Yes, so in Belgium, so we're actually, we've had long discussions with our trade union partners there. These were not easy discussions, as you can imagine. The announcement in October was a bit -- was a shock. It's a good performance franchise, but a franchise that we want to invest in and prepare for the digital world. As a consequence of that, 3,500 jobs are basically impacted in Belgium. And the first (inaudible) at that moment in terms of compulsory layoffs were 1,700. Now together with our partners of the trade unions, we have looked at alternatives and have been very constructive in this, and we are very grateful for that. We've come to arrangements through which there is also a possibility for people to take a voluntary -- to take a package voluntary. And as a consequence of that, we hope to be able to decrease the number of compulsory layoffs. And we expect that to increase to the range of anywhere between 400 and 900 FTEs.

J. V. Timmermans *ING Groep N.V. - CFO, Head of ING Market Leaders and Vice Chairman of Management Board of Banking*

Alicia, maybe on the litigation part, not a lot of data to be given. As you know that we are subject to a criminal investigation by the Dutch authorities regarding the various requirements related to the onboarding of the client, the money laundering and the corruption practices. And we also got requests from the U.S. authorities. Now we are fully cooperating on this investigation and on the requests. An in depth process can be very difficult to determine anything in terms of the timing, in terms of the scope or the amounts of any fines. So therefore, it's difficult to comment on it at this moment or to give you any more update than what we have given until so far.

Operator

Next question comes from Mr. Kiri Vijayarajah of Barclays.

Kiri Vijayarajah *Barclays PLC, Research Division - Director and Equity Analyst*

Just a couple of questions on SME at retail. So on Dutch lend demand, wondering if you can talk about what you are seeing in terms of loan applications. And I note it was towards the end of the quarter, but was there kind of pickup in activity after the outcome of the Dutch elections? And then on retail fees and commissions, I wondered if you could talk specifically about which products were driving the strong growth there? And have you been changing any of your pricing and fee structures there or is all that increase purely volume-driven?

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

Yes, so on the Dutch SME business. So basically, what we see is that at the -- also in the Dutch SME business, the environment for the Dutch SME business is improving. We haven't seen any particular change because of the outcome of the elections, to be quite honest. What we see is that, yes, there is production, there is loan demand and the approval rate has been very stable over many years already. But that the repayments as well as some of the write offs that we still have in this book that they are nearly as high as the new production. So that's why from a total book basis, you see it flattening. So basically demand is there, the approval rate is as normal, but the repayments coming into the token write-offs as well. So what we see is that the initial kind of growth that these companies are going through, a lot of that is financed through equity, which in itself is a good thing because we also know that the part of the market was a bit overleveraged. So I think that basically it's a good sign from that perspective, there is growth, there is loan demand. But the initial growth is generally financed now through equity, that's the Dutch side. Now on the retail fee income that we have reported this quarter across all the retail franchises that ING has, there is a couple of things. So the first element is that in some of the countries, it is more seasonal. The first quarter is a quarter in which our clients decide to move parts of their savings into investment products, into assets under management, and that's what you've seen. Now related to that, you see the fees in assets under management going. You see that in countries like Belgium, for example. And on top of that, we see that the franchise is growing, and that our focus on primary clients and the introduction of more products to improve the cross-buy in our digital franchises is actually producing more commission income. And this is why we set out the strategy in the past 3, 4 years ago, and you actually see now coming in through numbers that are noticeable. So yes, it is kind of a confirmation of the strategy, it's not necessarily a change in fee pricing structures.

Operator

Next question, Benjamin Goy of Deutsche Bank.

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

Two questions, please. The first one on the margin. You highlighted you see some pressure in wholesale, but at the end of the quarter, you got positive rates in Germany and the Netherlands. Is that good enough to keep the margin more or less stable? Or should we see more pressure throughout the year? And the second one is where risk costs remain very low, but do you see going-forward a large cases you're aware as of today or so far still benign in the quarter as well?

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

Koos, the first.

J. V. Timmermans *ING Groep N.V. - CFO, Head of ING Market Leaders and Vice Chairman of Management Board of Banking*

Yes, if you look at margins, Benjamin, that overall you're right that maybe new long production margins are slightly lower, and it's countered by 2 things. One is we are lowering savings rates and on the other hand, so what you see is a more efficient use of your balance sheet. You know slightly cheaper wholesale loan replacing a muni is still a good thing for your balance sheet overall. So what you see is efficiency and lower deposit rate. And that is why we actually see that over 2017, we are thinking we are keeping margins stable.

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

On risk cost, Wilfred?

Willem F. Nagel *ING Groep N.V. - Chief Risk Officer, Chief Risk Officer of Management Board Banking and Member of Executive Board*

Yes, on risk cost generally what we are seeing both in retail as well as in wholesale is stable situation, slightly up and also slightly down in Retail but nothing that indicates a trend. Clearly, if we were aware of large problems, then we would be taking provisions for them. There is no reason at this point in my mind to assume that something big is around the corner. If you look at what was driving the provisions on the Wholesale side, it was mainly coming from a couple of segments that we have highlighted to you for quite a few quarters as buckets of remaining concern, but fortunately relatively small pockets and also size and that is offshore drilling and the inland and coastal shipping side of the shipping group.

Operator

Next question on Daniel Do-Thoi of JPMorgan.

Unidentified Analyst

It's actually Daniel, JPMorgan. Can I just actually follow-up on the 2 points. The first one was on the NIM (inaudible) you mentioned that you expected to be fairly stable? Is that against the 152 basis points that you delivered over the last 2 quarters? Or is that the 150 that you previously talked about? And also I guess, what I'm trying to understand a little bit is, is there any kind of unsustainable one-off items within net interest income in Q1 which we should be aware of? I'm looking at, for example, the treasury or the corporate banking line? And then secondly on provision as well, I think Patrick guided last time for provisions to be sort of flattish to slightly up in 2016 against the EUR 1 billion that you reported in 2016. Is that still a guidance that you feel comfortable with given the strong result in Q1?

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

All right, thanks, Daniel. On the NIM, the guidance is as we have had them in the past. Clearly, we (inaudible) exactly at the rate that you want or that we would want. There's so many different levers and elements that play a role here, but we feel comfortable continuing our guidance that it will, for the next couple of quarters will be, they're in the high 140s and the low 150s, that's where we expected to go. There is no real oneoffs there. On risk cost guidance, Wilfred?

Willem F. Nagel *ING Groep N.V. - Chief Risk Officer, Chief Risk Officer of Management Board Banking and Member of Executive Board*

Yes, insured, we don't see reason to really change our guidance here. Obviously, Q1 was good. But there are 2 reasons why I think it would be not be wise to take the guidance now. And that is, first of all, 1 quarter is only just that, 1 quarter. And we've always indicated that provisioning can be lumpy and it has been traditionally lumpy now and then, so it's a bit early to cry victory here. And secondly, you have to keep in mind that the number that you see is ultimately a combination of new provisions as well as releases. And new provisions, of course, has to do with our best assessment of the quality of the book today. But the releases have a lot to do with things that happened in the past, restructurings of older files, updates of models, et cetera. Over a longer period, the net number is meaningful but on a quarter-to-quarter basis, it really is less so. And therefore, not a reason to change our guidance at this point.

Unidentified Analyst

Can I just follow up on the first point, on the guidance of high 140s up to low 150s, I guess? Given that there is still more room to reprice on the deposit side of that margin pressure that you're seeing on the front book and given the things that you mentioned around balance sheet

efficiency and funding cost, how come there is a little bit more confidence around being able to maintain the sort of about 150 basis points? Is there anything moving in the opposite direction, I guess, is what I'm trying to ask?

Willem F. Nagel *ING Groep N.V. - Chief Risk Officer, Chief Risk Officer of Management Board Banking and Member of Executive Board*

Well, overall, it's still hard work to make sure that we preserve the NIM. I mean we're still working in a very low rate environment, so the reinvestments of our savings money is always at lower rates. And yes, we are countering that by lowering our savings rate towards the consumer. And we are making sure that we keep the decent spreads on our loans. But to be exuberant in terms of expectation, that will be a bit too much, I would say.

Operator

Next question, Pawel Dzedzic, Goldman Sachs.

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

Two questions for me. The first is on fee income. You show us very helpfully a slide in your presentation with the run rate of 4 quarters last year and this was in the low -- low EUR 600 million per quarter. Now there was a noticeable step-up in fees in Q1. And many of the remark that you made in the call seem to suggest that this is a sustainable improvement. It's true you mentioned that maybe Financial Markets were benefiting from better conditions, but you also talked about the retail and the wholesale. You mentioned that this is just network. So the question will be really should we look at this high 600 as the new run rate you would like the fee income to be going forward? And second question is a question on Basel IV, if you can give us any update there, if you see any chance for getting more clarity in the coming months? There were news recently that Basel Committee might get closer to a compromise with the output floor at around 75% level. Would that, from your perspective, be an acceptable level? And would the benefits of more clarity essentially put the bank in a better position even without closely calibrated at 75%?

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

Well, thank you, Pavel. Well, this quarter's fee income, you can't see as a run rate. And that's for a couple of reasons. So first one is that the Belgian part of it is seasonal, so it's more first quarter effect of savings and moving into assets under management. Wholesale, as you already mentioned yourself, in some elements whether it's Financial Markets or fees related to deal structuring is more volatile. But what is important to pick up here on the fee income is that the part of CNG, Challengers & Growth Markets, that is a trend. So that some I can give you. So it's not the new run rate, but some of these elements are a show and a confirmation of the strategy. And therefore, you can see them as trend. That's one element. And they're up 40% year-on-year in CNG, right? Now if you then go to Basel IV, yes, we hear some -- we hear what you hear, which is around -- could there be a compromise around 75% output floor. I just want to remind you that not only regulators in Europe, but also European commissioners have indicated that they would not allow for Basel IV to have an impact on banks capital that is more than significant. And we all know that the 75% output floor will actually lead to a more than significant uptick in banks capital. And that is not related to a couple of outliers that is related to many of the banks in the Eurozone. So we take comfort from the fact that regulators and politicians keep making that statement, that they would not allow for Basel IV to lead to a more than significant impact on capital in the banks in the Eurozone.

Operator

Next question, Jean-Pierre Lambert from KBW.

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

Two questions. The first one is, how should we see the allocation of the transformation trust related to the bridge between the Netherlands and Belgium? I mean, is it 50-50? Or what kind of range? And also if you can give some idea of the timing profile in terms of quarter, we had limited investment this quarter, is this going to accelerate steadily or if you could -- could give some indications. The second question is again on the fees and commissions, this time on a run rate. So if you exclude, if you clean up for the higher cost save fees related to deals, then you have a run rate (inaudible) of 5%. I suspect if you say that this solid growth in Challengers & Growth Markets to continue, I mean 5% is going to expand to high level of running growth. Is that your view as well?

Willem F. Nagel *ING Groep N.V. - Chief Risk Officer, Chief Risk Officer of Management Board Banking and Member of Executive Board*

Yes, maybe, Jean-Pierre. If you look at the cost of the transformation, what we have between the Netherlands and Belgium, we don't try to have a specific allocation that everything lands in Belgian or the Netherlands, we really take it where costs incur. And what you will find is making the platform ready in terms of IT for accepting more Belgium product is a cost which will typically more be incurred in the Netherlands. At the same time, the cost right now in changing the way of working is what you take in Belgium. And that is why you find that overall in the project scheme this quarter more costs have been taken in Belgium. But we will guide when this becomes a bit more significant in terms of the costs over the next quarters. Again, if you take the run rate right now, it is relatively low in the first quarter and it will increase a little bit, but with that increase, we will also share with you the allocation more. But this quarter is more Belgium.

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

There's still a question outstanding that we need to answer. On additional investments in the first quarter versus future quarters, the transformation program is actually planning to have an investment of around EUR 210 million for 2017. And out of the EUR 210 million, EUR 25 million has been kind of invested in the first quarter. So that's where we are. Now on your fee growth. So last quarter already, we have indicated that we expect fee income to grow faster than the NII income going forward. And that is because, on one side, the NII income has a couple of components. One of the components is to grow the lending book, and the lending book that we have guided to grow between 3% to 4% every year. Some quarters we come out above that annual growth rate, some quarters are touching it, but we'll be comfortable also this year that the 3% to 4% guidance that we have given you on loan growth that, that is still something that you can safely assume. And fee growth will then be higher than that, because on top of the loan growth, which comes with fee income by the way as well, we are introducing new products that generate fees in many countries, and specifically in the digital banks, where increasingly we are looking for products for payment accounts that bring in fees for insurance products, for robo-advice, for consumer lending that takes commission income along as well. So yes, while we are changing the model from a savings and mortgage bank to a full (inaudible) digital bank, you may expect fee income in Challengers & Growth Markets to grow faster. And all the other markets, you can expect it to grow a little bit faster than NII.

Operator

Next question, Richard Burden from Credit Suisse.

Richard Burden *Crédit Suisse AG, Research Division - MD and Head of the Pan-European Insurance research*

Two as well. First on the -- a little bit positive pricing in Germany, quite a bit, up 50 bps. Do you still feel comfortable about your growth ambitions there? Do you have any room to cut bit further? The second question is mortgage in the Netherlands. It seems that you have some loss on market share of new production the last couple of years. Are you willing to become a little bit more competitive, also taking into account your asset mix strategy, but also you had preference I think towards more than 10 years fixed?

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

I'll take the first question and Koos will take the second one. In retail deposits, growth in Germany, we've seen continuous of inflow in the first quarter. And the way we price our deposits, we always take into account that it needs to be a balance between replicating a return that we can make on it, how the clients behave, where demand is and how we can continue to grow the franchise. And so it's always a balance between these kind of elements. And clearly, in order to safeguard margin going forward, the question is also, how far can you go? Now, clearly, we just moved it down towards the end of the first quarter, so we expect some of the income effect of the decrease to be more visible in the second quarter, while we do expect that the commercial growth in terms of number of customers will just continue.

J. V. Timmermans *ING Groep N.V. - CFO, Head of ING Market Leaders and Vice Chairman of Management Board of Banking*

And maybe on the mortgages part overall, what you find is we have always been quite competitive in the market up to 10 years. What we hadn't done or where we were a bit reluctant is to price in the 20-year mortgages. But right now, also with the whole issues around prepayments, more result, we feel more comfortable for that market, so that means we will also participate in the 20-year market, and that means right now, we are more in the face of pricing that better than you will get some more offers, so expect some more pipeline to flow through over the next months.

Operator

Next question, Bart Horsten from Kempen & Co.

Bart Horsten *Kempen & Co. N.V., Research Division - Senior Research Analyst*

A follow-up on Germany. The development of your deposits, they grew by EUR 2.7 billion in Q1 while your loan book grew by EUR 0.9 billion. Is that a trend you expect to continue? And what does it say about the loan growth you expect in Germany and the impact on your interest margin? And secondly for Belgium, this is more or less the same question relating to volume growth where both in mortgages and customer, other customer lending, you've been able to grow your book? And my other question relates to Payconiq. Could you elaborate because it seems that the impact is spreading and you're also collaborating with other banks. What does it mean actually for ING on its payments business and what does it mean for your business model in that area?

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

Thank you, Bart. Well, in Germany, you should realize that in Germany, the way we grow our lending book, it has a couple of elements. The first part of growing the lending book in Germany is what we do in Germany. So this is about decreasing our consumer loan portfolio, our mortgages in Germany and our Wholesale Banking business going -- that we do with German clients. Then there was a piece of business that we manage out of Germany as well, which are some of the (inaudible) expertise that we have in wholesale bank, like everything that has to do with export credit agency business. So whether we do a (inaudible) or deal or a Japan action deal or whatsoever, if we originate those deals somewhere in the network and our specialists are in Germany and you will see that coming onto the German balance sheet. Then the third element is that we have a program of general transfers, asset transfers onto the German balance sheet. Now those assets also get repaid. So it's a continuous effort to transfer assets onto it, but the results are repayment profile there. So to kind of tell you how the German balance sheet exactly develops, it's more something that we manage internally and has to do with what Koos just mentioned, balance sheet optimization on one side and on the other side with how the market grows globally as well as in Germany. That's in Germany. And in Belgium, yes, we see continued growth in business lending and also in mortgage lending. And to a certain extent, savings. But you see that at a certain moment, the savings rates are so low that clients keep more of their money on the current accounts. So you see some of the savings growing. Then in the first quarter, we saw a lot of savings being used to go into assets under management in Belgium. But you see a continuous inflow on the current accounts and people basically keeping their money on the current accounts. So that's a trend that we expect in more countries when savings rates go further down. On Payconiq, yes, so Payconiq is an app that we developed out of Belgium. It's a very easy way of paying in -- if you go shopping. Basically, it takes out the card out of the whole payment scheme, takes out the guarantee that you need as part of the cards that works in that system because it is a direct bank-to-bank payment. Now because it is a direct bank-to-bank payment and it is across banks, you either need to wait for PSD2 to be enacted or you sign up with other banks that will then allow consumers of that other bank to dial Payconiq and connect their bank account. And that's what we have done in Belgium with (inaudible). And that's what we have also announced that we will do in the Netherlands with 5 large Dutch banks. So we hope that Payconiq will, with that, become one of the, if not the, mobile payment system and standard for the Benelux. And again, we are signing up with other banks because we don't want to wait for PSD2 in these countries because more actors can actually get into this market when PSD2 is enacted.

Operator

Next question, Alex Koagne from Natixis.

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

One follow-up question for me on provision. I do understand that for the time being, asset quality is very sound and you don't really see any asset iteration going forward. But the question is more on the side of provisional write-back. How do you see (inaudible) going forward. Do you still have room to make some write-backs, because I guess at the end of the day, if you have more write-backs, then we can assume that the EUR 1 billion (inaudible) guidance will be a little bit too high? The other question is more related to the way you calculate your ROE in the quarterly banking. You calculate the ROE based on the ratio allocation of 12%. I'm just wondering if this is a level that you think you will work it at the group level, meaning that we should assume that the level for the Retail Banking and therefore this is kind of management guidance for the long term.



J. V. Timmermans *ING Groep N.V. - CFO, Head of ING Market Leaders and Vice Chairman of Management Board of Banking*

To start with the question on the provisions and the guidance. This is about the balance between new provisions and write-backs and you have to keep in mind that, that is a cyclical thing. The beginning of a downturn, what you see is a lot of provisioning and not yet a lot of releases and also a relatively modest stock of provisions during a downturn that stock goes up. And at some point, towards when the recovery comes, you get into a situation where the new provisioning becomes a lower number and the releases become bigger and gradually the stock starts declining. Now that is the phase that we're in. But in our guidance, when we talk about the EUR 1 billion, we do talk about the net number that takes into account our best expectation of both the new provisions that are going to be added as well as the releases that we might see. So the fact that we're in that stage of the cycle is reflected in the guidance, and therefore, I don't think there is a reason to change it.

Willem F. Nagel *ING Groep N.V. - Chief Risk Officer, Chief Risk Officer of Management Board Banking and Member of Executive Board*

Alex, if you look at the ROEs, indeed we are basing it currently on the 12% RWA which you've seen on the wholesale side. But we do the same on the retail back.

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

Okay. But the question is assume that the 12% is the level on which you feel comfortable for your business?

Willem F. Nagel *ING Groep N.V. - Chief Risk Officer, Chief Risk Officer of Management Board Banking and Member of Executive Board*

Yes, I think, overall, we feel comfortable with using this level at this moment. And it's a bit what I see with European averages everywhere else. But best guess what we can use for the coming period of time.

Operator

Next question, Stefan Nedialkov from Citigroup.

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

It's Stefan Nedialkov from Citi. A couple of hopefully quick questions. On the net interest margin, could you please give us a bit more color on any sort of nonbanking effects in the quarter on the treasury side to real benefits, any sort of hedging benefit? Also from the issuance, how much did that impact margins, I know relatively short period of time in the quarter? The second question on Belgian costs. When should we start expecting benefits from your union negotiations. Obviously, in 1Q, there was almost none. Is that more of a 2Q or 3Q type of event? And lastly, just much more a theoretical question. How should we think about the fungibility of excess savings across borders within the group? How easy is it to move savings from country x to country y.

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

Koos will take the first question. Basically, on Basel cost, actually, we've seen some of the benefits coming through already as we basically we were not hiring over the last couple of last 2 quarters really in Belgium in absence of a deal and a negotiated deal with the unions. So some of the benefits, if it comes to the fact that we work with less people and with that with less cost and lower cost are coming through in the cost base. Now as we structure further, you will see that the actual benefits for Orange as a whole, so which is the total transformation of Belgium and the Netherlands and the integration of it, most of the benefits will be more skewed towards the end of the program, as we have indicated on the Investor Day. So that's more calming in. It's over time, gradually coming in. But then you will see also the investments. But then the net effect of that, you should see coming through in 2020 and 2021. In terms of fungibility of the savings across the group, yes, where we have branches all fungibility, where we have subsidiaries, as you know. There is no full fungibility yet, and therefore we are moving and optimizing more from an asset perspective than from a liquidity, from a savings transfer perspective because we do use that but we use it up to the maximum allowed by local regulators. And for NIM, I'll give it to Koos.

J. V. Timmermans *ING Groep N.V. - CFO, Head of ING Market Leaders and Vice Chairman of Management Board of Banking*

If you look at the NIM part overall, there are always some component in there, but if I go to your part on TLTRO, that is more a second quarter issue, so that will start to have an impact there. And because we borrowed some extra through the TLTRO in order of EUR 7 billion.

If you look at the MREL, yes, we have done significant issuance over the first quarter, but please note that you also have maturing senior debt, for instance, from 5 years ago, and you find out that the credit spread we paid at that time is, in some cases, on senior operating companies higher than the MREL paid right now. And so we, in that sense, this kind of things, they tend to neutralize out.

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

Okay, just a follow-up on the NIM question. Was there any beneficial impact within that -- within treasury or hedging on the 1Q NIM, please?

J. V. Timmermans *ING Groep N.V. - CFO, Head of ING Market Leaders and Vice Chairman of Management Board of Banking*

There is always some but then you're talking in a basis something we this quarter, for instance had a symmetry. The thing there is and whether that is on doing asset swaps, it's a recognition of income over time, which sort of balances itself out over the lifetime of the transaction. So in that sense, it is small, but we don't report it because it's sort of an asystemic returning thing.

Operator

Next question Anke Reingen, Royal Bank of Canada.

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

Firstly, on the dividend. The 1/3 accrual in the first quarter, can you just confirm that shouldn't really see this as a potential run rate for the year 2017? And then I'm wondering if you can talk about more about your multiplier effect from the total cost of acquisition and primary customers. So where are the total customers coming from? Which divisions and which product take the primary customers up to move to primary customers? And how you see this developing in the remainder of the year? Clearly, it seems to have helped Q1. And look some earnings, I just wonder how this momentum is going to unfold for the rest of the year?

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

Okay, well, on dividends. What we have indicated is that our policy it's always now that we are reserving the full quarterly profit until the year-end when we would have decided on our dividend. Then we would separate what we would keep for dividend and we would basically put the remainder of the profit back into capital. What we decided this that, going forward, every quarter, we will reserve for dividend 1/3 of the level of dividend of the previous quarter -- previous year. So with that in the first 3 quarters of that year, we should have reserved a full dividend which would be equal to previous year dividend. And the final quarter, we will then establish how much we want to progress on our dividend, so how we can basically put the progress element into the dividend. What it does is that per quarter, we can actually now also allocate some of the remaining profit of the quarter back to capital and actually use it, use it to support our business. Whereas previously, we were keeping it completely separate for dividend and would not be part of our CET1, and therefore, we were not able to you use it and make also a return on it. That's change in dividend reserving. So yes, this will be the quarterly run rate for the next 3 quarters. But in the fourth quarter, it -- it remains to be seen as to how we want to manage the progressiveness. The multiplier effect from customer growth, so the main customer acquisition product across the different franchises, digital franchises, just basically 2 or 3. So still savings, it's still an attractive acquisition product. Mortgages, and mortgages that come also through brokers is also an attractive acquisition product. And payments accounts. So payments accounts is also a driver for customer growth. Now in order to explain you what the difference is between a customer and a primary customer, the definition for us in terms of primary customer is that you need to have a payments accounts with recurring income and activity on it plus 1 more product. And that 1 more product and the chances and the probability of that 1 more product is increasing because we are easily introducing new product categories. So not necessarily new product per category, because we want to continue to be a simple and efficient bank, so you should not have too much choices per product category, but we're introducing new product categories. So like consumer lending in some of these markets, SME lending in some of these markets, insurance in some of these markets, assets under management and investment management in some of these markets. So that's why we do expect that both the growth in customers as well as the growth in primary customers, and that's even more important, the growth in primary customers, because they will generate the true value for the franchise that, that will continue. And hence in the end also you will see that in the financial results.

Operator

Next question, Martina from Jefferies.

Unidentified Analyst

I just wanted to follow up on Anke's questions on the primary customers. You have [115] new primary customers, can you give us, for examples, which market they come from, especially Challengers & Growth Markets? And then a second question, can you elaborate a little bit on the model back in the development of the transformation program?

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

In terms of the primary customers, the 150,000 new ones, all of them come from Challengers & Growth. And in that, Germany is the biggest. On the development, the Model Bank, so just expanding the model bank. So in the Model Bank, what we are setting up is a basically we are building a platform bank that can be active across different countries. And in achieving that, we are setting up a central team in Madrid, supported also with resources on the IT side from Poland and Romania, but it's going to be delivered from Spain and also using (inaudible) technology, successful technology that we already have in Spain. And we're building the platform out of Madrid. And the first country to onboard onto that platform is and will be the Czech Republic. Now following that, we'll see when France comes on or Austria comes on or Italy comes on and also Spain itself will actually also go onto the platform. The interesting part of this development is that have a platform both on the front end in our -- on the part we interact with our clients as well as in the back end, the core bank. We will have a full standardized offering and a full scalable offering that will not only make it much more efficient to build in the countries in which we are active, they will not only basically speed up the time to market for new products from one country to the other country, but it will also enable us to open up shop in some of the countries that we are not even opening at this point in time, because we will then have a standard back end and a standard front end interaction with our clients. And the other thing that you would then need to develop is a project -- a product model for that country to enter because some of the products are still driven more by local laws and regulations and tax environments than European.

Operator

Next question from Robin van de Broek from Mediobanca.

Robin van den Broek

A few questions from my side. I was just thinking conceptually when it seems like you're moving up the risk curve, yet you're 45 bps through the cycle guidance on cost of risk remains there. Is there any potential change to that guidance longer-term when you're the different part through the cycle basically, I understand where you're currently in the cycle, but just conceptually speaking? And in the Netherlands with I think there is an insurance company that actually increased deposit rates recently. I know that they don't really have market share. But do you really think that deposit rates can go all the way to 0 on the retail side? Or do you think we are at or close to the other natural bottom there also given the fact that you have loan-to-deposit rates in the Netherlands overall for the country still I think above 1. And lastly one of your Benelux competitors has a bit more bearish feud on Basel IV basically saying that if the regulators don't get their way via Basel IV, they will get it via TRIM. Is that something you can comment on, please?

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

Yes, I'll take the deposit rate question and the Netherlands. We can't give guidance as to where savings rates are going, and we shouldn't do it either. But just check market rates. And therefore, we can't rule out deposits will go lower. And there is a chance that they will actually hit 0 at a certain moment in time. If this interest rate environment persists, then I think that's where things could go. Then again, as I said before, it all depends on the ratio that you have to reach your clients, your behavior with your clients, because in the end, savings are important for us not only as a funding technically but also as a product through which we build both relationships. So we can't rule out that it can go to 0. On the risk question, I will turn to Wilfred.

Willem F. Nagel *ING Groep N.V. - Chief Risk Officer, Chief Risk Officer of Management Board Banking and Member of Executive Board*

Yes, and you said that we are moving up the risk curve. In practice, if you look at the loan production at the moment, the quality of the production is pretty much of the same to slightly better than end stock currently. If in future because of the desire to change the composition of the book somewhat, we will go more into slightly higher risk sides of the business that would translate into higher risk-weighted assets. And therefore, it wouldn't necessarily change our guidance, which is expressed as 40 to 45 basis points off of risk weighted assets.

Robin van den Broek

Yes, you have some (inaudible) technicality probably, but I can hear what you're saying.

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

Now on TRIM, I think there are 2 different worlds here that we're discussing. And that is the point. So creating a lot of playing field by standardizing everything across the world is like trying to make the American football game play American football with the same rules as the soccer game. It doesn't make sense. The ball doesn't even look the same. And that what's happening, and that's what we're trying to accomplish in Basel IV. We have U.S. Financial Markets and role that banks play there. And we have European markets and the banks and the role that banks play there. It's a completely different role that banks play. That's number one. Secondly, in the European markets, the legal environment, and with that, the certainty about being able to manage your lending and to have collateral and to exercise some of these rights are completely different and leading to completely different experiences in one country from the other country. And also there, therefore, you'll move into specific floors basically erodes all of that and doesn't take any of that into account. That's why we, and also the ECB, have always propagated the use of internal models, because we feel that you can actually build models per sector, per category, per country that really reflects the underlying risk. And if a TRIM exercise will lead to a strong review of all these internal models, and because of debt, capital goes up or goes down, I think it's merited because at least, we're then looking at the asset category and the experience in that asset category or in that country and how you basically reserve capital in order to do your business there in the country or in the sector or in a specific asset category. I think everyone can live with that. Because basically it is a fundamental analysis and it's a risk-adjusted approach, and that's what we propagate, a risk-adjusted approach. Anything has to do with specific floors, you can just as well put leverage ratios in. It's a nonrisk-weighted approach. And we feel that systemically even that may lead to wrong behavior in the market.

Operator

Final question comes from Mr. Bruce Hamilton from Morgan Stanley.

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

Two quick ones. Just on the reg cost Germany you did a very good job. On the reg cost, it's lower than last year. Do you still expect that for the full year you'll be up because it wasn't clear if that should be the case? Secondly, just looking at the easy trading connect, can you help us think about how you see the rollout from here? And when I think about the efficiency interested the clients, that seems pretty obvious. But in terms of financial impacts for ING, how does the pricing of a trade change? Do you need to -- is it you're going to grow in market share or attract new clients? Or is it drive more of a cost benefit for you internally? I'm just trying to think through the benefit to your financials looking longer term on that?

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

Thank you, Bruce. Well the regulatory cost, we are guiding regulatory cost to increase with the increase of our business, basically, with the increase of our balance sheet. Because that's where most of the schemes are looking at for calculation of regulatory cost. So we don't expect new ones to come in specifically. Clearly, the better we know how they are calculated, the better we can manage them as well. For example, last year, we could also replace some of the direct regulatory costs with a payment guarantee going forward, so you basically you save on cost but you do accrue a liability. So you can manage through that as well. But from where we are currently and absence any new schemes of being put in place, we expect regulatory costs to increase with our business, with our balance sheet basically. Now Easy Trading Connect, basically what we're doing there is we take a 400-year-old paper-based process, and we replace that by something that is fully digital and based on block chain. It is faster, it is safer and it's cheaper. And specifically on the last one, I think that's where you can see some of the effects coming through, not only for ING, but also for all of the other banks, because let's be honest, for a scheme like this to work in international trade, you need other banks to accept that as a standard. And once other banks accept that as a standard, we can truly support our clients in it. But if other banks accept that as a standard, they will also be able to manage their cost base.

Okay. Thanks. I think there are no further questions, so let's just wrap up for the call. Thanks for, again, attending the call, for preparing your questions. We truly appreciate the fact that you take your time, analyze results, and yes, and have these questions with us every quarter. It's good to have this exchange of thoughts and as well as suggestions. It's truly helpful for us to manage our business.

Just to sum it up, we've had another successful quarter in customer growth, 300,000 new customers, 150,000 primary customers. In lending growth, EUR 5.7 billion for additional loans. Net core lending, as we call it, EUR 6.7 billion -- billion of extra savings coming in. A net quarter result of EUR 1.1 billion. CET1 up to 14.5% and return on of 10.8%.

I think that shows that the strategy that we put in place 3, 4 years ago is showing the results, and we're pretty happy with it. Thanks a lot.

Operator

Ladies and gentlemen, this concludes the ING event call. You may now disconnect your line. Thank you.

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