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PRESENTATION

Operator

Good morning. This is Maureen, welcoming you to ING's first-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 developments in our business, expectations for our future financial performance, and any statement not involving a historical fact.

Actual results may differ materially from those projected in any forward-looking statement. A discussion of factors that may cause actual results to differ from those in any forward-looking statement is contained in our public filings, including our most recent annual report on Form 20F, 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 any offer to buy any securities.

Good morning, Ralph. Over to you.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

Thank you. Welcome, everyone, to ING's first-quarter 2016 results conference call. I will talk you through today's presentation; and then, Wilfred Nagel and Patrick Flynn from the Executive Board are here also to answer questions, thereafter.

Let's turn to page 2. If you look at the quarter, I think I can be pleased with the achievements in the first quarter, as we continued to deliver consistently on our Think Forward strategy.

ING posted a first-quarter 2016 underlying net result of EUR842 million, and the core business performed very well. But the net result was impacted by a dramatic increase in regulatory expenses this quarter.

Our net interest result increased on volume growth and margin improvements, while the commission income remained stable.

The quality of the loan book continues to improve as well as risk costs, the NPLs, fall.

Our capital position continued to strengthen. The Group fully loaded core equity Tier 1 was up to 12.9%, or 13.2% pro forma for the full divestment of NN.

Now, if we turn to the strategy, in March 2014 we launched our Think Forward strategy, and we continue to make progress on many fronts. So I wanted to start today's presentation with a quick review of some of the highlights of our strategic development, before we talk about our commercial development, and before we talk about the final financial results.

This quarter, we're paying a little bit attention to both the Netherlands, as well as innovations in fintechs. So, if you turn to page 4, you see technology, digital banking, as you know, are changing the way that our customers want to do their banking; and this requires us to be flexible, requires us to be agile.

In the Netherlands, we have introduced the omnichannel approach, which means that the information is captured only once, so the customer can seamlessly switch between channels without information being lost. Basically, we put the customer at the heart of the process and organize our channels around him or her.

Now, the second key change we have made to our organization [analysis] is the agile way of working, which we have now introduced. This means that we work with multi-disciplinary teams, and they enable us to react faster and more effectively to the changing customer needs. And to our knowledge, we're the only bank to have tried this approach. And we are now looking at launching this way of working in other countries, as well.

On the innovation side, over the last couple of quarters we have informed you about new introductions of innovations that we developed ourselves in the way we deal with our clients, new products, new apps. And what we do with those is that each of them we are testing in a specific market and, once successful, we copy them quickly and roll them out in to new countries.

If we then move to slide 6, to the extent we don't have the innovation internally, we clearly also have to look externally at some of the developments that are happening there. And I think it is important that sometimes you cut through the noise of the fintechs. Everybody talks about fintechs, there's a lot of fintechs, but the question is how do you deal with fintechs? And I think that's where we are very clear.

We have a strategy: that strategy is aimed at differentiating the client experience. That strategy calls for a new approach on assets -- capabilities. So we very much look at fintech initiatives in the areas that can improve our customer experience; and, as well, can deliver asset-generating skills, as you have learned over the last two quarters when we talked about Kabbage and WeLab.

Now, what is so attractive in working with fintechs is that they have an entrepreneurial spirit; they're agile; they have technology available, the newest technology available.

And what they find attractive to work with ING is the fact that we are agile; that we are what we call a fintech [evolver latra], and with our ING direct approach and our approach in the [challenger] countries; we have a strong brand and marketing capabilities; we have capital; and we have access to the customers that they can use in order to try their initiatives on.

Working together, we feel that we bring new and better service to our customers at a much faster pace than we could do only looking at our own innovations.

So it's a combination of the two, but very much aligned and consistent with our strategy. We don't go after the next best idea if it doesn't fit the strategic direction, nor our culture.

That has led to some commercial results as well; all of this, page 7. If you really focus on the customer, you see that the net promoter score improves; and we are now ranked number one in seven out of the 13 countries. And this recognition, and the scores that ING is delivering on the customer promise, and that's at the heart of our strategy.

We're growing customer numbers also this quarter, again; 250,000 new customers coming in; 100,000 new primary relationships coming in.

And we are growing, on the back of that, our savings and lending franchise.

And that is then also reflected in the way our balance sheets develop. For example, also in this slide you see that we have made steady progress on building more sustainable balance sheets in our challengers and growth markets, which has been part of our strategy,

You have seen that there is less dependence on mortgages and there is an increase of wholesale lending, as well as retail banking non-mortgages in the balance sheets of the challenger and growth markets.

So it's a more diversified lending book, and that supports the NIM as well.

Then, we move to the results, slide 9. We posted a solid set of first quarter results, despite significantly higher regulatory cost. The regulatory cost increased by over EUR300 million from the first quarter last year; and we've also had much lower volatile items this quarter, and that's what you see in the middle of this slide.

But if you adjust for those items, the regulatory cost and the volatile items, then, and you look at the underlying trend, you can see on slide 9 that the pre-tax result was roughly stable from the first quarter of 2015, and slightly up from the fourth quarter. That reflects the positive momentum in the business, notwithstanding the difficult quarter for financial markets.

Our net interest result was strong again this quarter, up from both the first quarter last year and the fourth quarter. This increase was driven by good volume growth and slightly higher margins, reflecting reductions in our client savings rates.

In the first quarter of 2016, we reduced savings rates in several countries to align with the record-low interest rates. And these rate cuts, together with a slightly higher margin on lending activities, were the main drive behind the increase in NIM this quarter, though it was also supported by some one-offs in bank treasury and the corporate line.

If we then look at the core lending development slide that we use every quarter to show you the commercial progress as well, on slide 11, you see that we have continued to deliver on lending growth also this quarter.

Our core lending business increased by EUR7.1 billion from the fourth quarter 2015; and that's driven by a healthy growth in both wholesale banking and retail banking outside of the Netherlands. Therefore, we remain comfortable with our lending growth target of 3% to 4% per annum.

Then, on the commission income, commission income has also remained relatively stable for us this quarter compared with the fourth quarter 2015. And as you may remember, that included a positive one-time impact on the consumer loan origination in Germany. So if you compare, the underlying commission income was up due to a higher fee income in Belgium on investment products, and better revenue in current accounts in the Netherlands.

Investment and other income was impacted by volatile items, which actually were quite significant in the first two quarters of last year; and lower income from financial markets, reflecting the challenging market conditions.

Turning now to expenses, our expense base is more and more impacted by regulatory costs; and you can see on slide 13 the difference it makes to our cost-to-income ratio this quarter.

You see on the slide how the cost-to-income has developed ex-regulatory cost; and that is really in to the range that we had indicated earlier. But the increase in regulatory cost is taking us off that path; and it's important for you to see that influence of the regulatory cost on the cost-to-income.

Our latest estimate for regulatory cost for 2016 is EUR960 million, which is an increase of EUR340 million from 2015.

There is another reason why it is so high in the first quarter. IFRIC 21 requires us to book a large portion of these costs in the first quarter of the year, so it is disproportionally high in the first quarter as well.

Nearly all of the annual increase will be included in the first quarter with the booking of EUR496 million, so this makes the year-on-year comparison a little bit difficult.

But what you can also see in this slide is that excluding regulatory and redundancy cost that expenses have remained relatively flat on previous quarters.

The actual underlying cost, the costs that we manage in our organization, has been stable, despite growing the franchise. So, that's a real good result. It shows that some of the restructuring programs that we launched, that they actually deliver the room to grow in other areas and keep costs stable at the same time.

Now, moving to the quality of our loan book and the risk costs, the quality of the loan book continues to improve. As you can see, total risk costs were 33 basis points over average risk-weighted assets this quarter; and, again, below our through-the-cycle average.

The NPL ratio decreased to 2.3%; that's an improvement for the fourth consecutive quarter, and that's both in retail banking and wholesale banking. Dutch retail, you see also in the orange part of the stack bars, has also continued to improve also this quarter.

But we have taken some risk costs in our oil and gas portfolio this quarter, and the NPLs for oil and gas have etched up to 2.1%.

Overall, the oil and gas portfolio continues to perform rather well. And that reflects that on the higher risk segments of the lending we are invariably a senior secured lender. We rank ahead of the bondholders and the equity in a downturn or default situation, we want to make that clear, and we can have a discussion later on it; and that is the explanation of why risk costs are okay in the oil and gas portfolio.

On the retail banking results then, we turn to slide 15. Here, you see how the regulatory costs have impacted the pre-tax results of the retail businesses in the different regions.

As you can see, excluding the regulatory costs the underlying performance has been very steady; and that's, again, on the back of better net interest income and commissions across.

Turning to the wholesale bank then, you see that the impact of regulatory costs on the wholesale bank was less significant than in the retail bank, but still a drag on the results for the quarter.

While our financial businesses suffered from the challenging market conditions, on one side, our lending business actually performed very well, and they continue to perform very well. You see in both industry lending, as well as general lending and transaction services.

Moving to our capital position then, slide 17, Group core equity Tier 1 capital increased to 12.9%. That primarily reflects the positive impact from the reduction of our stake in NN Group.

The pro forma Group core equity Tier 1 ratio after full divestment of NN Group on April 13, is 13.2% in the first quarter of 2016.

But I think it's also important to mention that, similar to last year, ING has decided not to include the first-quarter net results of EUR1.3 billion in the Group core equity Tier 1 capital. The net result of EUR1.3 billion is not included in the Group core equity Tier 1 capital.

That profit that we don't include includes two components. The first one is the net gain of EUR0.4 billion on the sales of NN Group in January and April, and that's equivalent to 14 basis points. That brings the pro forma level more or less in line with the 13.4% then that we disclosed earlier this year, in the previous quarter.

And the second component is the first-quarter 2016 Group net profit, which -- and then excluding the gain on the sales of NN, which is EUR0.8 billion; and that's equivalent to another 24 basis points. That's what you see on slide 17.

Slide 18, if you look at the ambition 2017 targets, that, basically, we are delivering on almost all of the ambitions that we set out 2 1/2 to three years ago, when we launched our strategy.

The cost-to-income ratio and the return on equity, however, are impacted by this dramatic increase in regulatory costs for this quarter. But if you would equally distribute the regulatory cost over the four quarters of 2016, the first quarter 2016 return on equity would actually have been 10%.

Slide 19 is just an overview slide to show you how we have gone through restructuring and the separation of bank and insurance. That restructuring is now fully done with the final divestment of the stake in NN Group.

We're obviously delighted that we have completed the final divestment with the sale of 14% in NN Group in April. It's been a long journey since we started this process in 2009. We've done over 50 transactions, raising more than EUR40 billion in proceeds, often in rather difficult market circumstances. But it has helped us through the crisis, and it has made us an even stronger bank, going forward.

If you look at ING at this moment, we have a strong portfolio of leading banking businesses; our strategy is clear; and we are well placed to empower our customers and deliver sustainable results to our shareholders.

To wrap up and transfer to the Q&A, the quarter summarizes well on the volume growth, on the NIM improvements, on the stable commission income. So net interest income good; commission income good; financial markets weak-ish in the first two months of the year, and that's what you've seen on the results, on the income side. On the cost side, the regulatory costs that are much higher in the first quarter specifically.

But if you look through all of this, a solid development and a good result. The underlying performance is strong, and that's important.

I'd like to open the call to questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). David Lock, Deutsche Bank.

David Lock ***Deutsche Bank - Analyst***

First one for me, please, on the credit quality. I just wanted to ask if you could give any comment on, or color around, the shipping book. We've seen a couple of other banks that have taken additional charges here; just wondered if you could update us on the size of that business for you.

The second question is on regulatory costs. I think we've seen, over the last couple of years, an ever increasing regulatory cost bill. I just wondered if you could comment on how confident you are that this really is the total that we will have for regulatory costs now. Or do you think there is potential for further rises in regulatory costs, going forward?

I guess, if you could update us on how you are trying or how the -- how you're trying to offset some of that inflation elsewhere in the Group. I note you've got flat costs, despite loan balances up, but if you could just update us on the initiatives and how those are going, that would be great. Thank you.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

I'll give the first question to Wilfred, and Patrick and I will share the second one.

Wilfred Nagel *ING Group - Chief Risk Officer*

David, yes, on shipping, we have a book that consists of both the pure shipping, i.e., shipping companies' major lines, as well as container leasing, ship building, ports, and other services. The total amount is around EUR12 billion, and I'll give you a bit of a breakdown of that.

The large shipping companies' lines, of which you would recognize pretty much all the names, I'm sure, that's slightly over EUR7 billion with NPLs of 1.5%.

Then, there is the inland shipping and coastal shipping book of EUR1.3 billion. That is more problematic. I'll come back to that in a minute.

Then, there is the container lease business of about EUR2 billion with 0% NPLs; ship building and repair of about EUR0.7 billion with 0.8% NPLs; ports, EUR0.5 billion with 1.4% NPLs; and shipping-related services of EUR0.5 billion with 1.6% NPLs.

As you see, the vast majority of this book is relatively unproblematic with NPLs well below the global average for ING's book.

Turning back to inland coastal shipping, that has NPLs in the 20s, which I think shouldn't be a surprise, because a large part of this sits actually in the business lending books in the Netherlands that we have been showing pretty poor performance on for a number of years. It's now improving.

So a lot of the pain that we have taken on inland and coastal shipping has been taken, and has been taken through that business lending book in the Netherlands. I think it's important to make sure everybody understands the overlap there.

The provisions that we took on this whole book in Q1 were not material; they were well below 10% of our total provisions.

And maybe a general comment: there is a lot of talk in the market about shipping at the moment. What we see in terms of problems in that market tends to be related to non-recourse financing to partnerships. These have been heavily used in Germany, and, to a lesser extent, also here in the Netherlands, as investment vehicles for private individuals, helped by accelerated depreciation schemes that made it quite an interesting tax shelter.

The issue working out these loans is, obviously, that you're dealing with a number of investors there that are not interested really in injecting more capital or taking an active management role, and, therefore, you simple end up typically liquidating the collateral.

As I said, in our case, that part of the book is relatively small, and most of the issues have gone through the P&L over the past few years in the business lending in the Netherlands.

Ralph Hamers *ING Group - CEO and Chairman of Executive Board*

Patrick, on regulatory costs.

Patrick Flynn *ING Group - CFO*

Yes, on regulatory costs, there are three key buckets for regulatory costs, I think all of which are now in situ, which should mean that we should not see a significant at this level, like the EUR300 million level, of increase year on year.

The three buckets are deposit guarantee schemes. And there, the Dutch introduced one which come in to effect in 2016 we didn't have before, which is EUR130 million-odd, which is the reason for the bulk of the increase. We can get growth in that, but that would come from growing our franchise, but that should be relatively modest but in line with growth of our client franchise in both the deposits.

Then, bank levies, bank taxes, there's been an increase there, primarily due to the Poles introducing a significant bank tax. We have bank taxes from the Dutch, the Belgians, the Poles; and, to our knowledge, there are no other major countries where we're in they're introducing new bank taxes.

Then, the single -- or the resolution funds, euro resolution funds are in situ as well.

So the structural part is in place. Any further growth, as I say, should really come from growing the franchise, or unless some other country we're not aware of introduces a new bank tax. But, as I say, I don't expect this quantum of increase to recur again.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

Maybe on the accounting-wise, some of this is fully taken in the first quarter.

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

Yes, talking about full-year impact. But there is a timing impact which requires you to upfront some of this in to Q1, but the numbers I was talking about there are year-on-year increases. If you want, we can through the why it's Q1 versus, later on, I can do that as well.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

Then, going forward, how are we looking at offsetting those, clearly, this is such a big amount that you can't absorb those in the quarter, not even in the year.

Generally, we talk about different kinds of headwinds in low growth, low interest rate, as well as high regulatory cost environment. But we do see also there to be tailwinds, at least for a franchise like ING. And I think the whole digitalization is a tailwind for ING.

If any bank understands how do to use digitalization in order to improve customer experience, and with that make a company even more efficient, it is ING. Clearly, the offset, in the end, should come from how can we use digitalization for improving the efficiency of our franchise. And that customer behavior is only changing faster, so we can also improve and accelerate some of our strategy, and that's what we're looking at right now.

David Lock ***Deutsche Bank - Analyst***

Thanks very much.

Operator

Andrew Coombs, Citi.

Andrew Coombs ***Citigroup - Analyst***

Firstly, a question on NII; and then, I have one on financial markets' income.

On NII, there's obviously a number of moving parts within the NIM calculation, in particular. You talk about lower client [claims] rates, both in higher margin lending, a bit on the treasury and corporate line, which sounds like it's more one-off in nature; and then you talk just about the offset from lower reinvestment yield. Would it be possible just to break down between those factors, quantitatively, what's driving the small basis points increase QonQ?

Second question on financial markets, if we look at the income ex-CVA/DVA it's down 33% year on year. You draw out lower income in rates and equity, in particular, but I'm slightly surprised that your result is weaker than peers given your (inaudible) [the buyer]. Perhaps, you could explain what's causing the sharp year-on-year decline there, and why you've underperformed the broader industry. Thank you.

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

On interest margin, as you see, the aggregate increase is 4 basis points, which comes from a combination of factors. Some of them are interrelated, so it's not always that easy to pull them apart, but I'll try and help.

So, there's three things we've been doing; and again, there are the three leaders we've been talking about consistently over the last year, driven by our strategy. So, improving the asset mix in our balance sheet; moving away from pure mortgage growth to higher-margin assets. And we see success, particularly in challenger and growth markets, with increasing non-mortgage SME; and also commercial banking, also banking assets in those markets, which was a nice driver of NIM increase in that segment.

Optimizing the balance sheet as well, which, again, means as we grow our client franchise, bring in more deposits, we deploy those; they increasingly (inaudible) in originated assets, and less so in bonds. That's another lever that's been working well.

And then, we cut deposit rates, trimmed deposit rates, which gives a benefit as you do it, but it's against a backdrop of a persistent low-rate environment. So that's something you have to keep up, to offset that negative headwind.

And there were a couple of things in bank treasury corporate line, as you rightly point out, are likely not structural, like day count benefits you get in first quarter. We're 151 basis points for now.

What are we seem to -- what we try to achieve? Again, we're trying to keep our commercial margin stable-ish, as we've done previously. And how will that translate? Probably, in the high 140s basis points, where we will try to be throughout the course of this year. And maybe one or two of the increases is one-off related.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

Then, on your financial markets side, I can't compare to peers, I think it's for you to do. I can only talk about ING.

If you look at our financial markets franchise, and in the area of the foreign exchange business, the global security finance business, as well as the money markets business, those result have held up. In the global capital markets business, results were even further up. And in some of the interest rate business, as well as the equity products, that were down for us in this quarter.

Andrew Coombs ***Citigroup - Analyst***

If I could just come back on the interest margin. If savings rates were to be unchanged in the quarter, hypothetically, what would be the drag from the lower reinvestment yield in the current accounts?

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

I know you want more granularity in numbers, but forecast the future, which we're reticent to do.

The best I can give you is that what we've done so far, and we can continue to do for the rest of this year, at least, is that we can manage our deposit margins such that we can defer or defray the impact of low rates by managing deposit rates. We still have the ability to do that. Hence, with improving the balance sheet, optimizing the mix, the commercial margin, in aggregate, we think we can hold stable for the rest of the year.

Andrew Coombs ***Citigroup - Analyst***

Okay. Thank you.

Operator

Anton Kryachok, UBS.

Anton Kryachok ***UBS - Analyst***

Two questions, please. Firstly, continuing on the theme of margins, I've noticed that you've been active at re-pricing your deposit base in the Netherlands and Belgium. But the savings rates in Germany have been sticky for the last couple of quarters at around 50 basis points. Does it mean that you think we've reached a trough in deposit pricing in Germany, or do you think there is more to be done there?

And the second question, please, on capital and then dividends. You've set aside 100% of this quarter's profit for dividends. That is, I think, roughly equivalent to half of all the annual dividends you've paid last year, so if you continue at the current pace you will quickly provide more than the last year's worth of dividends.

How should we think about capital accretion, going forward? Are you planning to set aside 100% of next quarter's profits as well until you reach a certain point and then 100% of profits will go in to the capital build? Some more color on dividend accretion would be very helpful. Thank you.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

Thanks, Anton, for the questions. On margins, yes, we did move the rates in Germany in December. And clearly, the way we move rates on the savings side it really depends on a little bit the market, the customer behavior, the funding that we need to fund also the lending side in general. So it's a combination of factors that makes us move rates on the savings side.

The only think I can say is that over the next couple of quarters, as Patrick was already saying, whether we're talking Germany, or the Netherlands, or wherever, that generally it's the management of your savings rates on one side, with the lending margin on the other side, as well as the move of the lending book away from mortgages towards higher-yielding assets, that will create the mix of keeping an overall NIM that is high 140s basis points.

Yes, so sometimes we can change and we can decrease our savings rates. And where we feel we can, together with keeping the interests of our clients in to account as well, we will certainly do so, and there is room then.

On the capital dividend front, yes, last year already we showed you that we wanted to have a practice in place if we don't have to reserve our profit and put it in to capital. We want to keep it separate in order to build a reserve so that we have flexibility to determine our dividend going forward, to the dividends, both interim, as well as final. But you can't read anything in to this as to whether we're going to pay this out in full or not, and what our payout ratio will be.

It's just that we look at two factors. One is how can we make sure that we have a reserve to pay out dividend, on one side, and how do we make sure that we will stay in to category one, as determined by the ECB; i.e., how do we make sure that we comply with the fully loaded core equity Tier 1 of 12.5% for us so that we are at liberty to pay dividend without approval. And those are the two factors that we take in to account and so that we have the flexibility to pay dividends.

Now, honestly, I think the whole thing is a good problem to have. So, yes, it's -- and on the dividend side itself, as you said, we have indicated, when we launched our dividend policy, that, that will be a dividend that will grow over time, progressively.

But also this year, given the fact that we do see some regulatory changes to come, we just don't know their impact yet, we have to be cautious in coming to a final conclusion on it.

Anton Kryachok ***UBS - Analyst***

Thank you. That's very clear.

Operator

Pawel Dziedzic, Goldman Sachs.

Pawel Dziedzic ***Goldman Sachs - Analyst***

Two questions from my side. The first one is follow up on the regulatory cost.

You mentioned that you would not expect a similar volatility in regulatory costs going forward, but can you -- when you look at your regulatory charge for this year, EUR960 million, you booked right now around 50%, or slightly over 50% of that. Can you confirm that you have full clarity on the remainder of the charge? In other words, are there any assumptions that you still have to take over the scope of the regulatory charges in the remaining nine months of the year?

And then, I have a follow up on asset quality. You mentioned that NPLs and impairments slightly increased in your oil-related portfolio, but could you comment if the deterioration is in line, above, or below expectations?

And how should we think about losses related to reserve-based lending, given the oil prices are now above 30% level that you indicated in the past? Would you still expect those charges to increase in the second half of the year? Thank you.

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

On regulatory costs, we do have a reasonably good view, based on the correspondence we've seen from regulators, and interpreting the rules that have, in some cases, just recently been published on how these regulatory costs were computed.

And Ralph has referred to his homework on IFRS and understanding of IFRIC, which I'm very impressed about; puts me -- embarrasses me by his technical knowledge. So we do have a reasonably good insight on that. And I think we tried to put it in the slide on page 13, an IFRIC proof distribution of regulatory costs is laid out for you there.

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

Yes, on oil and gas, you have, in the appendix to Ralph's presentation, on pages 33 and 34, both our usual disclosure, as well as a little bit more detail, so I recommend you have a look at that.

Regarding your question on how do we see the deterioration given current oil prices, well, obviously, a higher oil price helps. We should keep in mind, though, that what protected us partly in the times that oil prices were even lower was hedging. That, of course, works the other way round now a little bit, because we won't see the full benefit of the oil price increase on some of these credits because of the hedging, either. Having said that, the book is behaving pretty much as expected.

Talking about reserve-based lending in particular, just, anecdotally, we've seen, over the past four months or five months or so, about 60-odd bankruptcies in the reserve-based lending business in the US. Three of those were ING clients: one ended with no loss and has been finalized. One, where we started with, just an interesting anecdote I think, about 110 million of exposure, we're now down to 10 million, and we expect to come out of that also with no loss. And the third one had a small single-digit loss on several tens of millions of initial exposure.

This underlines, although it is anecdotal, Ralph's point about these loans being senior secured and not at all comparable to high-yield bonds, or second lean, and mezzanine tranches. It really depends on where you are in the capital structure what the impact is.

Having said that, yes, we will continue to see some pressure on the oil and gas-related book. Reserve-based lending is one area where we do expect to have some losses. But certainly, at this point, we don't expect any dramatic deterioration compared to what we have been saying earlier.

There is also the offshore drilling and services part of the business. That depends, on one hand, on the continuation of a number of big producing wells. That, in the areas where we operate is a business, which we've mentioned before, is very high CapEx, but relatively low OpEx, so lower marginal lifting costs than the current prices. Most of these fields simply continue to produce and, therefore, continue to consume services.

However, what we are seeing, of course, is slowing growing impact of the cut back on investments in new projects; and that, over the next few years, will obviously bring some more pressure on the offshore drilling and services book.

On the whole, I don't think we need to make any changes to our guidance. We gave you the results of our internal stress test last quarter, and we said that, at $30 for a long period, we would see the risk cost between 2014 and 2015. And if it were to stay at [$20] for a long time, we would expect to go back to the 2014 levels for 2016. I think, at the levels where we are currently, we're still looking at risk cost guidance around last year for the total of 2016.

Pawel Dziedzic ***Goldman Sachs - Analyst***

That's very clear. Thank you very much.

Operator

Bruce Hamilton, Morgan Stanley.

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

If I could just come back on costs. Obviously, you've given us good color on the regulatory costs, and a degree of confidence that hopefully the EUR960 million is the right number.

On the underlying costs, though, if I look versus Q1 last year, cost grew at about 3.5%, so obviously you're much more stable on the subsequent quarters. How should we think about the underlying cost base for this year? Should -- is it better to look at it at least a small single-digit percentage growth? Or does the move in towards digital and what you're doing with your business mean that you think you can get things much nearer to flat?

And then secondly just on the RWAs in the Group, obviously, they drifted lower by a couple of percent in the quarter, so just to understand how you were able to manage that down; whether that was largely FX driven. Or other drivers in terms of the RWA modest decline? Thank you.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

Yes, on the cost side, basically, the underlying cost we expect going forward in the next quarters to be flattish.

It's a mixed bag, really. We see that the restructuring programs that we announced last year in the Netherlands, basically, an extension of that program. Belgium, and the commercial bank, and the wholesale bank, basically, those are delivering, so we see costs going down in some areas of the bank.

But then again, we don't mind cost increases if it leads to further income increases. So over the last couple of quarters, you have seen costs in the industry lending business, the franchise, we have hired people there. In Germany, we have shown that last quarter as well, that we didn't mind cost going up in Germany because income was going up even more rapidly.

What we do generally is that where we save money we can actually invest in franchises where we do expect growth; and for the foreseeable quarters, is exactly what we want to do. So flattish costs moving around this level is what you can expect.

On the risk-weighted asset side, I'd like to give it to Wilfred.

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

The main components of the changes in the risk-weighted assets are, on one hand, lending volume, which created an increase of about EUR4.5 billion, partly mitigated by FX changes, which created a drop by about EUR3 billion. Then, there was a credit migration for about minus EUR1 billion.

The biggest drop in risk-weighted assets came from the operational risk side, where we had a model update that both reflected industry data, which led to a slight uptick; our own internal scenario analysis and projections, which led to a slight decrease and some incremental diversification benefit as well. And then, market risk was up slightly, but that hovers around EUR10 billion for a long period already. So those are the main changes.

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

Very helpful. Thank you.

Operator

Kiri Vijayarajah, Barclays.

Kiri Vijayarajah ***Barclays - Analyst***

Going back to financial markets, it does seem to get allocated with a lot of the regulatory costs within the wholesale bank. I know you've front-loaded some of the regulatory costs in to 1Q, but is your expectation that moves back above breakeven for the rest of the year?

Then, more generally, given regulatory costs aren't going to disappear any time soon, do you think you might need to do more shrinking or rationalization within financial markets? Because, on the basis of what we're seeing at the moment, it is a drag on the ROEs in the commercial bank. Thanks.

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

Yes, the EUR50 million of the regulatory cost goes to the financial markets, [that EUR12 million] the same quarter of last year. Those are the regulatory cost numbers.

That's not the real driver. The revenue fall is more to do with the pretty horrible markets in January and February and clients simply weren't active. That is not likely to stay forever. I think March was a little better, and we'll see how sentiment improves. It's more about dealing with client flow, and as that picks up we would hope to see improvements.

All of the revenue lines within financial markets were positive. So it's not about losing money and taking positions; it's more the volume of client activity was very low, which is a common phenomena, I think, across the market.

Yes, but, of course, we always look to optimize and improve our business and respond to whatever structural changes we may foresee coming in all of our business lines.

Kiri Vijayarajah ***Barclays - Analyst***

Okay. Thank you.

Operator

Ashik Musaddi, JPMorgan.

Ashik Musaddi ***JPMorgan - Analyst***

Just one question on your loan book growth. You achieved a loan book core lending growth of around EUR7.1 billion in this quarter. First of all, a large part of that is still coming from the wholesale banking, so can we get a bit more color about what is it? What book is it, because it mentioned industry lending and general lending, etc?

And just related to that is what sort of margin uplift are you getting because of this shift away from retail in to wholesale banking? Any color, again, on the margins you are getting on this new book.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

In the wholesale bank, it's a mix between industry lending, as well as general lending, as you saw.

Basically, in the industry lending side it's a bit across the different franchises that we have. It's no particular franchise that grows faster than the others. You see here the growth in euro. It's a dollar business, so in dollars it has been -- sorry, in euros it has been stable; in dollars, it has been growing.

On the general lending side, we see quite some growth coming through there as well, which is related to normal client franchises, as well as the transaction services business that we are growing in.

So it's truly across the board. It's none growing faster than the other. It's basically across the whole franchise, and that's basically the healthy aspect of this.

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

On the margins, obviously, wholesale banking margins are higher than mortgage margins because they are priced that way, and because you've much lower loan losses expectation on mortgages -- retail than you have wholesale banking. So they are higher. That's the pay for the inherent risks that we run in them.

Ashik Musaddi ***JPMorgan - Analyst***

Yes, the one thing I wanted to check is, is there any sign of margin compression in the retail banking as well? Because one thing I'm struggling with, if I look at your pre-tax reserves in Germany it's more or less flat for five, six quarters, whereas, I presume, your book has still grown in that business. What is driving that? Is it margin pressure you are seeing on that business, on the asset side -- sorry, liability side?

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

I think that's a big success that we can grow, bring in new clients, bring in new deposits, which we have to pay 60 bps on, and keep the margin slowing increasing. This goes to the whole point around the strategy on optimizing the balance sheet and mix is that we can grow that franchise, bring in new clients, and put that money to work.

Again, if we can continue to do that and hold the margin stable we'll be more than happy. Growing a franchise and keeping your margins stable in this environment is, I think, not a bad achievement, in my humble opinion.

Ashik Musaddi ***JPMorgan - Analyst***

Okay, that's wonderful. Thank you.

Operator

Farquhar Murray, Autonomous.

Farquhar Murray ***Autonomous Research - Analyst***

Just two questions, if I may. Just starting with the financial markets business, this did come in weaker than expected. I think you hinted towards this in the last question, but could you just give a sense how activity in 2Q is panning out as compared to the experience in 1Q; namely, particularly, how April compares to earlier in the year, particularly on the rates and equity derivatives businesses?

Then, just on the retail Netherlands, expenses excluding regulatory costs came in at EUR601 million for the quarter. Could you just identify how much restructuring provisions are actually in that figure? You seem to reference some in the text, but I just don't -- I wouldn't mind a sense of the magnitude, please. Thanks.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

Okay, on the financial markets side, well, what you've seen in the financial markets side is that given the fact that our financial markets business is increasingly so a real client business, that in the first two months of this year that clients were really waiting for developments to stabilize, the markets to stabilize, before they would take out their hedges that they would normally do in the first two months.

Some of that business we've seen coming back in March, and we also see it coming back in April. So March and April look much better than January and February on that side.

Now, the restructuring expenses in the Netherlands?

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

Yes, the big ones we tell you about, some of the more regular, because we're constantly trying to optimize and improve.

Ralph talked earlier about what we're trying to do to improve efficiency and effectiveness. So there are, nearly every quarter, some degree of restructuring provisions we take. We don't give a number on them every quarter, but low mid-teens is in the order of magnitude.

Farquhar Murray ***Autonomous Research - Analyst***

Okay. Thanks.

Operator

JP Lambert, KBW.

JP Lambert ***KBW - Analyst***

Two areas of question, if possible. The first one is the latest proposal on the Basel III, Basel IV area, the switch to standardized approach for large corporates, institutions, and project financing. I was wondering if you have some views on the likelihood of this being implemented, and the process of developing that area.

The second point is the outlook for volume growth, going forward. You benefited from wholesale banking growth this quarter, and over the previous ones; but, going forward, you've always indicated that you expect growth coming from other areas, such as SME lending and consumer finance. However, you are still at the pilot base, and I was wondering if the quantum development required will be able to help you to sustain the growth rate you have in mind. Thank you.

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

So, yes, on the regulatory costs, what we see, when you hear is that the eminent individuals within the ECB environment, and I think also the UK, for that matter, are saying that the quantum of capital and system is adequate, and they believe in advance models, but what we see coming out of the [Basel] Committee is not consistent with that; it hasn't been for some time.

The positive thing is that there's increasing regulatory recognition that these things are not -- these statements are not aligned. And we, as an industry, are working together with our colleagues in the banks to keep updating the QISs for the three different Basel -- three, four, whatever you want to call it, iterations and present the impacts back to the regulator.

So, we're working very hard on the regulatory lobbying front to make sure that there is a very clear awareness within the powers that be of what [Basel] is saying, and that it is not consistent with the express wish of the leaders of the ECB.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

Now, on loan growth, I think you're right in terms of when will you see the quantum. We see high growth rates, actually, but they start from a low base, if not a base that is not even there, right? In some of the countries in which we are piloting, we don't really have an SME base, or a consumer base, but in the more growth markets we do.

What is important to us is that we see the growth, and that we see the growth happening at high percentage levels. But from a quantum perspective it will never -- it will not be as visible yet, as you see some of the success that we have in the wholesale bank.

And yet, what is important is, and that is what you see in slide 7 of the deck, that you do see the asset mix changing over time; and that in the SME and consumer finance area, which is the grey part of the stack bar, you're seeing it growing from EUR27 billion to EUR34 billion.

So, it has the higher growth rate, higher than mortgages. It's not as high as the commercial bank in those markets, but it is growing with 11.5% in just over a two-year period. So, it's not bad. You see it there. And it's happening.

These are important engines for us. It's also important that we show our commitment to the economies in which we get our savings there as well.

So, the momentum is there, but before you see it back in billions and billions and billions, yes, you see it takes a little bit longer. But it's happening, and it's happening at double-digit growth.

JP Lambert ***KBW - Analyst***

Thank you very much.

Operator

Paul Fenner, Societe Generale.

Paul Fenner ***Societe Generale - Analyst***

I've got a couple of questions. The first is, in terms of your resolution strategy, given that you've now sold down NN, have you decided what strategy you're going to use in terms of holding company operating bank? And can you just give us a bit of color as to what the issues are and what it is that you're waiting for?

And the second question is in terms of bond issuance you've done one Tier 2 issue this year, but you haven't done any AT1 for over a year now. I just wanted to get a sense of what your near-term plans for subordinated debt issuance were. Thank you.

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

Okay, so we have to find out from the Dutch authorities what the resolution entity will be. That was promised clarity, that was promised about this time, but it seems to be slipping back, probably towards the end of the year.

We're in a strong position. We have a holding company, we can use that; we have the operating company as well. And it's really up to them to decide which one they want us to use. Until we know that, it's difficult to change your issuance strategy.

What we were able to --

Paul Fenner ***Societe Generale - Analyst***

Do you know what it is that they are waiting for?

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

We are waiting for the regulator to indicate to us what -- which entity should be a resolution entity. And once you understand that, that is the entity from which you are going to do your issuance. That's either a holding company, or an op company. The point is we have both, so we have optionality on that.

What we did -- the first two quarters were horrible for the markets, particularly for tier 1 issuance. Pretty widespread there. Given our strong capital position, we didn't have to move there, so we didn't. But what we did do is a bit of an innovative Tier 2 issuance, where we issued the debt of the Bank with an option that within two years we can move it up to the Group, so we priced that optionality in to the structure.

Paul Fenner ***Societe Generale - Analyst***

And, sorry, near-term plans over the next couple of quarters?

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

Yes, we don't comment in advance. But we have a strong capital position, we have a lot of flexibility, given the long-dated grandfathering of our hybrid, so we'll take our time and pick our moments.

Paul Fenner ***Societe Generale - Analyst***

Okay. Many thanks.

Operator

Alex Koagne, Natixis.

Alex Koagne ***Natixis - Analyst***

Just one or two follow-up questions from my side. The first one is on the NIM guidance. I think that you were guiding for a stable net interest in 2016 compared to 2015. Is that something that you can confirm today, given the good Q1, and also the low margin and the low interest rate? (inaudible), I'm just trying to understand what is your view on net interest income.

And then, on commission, I was just wondering whether you expect your commission to grow in 2016 compared to 2017 -- 2015. Thank you.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

On NIM guidance, Alex, yes, you're right. I think also what you see this quarter, that the NIM is actually up a little bit. We can actually confirm that we can manage the 2016 NIM stable versus 2015.

It's a mix of things we use. It's the funding side, the savings, it's the lending side and moving towards high-yielding assets as well, so it's a mixture of three. But for 2016, we are quite comfortable on managing that the higher 140 basis points level, so that's stable versus 2015.

On the commission side, yes, so, clearly, on the commission side, if you look at our interest -- if you look at our income picture, you see that we're, in comparison to others, a little bit lower on commission, but our commission income has been stable.

We actually feel that there is opportunity on the commission side in our model and that -- so we do expect commission income to grow as well, and even more so going forward. That's basically the core of our strategy: not so much the commissions, but the core of our strategy is the primary relationship in a digital market through which you understand your client much better, and through which the client really looks at you as their main Bank. Then you do get the cross-buy; and linked to that cross-buy will be higher commission income. So that's the whole strategy.

Alex Koagne ***Natixis - Analyst***

Thank you.

Operator

Anke Reingen, Royal Bank of Canada.

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

I just wanted to follow up on net interest income. Firstly, on your guidance, or your commentary about the net interest margin, I thought earlier on you said you can hold it at the Q1 level, around stable for the rest of the year. I guess, that would refer to the 151 basis points minus, let's say, the 2 basis points, that would be more like 149 basis points. While you were just saying you expect it to be stable versus 2015, which would be the 146 basis points, so if you can maybe just clarify for the net interest margin for the rest of the year.

And then, on the volume growth, which was obviously very strong in the wholesale Bank in Q1, I just wondered, do you see the level as sustainable given the investments you made? Or is it part of the nature of the business it's quite lumpy on the quarters, as well? Thank you very much.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

On the NIM, yes, we can just reiterate what I've said, and what Patrick has said, is that we think we can manage it at the higher 140s level. So it could be 146 basis points, could be 149 basis points in a given quarter, depending on how financial markets turns out; it could be a bit higher; it could be a bit lower. But the high 140s and, therefore, stable versus 2015, is where we see it, being able to manage it going forward.

On the volume growth, yes, we do think that the growth is sustainable, whether it's front loaded in the year or not. What we have indicated it is that, and we always indicated, that we expect a 3% to 4% lending growth per annum. Now, sometimes it's more in the first quarter in the one part of the business, and sometimes it's more in another quarter in the other part of the business, but it's the 3% to 4% lending growth that we feel comfortable with over the year.

So, if it is a little bit lumpy over the quarters it is, it could be. But the wholesale banking franchise is a franchise that is a global franchise. It's an industry-lending franchise on the lending side and the general lending franchise. We're not necessarily dependent on how the developments are in the eurozone. It's truly global in different industries. So, yes, we feel quite comfortable that we can continue the growth as indicated, 3% to 4% over the year. Thanks.

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

Thank you very much.

Operator

Robin van den Broek, Mediobanca.

Robin van den Broek ***Mediobanca - Analyst***

Coming back to NIM, looking forward a bit further to 2017, if I understand you correctly, you're basically saying high 140s for 2016. Probably, you will need to use some of your deposit rate cuts to keep it at that level.

How should we look at 2017, given that we're early and interest rates clearly lower for longer? Do you still feel comfortable with the 150 basis points to 155 basis points target you've put in place, or should we hope that we can keep it in the high 140s?

Second question relates to the D-SIFI. I think, on previous Q4 earnings call you indicated that if there's more regulatory clarity you would see a chance that the regulator might reduce the D-SIFI. However, in a recent financial stability report of the Dutch Central Bank they seemed to make a connection of the D-SIFI with the relatively sizeable banking landscape in the Netherlands to GDP and the fact that the DGS is not funded yet, that will lead -- that will take up until 2024.

So it seems that, that financial stability report could imply that the D-SIFI is going to stay at that level for at least -- a lot longer than the end of this decade. Happy to hear your thoughts on that.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

Robin, in 2017, well, to be quite honest, I think it's too soon to say. Things are developing so quickly these days; things are changing around so quickly, it's really difficult.

In terms of the guidance, the ambition that we have indicated when we launched the strategy, the 150 basis points, 155 basis points, that was a mix of improvement of margins, moving to higher-yielding assets as well, and that's exactly what you've seen us doing.

But clearly, when we launched the strategy we hadn't foreseen a low-interest rate environment, at least not to this level. So, depending on where we are, I think it's too soon to tell on that one.

Then, on the D-SIFI, it's there, and we'll have to manage with it, that's on one side. And whatever the reason is why we have it, I don't think that's important to -- well, it's not so important to us.

What we always basically use as arguments is that we do believe in the European banking union and, therefore, we do believe in a level playing field for European banks. And we happen to be one of the larger European banks, if not the most eurozone bank on the savings side, and, therefore, we do plea for a level playing field. And in that case, the D-SIFI is not helping us. So that's certainly our plea: a level playing field.

Robin van den Broek ***Mediobanca - Analyst***

Yes, thank you.

Operator

Alicia Chung, Exane.

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

Just one final question for me, really. Provisions clearly came in below even your base case if you annualize that quarter for the full year. Can you give a little bit more guidance from here? Would you expect that this would improve your base case outlook now?

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

Well, you need to keep in mind that quarter on quarter, in particular, the wholesale provisions can be quite lumpy. And you see in one quarter sometimes a big release, in other quarters a bigger [fall] coming in with new provisions, so it's not really helpful to look at it that way.

We have indicated that we believe the overall 2016 number is going to be around 2015 under the current macro circumstances, and that guidance remains.

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

Okay, thank you. And, sorry, just one last question. I know we talked a little bit about where the net interest margin might land in 2016, and then further out. Could you give a bit of a view of where you expect deposit rates might floor, just because, obviously, that's one of the key levers that you will pull from here? And we're already at relatively low levels, but perhaps there's further to go.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

Yes, well, if I had a crystal ball I wouldn't probably be doing this job, actually, because then I would know everything for certain.

So, where would deposit rates floor? We're looking at a situation in Belgium where the floor is actually set by the legal environment, so we have a 11 basis points floor there. That's the floor, legally. It's different per country.

I think what's important is that we feel that the coming quarters we have enough room to manage between lending margins; the composition of the asset base; and also savings, to make sure that overall we have a growing franchise and that we serve our clients very well.

And where deposit rates may actually floor, I can't really indicate. The direction is down, but it's as much as I can see, because this is -- you see the interest rates going down and, therefore, there will be more pressure on deposit rates, going forward.

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

Thank you.

Ralph Hamers ***ING Group - CEO and Chairman of Executive Board***

Thank you. Thank you, all. I'd like to wrap up this call.

If you look at the quarter, the underlying development, the business development has been really good, 250,000 new clients; 100 new primary relationships; [EUR9 billion] of new savings; core lending up EUR7.1 billion. With that, the net interest result up, and the commission result stable.

The other income, specifically in the financial markets side, we have seen a weaker quarter, and we have explained that as well.

On the costs side, stable costs, lower risk cost, but the higher regulatory cost, but that disproportional for the quarter.

Overall, we feel quite well with the performance. But we do see challenges ahead and, for that, we are convinced that our Think Forward strategy is exactly the right strategy going forward, in a world where customer experience is what counts and how you can grow.

So, thanks very much. And talk to you later. Bye.

Operator

This concludes the conference call. Thank you for participating.

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