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PRESENTATION

Operator

Good morning. This is Patricia Klosov welcoming you to ING's Second Quarter 2018 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 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 the Executive Board & CEO*

Hi, good morning, and good morning, everyone. Welcome to the second quarter 2018 results call. As always, I take you through today's presentation. Our CFO, Koos Timmermans, and our CRO, Steven Rijswijk, are here with me.

Just to go through the key points. I think we can be happy with the quarter. ING's group net profit was up 4.2% than the same quarter last year at EUR 1.4 billion. Just like in the first quarter, we recorded a strong core lending growth of just over EUR 14 billion and a well-diversified and disciplined growth. Also, fee income was strong and risk cost remained low.

On the Retail side, primary customers increased by 400,000 to 12 million, and that's real good growth and partly helped by the inclusion of Record Bank customers as per the second quarter and that's 80,000 out of those 400,000.

The second quarter was a very important one for our colleagues in Belgium. And they successfully completed the legal integration. They successfully migrated all of the Record Bank customers to ING. And I will provide you with some more details later in this presentation.

And given our strong focus on transformation, the digital spend remained fairly high in the quarter. You will see that as well. The group



CET1 ratio ended the quarter at 14.1%. That's mostly due to the strong lending growth and the fact that we keep setting aside profits for future dividend payments. Over the first half of 2018, we will again pay an interim cash dividend of EUR 0.24.

Moving to Slide 3. This slide illustrates that we are on the right track with regards to our Think Forward strategy. Total Retail customers now exceed 38 million, while primary customers are up to 12 million. As said, this now also includes Record Bank. And that's versus the target of 14 million by the end of 2020. Again, this quarter, we saw net core lending growth outpacing the customer deposit growth. That helps us in this low rate environment to defend the NIM.

Net core loan growth for the quarter stood at EUR 14 billion. That brings the balance to 4.6% growth since the start of the year. Net customer deposits inflow were EUR 5.8 billion for the quarter and over EUR 8 billion in the first half year.

As for the second quarter, we ranked #1 in 6 out of our 13 Retail countries in net promoter score, in other 4 markets we rank #2.

Across ING, as you know, we are all focused on ensuring the success of our digital transformation and delivering on our ambition to create a scalable banking platform across different Retail Markets, like we have basically done across all of the Wholesale businesses as well.

And given the importance of the Belgium and Dutch markets for ING, we'd like to give you kind of a heads up as to where we are in the future integration of these Retail Banking businesses. So on this slide, you basically see the trajectory and the steps that we are making towards the full integration of the Belgium and The Netherlands platform.

In 2017 -- the end of 2017, the beginning of 2018, we already put in place a cross-border delivery organization. We rolled out the agile way of working in Belgium and made it consistent with the way we work in The Netherlands. And these are now cross-border integrated teams, the way we operate.

But I think that the most important transformation milestone today has been reached in the second quarter of 2018 and that's the successful migration of Record Bank customers to ING in Belgium. The 600,000 Record Bank customers now benefit from one consistent client service model that we deliver from an ING perspective and basically, they are now catered for by the ING branch network.

I think there was -- making these milestones, knowing that -- making these milestones smoothly, doing this integration, doing this migration of clients smoothly, that is only because of the relentless efforts and focus of our colleagues in Belgium and The Netherlands. At the same time as we're undergoing this major transformation, as you can see later in the presentation, they've also managed to retain the strong commercial momentum and keep their focus on the customers. And I have enormous respect for our colleagues in Belgium and The Netherlands as to what they're pulling off. It's really a job very well done up to now.

Turning to Slide 5. Just to give you an insight as to how we're building the go-to platform for our financial needs. Also, in the second quarter, we continued to build on this ambition in order to ensure that we can actually cater for all the financial needs of our customers. As you know, we announced this quarter the partnership with AXA to create a fully digital insurance platform. That platform will be offering clear, easy, customizable protection products to the Retail customers in 6 of our Challenger markets. And this is what we do. This is where we build a client base that is delivered and serviced in a digital way. And then we look -- once they are our primary customers, we look as to what are the other needs they have and how can we fulfill these needs. And in fulfilling those needs, we don't necessarily need to do that with our own products if our colleagues like AXA can help us delivering differentiating products in our differentiating experience. That's platform business.

And therefore, I'm pretty excited about these partnerships because, for example, in this one, in the AXA case, we will offer 13 million existing ING customers, and growing, as well as of course non-ING customers the opportunity to get access to new personalized and digital insurance offering.

But we also do this on the SME side. For example, for SME customers in the Netherlands, we have partnered with Funding Options.

That's a digital platform that will help Dutch SMEs to find the best funding solutions with their growth, again here offering next to our own solutions in terms of loans, to the extent that doesn't fit the need of the customer, they will have an option of third-parties to help them.

With the same in Germany by investing in FinCompare. That fintech empowers SMEs to easily compare financing alternatives as well and the comparison element of these services that helps building platforms.

And we also develop things in-house, as you know. And then I -- basically, I'm turning to Yolt. Yolt now has 400,000 registered users, is ready for the next step in its early life, which basically means that we have decided to expand Yolt in France and Italy.

Turning to Slide 6. This is an update that you get every quarter as well because sustainability is integrated throughout our business and we are mindful of the important role that we can play, in amongst others, the energy transition. It a crucial one in order to make sure that as a whole we fulfill our commitments to the COP21 and -- so in the second quarter, we continued to pioneer sustainability-linked financings. What we did is we offered loans that are linked to a company's own sustainability KPIs. So where in the past the [EOD] innovation was in making sustainability loans that were tied -- of which the margin was tied towards the relative performance of externally rated sustainability indexes. Now basically we go one step further and we look at what are the internal sustainability KPIs of a company and can we actually connect margin to their progress on those sustainability KPIs.

We did so with DSM and Renewi here in the Netherlands. We also work with Gecina, which is what you see here on the slide as well. That's a real estate trust. Also, there we did a sustainability-linked loan and this was the first revolving credit facility of its kind here as well.

And for Dutch Retail customers -- real estate customers, I beg your pardon, our Energy Robot was launched to help them detect how much energy is being wasted in buildings. Basically, what this robot does is, is it makes a scan, generating recommendation, reducing waste up to 15%. And you know that basically energy efficient buildings are the ones you want to have on your books and therefore we help our customers in making sure that they do have the right buildings and they invest in this as well.

And last to be mentioned here is that for Australian bank Macquarie, well known to you as well, we acted as Green structuring advisor for a Green Loan that was structured according to the Green Loan principles as published by the Loan Market Association. And we as, ING, helped to co-develop that.

As you're used from us, every quarter we highlight a particular part of our business. So let me now take the opportunity to talk about one of ING's platform businesses that we actually don't talk much about externally and that's Interhyp. Interhyp is the largest mortgage broker in Germany. It's fully owned by ING. It's a true example of a fintech that revolutionized a market which was dominated by traditional players. So it started as an online offering and it built also physical distribution and the combination of it is what makes it so successful.

And that online offering and the complete digitally enabled mortgage platform that they have built can now offer mortgages of well over 400 banks. And if you combine that with independent advice and through more than 100 offices, you understand why they are ranked so high in terms of customer satisfaction and win the different awards over many years in a row already.

This business is a fully income driven business. It has got a very strong profitability. Focuses on net promoter score just like the rest of ING does as well. And the volume share of banks on the Interhyp platform fluctuates because basically they advice what is best for the customers. ING is one of the banks that -- ING Germany is one of the banks offering their products through Interhyp. And through the combination of strong processes and attractive product features, we constantly rank amongst Interhyp's top 3 partners. But again, they advise specifically clients, so they actively distribute third-party products here as well.

What we also do, at least ING in Germany does, we refer clients to Interhyp that do not match our -- ING's -- criteria and those clients who ask for personal face-to-face advice we basically refer them to the Interhyp offices. It's a very good model. It's a very nice example of an open platform. And it also shows you how the 2 can go hand-in-hand and create a combined success.



Now turning to the second quarter results, Slide 9. Look at the numbers here. The underlying pretax result was just over EUR 2 billion in the second quarter. It's the highest quarterly pretax result we've seen during the past years. The quarter's pretax profit is basically as a result of continued loan growth at resilient lending margins, combined with higher fee income. Risk cost remained relatively low.

On a 4 quarter rolling basis, the return on equity, the underlying return on equity improved to 10.4%. In the quarter, the underlying return on equity was 12%, and that's because Q2 has lower regulatory costs. Basically, the regulatory costs are seasonal and therefore in Q2, we show a higher number.

Sequentially, underlying income was up about EUR 30 million and that's largely due to the stronger income in the Wholesale Banking lending franchises. Year-on-year, underlying income was also supported by the strong underlying business in Retail and Wholesale, but was affected by a weaker performance in financial markets and foreign exchange impacts.

And if you compare year-on-year, in the second quarter of last year we had this one-off gain on the sale of an equity stake and that was -- basically contributed EUR 97 million to the result a year ago. So if you correct for that, you see that the underlying business is really developing very well and supporting the income going forward.

The NII, excluding financial markets -- and now I'm on Slide 10 -- increased 2.1%, as you can see. And that's mainly explained by higher interest result in the Retail Challengers and Growth Markets and Wholesale Banking.

Customer deposit margins continued to be impacted by lower reinvestment yields. In the quarter, the savings margin was positively impacted by core savings rate reductions in Germany and Austria. We further decreased our savings rates there, so we have been able to cushion or absorb some of the pressure there.

Net interest income on customer lending improved year-on-year as we continued to lend at higher overall margin overall lending margins. And that, as you know, is partly the result of our changing asset mix.

Our NIM continues to be at healthy levels and in line with our high 140s to low 150s guidance that we have given you over the last couple of quarters. So that looks like a good performance as well.

Then if you look at -- let's zoom into the core lending businesses and a growth of EUR 14.2 billion in the second quarter. And I'm sure the questions are going to be -- are going to come, but this growth does meet our risk appetite framework. We do see a bit of increase in competition. And in all of that, we remain return focus and do not compromise on structure. And that's a core element of how we are basically and how we do our business.

Again, this quarter, nearly all lending franchises contributed to the net growth. You see a very well-diversified picture here from both a Retail, Wholesale Banking perspective as well as a regional perspective. Retail Netherlands saw modest growth in both mortgages and business lending. I think it's a positive sign. The Netherlands from that perspective has really cut the corner now, so basically has come around. It's doing quite well.

Retail Belgium, as mentioned already, continued to have very strong commercial momentum notwithstanding the transformation. Retail Challengers and Growth Markets also continues on its growth trajectory and you see a well-balanced expansion into both mortgages and non-mortgage lending on Slide 12.

In the Wholesale Bank, in that core lending, growth was EUR 6.1 billion. We saw much higher number of longer-dated deals and that supports a small increase in lending margins that I talked about earlier.

So as I mentioned in Slide 12 in terms of the diversification of the different sources of lending that we do, you may remember that when we launched Think Forward in the beginning of 2014, we basically indicated that we should build different lending capabilities. And I think that this slide shows you that we have become less dependent on one asset class. 4, 5 years ago, we were very dependent on the

asset class of mortgages. And basically, you now see that what we -- and have looked at growth in terms of other lending and that is actually happening.

For example, in the Retail Bank, we see other lending, which is higher yielding -- non-mortgage lending that is growing by EUR 4.5 billion in the quarter. And in the Wholesale Bank, you see also basically different areas growing. But again to mention, I think it was important, that it's the longer-dated project and asset-based finances which has supported the NIM, but also the fee income. So from this picture, you can actually see that we have well-diversified lending growth in product, sector and geography.

Turning to the fee income and commission income, came in at a strong EUR 717 million. That was up EUR 56 million or 8.5% quarter-on-quarter. This was driven by the increase in most of the retail countries despite an overall weaker activities in retail investment products. And that basically puts some pressure on the fee levels in countries like Belgium and Germany. Q2 also saw higher fee income in industry lending and general lending and transaction services. The latter is supported by the inclusion of Payvision. We are consolidating the results of Payvision. And the commission income in Payvision is reported as part of transaction services.

Fees in Financial Markets were down and that's as a result of lower deal activity in corporate finance and capital markets. We had a very good first quarter in that and the second quarter was okay. Financial Markets, in general, had a difficult quarter. Client activity was lower. Revenues were furthermore impacted by the lower rates in Europe and the tight credit spreads. But I'm sure you've heard that from some of our colleagues as well.

Looking at cost. As you know, if you're going through a major transformation in which you have high investments, it is very important that you do make the right investments, and from that perspective, you do allow some cost growth, but that cost growth should be under control and disciplined. If you look at the cost growth in the first -- in the second quarter, you basically see that we were up EUR 56 million versus the first quarter and flattish year-on-year. And compared to the previous quarter, away from the release of a legal provision in the first quarter, there was an approximately EUR 30 million quarter-on-quarter increase in the digital investment spend. We also saw some higher headcount in industry lending support the growth in the Wholesale bank. And also here, we had a bit of an effect of the inclusion of Payvision as we are consolidating that in our numbers. So you see it on commission income and you see it on cost, the inclusion of Payvision.

And we are very strict about the management of cost. Those areas that can evidence profitable growth, we will allow cost growth. If not, we take measures. On the fourth quarter, rolling average basis, the cost/income ratio on the back of all of this was up slightly at 56.1%, by excluding second quarter 2017 in this average -- and that was a quarter, as I earlier mentioned, that had this EUR 97 million one-off in other income. So that's why you see a bit of an uptick. Although the quarter cost/income ratio came out at 52.3%.

And on all of this -- I can confirm that what I have said in previous quarters on cost. We remain committed to the 50% to 52% cost/income ratio ambition range by 2020. 2018, as I have indicated earlier, is still expected to be an investment year, but we do expect the benefits of the transformation to come through the years 2019 and 2020.

Turning to risk cost. Q2 was another solid quarter for the risk cost. Loan loss provisions were EUR 115 million versus EUR 85 million in the previous quarter, yes, basically on the back of a continued positive macroeconomic outlook and combined with the benign credit environment. Most regions where we are active, you see that, that delivers low-risk cost, relatively low-risk cost.

And as you can see in the graph here on the left-hand side, Retail Netherlands recorded a release of EUR 47 million. Wholesale Banking risk cost were EUR 59 million compared to a net release in the first quarter. And the effect of IFRS 9 was visible here, that a number of performing files were classified as Stage 2 under IFRS 9 rules. So that's an interesting concept now under IFRS, performing files are attracting provisioning. So I think we all have to look at that and then get used to that as well.

Nonperforming loans for ING as measured by the Stage 3 ratio under IFRS 9 dropped from 1.7% to 1.6%. And for the remainder of 2018, we would expect risk costs to stay well below our through-the-cycle average of 40 to 45 basis points over risk-weighted assets. On the capital side, CET1 ratio remained strong, ended the quarter at 14.1%, down 20 basis points quarter-over-quarter. So that's still well above our SREP requirement of 11.8%.

And as we reserved last year's full dividend already in the first 3 quarters, as you are used to. So basically we keep it outside of the capital build -- on one side, the profit in order to ensure that the first 3 quarters we reserve the full year dividend. On the other side, we grow and therefore it's not surprising that CET1 ratio moves down somewhat during the first quarters, especially since we do see the opportunities to profitably deploy capital, grow the business. And that's what you see in improved lending margins. And with that, we do expect NII and return on equity to be supported by this new loan growth.

During the quarter, the CET1 ratio benefitted from the inclusion of EUR 0.6 billion of interim profits. So what we didn't reserve as a dividend is here. But it was on the other side impacted by risk-weighted asset growth because of the higher lending volumes, but also because of a macro-prudential add-on for the Belgian mortgages and some adverse currency impact.

In line with the last couple of years, we will pay an interim cash dividend of EUR 0.24 later this month. And with most of Basel IV impact coming in 2022, we remain well placed to comply with future capital requirements.

Finally, Slide 17 now. If you look at all the different indicators and the ambitions that we have for 2020, you see that we perform well against all of these ambitions, both the CET1 and leverage ratios remain well ahead of their minimum regulatory requirements. We reached some very important transformation milestones like, as mentioned, the full integration of Record Bank in Belgium, which will help us to bring down our cost-to-income ratio to the target ratio of 50% to 52%. At the same, for 2018, as indicated, we do expect the cost-to-income ratio to remain at a more elevated level since we are still investing digitally, on the digital transformation for 2018 and the savings are expected later on in 2019 and 2020.

Finally, as already mentioned, on a 4 quarter rolling average, looking at this picture, the group return on equity stood at a robust 10.4%, as we keep growing the franchise while facing continuous pressure from the low rate environment and foreign exchange impacts.

To wrap it up. Our second quarter performance confirms that we keep executing well on the Think Forward strategy, whether it's on customer numbers, primary customer numbers, lending numbers, saving numbers, whether it is on the milestones of the transformation, keeping our cost under control. You see that the bottom line benefits from all of that.

Looking ahead, we will continue to focus on managing expenses, optimizing our operational excellence, enhancing our compliance and non-financial risk practices and executing our digital strategy.

And then on a particular point -- and I'm sure you wondering about the criminal investigations. ING Bank has engaged into discussions with the relevant authorities on potential resolution of the issues. But such discussions remain ongoing and their outcome is uncertain. And for the full status on this, I refer to the paragraph on Page 20 of the press release.

I think as a full summary, I'm confident that our efforts that we're putting together will further strengthen our company and enable sustainable success for the long-term of all stakeholders.

And with that, I think the wrap up is done and we have some time for questions.

QUESTIONS AND ANSWERS

Operator

[Operator Instruction] Our first question is from Mr. Benoit Petrarque, Kepler Cheuvreux.

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

Two questions on my side. The first one will be on the net interest income and NIM outlook for the rest of the year and next. If I look at your NII and strip out the 2 small one-offs on NII, I think you are growing it around 2% year-on-year ex-Financial Markets. At the same time, you're growing the loan book -- I think it's about 7% over the past quarters on average. So I'm a bit surprised at the difference between growth of loan book and clean NII. And I was wondering what you can tell about the underlying commercial margins and also



the underlying deposit margins. So what is the outlook for those 2 components and whether you think loan growth will translate into higher NII growth overall going forward? So that will be the first question. The second one was on the cost side. In the past, you update us on where you were in terms of cost savings and achievement of the cost savings. Could you update us on the EUR 900 million, where you are in terms of achievement of this cost-cutting plan? I think you were planning to get to EUR 400 million cost-cutting by end of '18 originally. Now you have been getting that figure a bit down. But where are you now at the end of Q2 in terms of achievement of this cost-cutting plan?

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

Thank you, Benoit. We'll share the answers around the table here. Koos, if you could...

J. V. Timmermans *ING Groep N.V. - CFO & Member of Executive Board*

Yes. Maybe, Benoit, first if I look at the net interest income. Indeed, you spotted well that you see a modest growth. So we are growing by 2%. In this quarter what you see, loan growth is outpacing that. Overall, what you also see is our net interest income it edged down from 152 to 151. Three factors play a role. First, loan growth is accretive, so in that sense that helps on the margin side. On the other hand, what we still see is the reinvestment of our savings money is still costing some. And then the third element which plays a role, and that is also what you see particular this quarter, is we also took some actions in lengthening funding, particularly in dollars and that had to do LCR requirements and with the fact that we took an LCR on a gross basis with regards to cash pool. So sometimes you take some repair actions on that side and that is not helping on the margin side. So overall, I think these 3 factors are there. If you then ask like, what does it mean going forward? In general, on the lending side, things, yes, look quite good in terms of -- at least what you see in current production in terms of margins, not a real concern. If you look at the savings side, then what we do see is that on the savings side we still expect some margin erosion over the next quarters, but then again still we feel -- we are confident with our overall guidance that we say like the high 140s, low 150s. That is what we see for then the second half of this year.

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

Maybe to complement that in view of I'm sure follow-up questions that could come. If you look at the current market circumstances, I think the NIM will be managed as indicated by Koos. Basically, the big effect going forward will be to continue to change the asset mix with higher lending margin. So that helps. That's the way it works. We do see room for selective repricing. And if you look at the second quarter in the major franchises in which we work, whether it is in structured finance, real estate finance, on lending we see margins to be stable, if not improving a bit. In the transaction services, at least in the PCM area, the payments and cash management area, we see margins improving a little bit as well on the back of the U.S. dollar, that business that we have there. Then look at the Retail Markets, you see a bit of pressure -- well, pressure on stable margins and pressure maybe because of some marketing actions in The Netherlands. But for example, in Belgium, we see margins stable, if not improving. And in Germany, as well stable, if not improving. So we do feel that given that situation in market that we can do some selective repricing going forward. And that combined with the change in asset mix and then how we manage the savings margin, that gives the guidance, as indicated by Koos. Specifically, on your cost question, the update on the ATF savings, Koos, if you can...

J. V. Timmermans *ING Groep N.V. - CFO & Member of Executive Board*

Yes, sure. If you look at our transformation program, well, what you know is that indeed we are expecting EUR 900 billion benefits over time to kick in. But at the same time, the first thing what we got to do is invest EUR 800 million in terms of cost. That EUR 800 million is what we said like we were going to invest over the next 5 years. And what you've seen is it was EUR 38 million in Q1 and it is EUR 70 million in Q2. So we are still making those costs currently. That's also why we ended up giving a rolling cost guidance around 55% for this year, which we expect that will start to decline over the next year for 2 reasons. One, investments will slightly go down. Secondly, benefits will start to kick in. And that is how we see it overall. But the savings, indeed, they are there. The one thing what we have seen is there where we had savings, for instance, Belgium right now in terms of merging operations, the temporary external staff hiring and IT support we need for that, overshadowed that, but that is of a temporary nature.

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

And how much have you realized so far out of the EUR 900 million roughly?

J. V. Timmermans *ING Groep N.V. - CFO & Member of Executive Board*

We don't want to measure it this way because it becomes very piecemeal and incremental because remember we also had old programs like in The Netherlands and there you see absolute cost going down. And at the same time, we are making cost currently and we are realizing benefits. So we like to express ourselves more in the overall cost/income ratio, how we see that progressing. And there are, again, for this year we maintain that rolling forward 4 quarters we want to keep it under the 55%.

Operator

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

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

This is sort of a follow-up on Benoit's questions actually. If I take out the Belgium mortgage effect and the FX on your RWA increase and normalize the dividend reservation, your CET1 ratio remained stable over the quarter. So my question is, do you see short time levers to increase that CET1 ratio? And also on the longer term, if you look at what you say on your cost/income target, saying if that goes to 52%, you would save around (inaudible) EUR 900 million there, you would gain that there. But you could lose that also if your risk costs would normalize again to 40, 45 basis points. So basically if you look beyond 2018, what do you expect there in NIM, because NIM will have to improve to improve your capitalization I think? And also maybe could you give us an idea of how you see your commissions evolving? That will also be needed to improve your capitalization.

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

So that was a long question, Bart. So let's try to decompose it in a couple of elements here. So your first question is on the CET1 ratio. I'll give that to Koos. And I will see how we fair with some of the other stuff.

J. V. Timmermans *ING Groep N.V. - CFO & Member of Executive Board*

Bart, on the core Tier 1, the good news is we are roughly making around north of 10% of ROE. And what we have always said is our ROE is used for 3 things: It's used for facilitating growth, it's used for strengthening the capital, and it's for paying a good dividend. And to be honest, in the longer term, we don't need to change something significantly on that because the composition is fine. Now if you look at it per quarter, this quarter we had a bit more growth, and what we also do, is we reserve full year last dividend in the first 3 quarters. So that means like we are a bit stringent in setting aside the dividend and not accumulating that in the capital. So that is what you can see then, is that a slight edging down of your capital over the first 3 quarters and then it increases in Q4. And that might be a bit exacerbated if you have good loan growth. But if you look at all things underlying, it looks actually rather fine. So in that sense, we are not too concerned on the core Tier 1 ratio from that angle as long as you make good margins on your loans and stay disciplined.

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

Yes. On the other part of your question, the cost/income ratio. We've gone through this before and just to give you kind of the basic recipe as to how we manage. We do expect cost to really come down in the Benelux area. That has been the recipe since 2014 and the transformation is really focused on getting the cost really down in the Market Leaders area. So that's an important element. Then in the Wholesale Bank, we have indicated that as long as we feel we can grow profitably, so business that we book there makes the right returns. And if we need people on the front office side in order to support the growth, we will allow cost growth on the front office side. That should be funded by savings and the further digitalization of the machinery, if you will, of the Wholesale Bank. So a flattish, if not a bit of an improving cost/income ratio for the Wholesale Bank over time is what we are working on. But we would allow cost to increase if overall we feel that the cost/income ratio can go down in Wholesale Bank. Then in the Challengers and Growth Markets, clearly we have commercial momentum. We are the leading digital bank in many of these. We have a differentiating client experience. We continue to grow in number of clients. We continue to improve our offering in order to ensure that you build a client franchise rather than a product franchise. And for that, we don't mind some cost increases as long as over time again here we do expect income increases, and with that, the cost/income ratio also to decrease. Now you can't compare us to some of the incumbents that are just doing the transformation and see no growth, because then you only expect cost to go down -- and you should. We are an incumbent and a new bank at the same time. So in the more incumbent areas, you should expect from us to get the cost really down. But in those areas where we are much more a technology company and in which we are much more a fintech, if you will, or a platform and we're growing so fast that we don't mind cost increase if over time from a customer relationship perspective we do expect the income to increase as well. Specifically then if I can then go into, for example, the NIM development for the year, we expect this still to be at the high 140s. The fees, as we have indicated

before, coming from a base of 650, 660 a quarter, we expect fees on the back of how we develop our franchise, specifically in the Wholesale Bank and in the Challengers and Growth Markets, we expect fees actually to grow faster than the other income components by 5% to 10% per annum, and as a consequence of that, the fee component of income to increase and getting closer to the 19% or 20% of total income. I think these are -- I just tried to decompose your question into a couple of areas and I think these are the areas that you need to know more about in order to help you there. Thank you.

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

Yes, I was more looking about your NIM after this year, because probably your reinvestment yields on your deposits going down will bottom out somewhere there so you could maybe profit from some loan margin expansion. So that was more my question about the NIM.

Ralph A. J. G. Hamers ING Groep N.V. - Chairman of the Executive Board & CEO

No, honestly, I think the -- as we were indicating, we don't see too much pricing pressure at this moment in time. We will look for selective repricing not only because it needs to be done in order to get the right margin, but also in order to ensure that the increased capital requirements that will come in over time in Basel that we do some repricing in order to continue to have profitable growth. So that will influence the NIM and therefore it will, in our view, be stable over time, if not maybe improving a little bit.

Operator

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

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

Sorry to come back on the margin again. But I think over the last quarter, you've given us a little bit of detail on the replicating liability portfolio where you allocate EUR 300 billion on the Euro swap 5-year point and another EUR 120 billion spread over the Euro swap 7 to 10 years point. If you look at that, I can still see some residual pressure come through also next year, which you cannot offset by the deposit rate cuts anymore. I was just wondering if I look at your narrative so far on margin, it seems that repricing could be a new element. So I could basically assume that you're going to be able to offset that residual pressure on the replicating liability portfolio by this repricing and then the other elements within NIM still remain in place? That is the first question. The second one, unfortunately, is also on costs. On your investments compared to your Capital Markets Day plan, I think so far this year you've done roughly EUR 110 million. The budget for the year is EUR 170 million. So contrary to last year, where you were backend loaded on these investments, it seems now you're more frontend loaded. And you've also indicated that the Record Bank integration on the Belgium platform is now fully over. So I was wondering if there are any -- I don't know, you can put the platform off -- are there any cost reductions coming through from that in H2 already besides the lower investment spend in H2?

J. V. Timmermans ING Groep N.V. - CFO & Member of Executive Board

Okay. It's Koos. Maybe on the NIM, the following point. What you have seen in the past in Belgium, where we hit the low of 11 basis points, by that time it started to have influence on your NIM. But also realize that that was already more than a year ago and by that time the portfolio yields were still a lot higher than how the money was reinvested when it matured. What you see right now, we are in a slightly different situation because we are approaching 0 in the other countries, but average portfolio yields have already dropped and reinvestment rates are actually a little bit higher. So the consequence of not being able to lower your savings rate is less than what we faced in Belgium in the past. And that is also the reason -- can we then say "it's completely not there." The answer is no. But that is why we say like it's 1 or 2 basis points of effect which you could expect over the year, but not a lot more than that if we take the current forward rate as something which is about to materialize. So in that sense, we are not too much under pressure there. Then the question is, can you really compensate that with loan growth and additional loan margins? Well, that is what we have been doing over the past. But at the same time, yes, loan demand it needs to meet our capital hurdles as well. So as long as it does, we will do so. If it doesn't meet the capital requirements, then loan growth will be a bit less and it won't compensate. So that's the way how we work as a team.

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

And maybe, Koos, to -- one question on that. I think the current 1 year -- or the 5-year Euro swap is at 35 basis points. The 1 year forward is at 65 basis points. So it's an important assumption that we will move -- that, that forward rate will materialize basically. If we stick at 35 bps, then there will be more residual pressure on this replicating portfolio presumably, right?

J. V. Timmermans *ING Groep N.V. - CFO & Member of Executive Board*

If you have the current yield curve not moving an inch and just staying as is over the next 1 or 2 years, then that has implications for your income, you're right.

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

Robin, we don't manage these projects quarter-by-quarter from a cost perspective. Clearly, these are major transformation that have -- often are seeking for the same IT specialist and therefore sometimes we prioritize one versus the other. And that's how we manage them. Because in the end, given the fact that this is such a major transformation at ING from so many different perspectives, whether this is from a country perspective or more from a financial perspective as to what we do in risk and finance and what we do in the foundation in order to move to the Cloud or building a data pool, all that has to do with IT, all of that comes in the end to -- often to a couple of specialists, and with that, we prioritize over time. So we don't manage specifically on a quarter-by-quarter basis, but we are managing this project and getting it done. And that is I think the important message here, is that we are on all projects making progress and sometimes we accelerate some of these elements and sometimes in some projects we delay some because of what I just mentioned. And with that, the cost could come sometimes a little bit early or come a little bit late, like last year. This year specifically in Belgium, we saw a peak and that is on one side because of the extra digital investments that we needed to make as part of the plan. It's also because we had to backfill on some of the people that left ING early. And in order to make sure that clients and specifically the new clients that are coming on from Record get on board in the right way, can get their questions answered quickly through all the channels, we have hired some additional people in order to ensure that they do benefit from that service. And we do expect that to fade away for the total organization and to absorb that extra volume. So the cost there, you should expect to decrease, but more in the first couple of months of 2019, not so much in the second half of 2018 in Belgium specifically. So as said, we will invest as needed to complete this transformation and we will get these benefits.

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

And related to the platform of Record Bank, anything to say there, that effectively you could switch it off I guess. There is no potential cost-saving connected to that?

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

There will be and you will see that coming through at a certain moment in time. So -- I mean, the whole idea is that we will move from 3 platforms -- and now I'm talking about internal platforms and not about external client platforms, but internal IT platforms and core banking platforms. Yes, so in Benelux and Market Leaders, we will move from 3: basically Record Bank, ING Bank Belgium and ING Bank Netherlands. We will in the end in this program move to one, being the revamped platform that we have in The Netherlands. And as we speak, we are preparing that platform in order to be able to migrate the ING Belgium lines on to that. And then at the end -- and therefore some of these savings specifically -- if this is all about decommissioning, the biggest savings in this program are a little bit backended. If it comes -- if we're talking about decommissioning savings, it will be backended, because you can't switch a system until the final client has left the system. And that is an important thing to notice. Therefore, we do expect costs to go down. We do expect cost/income to go down still. And you will see that next year already and then 2020, 2021 as well. So we're confident about reaching that cost/income ratio. But at this moment for 2018, we are in an investment year.

Operator

Our next question is from Mr. Bruce Hamilton, Morgan Stanley.

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

Firstly, just on the sort of industrial lending book. Obviously, there was a pickup in the longer-dated lending, which helped feed NII in the quarter. How much is that sort of a normal sustained push or is it just a function of the opportunities seen in the quarter? So should we kind of normalize that? And how do you sort of balance growth against the risks that we're getting to later in the cycle and any segments that you're sort of actively looking to avoid? And then secondly, linked to that, how meaningful were the benefits from restructuring files in Q2 from the industry lending and the general lending books, just to get a sense? I assume quite small, but just wanted to check.

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

I'll give the word to -- the floor to Steven certainly on the second part, maybe also on the first part. And I'll come back on the first part as well. Go ahead, Steven.

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

Yes. Thank you, Bruce. So with regards to lending, I mean, if you look at, and we've shown it also over the past number of quarters, that typically one quarter you will grow in longer-dated lending, other quarter we grow more in working capital solutions. But if you look at the growth that we see in the past quarter, that was specifically focused on shorter-dated lending in trade and commodity finance based on a higher dollar and a higher oil price. So in that sense, you could see more that quarter as an anomaly and typical growth in structured finance overall, where we grow our projects in our project finance business all across the world. Then with regards to the link to the risk costs, I mean, we will -- we stay -- and Ralph already said that within our risk appetite. We typically focus also in our project finance lending on the first quarter, our cost producers. Often our loans are secured. Often with regards to shorter term funding they are self-liquidating. So there is no move and no desire to move in our risk appetite because we know what we know, but we are not going to diversify from that, especially not in this part of the cycle. Then I think your other question was with regards to the highs of the risk cost or what that does in terms of restructuring files and how you should potentially breakdown. I guess the risk cost within Wholesale Banking -- I mean, if you look also in the press release, on the one hand, we had a benefit of one of the restructuring files coming back to performing and that had an influence on the performance of industry lending. On the other hand -- and that's what you see actually in the total risk cost, the last quarter, we had a number of releases on Stage 3 of files that were in restructuring that came back to normal performance. This quarter we had less of those releases. What we did have was a number of files that are actually performing, but that moved to Stage 2, for example, because of sanctions. And when you move from Stage 1 to Stage 2, you go from 1-year losses to lifetime losses over the term of your loans. And that has an impact on the total risk cost that you provide for in your P&L. And that has impacted the risk costs in the second quarter of this year, Wholesale Banking.

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

And so just to follow-up. I guess my question is more, I thought you had a benefit through NII in Q2 from those restructuring and I was just trying to size how big an impact that was.

J. V. Timmermans *ING Groep N.V. - CFO & Member of Executive Board*

Yes, that -- we indeed. That's what is also in press release, but that's a small benefit of the total.

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

Maybe, Bruce, to -- on your first part of the question. As indicated by Steven, you see -- from a lending growth perspective in euros, you see a bit of an inflated number on the back of the dollar and the commodity prices, specifically in the TCF. If you look at the longer-dated business, the number of deals that we did in the second quarter is the normal number of deals. It's just that in the first quarter, it was a bit low on the number of deals. So if you just move away from kind of the euro number that we're showing and you correct for the dollar effect and the oil price and commodity price effect that is always part of our numbers there and you look at number of deals on the long-term side, the second quarter is a normal number of deals.

Operator

Next question is from Mr. Benjamin Goy, Deutsche Bank.

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

One follow-up on fee income. So you mentioned your (inaudible) growth in industry -- or in Wholesale Banking, sorry, and the Challengers. But also in the Benelux, you did very well in the quarter. So just wondering what was the driver here in a not so easy quarter? And more generally, deposits are still flooding in and particularly in The Netherlands. So is it more potential to convert savers into investment management products or anything else here?

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

Well, I think the fee income in the Benelux is -- if that's a specific question -- it's a little bit across the board. There is some conversion happening from savers into investment products. But actually, that's not where we see most of the activities honestly. So basically the fee

income in the Benelux is really a little bit across the board. It's in payments areas, it is on closing more mortgages, and therefore specific in The Netherlands risk fee income related to that as well. So it's a little bit of everything from that perspective.

Operator

Our following question is from Stefan Nedialkov, Citigroup.

Stefan Rosenov Nedialkov Citigroup Inc, Research Division - Director

It's Stefan from Citi. Two questions. The first one on costs and the second on your fintech partnerships and the AXA partnership. And in terms of the costs specifically in Belgium, could you please give us an update on how many branches have been closed at this point following the legal merger between ING Bank Belgium and the Record Bank? And what's the timeline over the next 2 years and similarly for employees? I think the initial plans were to basically get -- or I should say lay off 3,500 employees. Where are we now in terms of that number and over what timeframe are we going to get to 0 from the 3,500? And a related question to that. Just looking at your cost disclosure, external employees and the external consultants account for around 10% of your overall cost base. What would you expect that percentage to be sort of halfway through the digital transformation, that is end of 2019, and till the end of the digital transformation into -- at the end of 2021 that is? So sorry that was -- that might have been a little bit of a longer question. The second one is much shorter. Can you give us an update on the AXA partnership? Where are you in terms of designing the modular products? Can you give us some more disclosure on your expectations for fee generation from 2019 onwards?

Ralph A. J. G. Hamers ING Groep N.V. - Chairman of the Executive Board & CEO

Thank you, Stefan. On the cost, so in Belgium, if it comes to branch closures, we have now integrated the Record Bank into ING Bank. And from all the Record Bank agents, I think just short of 70 are becoming ING agents. And that is then again from that perspective optimized into a total branch network, a distribution network of 665 branches or distribution points or franchisees, however, you want to call them. Now that has basically been done now. Now -- then your question is going to be, so what about my cost? Now the Record Bank used to work through agents and therefore the cost savings in terms of costs that are in running a branch and having a branch and all that were always with the agents. So where you could see in the future a bit of a difference is more on the commissions you pay agents as to how to manage your client base. So there is no direct benefit -- well, not a big one -- on those branch closures if it comes to the Record Bank agents being closed. Now on the FTE development, without going into specific details as to which number will exactly be reached by when in the Unite Migration, but from a Belgium number perspective a few words. And including 2021, you can expect that effect on FTEs to be more or less evenly spread across the different years. That's on the FTEs in Belgium now. On external FTEs in The Netherlands -- I think that was your question there -- externals in The Netherlands have a lot to do also with the digital investment program because these are -- many of these are IT people. So as long as we continue to invest and as long as we need it, we will have externals there. So these are not externals that backfill like we have a bit in Belgium, but these are externals that we work through on a contract basis and have worked through for many years because that has always been a pretty high number. And they work as part of our IT workforce. So it is not that they will be decreasing -- well, they will be decreasing if we decrease our investments in the end. What they will deliver, though, is a much more efficient process. And therefore the savings that you can expect in The Netherlands and in Belgium is much more on the operational side and the operational cost base in The Netherlands. So I wouldn't focus too much on internal, external FTEs because they do support the franchise and the investment program from a Dutch perspective. Now on AXA. We're only starting, as we speak, with AXA. So we concluded that deal and we're now setting up the team. Clearly, this is going to be a team that needs to come up with a different approach to insurance, because otherwise we would not be delivering and differentiating a client experience. So this is about decomposing insurance needs, looking at the insurances that some of our clients may already have and then ensure that they kind of are not over insured on one side or don't have a lack of insurance on the other side by decomposing the products and making it very simple, very clear and very transparent. That's how we want to go about this. Now the first products you can expect to come into the market in 2019. And I think the first products will probably be on the credit link side, so basically products that one way or the other are cross bought by our customers as part -- for example, as part of a mortgage. That's where the first steps will be made. And then on top of that, we will further develop new products. We're not giving any indication as to what we expect from a revenue perspective on that.

Operator

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



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

Just 2 questions if I may and I'll try and keep them brief. Firstly, the EUR 6.3 billion of Wholesale industry lending in the quarter seems very strong and you say it's consistent with your risk appetite. But I just wondered if maybe could you give us some kind of quantitative comfort that you're not sacrificing structure or terms and pricing to get that on the book. Secondly, to just follow-up on the answer to Robin's question, where you indicated 1 to 2 bps on NIM I think. Can I just clarify that it is 1 to 2 bps negative on NIM year-on-year probably from the high of 140 guidance for second half? And is that with the yield curve as it is with no deposit rate cuts going forward just so I understand what's implicit to that number?

Ralph A. J. G. Hamers ING Groep N.V. - Chairman of the Executive Board & CEO

Okay, Steven for the first question and I'll give the second question to Koos.

J. V. Timmermans ING Groep N.V. - CFO & Member of Executive Board

Yes, okay.

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

Thank you, Farquhar. Well, with regards to the first question, we continue to have a diversified book in Wholesale Banking, including industry lending. We are continuing to focus typically on first cost quartile producers with secure structures where we typically are senior secured or super senior. So there is no deviation whatsoever from the current structures that we have. Like I also said in the past with regards to certain sectors such as acquisition finance or real estate finance, we've put caps in place to make sure that we do not focus on cyclical sectors or that we stay within the risk appetite that we have. And at this point in time, we feel comfortable to continue to work in that way. Going back by the way on the question that Bruce asked a couple of minutes ago regarding the releases of a few of those files and getting them back into performing, both of those files have a release in terms of single digit in terms of NII and it's a release of accrued interest.

J. V. Timmermans ING Groep N.V. - CFO & Member of Executive Board

And on the question of the NIM, could you say the 1 to 2 basis point negative year-on-year, if there are no deposit cut forecasted. Well, maybe a little bit, because, I mean, we don't give indications on when we cut. But we are not completely flat at 0 at all countries. So there is maybe a little bit of room to do something. And in that case that is included. At the same time is it based on the current yield curve? Yes, that was the current yield curve as about 2 weeks ago. At the same time we also see that reinvestment yields are now 5 basis points higher than it was 2 weeks ago. But at the same time that is what we didn't factor in. Now overall, what is that we do? We said like, well, reinvestments will still be at a slightly lower rate. And current portfolio yield, that has a 1 to 2 basis points drag, including that we say like, well, we might drop deposit rates where there is something possible in the future. But then again, we never give indications when that is that we do that or if we're going to do it at all because you also look at the competitive situation.

Operator

Our next question is from Mr. Marcell Houben, Crédit Suisse.

Marcell Houben Crédit Suisse AG, Research Division - Research Analyst

I have 2 left. Koos, on the Basel IV mitigation, I think you stated earlier that you can mitigate roughly 1/3 of it. Do you see anything regarding the timing and can you -- I know it's a top-down early stage still, but can you split that 1/3 into, for example, into securitization deals. That was the first one. The second one is -- Ralph, on the cost-to-income ratio guidance sort of, that obviously also implies a revenue growth assumption. So if I assume roughly 7.5% fee growth, 2% NII growth, so really you're looking at roughly 3% revenue growth per year. Is it sort of the -- is a good thinking there?

Ralph A. J. G. Hamers ING Groep N.V. - Chairman of the Executive Board & CEO

Koos?

J. V. Timmermans ING Groep N.V. - CFO & Member of Executive Board

Yes. So maybe first one on the Basel. Indeed, we think there is a way how the impact of Basel can be mitigated. If I give you a few examples. If I look at high-end corporates and if I look at rating all your corporates, well, there is a few unrated corporates around. And if

we do apply a rating to them, that has an impact of EUR 2 billion on your RWAs. Well, EUR 2 billion is not the same as a 15% increase of your RWAs, which is EUR 45 billion. But at the same time, it helps. So this kind of actions will work. Originate to distribute, yes, that was something which will start to give some RWA releases as well, but I think the most important part is actually just allocating more smartly. So if there is business where either we say like, well, there a bank is not the best provider given Basel, that should be other institutions, then you can say like, "Hey, let's refocus on some other activities." And that is something which will happen over time. Do we have it detailed out already in a work plan where we say like this is the allocation of savings per work stream there? The answer is not yet. But at the same time, you also have realized we have till the end of 2022 to basically cover most. But we do feel comfortable that around 1/3 of the 15% to 18% increase what we see is what we can mitigate. Also, because that was basically -- that 15% to 18% what we indicated earlier, that was replicating the same portfolio exactly in the future and you would normally never do that. So that is basically the actions we have. So OTD, rating the unrated, come to a different allocation and maybe look at other structures. So you can say like, is our collateral well divided over the facilities and can you do that smarter with clients? So all these actions they will help and all of them will set them in motion. And over time we will come with a more detailed timeline on that.

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

Yes, Marcell, on your cost/income side. As you know, we don't necessarily guide on NII. We do guide on how we grow the loan book in a profitable way. So basically if we can grow our loan book profitably with the right returns versus the capital that we need to reserve for these loans, that's how we grow the NII also in the next foreseeable future; and the fee income on the back of having more primary customers; as well as the strategic review that we did in the Wholesale Bank in order to ensure that these client relationships that we do more business with also outside of lending. And the fee income is expected to grow faster than the NII. But overall, we don't give guidance on it and there is a reason for that. It's not that we don't want to give it. It's just that we run a prudent shop, which basically means that if the revenue is not there, we will deliver it on cost. And therefore, clearly we have our dynamic plan and we are agile in the way we plan. As long as we see the revenues coming in, we don't mind investing and growing. But the moment we feel that the revenues are not going to come in on the back of what we're delivering, then it will have to be delivered on the cost side also across those franchises that in principle need to grow. And therefore, we have guided on cost/income and I think that should give you much more certainty and specifically on income one -- well, thank you.

Operator

Next question is from Alicia Chung, Exane.

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

Just a couple of questions from me. First of all, just looking at the corporate center, the run rate of net profit over the last couple of quarters has been quite good, mainly on revenue. Just wondering why that is. Is this just volatility or is it something a bit more sustainable? And then secondly, just looking at the cost/income ratio in the Financial Markets business. Now we see it's been quite structurally high for a while. When can we expect to see the benefits of the consolidation of the trading floor -- trading activities coming in? And is there also other further opportunities beyond that for the cost to move lower given that revenues may well stay cyclically low for a while?

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

Okay, on the corporate line, I'll give the floor to Koos.

J. V. Timmermans *ING Groep N.V. - CFO & Member of Executive Board*

Yes, Alicia. So on the corporate line, I mean, in general, what we have there is a few things. One, we have some capital related activities and that has to do with the investment of the capital, the FX hedging of the capital. Now the investment of the capital is sort of gradually giving you a lower rate because we reassess there. So that is not so good. On the other hand, the foreign exchange is always choppy, but at the same time what you see there is that overall it's a good result right now. I think if you ask, "What is now structural?" Structural is that in the past when we started to extend our funding -- and then this goes back into 2012 -- we said like, "Hey, if we have to lengthen our funding and implement LCR and everything," we didn't want to retroactively price that to our commercial unit. So then we took a negative hit at our corporate line. That one -- and that was running with a run rate of around 80 or so -- 80 a quarter. That one is going

to disappear gradually. And by 2020, 2021, that one is gone. And so that is I think the most important part where we do see over time and that is particularly beyond 2020 that this element will disappear out of the corporate line. So barring that, we would be quite positive on it

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

And on the cost/income ratio for FM, I think it's a good question, but it's about cost/income ratio. So actually the guys have done a real good job merging the different trading floors across Amsterdam, Brussels and London. And that has happened, so that's done from that perspective. Now the cost will come out -- specifically, the direct cost will come out because of, well, decommissioning some of the stuff and also saving on -- basically on coordination costs and what have you. So that restructuring is done. The next step is also to ensure that indirect cost, so through the whole value chain -- and you know that Financial Markets has quite an integral value chain into the risk systems and into the finance systems. So that will be further rationalized as well. So cost from that perspective, you can -- they will continue to manage that. But the integration of the trading floors has been done completely. Also, as part of that plan was the managing capital much more efficiently. And basically what you've seen also this quarter is that there were some release on risk-weighted assets from the Financial Markets [franchise] there as well. Having said all that, while costs are under control and actual cost savings are being realized, we see that the markets are not helping the Financial Markets franchise on the income side. So -- and cost/income has 2 sides. So the question is, how far can you go in trimming down your franchise? On one side, in order to reap the benefits when the markets come back. And that's basically where we are right now. If you look at the income side in Financial Markets, we've actually seen on a year-on-year basis that the FX business is actually generating more income, but the rates business is under pressure, as you know, and you know the reasons why. The equity business -- the equity products business part of that is sold and transferred, so the income is decreasing there as well. Then on the debt capital markets and the corporate finance business, this quarter was just a lower quarter than the same quarter of last year. But that can be picked up any time as well. So on one side, yes, the team is doing quite well actually on restructuring and on integrating and have finished the transfer onto one hub. Costs are being managed further down. But on the income side, the market is not helping, except for the foreign exchange side of the market.

Operator

Our next question is from Mr. Kiri Vijayarajah of HSBC.

Kirishanthan Vijayarajah *HSBC, Research Division - Analyst*

I got a couple of questions on the Wholesale Bank. So in terms of you lengthening out the U.S. dollar funding, I was wondering, do you push the cost of that down to the Wholesale Bank's kind of individual desks that actually use the U.S. dollars or do you keep it in central treasury? And in terms of kind of better understanding the LCR issue itself, is it because so much of the volume growth you're generating at the moment is really skewed towards U.S. dollars and of course all the deposit inflows are kind of all predominately going to be in euros, in which cases is this kind of potentially an ongoing issue for your currency LCR?

J. V. Timmermans *ING Groep N.V. - CFO & Member of Executive Board*

Thanks. Well, maybe the -- on the first question, lengthening the dollar funding profiles, what happened is the following. Indeed, we have seen over the first 2 quarters also a significant amount of growth in our trade and commodity finance. So -- and that needs to be funded, because, I mean, dollar got stronger and trade commodity finance, underlying commodities got higher. So that got funded. And that means like, okay -- and we normally use also short-term debt to fund short-term assets. If you ask like, how do we price things? Normally what happens is in case we need liquidity, for instance, if it's for backstop facilities or anything, all of this is transferred through to the business, so contingent liquidity and all these things that's charged to the business so that there is not a form of free arbitrage around it. Now what happened as well -- and that is second and that is a bit irrespective of this -- if I look at LCR, what happened is we do businesses with clients, cash pooling and that can be Euros only or that can be multicurrency. And in cash pooling, the fact that balance sheet needed to be grossed up also meant that you need to hold liquidity for this type of thing. And that gross element, that is where we needed to cater for and lengthen a bit of funding and make investment in securities. That is the part what I earlier mentioned in the call. So I think you see 2 effects. Yes, on your first question. Is anything what we do on liquidity side or on funding side repriced to clients? The answer is yes. Secondly, the LCR repair which we did that had to do with grossing of net balances and that is done. And to be honest, also these kinds of things get priced through to the end customers because, yes, in the end, you want fair pricing.

Operator

Next question is from Mr. Nick Davey, Redburn.

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

Two questions, please. The first one is a bit of a follow-up actually on that dollar funding question. I seem to remember in the past you've talked about possibly having a sort of risk limit on the balance sheet in terms of how much dollar-denominated assets you're willing to have. And my question is, are you anywhere near that limit? Do you think you're anywhere near to the peak dollarization of ING balance sheet? The second question -- I may be pushing my luck but on the cost of risk. You've obviously been quite a few quarters now miles away from the 40 to 45 basis points through-the-cycle target. And I suppose I would humbly suggest that having a through-the-cycle guidance is just not that useful for us given that you've run for many years below it and then for some years above it. So my question would be, could you sort of dissect the 40 to 45 bp through-the-cycle average into what you would expect it to be in a good year and what it might be in a bad one?

J. V. Timmermans ING Groep N.V. - CFO & Member of Executive Board

Maybe on the dollar part, are we reaching a limit? The answer is, it's not one number. But what you see is we are still replacing that and that means like we are recycling that and we can do that partially where we in the past issued more euro-based MTNs. We do it a bit now more in dollars. So if there's still room, because in the past we were a more frequent euro issuer and now we are a little bit more a dollar issuer. So there is still some room there left. But can you sort of infinitely continue to grow with 4% or 5% on the whole by signing dollar assets only? The answer is no. But we have not bumped up against a hard stop right now. But we want over time a moderation of this, yes.

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

Yes, thanks, Nick. Regarding risk cost, I mean, clearly as you look at the cycle now and people have been asking me are we at the top of the cycle. Well, that's always difficult to exactly pinpoint. But if you look at the growth of GDP and the further growth forecast, that you see some of these forecasts being flat or some of them tapering off. And we see consumer confidence and macroeconomic confidence in the industries being at a high level as well. And you also see at this point in time that the risk cost indeed, as you all point out, are very low and I think that risk cost in this quarter is one of the lowest quarter we've had for many quarters. If you also then look at what you see in Stage 2, that the total risk book actually goes down a bit. And if you look at Stage 2, it goes up a bit. And there you see indeed based on sanctions or other elements. And then -- so now you see some risk cost appearing in the Stage 2 element. Those are all indicators, if you will, that we are at the top of the cycle. Now if you go back for the past 10 to 20 years and you see that the risk cost as a percentage of risk-weighted assets are between 40 to 45 basis points and now they are at this point in time between 10 and 20 basis points. And they were a bit higher than the 40 to 45 basis points at some other cycle. At the point in time when we hit higher risk cost, which was I believe in 2011 or 2012, is still included in that book called real estate development. And we've -- at that point in time, we've sealed off that book and have by and large limited real estate developments that we have done -- that we did in the past and the focus in real estate only on real estate finance. The difference between what we see now in Stages 1 through to 3 compared to what we had under the previous IAS 9 -- or IAS 39 is that we have Stage 2. It also means that in cases of economic downturn with the macroeconomic scenarios that are coming in on GDP or loan-to-value, for example, in mortgages, it has an impact on the loan losses. So it may, therefore, well, be that risk cost as a percentage of risk-weighted assets will be a bit more pro-cyclical, if you will than we've seen in the past. But for now we stay well -- we stay confident that at least for now we stay well below our risk cost average of 40 to 45 basis points.

Operator

Next question is from Mr. Tarik El Mejjad, Bank of America Merrill Lynch.

Tarik El Mejjad BofA Merrill Lynch, Research Division - Equity Analyst

Just 2 quick questions. First of all, on the fintech initiatives you have. I mean, I understand this is all small businesses and the contribution to revenues taken individually must be small. But if you add them all together, can you give us a sense of how much that will boost your revenues and is that significant or we should just ignore it? And maybe linked to that, if it's a small number and you don't communicate on it, is it just initiatives to basically offset what would be loss of revenues or is it really incremental? And my second

question is on costs. I mean, I really hear you about the backend loaded nature of the savings versus investments. But I want to know what you're thinking here in terms of the need to invest more in the next 2 years because I don't think the investments on digital are finished yet and you probably need to keep investing to keep pace with all the new banks and the fintechs and improve the systems?

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

Okay. Thank you. The -- I think most of the fintechs that we are after are really services. Otherwise, we would lose either clients through or our revenues through -- because basically what they're doing is they focus on how to improve the client experience. And as you know, part of the Think Forward strategy is exactly that. That's the focus, ensuring that. If you focus on the client experience, then -- to a certain extent you can develop that yourself, a unique client experience. And to a certain extent, you have to get it from outside. And that's what you do. So these fintechs help you on one side to make sure that you continue to deliver on that, and with that, that you continue to deliver on your net promoter score, and with that, that you continue to deliver on your client growth. And that's what you see. So it's kind of included in the overall way of managing our franchise and growing our franchise and it doesn't kind of add on top of it from that perspective. And some of them though -- if it comes, for example, to our acquisition of Payvision, it will automatically deliver additional clients and additional income. So some of those who are not really kind of fintechs anymore, but already kind of scale-ups and have a client base with an offering that is almost unique, which is beyond delivering a better client experience, there you can expect that there will be an income growth from. On the overall ING income, it will help. But these are not the numbers that will make our P&L. But it is crucial in terms of building our platform for the future. Now on your cost side, do we need to invest more in digital up and above the ATF investments? Well, currently our progress is so comprehensive and we're in the middle of it that before we think about doing anymore, I think let's just make sure that we focus on executing what we got your mandate for because that's the way I think we work. We presented you a plan. You supported the plan. And we have to deliver within that mandate. And that's what is important to us. Will there be more investments needed on the back of that? Yes. I can already kind of paint you a picture that on the back of this transformation plan we will have a platform in the Benelux and we will have a platform in Model Bank, across 5 different digital banks. And from that moment onwards, we will take the next step and see how you can deliver truly one platform across all of these countries. So, yes, there will be more investments needed at that moment in time. But having said that, every incremental investment in order to support each country's business will be much lower than if you still would have a country by country business whether it is on commercial opportunities, in terms of delivering a better customer experience, introducing a new product or a service like Scalable, which -- if you develop it for one and you connect it to one app, you can actually develop it to all of the other apps in those countries as well. So there is where you benefit by scaling very, very quickly on these investments. You also benefit, honestly, if it comes to, for example, operational cost as well as, for example, compliance cost. Because if you are fully standardized across a couple of countries, then the incremental investment in order to improve specific processes or procedures or improve your IT risk and defend against cyber security, all of that will be incrementally lower in a platform approach than a country by country approach. So the benefits will be because of the scale across border at that moment in time. But the picture is that after this transformation program -- and if it does work out -- that you can deliver also in banking a standardized service from one platform to clients in different countries. Then it can only be one plan thereafter, which is you do it for all. And at that moment, we will also then be benefiting from the fact that we have already done a major transformation in the Benelux, in the Market Leaders and a major transformation in some of our digital franchises at that moment in time.

Operator

Next question is from Mr. Timat Gouvello -- du Timat from Jefferies International.

Maxence Patrick Patrick Laurent Le Gouvello du Timat Jefferies LLC, Research Division - Equity Analyst

Maxence Le Gouvello, Jefferies. Two questions on my side. The first one, can we come back on the Growth Markets on the cost expansion? How -- are you surprised about the speed of the acceleration and is it driven by the success of ING offer and how long you believe it's going to last? The second question will be about Turkey. We have not talked about it. Can you let us know what are you doing over there in light of the recent political element?

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

Steven will answer the question on Turkey and I'll come back on the growth of cost in the Challengers and Growth Market. Thank you.



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

On Turkey, yes, I mean, we are watching the developments in Turkey carefully. We have a loan book of about EUR 15 billion, which we by and large have kept flat. It has decreased a bit quarter-on-quarter based on change in FX rates. Total loan book there as part of the total loan book in -- for ING is about 2.3%. The Stage 3 provisioning is of a similar level, so about 2% to 2.5%. So that's actually fairly low. And if you then look in the composition of that loan book, we have a mortgage book of a bit below EUR 1 billion. So we keep that limited and relatively short dated. On SME and mid-corporates what we have done is we have -- we are working also with the state in terms of the guarantee that they give for lending, which currently is about EUR 1.5 billion. And we want to limit that to some extent because you want to be careful not to overextend your loans which are supported by the guarantee because that guarantee is also subject to a certain level of NPL levels and we want to stay within that. And when it comes to foreign exchange loans, which are largely in Wholesale Banking, there we want to make sure that to the extent that we give loans to these companies in euro or in dollars, that they also have euro or dollar revenues to deal with that. And that's what you see in mid-corporate. But also with the corporates in the way they publish their results compared to some other countries, there is good information available to actually see that they make dollar or euro income. In that regard, we are trying to match the funding that we give in foreign currencies to the revenues and the income that they make. So in that sense, we keep a keen eye on the developments over there. But until now based on what we're doing, the size of it and the risk cost that we are make, it's well under control.

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

Maxence, on your other question -- well, in other C&G, because this is basically ex-Market Leaders and ex-Germany and then retail, there is a lot going on. What is going on there? We have a Model Bank brand, which is basically investing in order to create a platform, a standardized banking platform across 5 countries. We are working on introducing new products, for example, the Scalable initiative we have there and we want to connect this into the service in other countries as well. We have the AXA initiative that will also have some cost increases. In order to ensure that in the end the move towards primary customers and the move towards a full-fledged universal digital bank, that you also have the product offering there. So there is a lot going on there. At the same time, these franchisees are growing very fast. So if you look at the growth of the primary customers, the 400,000 for the quarter, apart from the 80,000 that come from Record, out of the 320,000 -- most of the 320,000 is coming from countries like Spain, Poland, Australia, Romania and we're growing very fast in all of these markets. And we're not just completely digital yet. So basically that means that growing customers, growing lending, also means sometimes growing FTEs. And now we have some improvement programs if it comes to ensuring some of the systems that we have if it comes to improving the customer on-boarding processes that we have. And that's costing as well. And a point here to mention is that we continuously look at whether these costs increases that we allow will deliver revenue increases and whether they will and do support growth. Because if not, the cost increases will not create value. We're very disciplined in that. And if we have the feeling that it's not happening, we'll just not do it. The timing of the cost increase versus the revenue increase, and with that, the timing of an improvement in cost-to-income ratio also for these customers, yes, is not always -- they don't run parallel. So it's not EUR 1 for EUR 1 or EUR 1 for EUR 2 in the same quarter, but it's over time. And with that, it's important to look at number of customers and specifically number of primary relationships. We are building value for the future and that's important.

Operator

Next question is from Mr. Jean-Pierre Lambert, KBW.

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

Just one question. When you look at Financial Markets, could you apply the same principles as you do in Retail Banking and envisage a platform where services will be provided rather than internally generated in order to reduce your cost?

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

Yes, Jean-Pierre, I think you hit the nail on the head here. I think that is -- that's one of the things that we are looking at and some of our peers are also looking at and seeing, first, as to, can you, I'll call as, reinvent the way you do the business in a fully digital way? That is the one -- that's the first step. And the second step is, can you with that improve the total value chain and the cost of the value chain even using blockchain? And those are the things that we're looking at. Just like we have announced a couple of these successful initiatives on the trade side of the business, we think we can replicate some of that success on the Financial Market side. And then as a next step -- or

as a third step -- so first is reinvent; second, use blockchain to really digitize the total value chain. And then third, is there a way that you can actually platform your business and then be open for third-parties to offer products to your clients? So those are 3 elements, the exact 3 elements that we're looking at for Financial Markets.

Operator

Our next question is from Mr. Rajesh Kumar, Société Generale.

Rajesh Kumar

Rajesh from Soc Gen Credit Research. Just 2 questions for me please, both related to funding. In terms of TLAC plans, in your recent fixed income presentation you mentioned that ING has a good and quite manageable end-state TLAC shortfall. So do you have any internal percentage target for your HoldCo senior tranche? And number two, more specifically for 2018. So far we have seen that you have done just one benchmark HoldCo senior compared to EUR 8 billion to EUR 9 billion OpCo maturing in 2018. So can we expect you to be more active in HoldCo senior space in next 5 months maybe? And what about Holdco sub-debt, any plans there, more so in AT1 given you just have a 0.9% in CRE compliant form?

J. V. Timmermans *ING Groep N.V. - CFO & Member of Executive Board*

If you look at the TLAC plans, then what you see is we are currently already at where we should be in 2019. So we are at 21.5 I believe. So we're north of that. So in that sense, terribly in a hurry we are not. At the same time what you've seen over this year is we have done some issuance. We've done some covered bonds, EUR 1.75 billion. We've done some floating rate notes, 0.4. We have done some other covered bonds in Belgium. So -- and we have given a sort of a recycling strategy where we say like usually our senior OpCo will be replaced by senior HoldCo. And we will do that and that is basically the structural path we are on. But from time to time we escape into more opportunistic things as well. So the normal expectation would be that we do more HoldCo also for this year because that is our structural approach. But we never comment on like what's the next issuance plan for the next quarter.

Rajesh Kumar

What about sub-debt? What are you thinking out there? AT1 -- you have quite a bit to do yet.

J. V. Timmermans *ING Groep N.V. - CFO & Member of Executive Board*

Tier 1 -- we're actually at the moment also above our self-proclaimed target. So we are north of the minimum. We are north -- we are -- I believe that 1.6 and 1.5 is where the minimum is and 1.7 is what our target is. So, yes, I mean, not in a terrible area. And if I look at Tier 2, actually we are way north of the 2% we need to have. So can you say big plans? The answer is no.

Operator

Gentlemen, there are no further questions. Please continue.

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

Okay, thanks. Thanks, everyone, for joining us this morning and looking at our second quarter results. I think wrapping it up, another strong quarter from a commercial momentum perspective both in terms of the growth in customers, primary customers; the lending franchises very well-diversified across products, geographies and sectors; the funding side as well of the business.

We made progress in delivering a better client experience if it comes to our own improvements if it comes to teaming up with fintechs. And I think we have reached a really important milestone in one of the bigger parts of the transformation program, the Unite program, where we basically successfully migrated 600,000 Record Bank lines onto the ING Belgium systems. And that went rather smoothly I think. That sums the whole thing up. Delivering a net profit of EUR 1.4 billion for the quarter. And I think you know it's been a real good quarter. Thanks a lot.

Operator

This concludes this conference. On behalf of ING, thank you for attending. You may disconnect your line now.



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