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## PRESENTATION

### Operator

Good morning. This is Patricia (inaudible), welcoming you to ING's First 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 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 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.

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

Thank you, operator. Good morning, everyone. Welcome to the first quarter 2018 results call. As always, I'll take you through a couple of slides by way of introduction, and then there is plenty of opportunity for Q&A. With me here are Koos Timmermans, our CFO; and Steven Rijswijk, our CRO.

Turning to the key points. ING Group posted first quarter net profits of just over EUR 1.2 billion, which is a solid 7.2% increase on the same quarter last year. On the retail side, we recorded a net inflow of 170,000 primary customers. That makes a total of 11.2 million customers now. [Freddie] (sic) [Australia] retained very commercial momentum and contributed strongly to this quarterly growth.

In the first quarter, we recorded very strong net core lending growth as well, EUR 12.3 billion to be exact, that's well ahead of the 3% to 4% loan growth guidance.



As we indicated last quarter, the Q4 costs were elevated mostly due to incidental items, and I'm happy to report that costs came down again in the first quarter. That demonstrates a continuous focus on cost control, while transforming risk costs below, due to the positive macroeconomic outlook and credit environment.

On a fourth -- on a 4-quarter rolling average basis, the return equity came out at 10.3%, slightly up. And lastly, we have now completed our financial ambitions with a Basel IV CET1 ratio ambition of around 13.5%, and an underlying return on equity ambition of 10% to 12%. We will discuss this in more detail later on as well. I'll give you some more information even further in this presentation on this.

Turning to Slide 3, the indication of our commercial momentum. It's -- we are retaining a solid commercial momentum, as you can conclude from this slide. Primary customers up 170,000 at 11.2 million versus a 2020 target of 14 million. Total customers of 400,000. And again, this quarter, as mentioned already, EUR 12.3 billion of core lending growth. And on the other side, we see the deposit growth at EUR 2.4 billion, that helps us in our efforts to optimize balance sheet usage and cushion the impact of the lower rates.

As always, these results can't be achieved without the relentless focus on customer experience as well as the broader focus on digitalization across the markets where we operate. We have now included also an indication as to how the digital interactions that we have with our customers, how that is growing.

And you see that we have reached over 800 million in the quarter, and that is more than 20% increase year-on-year. So you see that the trend, the customer behavior is there and that our strategy is perfectly matched with that path. As for the first quarter, we ranked #1 in 7 out of our 13 retail markets in terms of Net Promoter Score.

While we are in the process of creating the go-to digital banking platform for all of our 38 million customers, we also keep developing new innovations ourselves and partner with fintechs. In the end, if you want to build that platform, you need to look at what you can do yourself, but there's also good ideas outside.

Currently, we have more than 150 partnerships with fintechs. In March, we completed the earlier announced acquisition of the leading payment service provider, Payvision, and that will significantly enhance our payment offer for our SME and Wholesale Banking clients.

On robo-advice, the partnership that we have is scalable, that continues to make good progress as well with our customers in Germany. We now have EUR 400 million of assets under management on the ING platform, so scalable.

And when it comes to instant lending, a story you know quite well, -- the collaboration that we have with Kabbage for instant lending to SMEs, and we have expanding that in France and Italy after our initial rollout in Spain.

Lastly, our in-house developed mobile aggregation and banking management platform Yolt, which has been built for open banking in a PSD2 world, we now have more than 250,000 registered users in the U.K. And Yolt has also been awarded the best money app in the U.K. several times, so we know what it takes to play in the digital area.

Turning to Slide 5. At the end of last year, we strengthened and sharpened our approach to sustainability by introducing what we call a responsible finance portfolio. And that portfolio replaces our sustainable transition to finance portfolio, as we reported earlier.

This portfolio for responsible finance, we aim to double this by 2022. In order to achieve that ambition, we try to keep being instrumental in coming up with new industry standards. For instance, our team was instrumental in the development of the Green Loan Principles, which were published by the Loan Market Association in March.

In Asia, we acted as sustainability coordinator on the first sustainability link syndicated loan of its kind, and that was to Olam. And Olam is a company active in the global agri business. Furthermore, we are building a reputation as a leading green bond house. We were involved in as many as 8 green bonds in the first quarter, including deals for the transactions for the Kingdom of Belgium and the SpareBank 1 in Norway.

As indicated during the full year results, I'm turning to Page 6 now, the slide that -- shows the ING Group's financial ambitions. As we indicated in our full year results, with the finishing Basel IV and knowing how IFRS -- what kind of IFRS impact we have on our capital and our earnings, it is now also being able to complete our set of financial ambitions.

We set a CET1 ratio ambition of around 13.5%, and that's on Basel IV terms, as you can see, and an underlying return on equity ambition between 10% and 12%. For our capital, we feel that we have a very good starting point with the 14.3% CET1 ratio currently, while at the same time, we will still need to grow capital until the 1st of January 2022 because by that date, the majority of the Basel IV and TRIM impact will have occurred.

We'll keep to aim -- we will aim to keep delivering attractive returns to shareholders. As you can see, we have an average return on equity of 10.3% over the last 4 quarters. But we feel we're in a good place here on this one, while we can grow the franchise as well.

As you are used to from us, we are a return on equity focused company. We will continue to maintain pricing discipline. We will look to grow profitability even further with the higher capital requirements coming in. Now the discipline in order to make this set of ambitions needs to stay in place, and as you have experienced with us, we will continue to do so moving forward.

Now let's take a look at the first quarter results of this year. I'm now turning to Slide 8. And you see the development of our underlying pretax result, that came out at nearly EUR 1.7 billion in the first quarter. That's due to continued loan growth, resilient margins, strong decrease in the risk costs as well. At the same time, we see regulatory expenses going up. And these are, as you know, seasonally high in the first quarter.

Net interest income was up 1.1% on prior year, and that's due to this mentioned continued growth in customer lending. But also, the overall net interest margin that is staying within our guidance of a high 140s to low 150s. And this is all despite the foreign exchange headwinds that we saw on the dollar as well as the continued pressure on the low-rate environment. So in itself, that's a good result right there.

As we didn't have any core savings adjustments in our main European retail markets during the quarter, the NII compared to the fourth quarter was down. And that's also partially explained by the EUR 35 million lower NII due to the decision to add some of the hedge relationships back in the third quarter of 2017. And you can see that in this bar chart as well, that's the minus EUR 35 million right there. So up 1.1% year-on-year but down 1.2% quarter-on-quarter because of not adjusting core savings rates and this minus EUR 35 million right there.

Our net interest margin continues to be at healthy levels. You see that it has been unchanged. If you take the 4-quarter rolling average at 154 basis points, the actual incidental and quarterly effects, and then you see it's stable at 154. If we look at the NIM in the first quarter, you see a reduction of 6 basis points. The NIM now coming out at 152, and that's largely explained by some of the volatile positive impacts that we saw in the previous quarter and that reversed largely.

So you see that in the -- on the Financial Markets side. Although we actually saw a slight improvement in the Financial Markets' total income compared to the weak fourth quarter, the NII components quite -- dropped quite substantially, and that explains the 3 basis points in the reduction of the NIM.

Another 2 basis points is due to the impact of ending some of the hedge relationships, which I already talked about. And then you see the remaining decrease, which is a single basis points, and that's a result of slightly lower margins on nonmortgage and also lending on the lending side and a bit on the savings side as well. NIM on current accounts and mortgages remain stable in the quarter.

A look at the core lending growth, I'm on Slide 10. We see that we grew here, we're EUR 12.3 billion in core lending, that's 2.2% quarter-on-quarter. It comes with good returns. These are our risk appetite framework. While we keep facing tough competition across the board, we have many growth engines within our bank.

Retail grew EUR 5.2 billion, and this is mostly in consumer and business lending, while Q4 in Retail was more skewed towards the

mortgages. On the Wholesale Bank, we saw a net core lending growth at EUR 7.1 billion. Most of that growth was recorded in Industry Lending, where we've seen a mix shift compared to last year. And I'm mentioning that because it explains a couple of things that we will discuss later.

Partly due to the higher commodity prices, we saw the growth of shorter-dated TCF business contributing strongly to this growth. And we saw a reduction in the higher-margin project and acquisition finance activity. That mix shift in itself had good returns, also explains some financial developments in the Wholesale Bank. Real Estate Finance continues to grow steadily.

Talking about the mix shift, and turning to Slide 11 on the commission. Here, you see that the Wholesale Banking fees were down year-on-year and quarter-on-quarter, and that's because the fees on TCF deals, which grew in the mix, are usually lower than the longer-dated Industry Lending business. Now this is not kind of a trend in itself, it's just what happened this quarter. But again, the TCF business is coming in at -- with lower fees, but at good returns as well.

If you look at the development of the Retail Benelux, we see a year-on-year decrease. Retail Belgium saw a lower mutual fund entrance fees, and that's partly due to equity market volatility. While the first quarter, [50] in Belgium is traditionally strong in this regard. We've seen clients now wait for their investment given the volatility in the equity market.

Then if you go to the net commission income in the retail C&G countries, you see that growing rapidly. And we're on-boarding more primary customers there. We're enlarging our digital product offering. Quarter-on-quarter, you see the fees going down slightly. That can be fully explained by the higher mortgage origination fees that we paid in Germany in order to continue and accelerate our mortgage growth. So the underlying trend is actually very positive. The fees that we pay away are subtracted from the fees that are coming in.

Financial Markets, same slide here, had a more difficult quarter. It's slightly up from the strong -- from the fourth quarter last year. Total revenues were up 13%. And client activity was, however, lower in the credit and rates business, in line with what we saw at some of our European peers. And I think it's worth noting that we only have a small equity franchise compared to the U.S. banks, so that's what -- where we had expected the uptick because we don't have the business. So it's a credit and rates business, and the client activity has been slow in that and that explains this result.

Let me spend a few minutes on our challenges in growth markets, specifically, the Retail operations outside of our home markets in the Benelux and Germany. Because if you kind of take -- if you take the consolidated picture and you kind of single out a couple of areas, you actually see much better how our strategy is successful.

And here, you see this Think Forward strategy at work, delivering very good results. Primary customers up strongly year-on-year. Headcount remaining flat despite commercial growth. Commercial growth being reflected in double-digit increases in NII. And fees and net core lending, more than EUR 9 million in the past 4 quarters. And the underlying change in mix towards higher-margin lending [affects] consumer lending and business lending there.

Customers seem to really appreciate our superior customer experience. They awarded us a leading Net Promoter Score in 5 out of the 8 markets. This is where you see the Think Forward strategy fully at work with positive numbers, growth numbers, double-digit growth numbers, whereas number of FTEs being flattish. This is basically tech component of banking.

If you then focus even further and single out a specific country, let's take a look at Australia. We want to highlight it because Australia had a very good first quarter, which you can see from the income graph here. 23% growth year-on-year on total income and a cost income ratio of around 45%.

Australia is a business that we built from scratch since 1999. Now services nearly 2 million customers, around 25% of this being primary customers. Due to our attractive pay and save proposition, [in terms] of our new customers, they're actually turned into primary.

When we founded this business, it was a savings and mortgage business. And over the last couple of years, as with all of these digital franchises that we have, we have built it into a universal digital bank. Expanding the retail product range, fully distributed digitally and



through mobile; adding insurance; adding the regulated savings products. But also on the other side, first find the balance sheet, starting at consumer lending, business lending, and growing our Wholesale Banking franchise there as well.

And a testament, I think, to our success to deliver a superior customer experience, we have a #1 Net Promoter position score in Australia, with a 22 points difference versus the best competitor. And that's not because there are weak banks in Australia, there are actually strong banks. So it kind of shows how well you can do as a digital bank only if you solely focus on client service and differentiating clients.

Turning to the operating expenses on Slide 14. I think we demonstrated good cost control in the first quarter. Expenses, excluding the regulatory costs, which, as you know, are always high in the first quarter, those expenses actually came down EUR 161 million versus the fourth quarter. A reduction in the number of nonrecurring items, including a release of a legal provision in Luxembourg, lower marketing expenses, that is what explains half of the reduction. And our digital investments were also lower in the quarter at EUR 41 million.

Combined with higher regulatory costs of EUR 493 million, as you can see in the bar chart, this led to a 4-quarter rolling average cost income ratio of 55.7%. Stable-ish on the back of high regulatory cost, quite good actually. The -- pleased with the progress on operating costs here, that we can show you that this is under control, while making progress on the transformation.

Same with the also in Orange Bridge, we are going through the legal merger of Record Bank into ING Belgium. We have completed that now. We are now also running waves of migrations of clients, so that's all going through as well.

Overall, looking at the cost/income ratio, we remain committed to the 50% to 52% cost income ratio ambition by 2020. 2018 is still expected to be an investment year. We expect the full impact of transformation progress to come through in 2019 and 2020, as we had also indicated during our Investor Day 18 months ago.

Now I can be assured on -- with respect to the risk costs, turning to Slide 15 here. Loan loss provisions were a very low EUR 85 million in the first quarter. It's the first quarter in which the risk costs were reported under the IFRS 9 regime, and for which more information is in the appendix.

You see the more positive macroeconomic outlook coming through here, this impacts directly the provisioning. As well as the benign trend environment in most of the regions in which we are active, that results in low additions and even some larger releases, particularly in the Wholesale Bank.

Nonperforming loans for ING is measured by the Stage 3 ratio under IFRS 9, dropped to 1.7% from 1.8% in the beginning of the year. For 2018 and we remain constructive and would like -- and we'll expect risk costs to stay well below the through-the-cycle average of 40 to 45 basis points.

Lastly, on the anti-money laundering investigation by the Dutch prosecutor, we have nothing specifically to report. Expect to hear more in the near future.

Now Slide 16, on the capital -- on capital here, you can see that we incurred a minus 0.2% impact from the adoption of IFRS 9 on the 1st of January, as we already indicated in our previous call, and that leads to a 14.5% CET1 at the start of the year. That initial impact of minus 0.2%, as we explained the last quarter, is explained by the reclassification of part of the liquid investment portfolio to hold and collect. You see it comes down to -- it goes to amortized costs then.

During the quarter, the CET1 ratio declined by 20 basis points to 14.3%. And that's explained by higher risk-weighted assets, the impact to the acquisition of Payvision versus the profits that we add, as you have the minus 20 basis points.

Now in line with our progressive dividend policy, we continue to reserve 1/3 of last year's full dividend in the first 3 quarters of the year, so we did that now as well.

And as you can also see from this slide, our CET1 ratio ambition of around 13.5% in the Basel IV fares well to our fully loaded SREP

requirement in the MDA level of 11.8%. That implies a management buffer of 170 basis points.

The Basel IV IFRS impacts phasing in over time. We will have to retain some capital to be compliant on a fully loaded business going -- basis going forward. There's still a large part of our future capital generation capacity will be used to reward our shareholders via the existing progressive dividend policy. But also, to support profitable growth, if we can, with our stated ambition of growing the lending book of 3% to 4% annually.

Now to wrap it up, you can see that we continue to grow our customer numbers. We continue to grow our primary relationships numbers. We continue to deliver profitable core lending. The NIM remains relatively resilient. Costs came down from a somewhat elevated level in the fourth quarter. We are in a strong position to expand our digital leadership, to continue to attract customers and see us as the go-to bank, while delivering attractive returns to our shareholders.

And that's a nice summary to hand over to the operator for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question is from Mr. Benjamin Goy, Deutsche Bank.

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

Two questions, please, from my side. One on capital, one on Financial Markets. Could you give us some more color why you think 170 basis points is the right management buffer? And also, to debt related. Your SREP is still based on Basel III, but your ambition is based on Basel IV. Do you think that changes over the next 4 years, the composition? And then secondly, Financial Markets. Since the Capital Markets Day, they never made your company or the group ROE guidance, and most quarters wasn't even close. So wondering what specific actions do you think might improve the risk return profile of the segment.

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

Thank you, Ben. I will take the second question and Koos will take the first question. So on Financial Markets, yes, so as I already indicated, the FICC results, and this is the business that we play in, they're not -- they're positive for the market as a whole. And therefore, the -- you see that reflected in our own performance as well in the first quarter. The transformation plan that we have for Financial Markets is to address a couple of things. First, you know that if you compare year-on-year, you should also correct for the equity derivatives businesses that we are shrinking and actually selling. That's an annual revenue impact of EUR 50 million right there. We continue to further improve our efficiency by combining the 3 trading locations to 1, consolidating the training activities. So that should help on the costs side as well. And then Isabel launched a further sharpened, also, banking strategy in which Financial Markets sales plays an important business, and we'll be more and more aligned with the client base that we have across the different sectors where we know we have strong client relationships and where there is quite some demand for our support from a Financial Markets perspective as well. So therefore, with these actions, you still expect that the streamlining of our Financial Markets operations and the further alignment towards our client business that we can improve the return on equity until 2020.

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

And then maybe -- it's Koos, on the 170 basis points, is that the right buffer? Two conditions we set ourselves. First, we want to serve our customers, so we have the normal loan growth. Second is we want to be able to pay you a dividend with a reasonable amount of certainty. So that is the 2 pre-conditions we say. And then the question is, how much of a buffer do you need above your minimum SREP requirement? And we said, like, if we pick 170 basis point, that will allow you above a normal cycle with its peak sending it down to continue your underlying business with the 2 conditions set. So you can still normally pay a dividend and you can still normally facilitate your clients and grow. So that is the basis of the 170. Now what is in there? Basically, the 170 caters for both credit risk migration, it caters for the new provisioning according to IFRS 9, although we have little experience with it, but it also caters for things like your revaluation reserve changing, switches in the currencies. So all of this is basically the components which constitute this 170.



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

And sorry to follow up on the part SREP Basel III versus your Basel IV ambition, any thoughts on that over the next 2 to 3 years?

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

Sure. I think, overall, what we have said like the ambition is 13.5%. In fact, we are currently at 14.3% under Basel III. Now what we indicated the previous time is that probably Basel IV, it might cost you 2% if you keep the same portfolio and the same economy and you don't do anything to repair it. So if the current ratio is 14.3%, that would be under a Basel IV, 12.3% and 13.5% is our target. So that means like we will still accumulate a little bit of capital over the next few years, but it can be managed in such a pace that you can still continue your dividend and grow your business.

**Operator**

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

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

Just to come back on the CET1 ambition of 13.5%, could you be a bit more specific on the timing in order to get to this level? Is it fair to assume it will take you a couple of years together and you have no rush to get to this level? And also, could you talk about the dividend trajectory, so long you are kind of below the 13.5%? I think you've said already that you want to have a progressive DPS. How progressive will that be, let's say, in the period you are below the 13.5%? And the second question will be on the TCF growth. I was wondering if it's purely linked to the commodity price? Or you see a more fundamental shift here because it suggests that we'll see probably a bit less growth in the fee and commissions line? And also on the returns on the TCF business, what type of investment margin are you making on this business?

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

Koos, the first one...

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

Yes, Benoit. If you look at the ambition there and the timing of it, in the end, what we see is the biggest part of the Basel component will be -- have to be realized around 2022, and that is the adaptations to the internal models. It could be a bit speeded up because of TRIM, but that is something which we don't know precisely. But we see it as follows. If Basel currently would cost us around 2%, then already 0.8% is what is in our current buffer, the 14.3%, so that means like we are already 40% underway. And that means like, the other part, we will accumulate over time. Do we want to do that as of next year? No. The answer is we want to do that over that period of time, so we will use that to grow into that number. And basically, the only other point is, on the dividend part, yes, we will continue with our dividend policy as is.

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

Okay. On your question on TCF growth, yes, it's linked to the commodity price, but we also take business where we can price it at good returns. Sometimes, that's not the case. And therefore, on the TCF exposure, this is subject to commodity prices, often the dollar rate, as well as our appetite to price, given the fact that we have our pricing discipline there. So this is not a fundamental shift. This is a business that, on a quarter or even on a month basis, changes because of the factors that I just mentioned. The NIM in the business is a little bit lower. It's a lower-margin business. Return equity of the business although is good, otherwise, we wouldn't write the business. On the other side, the TCF business itself brings along lower commissions and the lower-term project finance business and some of the acquisition finance business. But even there, we don't see a fundamental shift. We just saw more deals coming in, specifically in previous quarters. We expect that business and we're looking at the pipeline to continue as we have seen in the past, just that this quarter is a bit lower.

**Operator**

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



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

It's Stefan. I've got 2 questions. One is on fees and the other one is on savings from your investment plan. On fees, the 3 sort of interesting areas from 1Q results to me personally are Germany; Industry Lending, excluding the TCF business; and the challenging growth markets. Would love to get some color on the dynamics that you expect for the rest of the year. In Germany, for example, do you think you will continue to be paying higher fees to brokers going forward? In Industry Lending, ex TCF, what were the dynamics in 1Q? Were fees still resilient even when you exclude the TCF business? And in C&GM, you did show some good results. I was just trying to get a feel for the proportion of primary customers going forward. So do you expect this to increase? What's the outlook for cross-buy, et cetera? Consensus right now doesn't really seem to believe your fee story, so just trying to get some more color on that. The second question is on your save from the investment program. You have been pretty good in terms of updating us on the investment spend. But how about the investment savings or -- sorry, the growth savings that you have been guiding us on an annual basis. Are you meeting those expectations that you have set yourselves? Are you behind? Are you catching up later this year? Just to give us some color on that would be great.

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

Stefan, this is a very elaborate question.

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

Sorry about that.

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

No. But I think you're coming to 2 points that are of interest and of importance, also, to give you some more color on. When it comes to the commissions side, if you look at Germany, overall, with the growth of customers and the growth of primary customers, fees are to increase over time. Year-on-year, the fee level for the first quarter this year is the same as last year. If there is a moment in which we produce a bit more mortgages, it is also because we feel that we can produce it at the right returns. So it's -- as you know, we're very disciplined there. And then it's good production that comes in and then we pay away some fees. In the end, you should realize that the money largely stays in the company because we produce for [industry] there as well. So the -- that is more Germany. On the Industry Lending side, we don't see a change in level of fees if it comes to the longer-dated Industry Lending business. It is just that we didn't close as many deals this quarter as in previous quarters. And therefore, it's lower from that perspective. There is no trend that we see there is a pressure on fees in the Industry Lending business. On the C&G Markets, yes, we grow in customers, we grow in primary customers and we improve in cross-buy across the franchise. We follow this closely. But you should realize that cross-buy only can grow on the back of more primary customers and introduction of new products. And it's the introduction of new products that we are working on, and that will lead to a further fee increases. So although I can't disclose how we will use our platform to accelerate fee revenues, we are working on a couple of things that you will hear from us later this year. And we'll certainly further kind of use our primary relationships to introduce new products and, with that, generate more fees. On the cost savings side, the update there. We are continuing with our investments. The investment plan is on plan. The transformation itself is on plan. If it comes to gross savings, we have indicated how we expect gross savings to come in. At this moment, we see savings coming in from previous programs like the Wholesale Banking term, like power IT, like some of the programs that we had in The Netherlands. You see General Services coming in. You see actually the costs going down. For example, in the Netherlands, where you see savings coming in. For the Accelerating Think Forward, those savings are coming in. But at the same time, we're still in a year of high investment level. And therefore, you don't see them and you don't recognize them exactly. And the way we expect this all to play out is that our cost/income ratio is to decrease. Now for coming year, we don't expect the cost-to-income ratio to decrease too much, so we expect the cost-to-income ratio to be around the 55%, 55.5% for the year. But you can't expect cost to income go down when the net between the savings and the extra investments is becoming a positive, so it's a real savings coming towards the end of 2019 and in full 2020. The cost-to-income ratio, you can expect to go down in 2019 and 2020. And we feel comfortable reiterating our ambition on the cost-to-income ratio of 50% to 52% towards the end of 2020 and 2021.

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**Operator**

Our next question is from Sofie Peterzens, JPMorgan.



**Sofie Caroline Elisabet Peterzens JP Morgan Chase & Co, Research Division - Analyst**

It's Sofie Peterzens from JPMorgan. I was wondering if you could talk a little bit about your net interest income, especially in the Retail division. If I look at the Netherlands and Germany, it was very weak, down 4% quarter-on-quarter and 5% quarter-on-quarter, respectively. Could you just give a little bit more detail what was going on and how do you think about net interest income growth in these divisions going forward? And also, in the other Challenger & Growth Markets, NII was up 8% quarter-on-quarter. Could you just give a little bit more detail on growth? And my second question is around your 10% to 12% ROE target. What does a 10% to 12% range include? Does it take into consideration any rate hikes or anything else that we should be kind of aware of? And is it already for 2018 or what's the time frame for this?

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

Sofie, on your first one, the NII retail in the Netherlands and Germany. In the Netherlands, you see that our mortgage book is decreasing. It has been decreasing over many, many quarters. That in itself is a reason for a lower NII. That's compared to the fact that we haven't moved on our savings rate. That means that there is a little bit more pressure coming in on NII from the savings side. And that same effect, the savings effect, is what explains the NII development in Germany as well. It didn't move our savings rate in the first quarter. We have moved our savings rate in the second quarter though already, so you can expect some positive developments from that in Germany. So that explains the NII retail development in the Netherlands and Germany. In C&G, basically, what you see there is that the NII is up because of the growth of the book. There's a continuous growth of the book. That's one. And secondly, C&G is a mix of Eurozone activities and non-Eurozone activities, where you see that margin pressure is more in Eurozone activities and on the savings side, and less on the non-Eurozone activities. With the growth in clients and primary clients, as I have reported on, that's why you see the NII coming up in C&G. On return on equity, I'll give the word to Koos.

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

Yes. So on the return on equity, we have that ambition and an ambition is based on a plan. And in a plan, you have a few components which are of importance. The one is, and that's a positive one, is that we think we can continue our loan growth. Also, a positive one is that although we don't see interest rates increasing according to a forward curve, it's slightly less than that. On the other hand, the negative one is that, yes, credit for costs over time will normalize. So all these factors, they play in the role in your plan. But again, I mean, that plan then is the basis for an ambition, but that ambition is what we still need to execute.

**Sofie Caroline Elisabet Peterzens JP Morgan Chase & Co, Research Division - Analyst**

And just a quick question. The 10% to 12% ROE ambition, that's for already 2018 or is it more 2020?

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

Actually, it's now because we have already made that. I think where it changes a little bit is that, with Basel IV, we will accumulate more capital. You might not see it in a ratio, but we accumulate more capital, and that is where we base our ambition on. So it doesn't mean that we can sit still. I mean, in fact, making 10.3% now is not the same as making 10.3% a year from now because you accumulate a little bit more capital and divide it by more RWAs.

**Operator**

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

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

Just 2 questions from me. Firstly, on NIM. You mentioned the 1 basis point q-on-q impact from margin compression. Should we look at that as possibly a trend over the remainder of the year? And would you now expect to hold kind of low 150s, high 140s level to the end of 2018? And indeed, it would be interesting to understand how NIM develops in the plan you alluded to there in answer to Sofie's question. And then secondly, on digital investment costs, those were EUR 41 million in the quarter, net down materially q-on-q. Koos, could you explain what's happening there and perhaps outline your expectations for the digital investment costs for the full year '18?

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

Thank you. So on the NIM, the 1 basis point margin compression. Is that a trend? Yes, it is and it isn't. Honestly, we gave guidance last year already that, in the first 2 quarters, we expect that to be able to manage NIM on the high 140s and low 150s. So we're coming out

150. So actually, that's a positive from that perspective. And we expect this also for the second quarter. More towards the end of the year, we would expect the NIM to be around the high 140s. So that's how we feel the NIM can develop. On the digital investments, the quarter-on-quarter development, it's not something that we kind of manage down per se. We match the request for investments versus the sort of demand versus supply on a quarterly basis. We have our total transformation plan. On those, you have conflicting requests, therefore, you have to give priority to one versus the other. That influences the overall investments on a quarter-by-quarter basis. But the digital investments, as we had planned for 2018, are at the level of EUR 170 million, and that's what we certainly also want to invest this year in order to ensure that we stay on plan on the investments and the transformation itself.

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**Operator**

Next question is from Mr. Pawel Dzedzic from Goldman Sachs.

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

Just 2 questions from my side. First one is a follow-up on your cost guidance. You reiterated that you're aiming for around 55%, 55.5% cost-to-income ratio this year. If we look at the underlying cost growth for 1Q, it stands at around 3%. And obviously, there is some more volatility on the back of these over your provisions. To what extent this low single-digit growth rate, 2%, 3%, 4%, is reflective of what is happening to your business growth that you're seeing and so on? And the second question is [kind of] a follow-up. You mentioned that you will take time when it comes to phasing in Basel IV, which obviously creates some buffer for your dividend payments. But also, in your press release, you mentioned that you're prepared for TRIM. So I wonder if there is any update as to the impact of TRIM might be.

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

Thank you, Pawel. The second question will be taken by Steven. On the cost guidance, it's a mixed bag -- battle on this one. And it really depends on how you can kind of manage the transformation itself. As you know, in the market leaders' area with our Orange Bridge project, we are actually aiming to reduce costs, literally reduce costs. And we've seen that, for example, in Belgium for this quarter, that the costs are a bit up. And that's not because of the unsuccessful transformation, it's actually because it is a little bit too successful, where people are taking up some of the redundancy packages where ancillary operations are not digitalized yet, so we are backfilling a little bit with externals which caused us to make a little bit more costs, for example. But in the end, this is a plan that makes market leaders much more efficient, build one platform and, with that, actually get costs literally down and improve the cost to income further in the market leader area. In the Wholesale Banking area, in supporting the growth of the lending book, over the last couple of years, we have been growing what we call the front office people and the front office costs.

At the same time, the Wholesale Banking TOM is geared towards a further efficiency and a further decrease of FTEs on what we would call more the operational side of the activities because it becomes more and more digitized. That effect, you can't manage on a quarter-to-quarter basis either, but overall, maybe slight cost increase on the Wholesale Banking side, but the cost/income ratio is what counts in order to support a growing franchise there. And then in C&G, as you have seen, the way we report C&G, this is basically an area where we don't mind costs to grow. That is a fast-growing franchise in terms of clients, in terms of activities, in terms of operations, in terms of lending. And a bit of cost increase, but managing a healthy cost/income ratio and broadening the franchise from a mortgage franchise to a universal digital bank. That is the aim there. We wouldn't mind a bit of cost growth -- allow cost growth there as long as we see that commercial development coming through, and that's what we see. That's a little bit, that's the explanation on first one. For the second one, the TRIM impact, I give the word to Steven.

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

Thanks, Pawel, so on TRIM, with regards to the mortgages in the Netherlands and Belgium as well as the SME book in the Netherlands and all of our trading models, the TRIM review is done. And basically, we're in the process of exchanging feedback with the regulator in that regard. We do not expect to be able to give any further guidance on that before the second half of this year. The second part of TRIM are the low default portfolios in Wholesale Banking, and that review will only start as of the second half of this year and will be finalized in 2019. So I would anticipate, on the first part, to get some feedback in the course of 2018. On the second part of TRIM, it will be in 2019.

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

That's very clear. Can I just come back to the cost growth question? And thank you for the explanation. I think on a -- look, going forward view, those growth does make a ton of sense. I was wondering if you've seen maybe perhaps currently in the second half of the year a

slightly higher run rate of cost? And you mentioned Belgium as one place where perhaps it exceeded your expectations. Is that fair? Or perhaps I'm misunderstanding this?

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

You don't see that. It's not the way we manage at this moment. Again, on a year-to-year basis, we have our investment program. And clearly in a transformation plan, sometimes are ahead of plan, some things are a little bit delayed, then the investments are a little bit early and the savings are a little bit late; or the other way around. So it's not like we're managing towards a higher-cost base towards the second, third quarter. It's -- on a quarter-over-quarter, we really track the transformation plans and the costs come out as they come out. And we don't expect that we'll have a peak in costs later on. Again, what we do really, really track is the cost/income ratio because we do feel that our investments should lead to further efficiency, to more business and, with that also, more income. And that's what we really, really focus on.

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**Operator**

The next question is from Alicia Chung, Exane.

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

Just one quick question for me. On Basel IV, after a long period of uncertainty, now it looks like we have a much better view of the new regulatory world, and you've clearly already estimated the impact of Basel IV and turned it around 200 bps. Have you also started to review how capital is allocated around the different businesses? And whether capital allocation is still optimized in this new world? And are there any particular areas where you're changing your view on where it makes sense to invest more now? Or which are too capital intensive and could be downsized to release capital for more profitable, less capital-intensive businesses? So that's one question. And then also, just going back to your lending growth, obviously it's been relatively strong in the wholesale bank versus retail, and it's been historically slightly stronger there as well. But it also has lower return on risk-weighted assets. Do you expect that the wholesale bank will be a core driver for the lending growth going forward?

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

Okay. I think these are 2 questions for our CFO.

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

I think, overall, if you look at the capital allocation, then let me first take the first part, and that is that, in fact, the increase in RWAs can come from 2 factors. And one is an increase in your models or the other is an increase in the output floor. So the overall composition of the 2 businesses and the output floor that is more related to mortgages, which are a driver and the internal model is more related to other factors on the wholesale bank. So overall, the composition is important. And what you find is that, actually, both the output floor as well as the internal models, they contribute to our increase, and that's not on top of each other but next to each other. So let me say that the big macro picture is that in capital allocation, you've got to watch a bit how much is your mortgage business and how much is your nonmortgage business. And that is what we do. Then from then on, and we are going to fine-tune a little bit further, and that is then if you go, for instance, in the wholesale bank, what constitutes now the big increases in the internal models, that has to do partially with the Industry Lending business and that has to do with recognition of the loss given defaults on certain collateral. But it also has to do with large corporates and banks. And what we are doing there is before taking an allocation decision, the first thing you think about is, can you reprice this business? Who is our competitors? Are they in the same boat as we are and, therefore, can you increase your prices or not? And that is the phase and the dialogue we are going through right now. So you could say that, overall, the macro picture internal mortgage and nonmortgages is quite good. But further fine-tuning still has to happen. And you're very right to say so because what we have currently is, yes, we have stated the Basel IV requirements and that is like a 2% decrease of your capital, but that is all if you leave it unmitigated. And -- but we take our time to -- to make a dialogue. But first of all, if you can reprice it, then you're already a long way down. If you look at the loan growth, wholesale versus retail -- and first of all, we always say we are pretty, pretty lucky that we have a bit of loan growth. And if you follow the last 8 quarters, then you find it each time comes from something different. And so it's not that we are actively steering it, you also got to have a front office which is able and agile to get there. And so if you had -- like last quarter, you had both a bit of a stronger dollar as well as a bit of a stronger oil price, that's all great. But then you still got to make loans to finance the inventory, and we have a bit of the agility to be there where the loan demand is. And so we cannot drive that precisely ourselves. At the same time, what we do, do is, in our lending, and we just have criteria that we say, like, hey, what is our cost of funding? And then we

have our green light committees where we say, like, okay, what is it that we need for expected losses and unexpected losses? And we need to compensate for the capital cost. So that is the way how we do it. But we are not sitting at a board level say like this quarter, let's make it a retail quarter or let's make it a wholesale quarter. It's a bit more driven by what the clients tell us but keeping acceptancy standards.

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**Operator**

Next question is from Mr. Bruce Hamilton, Morgan Stanley.

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

Firstly, just on any implication from the move out into the U.S. funding market and LIBOR. I mean, it sounds like the mix change in the industrial lending business was more to do just what opportunities were there and you expect that, that kind of normalizes. But I just wanted to check whether there was anything in your sort of current planning that was being impacted by U.S. funding markets, and any implications there? And then secondly, just to come back on the sort of guidance around capital, dividends and growth. Would I be right in thinking that you would sort of prioritize aggressive dividend over growth if push came to shove? Because obviously, you're building capital but given the growth in the business, you're not building a huge amount so you need to have a lot of excess if you're going to reach that sort of Basel requirements. I just wanted to check the priorities.

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

Yes. Maybe on your second one, is we have a progressive dividend policy and we can pay a dividend; that will certainly be something that we are very wary of in order to ensure that the shareholders get their return. And that should answer your second one. On the first one, I'll give the floor to Koos.

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

Yes, so LIBOR versus OIS. Maybe, first and foremost, we are a bit more a LIBOR-based bank, but that comes both on the way how we fund ourselves but also in the way how we make our loans. So if LIBOR widens, then you benefit on the asset side, you bleed a bit on the liability side. Do you bleed? Is your cost of funding going up? It's a bit of a mixed bag. I think, in general, what we experienced over the quarter is that your funding prices go up a little bit if you go for straight funding. At the same time, if I look at the basis swap, so you create your dollar synthetically, then it goes down. So in that sense, no, there is not a real concern on our side.

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**Operator**

Next question is from Robin van den Broek, Mediobanca.

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

Two questions from my side as well. The first one is a bit more specific, Basel IV and TRIM. I think you indicated with your full year '17 release that roughly 2/3 of Basel IV would become feasible immediately at Basel IV adoption in 2022 driven by the internal models. So in relation to, I think, the question of Benoit, the dividend progressiveness in the last few years, we saw EUR 0.01 per year improvement. And I think also at your Capital Markets Day, you said that DPS is probably going to grow slower than EPS. Is that still how we should look at the dividend progression? Or can we expect dividends to grow faster and maybe more in line with EPS? That's the first question. And the second one is on cost of risk guidance. I appreciate the comment made that for this year, you expect it to be well below the through-the-cycle level, but maybe you can make a reflection to the EUR 700 million you printed in 2017. And I was also wondering if you could disclose any numbers on how IFRS 9 behaved in the current quarter versus the previous setup?

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

Thank you, Robin. The first one goes to Koos and the second one to Steven.

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

Yes, I think if you look at Basel IV, TRIM, is it 2/3 on the 1st of Jan 2020? Actually, the input -- the input floor part is a little bit more, so it's around 80%. So indeed, yes, we will get it done by 1st of Jan 2022. But then it means 80% is done and there is not a lot more to go. So that is a bit the part where we are. So -- and again, it all depends -- think about it as follows, and not too absolute, the 2% which we always mentioned on Basel is based on the existing portfolio, the existing economy without mitigating measures. So things will change and the 2% we mention right now might be a little bit less or different if you talk about it half year from now. The accounting on 80% of it

needs to be fixed by 2022. What does that mean in terms of dividend progression? For us, it's always a simple thing. Overall, what we have is we distribute dividend at the same time we grow and we accumulate a bit of capital. Now the question is, will anything change in that relationship? Overall, we still want to continue to pay the dividend because we have not changed anything on the progressive dividend story. And as long as we can still grow our business and we make more than a 10% return on it, we like that as well. Only in case there is no profitable growth, then you can say, like, hey, I start to distribute a bit more dividend per share. But right now, I mean, we have no reason to do so because the client growth is there. Now other noise, I mean, whether IFRS 9 will cause more pro cyclicity than what we have envisaged in our buffer, which I managed, at the beginning of the call, we had to take a look at it, but we don't know now. But we have made, as best as possible, the calculation we can make, and we think like, well, the buffer will serve a bit for yes, call it, noise reduction on either the client side or the dividend side.

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

Yes, on the cost of risk. I mean, if you look at the first quarter, there was of course a change because we had IFRS 9. And what you then look at is, in this case, stage 2, is there a significant change in the stock that we have in stage 2 provisions compared to the first -- 1st January 2018? And the answer is no. It basically is sort of a reflection of where we currently are, which is we are in a good economic state. It also means that we have not yet seen the volatility that could come in and the pro cyclicity that also Koos alluded to in terms of what could happen if there are significantly changing economic scenarios or GDP forecasts. And as you can see from the IFRS 9 presentation, our provisions in that sense compared to IAS 39 are much more linked to our economic scenarios, which include GDP forecast or house prices, for example. Now that we need to factor in. That makes it, in that sense, a bit more uncertain. We also -- but on the other hand, we have seen in the first quarter no big files in Wholesale Banking, that was a positive for Wholesale Banking. As a matter of fact, there was a release on a couple of files in the Netherlands and U.K. That is good. In Wholesale Banking, the provisions are kind of lumpy, more lumpy than it is on the retail side. On the retail side, risk cost stayed benign. At the same point in time, model releases also were a bit limited compared to previous quarters, and that give an indication that we're at the high point of the economic cycle. So I'm still comfortable with the risk cost of being well below the 40 to 45 basis points on RWA and we need to see more what more volatility could bring in the stage 2 on normal scenario exchange.

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**Operator**

Next question is from Mr. Tarik El Mejjad, BAML.

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

I just have 2 quick questions, please. First of all, I'll come back on the fees and commissions. And thanks, Ralph, for your explanations about the dynamics there in terms of Belgium, Germany, wholesale and so on. But my question is do you reiterate the 5%, 10% year-on-year growth for the EUR 650 million a quarter basis that you have been guiding for in the previous quarter? And the second question is on the litigation. Can you just explain us where you are now in this topic and maybe just clarify what are the different stakeholders there and risks?

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

Thank you, Tarik. On the first one, yes, we can reiterate. So from the basis of EUR 650 million on a quarterly basis, for the next couple of years, with billings coming from single-product banks, to client banks, to primary relationship banks in a digital way. We see scope for introduction of additional products and better relationships increasing the cross-buy; other than that, also distribute more third-party products or products that generate fees. So I have no problem with reiterating that guidance on fee development. On litigation, I give the word to Steven.

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

Yes. I mean, I think we reiterated the message that we also gave previously in the disclosure 2017. Again, in the press release, this time around, we remain under the investigations or the criminal investigations by the Dutch authorities. And this is linked to money laundering and onboarding of clients. That investigation is ongoing. As we said previously, we expect to have more information by the end of the first half of 2018. And we still expect that to be the case. That's all we can say for it at the moment.

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**Operator**

Next question is from Nick Davey, Redburn.

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

Just a few follow-ups, really, sorry it's well-trodden ground. The first one is on cost. Just back to this guidance of cost/income ratio, it could be broadly stable year-on-year. I've taken your points made so far, that there's lots of comings and goings on the investment plan, but if you could just wrap it all together and my memory from the Investor Day is that this year was already meant to be a year where you were getting net savings from the plan. So could you wrap up all together the progress on all of these plans and the fact that the cost/income ratio may not fall, is it, I mean, not going to plan on the income side? Something a bit behind plan on the cost side? Or have I misunderstood the guidance? Second one, back to impairments. We're at 11 basis points. Consensus expects you back up to 40 soon enough. Can you just talk specifically to IFRS 9 and your macro parameters? What's the sensitivity here if your GDP numbers are wrong in either direction or unemployment? What should we be looking at from a macro forecasting perspective that will move the dial on this very low level of bad debt? And then third question, sorry, it's just somewhat a complete reiteration of Bruce's question. But just back to this sort of allocation of a 10% ROE, you're mainly trying to build 25 bps of capital, you're running at 4% to 5% loan growth and people expect a 55% dividend. That equation just seems a bit tough. It's doable if risk-weight asset growth is below loan growth, but that seems hard, with the wholesale bank growing quicker than the retail bank. So can you just talk to that equation, perhaps, maybe focus on the RWA growth aspect of it just to maybe add some new light as to what's already been said?

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

Thank you, Nick. Yes, on the cost/income ratio. Well, I wish I could just manage this according to the way I plan everything. But it's not like things have really changed in the plan. Rather, the plans are on track. As I indicated already is that, yes, we have a bit of a setback from a cost perspective. Not from a transformation perspective, but from a cost perspective. In Belgium in this quarter, we see that we had to back fill some of the activities with externals because of the reduction in internal FTEs. And they come in at a bit of a higher cost. So that's what you see here and there. On the other side, we also see that we're a little bit more successful in growing our C&G franchise so we allow it to grow a little bit more on the cost side as well. So -- and I don't manage it, per se, as a fixed plan, and I only do what I see in the fixed plan. And if we see the opportunities in C&G to grow faster and give a bit of leeway on cost in order to reap the benefit of success and the high Net Promoter Score and more clients coming in, then we do allow so. And therefore, managing on the cost/income ratio is what is really important for us and not so much on that savings or the real cost component of things. On the LLP, I'm looking at Steven. Capital allocation I'll give to Koos.

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

Yes. So on the loan loss provision, I mean, basically what we now do, we have -- you see that in the presentation, we have a couple of scenarios with some baseline figures and down scenario with regards to GDP and unemployment. And there are many more factors in there. Those are 2 important sectors that determine the total bucket of loan loss provision and loan loss stock. Now in certain scenarios, we could do a couple of things. We can change the parameters of these scenarios based on what we see. We can also change the weight of a number of these scenarios. So there are various impacts based on these various scenarios that could happen. And therefore, it is not black and white what the exact scenario will be because there could be many scenarios. But to give you an indication, if most of the parameters that are important for IFRS 9 loan loss provision would go to the median of the cycle or the middle of the cycle or the through-the-cycle average on GDP and unemployment, that would have an impact on our loan loss provision of approximately EUR 600 million.

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

Yes. So on the capital allocation, indeed, we are fortunate enough to have a 14.3% core Tier 1 ratio as compared to the 13.5% what you see as a long-term average, so you have a bit of a buffer. But a buffer, under normal circumstances, is indeed needed because I mean, we pay out a decent amount of dividend. Over half of our 10% ROE is parked in dividend and you facilitate your 3% to 4% loan growth. So that means the other piece, you really need to accumulate a bit of the capital. Now having said that, what we have not taken into consideration is 2 elements. One is can we allocate the balance sheet a bit differently or dynamically? As you know, we always make adjustments. And the second part is we will also reprice. And so those elements, they need to be taken into consideration, and that is also why I said, like, don't take the 2% exactly as a hard given. I mean, it is more a ballpark where we need to work to. But for surely, we will try internally to make the effects a little bit less. And that is what we will do.

**Operator**

Next question is from Jean-Pierre Lambert, KBW.

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

Two questions. First, the buffer of 170 basis points. Can you give an indication of a breakdown between the components like IFRS 9 in broad sense? And the second question is just a simple calculations, if you take your ROE of 10.3% for the quarter and you assume a 2% impact of Basel IV, then your ROE is 8.9% or thereabouts, 9%. So there's a bit of an effort to do -- to reach your ROE targets. Any comment on that?

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

Yes, so on the second one, I'll give the answer and Koos on the first one. So I think your calculation is right. But we manage from there. And how do we manage? First, in order to limit the impact of Basel, you can look at how do products look like? Our products are structured and we structure them in a different way so that you can actually dampen the effect of Basel and manage your risk-weighted assets through that. Secondly, as I said, on the one side, we want to cater for our clients. On the other side, there's also a dynamic balance sheet management. So where we're basically kind of putting people to that effort as well in order to manage our balance sheet there as well. And the third thing is that, as mentioned already by Koos, is that, yes, I mean, if we come out with a guidance to you in terms of return on equity, it will lead to a further discipline in pricing as to how we do our business. And that should also have a positive effect then on that. And then last but not least, if you just look at our plans in which we expect the cost/income ratio to go down towards the end of 2020 and turn in the beginning of 2021, the 50%, 52%, that in itself will also have a positive effect on your return on equity. But those are already the different elements in our recipe, and we will now put up work in order to work towards the 10% to 12% return on equity ambition that we have given today.

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

Yes, so on the buffer components, the 170 basis points, why 170 and what's causing it? As mentioned, what's causing it is we have IFRS 9, so you'll probably get a little bit more pro cyclicity there. We have the RWA migration in times when the credit environment deteriorates. We have some foreign exchange. And we also have the interest rate revaluations, so those are a few of the factors. Now the point is they are not additive. And so one of the things, as you go to a better or to a more negative credit environment, probably interest rates are dropping. So the 2 of them, you cannot just exactly add it up. I always do think that one of the main components we always have to work with is the RWA migration. Now this is the only thing or the only good news about Basel IV: you will have a little bit less migration because things get more fixed. But overall, mentioning particular components you cannot do because they don't add up. It's negative. They are basically, yes, either 0 correlated or differently.

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**Operator**

Our next question is from Mr. Matthew Clark, MainFirst.

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**Jonathan Matthew Balfour Clark MainFirst Bank AG, Research Division - Director**

A couple of questions. Firstly, was there any impact on net interest income in the first quarter from the lower number of days in the quarter? And if so, could you quantify that? And then second question, just what would need to happen for you to get to the upper end of your 10% to 12% ROE target? Is that something that you can do with, say, the current macro backdrop and rate outlook? Or would you need to see external changes in order to get to that upper end? Or is that leasing put in your own powers over time if the cost saves, et cetera, come through?

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

Thank you, Matt. On the NII impact, yes, in comparison to the fourth quarter, certainly there was a day count impact, it was some tens of millions there. So if you look quarter-over-quarter, it's part of the explanation; if you look year-on-year, it's not. And on the 12% that happened in the current rate environment. Clearly, if the yield curve steepens a lot and all that, it will all help. Can it happen in the current rate environment? It really depends on the discipline of the market and the other parties in that market as well if it comes to, for example, pricing the capital allocation. And that remains to be seen. As you can expect from us, that we will continue with our discipline and then we'll see how things develop on there. We will certainly reach -- always try to reach the upper end of our ambition. As I just laid out, there's a recipe with 4, 5 factors there in terms of changing some of the product features, changing the balance sheet management aspects of things, repricing, working on your cost side as well and further efficiencies. So what does need to happen is be very disciplined in what you need to do and hoping that the market has the same discipline. And if that -- and if on top of that, the rate environment changes as well, it's a plus. But I can't change the rate environment. So let's just rely on things we can do ourselves. Thank you.



**Jonathan Matthew Balfour Clark** *MainFirst Bank AG, Research Division - Director*

And what kind of horizon do you expect to be able to reprice business on?

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

Well, for the longer-dated part, if you now book longer-dated stuff, you should reprice as of today because it will sit on your balance sheet beyond 2022. And the biggest effect is already there. And with TRIM coming in as we speak, I foresee in the next couple of years repricing on the longer-dated stuff should happen as we speak. And that is what we're working on. And as said and explained by Koos, the way we work typically on the Wholesale Banking side, there is no deal that escapes the green light process. So in that process, we look at both transaction return as well as relationship return. And that's why we have these discussions as to how to really service our clients on one side and do a really good job there and grow our franchise versus making sure that we're disciplined in the return on the capital that is deployed.

**Jonathan Matthew Balfour Clark** *MainFirst Bank AG, Research Division - Director*

Yes, do you think mortgage margins are as good as they get, then, if they were already being priced off Basel III -- Basel IV, rather?

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

Well, that's the question whether that is happening in every market. So I know there is also competitors that are pricing with some hope for rate -- rate development. We're not. We price for return. We are match funded in most of the business that we do, if not all. And therefore, we price at the match-funded rate as well as the capital allocated in the foreseeable future. In a mortgage market, it also depends on the experience in terms of the prepayment effects in the mortgage. But if we feel it goes beyond a specific year, and certainly with the 2022 date being pretty soon, I think a large part of the mortgage production, you should expect to move in terms of pricing as well to the extent they're not making the hurdle. But in many cases, the mortgage business makes the hurdle.

**Operator**

Next question is from Mr. Adrian Cighi, RBC Capital Markets.

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

Just a few follow-ups, please, one on capital and one on cost of risk. On the capital side, we talked a lot about the various components of the 170 basis points buffer. Can I confirm that you're looking at the buffer as a binding constraint or you're looking at 13.5% CET1 as a binding constraint? And then just one clarification on the cost of risk, please. You mentioned that if the parameters go to through-the-cycle figures, your cost of risk increases to EUR 600 million, which translates into 20 basis points. Can you please clarify or have I misunderstood that?

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

On risk, I'll give it to Steven.

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

So what I just gave was an example of the most important parameters of our IFRS 9 models in a scenario analysis going back to through-the-cycle averages, then the risk cost would increase as a result of IFRS 9 model with EUR 600 million.

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

And maybe on the first question -- it's Koos here. The buffer, is that binding constraint? That sounds a little bit harsh. The first thing is we have said like the 13.5% is our ambition, so we want to be around this level rather than that it's a hard constraint. Now we have said above or over 170 and, indeed, that was needed because of volatility; so it must be on top of something. And there, we have looked at the VEB requirement, which is fully loaded probably around the 11.8%, so that brings you to the 13.5%. Then, indirectly, your question might be what happens now if the Dutch SRB buffer goes down by 1%, then 11.8% becomes 10.8%. Does, then, your 13.5% become 12.5%? There, the question is we look at 2 things. Indeed, we look at the components which build it up but, at the same time, we also look at the average of what the banking sector will do. So it means like if the Dutch government or if the Central Bank drops it by 1%, for sure, we have more room in our MVA, but then we also look a bit at the averages of the sector. So don't make it too mathematical from that perspective.



**Operator**

Our next question is from Mr. Alex Koagne from Natixis.

**Alex Koagne Natixis S.A., Research Division - Head of Banks Sector Research & Analyst**

Just one follow-up question for me. If we look back to the last 4 quarters, I mean, we had the underlying revenue growing at a lower pace than your cost. The question is, basically, should we expect you to deliver positive operating leverage this year? And what about 2019? Or is it something that should happen only in 2020? Because I'm not very -- I mean, I do understand your comment on the costs line. But still, I'm not sure that the revenue line will grow enough for you to be able to deliver positive operating leverage.

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

Thank you, Alex. The -- basically, we expect the operating leverage to be the same this year and to improve towards the end of 2019, and certainly in 2020. But you should see some operating leverage, some positive operating leverage and certainly in the second half of 2019.

**Alex Koagne Natixis S.A., Research Division - Head of Banks Sector Research & Analyst**

2018?

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

'19.

**Alex Koagne Natixis S.A., Research Division - Head of Banks Sector Research & Analyst**

Second half?

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

Second half 2019.

**Operator**

Our next question is from Mr. Maxence Timat Le Gouvello of Jefferies International.

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

Just one question. You mentioned that your TSF (sic) [TCF] business were working quite well on the back of the rebound of the commodities. Since March, the oil price has been rising by close to 10%. Can we expect that, in Q2, we should have all the same trends into the wholesale bank?

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

Well, it also depends on how the oil prices develops from here and the dollar develops from here, right? So...

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

Well, the dollar is stabilizing and the oil price has started rebounding seriously.

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

But -- no, clearly, if oil price increases and the dollar strengthens versus the euro, that has a positive impact from that perspective on the size of the TCF business, whether we write additional business or not. So that's always a positive from that perspective. And again, we price every business, also the TCF business, on the back of whether we can make the returns in vis-à-vis both the client relationship and the underlying transaction hurdle. And if that is attractive, we will certainly continue to do so from a return perspective.

**Operator**

Next question is from Bart Jooris, Degroof Petercam.

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

Most of the major issues have been addressed. So if I could get an update on Belgium, first of all, on the risk cost. You mentioned that risk costs are high because of some mid-corporate files. Could we consider that as a one-off and seeing it coming back to, let's say, also less than through-the-cycle averages in the coming quarters? And then you also mentioned that you are busy with integrating the record bank activities. Could you give us an update if you see some clients going away from there because of this migration?

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

Bart, I'll give the first question to Steven. I'll come back on the second one.

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

Yes, on Belgium, and these -- there are 2 effects. One is, in the fourth quarter, there was still a model improvement in the retail mortgages side. That was not the case anymore in the first quarter of 2018. And two, indeed, there were a number of mid-corporate files that led to a stage 3 provisioning, yes, because these are separate client files which are unrelated to each other, basically can be considered one-off. I do not have a crystal ball to see what's there in the future, but there -- currently, I cannot foresee that basically based on these files, that would lead to a certain amount of files next quarter, but rather that we need to see in the next quarter.

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

And on your Record Bank integration, I can only look at consolidated numbers here for Belgium. So that's -- first, the integration itself is according to plan. As you know, the legal integration has happened. The migration of clients is happening as we speak. I'm sure clients take that as a moment of consideration of the relationship. Some clients actually have a relation with Record and ING, so they might cancel 1 of the 2 accounts. But if you look at the development, the number of clients in Belgium, that has been positive. So we have grown the number of clients in the first quarter in Belgium. We also, if you look at the underlying business in Belgium, in the mortgage production, the business lending production, the savings development, all of that is positive. It shows that we have commercial momentum. No, there are no signs there that there's a negative effect on the commercial development or on the number of clients for the ING Belgium franchise as a whole. So that's actually -- it's quite worth a compliment that our colleagues there are so client focused that they've taken through all of these changes. I'm very proud of that.

**Operator**

Next question is from Kiri Vijayarajah of HSBC.

**Kirishanthan Vijayarajah HSBC, Research Division - Analyst**

A couple of questions on Germany, if I may. So firstly, going back to the higher commissions you paid out on the mortgage originations, does that imply that more of the growth is coming from outside brokers rather than your inter (inaudible) platform? So is there a mix shift going on driving the fee leakage there? And importantly, does that sort of continue for the foreseeable future? And then on robo-advisory and the spike in volatility we had during the quarter, it seems to have an impact in Belgium, but I'm more curious how the -- sort of the robo-advisory performed when markets got choppy? Did the clients feel they were well served by the product? So any customer feedback you can share with us would be appreciated.

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

Thank you, Kiri. On the first one, it's a bit of both. Clearly, if we -- if we grow in mortgages, we grow through our own broker inter (inaudible) and also through some of the external brokers. Some of that will be real leakage and some of that will actually be -- paying fees to (inaudible), which stays in the house. But that will then lead to a mix shift within the (inaudible) production, away from some of the other banks possibly. So again, it's higher commission paid if you look at the fourth quarter of last year. But if you look quarter -- year-on-year, it's okay-ish. I mean, the commission is -- the total commission income in Germany is flat. So it's a bit of an explanation. But honestly, we think if -- this is a positive development because we know that the competition in the mortgage market was very heated. And if we feel there is actually room for us to also produce, it shows that the returns on the production are healthy. So that's a good sign in itself. On the robo-advice, honestly, I can't say that -- well, yes, I mean, it's too early to see how a robo-adviser and how the service is regarded by customers of a robo-adviser in choppy markets. It's -- we can't really -- the early -- the history is too short because what you see is that the introduction of the product itself is very successful. So the net development is a very positive one. Whereas, what you would want to see is if this were a stable environment, whether it would have a detrimental effect, as you were

indicating that we saw in Belgium in the first quarter, I can't conclude at this moment in time given the fact that the scalable service is very attractive and we're onboarding more than 1,000 clients a week onto that platform.

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**Operator**

Next question is from Mr. Marcell Houben, Crédit Suisse.

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

I have 2 left. First is on the fee guidance. To my understanding, you have changed the fee guidance in the last quarter from 3% to 4% to 5% to 10%. I'm just wondering what triggered this change in guidance and what makes you say 5% to 10%? The second one was on the NII from C&G retail in the first quarter here. There's almost a EUR 50 million increase Q-on-Q. I see a similar trend in the first quarter of '17 and '16 Q-on-Q changes. Can you explain some of the seasonality or what's going on there underlying?

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

Marcell, on the fee growth, I'm not sure that we have changed our guidance there. We've always guided that we expected fee growth to be higher than NII growth. And that's because we are broadening our franchise. We're going more and more universal, digital bank with primary relationships. And on the back of that, selling more and more different products or offering them for the clients to cross-buy them. So there is no real change there in the guidance as far as I know. But in the end, it has to happen. So let's make sure it happens, and the franchises are developing digitally in a way that we want them to develop. On the NII C&G increase, I give the word to Koos.

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

I think, overall, if you look at the net interest income, are there some one-offs? There is some, and then that is more related to Bank Treasury. I mean, what you see is we have some realized gains, and that has nothing to do with particular timing of recognizing income. But what we see is, to be honest, sometimes, it just makes sense to sell some assets, some government bonds and to put your money at the ECB. So overall, what you find is our Central Bank has gone up and our bond portfolio go down simply because it's the best bet in town. So we look a bit at this on an asset slow basis. And sometimes we realize some and some not. You, overall, look at the NII of C&G, I mean, it's pretty robust, particularly if you look at the growth countries because there you see growth in volumes and at constant margins.

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

Just to follow up on the fee, Ralph. So what makes you say between 5% and 10%? Because that's the guidance or the ambition, at least, that I hear so far. And just on NII, Koos, can you disclose what the NII Q-on-Q growth-driven NII was, please?

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

So maybe we have to take this later with the Investor Relations guy, if you don't mind because I think you're going through in detail, I don't quite understand your question. If you maybe repeat your question and see whether we can answer now, otherwise, I'd like to refer this to the Investor Relations guys later today.

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

So just on the fee, I think IFRS has guided, or at least or the ambition from ING to increase their fee income by 3%, 5% and 10% per year. Why would you say 3%, 5% and 10% regarding, for example, increasing 12% and 15%?

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

Well, if it's solely -- if it's solely with fees itself, we've indicated that we have an ambition, overall ambition that we -- component of our income of fees increases from 15% to 20% of total. That is a financial evidence of our franchise becoming more and more a full-fledged client franchise in which we also offer digitally third-party products. And that was the more financial component of that. Now if you then work your way back financially from a EUR 650 million base, and you want to get to the 20%, then you get to these growth numbers financially. There's a lot of work needed to be done for that. You need to grow your clients. You need to grow your primary clients. You need to grow your product offering. We have to invest in digital, we have to make it attractive. And that's all what we're doing. But the financial component of it is, as I explained, it's the ambition to move from a 15% fee total income to a 20% fee of total income over time, and that's where the financial ambition comes from.

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

I mean, I can give an indication on the growth in C&G. Basically, if you look at the presentation, you see a growth of EUR 2.7 billion in core lending. You apply an applicable NIM to that, it gives you an indication of what the growth in revenue is in C&G countries.

**Operator**

And we have no further questions. Please continue.

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

Okay. Thanks for these questions. If you look at this quarter, I think it has been another solid quarter for ING, a quarter in which we show that the commercial momentum is there. You can see it in the growth in the number of customers, the development of primary relationships, the development of the lending business, the savings business, the -- also, we've seen that the cost peak in Q4 was just -- was a hiccup of incidentals, and we've shown that as well. I think that's an important sign as well for you that we are managing the costs while transforming this company to a digital company. So all of those indicators are going in the right direction. This leads to a solid profit net result of EUR 1.2 billion, which is 7% up year-on-year and a return on equity of 10.3%. We have come out with new guidance around our ambitions on capital level, 13.5% Basel IV, which is an ambition of around the 13.5% as well as the return on equity of 10% to 12%.

We know there is a lot of work ahead of us in order to make sure that those plans come around. But as you have seen in the past, we work hard in order to serve our clients. And if you do that very well and you have good relationships, then the financial results in the end will follow through as well.

Thanks very much for all your questions. Thanks for your attention. If there's more questions, our team is ready to answer those as well. I wish you a great day today, and talk to you next time. Thank you.

**Operator**

Ladies and gentlemen, this concludes this conference. On behalf of ING, thank you for attending. You can disconnect your line now.

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