Q1 2014 Earnings Call

Company Participants

- Patrick Gerard Flynn, Chief Financial Officer
- Ralph A. J. G. Hamers, Chairman-Executive Board & Chief Executive Officer
- Wilfred Frederik Nagel, Chief Risk Officer

Other Participants

- Anke Reingen, Analyst
- David Lock, Analyst
- Farquhar C. Murray, Analyst
- Matthias de Wit, Analyst
- Omar Fall, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you for holding. This is Yvonne welcoming you to ING's Q1 2014 Conference Call. Before handing this conference 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 businesses, 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.

Ralph A. J. G. Hamers {BIO 3253692 <GO>}

Thanks very much. Good morning, all. Welcome to ING's first quarter 2014 conference call. As you are used to, I will walk you through today's presentation. Patrick Flynn and Wilfred Nagel are here from the Executive Board; and Delfin Rueda and Doug Caldwell, CFO and CRO of NN Group, are here with us as well to answer specific questions on NN Group as well.

Let's go through the presentation then. I think it's about month ago, March 31, that we hosted our Investor Day on the bank side where we basically laid out our bank strategy as well as the financial ambitions 2015. The foundation for improving the client experience and achieving our target is clearly there. We have to deliver. I've traveled around both talking to you and investors as well as internally and specifically talking to many of the people in the organization in the past few weeks. I'm confident that we will be delivering. In the meantime, we've made a lot of progress on the group restructuring to become a pure bank, and furthermore the underlying businesses, both on the insurance and the bank side, have a good set of quarter results. So in summary, ING Group posted an underlying net profit of €988 million driven by good results both on bank side as well as the insurance side.

Turning to slide 3, the update on the group restructuring. Many things that you have known already but we've made a lot of progress in the first quarter, and that's important in getting into the end phase of restructuring. We made the penultimate payment to the Dutch State, Voya has been deconsolidated, and NN Group is now fully on track in its preparations for the intended IPO 2014. NN Group has finalized its capital structure. As of today we secured an investment of €1.275 billion in NN Group by three cornerstone investors which can clearly be seen as a confidence in the prospects of NN Group as an independent company going forward.

So let me go through some of these developments in more detail. Turning to page 4. Last week we announced this transaction with three investors that will invest ahead of the IPO. We will issue €1.125 billion of subordinated notes to these investors and these will be mandatorily exchangeable into NN Group shares in three tranches through 2016. We will also sell shares in NN Group to each investor at the intended IPO totaling another amount of €150 million. Now today we announced that ING Group will inject a further €850 million of capital into NN Group prior to its IPO. And we have agreed with the Dutch Central Bank that we can proceed with the base case IPO, although formal approval will only be given upon pricing. Now NN Group will use these proceeds for reducing its leverage by €200 million, increasing the cash position by another €200 million, and improving the NN Life solvency by another €450 million. But I will come back to that further on in the presentation.

If we then go to the group situation and the double leverage, so what's the impact of all these announcements on the double leverage. A starting point, the fourth quarter 2013, the double leverage was at €4.9 billion. The sale of the 14% in Voya decreased that by another €0.9 billion. And the sale of 11% in SulAmérica brought it down by another €200 million, decreasing with that the double leverage to €3.8 billion at the end of the first quarter. Now following the capital injection of €850 million in NN Group, the core debt would increase but this would be more than offset by the investors coming in. Then the remaining piece of leverage is then comfortably covered by the value of Voya, 43%; the value of SulAmérica that we still hold; and the remaining piece of NN Group. As a consequence of all of these, basically we expect that the intended IPO will comprise only of secondary NN Group shares being sold by ING Group.

If we then look at the capital position of NN Group, the IGD ratio of NN Group decreased slightly in the first quarter but will be positively impacted by the successful issue of the external hybrid, the €1 billion that we did in April, and the capital injection of €850 million. So you basically see the 9% increase of the hybrid issue; that is the net improvement of €400 million versus the repayment of senior debt by the hybrid. And then you see the 19% improvement which represents the €850 million, and with that the IGD comes to 277%. Now as I said, €450 million out of the €850 will be used for NN Life. Now in the first quarter we have already seen the NN Life solvency ratio improving from 223% to 235%, but that will then increase further ahead of the IPO because of the €450 million coming in, representing a 16% improvement and therefore the pro forma solvency I ratio of NN Life will then be at 251%.

If we then take a look at the leverage side for NN Group and the cash capital, NN Group issued in April this €1 billion subordinated bond. €600 million were used to repay subordinated debt of the group and €400 million were used to repay senior debt to NN Group (sic) [ING Group] (00:08:31). So the first quarter pro forma gross debt will decrease ahead of the IPO also because of the use of €200 million of the €850 million in order to decrease the leverage to €3.7 billion. On the cash capital side, debt at the end of the first quarter, that was standing at €600 million but that will improve by the process of the sale of bank between Life and IIM Taiwan. But also by using another €200 million as part of the capital injection from ING group to be kept as cash, and therefore the cash capital will increase in total from €0.6 billion to €0.9 billion pro forma end of first quarter.

Now then let's take a look at the capital situation on the bank side. I'm now on slide 8. The fully loaded CET1 ratio remains strong at 10.1% but the waterfall is as shown on the phased core Tier 1 effect. So here you see that CRD IV phased-in effect, the phased-in remains strong at 10% and that is despite the implementation of CRD IV, it's despite the dividend upstream for the group in order to repay the state, it's despite the impact of the deal on the closed defined benefit pension agreement, and it is offset by solid profitability and risk-weighted asset reductions. And therefore you see it going down from 11.7% to 10% on a phased-in basis, but on a fully-loaded basis it is 10.1%.

Last week the Dutch Central Bank announced that it intends to impose an additional capital buffer, and this systemic risk buffer will be 3% of risk-weighted assets for ING Bank, and that results in a minimum core Tier 1 requirement of 10% by the end of 2019. On the Investor Day we already indicated that it's our ambition to be beyond 10%, actually growing to 11% over time. And at this moment we're already meeting this in new increased requirements because the fully loaded core Tier 1 is already at 10.1%. On the leverage side, you see the leverage ratio at 3.7%, and that's also brought in line with our ambition. But also on this one, we are waiting for final regulations.

If we then turn to page 10, we see that the strength of the bank on the savings side continues with net funds entrusted growing by another €8.3 billion in the first quarter, and that leads to further improvement of the funding profile of the bank. But we're also happy to see that on the loan growth side we see net loan growth of €5.1 billion in the first quarter which is a nice improvement but too soon to say that this is a sustainable development. I'll come back with more details on the development on the loan side later on in the presentation with a little bit more details.

So after all of this and the impact on capital structures, let's take a look at the first quarter results. Turning to page 12 now. So for the first quarter of 2014 ING Group posted an underlying net result of €988 million. The net result however was minus €1.9 billion and that was due to the negative impact of the deconsolidation of Voya that we have announced earlier already of almost €2 billion. The pension agreement also earlier announced, total effect of €1.1 billion. The levy, the SNS levy as we call it, €100 million around it, and all of this is a bit offset by the deconsolidation of Vysya which has a positive effect of €200 million. And the Vysya deconsolidation we can go into later, but this is basically a step to further align with preparing (00:13:42) regulations. And we have brought the number of directors down in line with the ownership percentage, and as consequence of that we needed to deconsolidate.

On the bank side, then turning page 13, we see an underlying result before tax of €1.176 billion in the first quarter. That's roughly flat from the first quarter 2013. It's up 30% from the fourth quarter of 2013. Basically if you exclude the swing on the CVA/DVA side of €114 million versus the first quarter last year, the gross result was up as we had higher results in Retail Banking but a little bit lower results in Commercial Banking mainly due in financial because of financial markets, so partially the CVA/DVA impact but also some lower fixed income business volumes. Risk costs on the bank side were down from both the first quarter of 2013 and the fourth quarter as we see that economic conditions are improving across.

Then the net interest margin, the net interest result increased versus both the first quarter of 2013 and the fourth quarter of 2013; the latter certainly driven also by Financial Markets. Net interest margin actually is increasing from 145 basis points in the fourth quarter to 150 basis points in the first quarter, and that's driven by financial markets and a lower average balance sheet. We see the savings margins and the impact of the reduction in the client rates being offset by lower reinvestment yield as the higher yielding assets in the replicating portfolios are running off. So on the savings margin itself, we see a flat development, and so the improvement is really as a consequence of Financial Markets. However, as a result of that we expect that interest margin will edge down in the coming quarters from the current level because we know that the contribution to the net interest margin from the Financial Markets business is more volatile and seasonally high in the first quarter as is also depicted in on slide 14 for your information.

If we then take a step and we look at the lending growth, the lending assets were slightly up and that's despite the deconsolidation of Vysya, the transfers of some of the mortgage business to NN Group, and negative currency impacts. The waterfall I think speaks for itself. Net lending in Retail Banking increased by €2.6 billion because of higher net lending in Retail Belgium that's both on the mortgages side as well as on the business lending side, higher net lending in Retail Germany and Retail rest of world, and a bit lower net lending in the Netherlands. The net lending in the

Commercial Bank increased by €2.4 billion and that's driven by higher net lending in Structured Finance and General Lending. Specifically on the latter two, some of the lending increase is short-term-related, so the first quarter cannot fully be seen as a new trend but we're happy that we see the growth and we have to work on seeing whether this is sustainable.

If we go from the balance sheet and the income development to the cost development, on the operating expenses - I'm now on slide 16 - reported expenses were down from the fourth quarter but up from the first quarter 2013, and that's particularly because of the Belgian bank taxes that we took fully in the first quarter whereas these taxes have been largely spread over the four quarters in 2013. If you look at the real expenses, you see them going down from the first quarter 2013 to the first quarter of 2014 and also going down from the fourth quarter 2013 during the first quarter 2014, and that is basically as a consequence of the successful implementation of the restructuring programs that we have announced in the past and that we basically ensure that that implementation were continued. So cost down 0.7% against the first quarter 2013, 1.6% down versus the fourth quarter 2013. Restructuring plans are on track and we expect them to deliver €880 million of savings by 2015 and €955 million of savings by 2017. Fully on track, so we'll continue to focus on those.

Then we move to the risk cost. Risk cost was down both versus 2013 first quarter as well as the fourth quarter of 2013. In total, the risk cost decreased to €468 million and they were basically down in all product segments except for General Lending. The risk costs in General Lending were impacted by a few specific files. We'll come back to that later.

Now on the NPL ratio, slide 18, we see that the NPL ratio has remained stable at 2.8% in the first quarter. The amount of NPLs increased by €300 million, and that's mainly due to higher NPLs in Retail Banking, and that's more specifically even in Dutch mortgages. Then if we then look at the risk costs in the Netherlands, slide 19, we see that the risk costs in Retail Banking Netherlands have declined both 2013 first quarter and the fourth quarter but they remain at an elevated level, reflecting the relatively weak economic environment in the Netherlands still, so lower than 2013 but still an elevated level. For the same reason, we see that the NPL ratio for both the business lending part as well as the mortgages in the Netherlands are still increasing. And although we do see signs of improvement in the economy in the Netherlands and the Dutch housing market, we expect risk cost to remain at an elevated level although slightly lower than last year. So Dutch situation.

If we then go to the risk costs in the Commercial Banking, we see that the risk costs in the Commercial Banking have continued on their downward trend, and that's driven by lower risk costs in Real Estate Finance. But the downward trend as you can see on this slide can be lumpy quarter-on-quarter. You see Real Estate Finance going down but quarter-on-quarter you see a bit of a lumpy development for example in Structured Finance, the orange bars; and General Lending, the light blue bars. So trends going down but with a bit of shocks in that downward trend.

Then if we take a look at the specific Retail Banking results, we see strong results up from both first quarter 2013 as well as the fourth quarter 2013. Underlying pre-tax result was strong at €771 million, and that's driven by higher income and lower risk cost. Underlying income rose 7.4% year-on-year, and that's driven by improved savings margins and lending mainly in the Benelux and Germany. As you know that in the strategy that basically we focused on the further improvement of client experience and that we really want to deliver a differentiating client experience, then you realize that an important indicator for us to track and follow improvements is the ranking in terms of Net Promoter Score, and you see on the same slide where we are in that one. So we remain number one or number two in Net Promoter Score across the countries in which we operate. Certainly see room for improvement because I think we should be number one, but the fact that where we operate either number one or number two is a very solid sign that we're doing it well and that we have the right client experience. And that is the starting point for improving our business and increasing our business and therefore better financial results.

If we then go to Commercial Banking, I'm now on slide 22. Underlying result of Commercial Bank was €471 million in the first quarter; that was down from the first quarter in 2013. And as I've already indicated specifically, as the consequence of lower results in Financial Markets, partly driven by negative CVA/DVA impacts, and it was also as a result of lower results in General Lending & Transaction Service, and that was more because of higher risk costs in the General Lending area. Now compared with the fourth quarter 2013, the underlying result was up as the negative CVA/DVA effects then we're offset by higher results in Financial Markets and Bank Treasury.

So much for the banking results, let's now turn to the insurance results. Now I think it's a very strong results on the NN Group side. We see the operating results for the ongoing business improved significantly to €274 million, which is up 61% from the first quarter of 2013 and up 28% from the fourth quarter of 2013. The year-on-year improvement was driven mainly by higher visibility and excellent results in NN Non-life, a higher investment margin in NN Netherlands Life business, and lower administrative expenses which is kind of a key sign for the successful implementation of the transformation program on the insurance side. I will come back to that later. The result before tax, however, was a negative one, minus €372 million, but that is basically reflecting the one-time impact of €470 million, making ING's defined benefit pension plan in the Netherlands financially independent. Further good news on the insurance side is that the new sales, the annualized premium equivalent, it rose 20.6% versus the first quarter 2013, and that was mainly driven by higher sales in Japan Life, Insurance Europe, and Netherlands Life. And versus the fourth quarter, sales rose actually 53% at constant foreign exchange, and that's also driven by the seasonally higher sales in Japan and pension renewals in the Netherlands.

If we then to turn to page 25, we take a closer look at the different segments that we have started to report on. On the insurance side, we see that in all of our segments that almost all of our segments have improved operating results versus the first quarter of 2013, and that basically shows that the improvement plans that we have developed and are implementing for all of these areas that they are working across these segments. So good news there as well.

If we again go one step deeper and when we take a look at the administrative expenses, the administrative expenses for the ongoing business were €437 million in the first quarter, down 5% a year ago, and that's despite higher NN Bank expenses as a result of the partial transfer of WestlandUtrecht to NN Bank. If you would exclude this, then you see the real impact of the transformation program that the insurance management is implementing. Then you see that the administrative expenses actually fell 7% from the first quarter of 2013, and that shows that the transformation program is really successful and the strong cost control that is adhered to in all business lines on the insurance side. So good results here.

Restructuring program that is also delivering these cost savings in the Netherlands specifically is on track with an amount of €163 million of savings achieved by the end of the first quarter. And we expect by the end of this year to deliver €200 million of savings, and this is specifically the restructuring program in the Netherlands. So both in financial results as well and specifically cost and sales results, good performance on the insurance side so a very strong commercial and financial quarter there.

So if we then wrap up and we go to the final slide on page 28, I think on the strategic side, on the financial side, and on the commercial side we are making a lot of progress. The first quarter shows that we're working on all of these elements and showing progress in all of these elements as expected. We're happy with the underlying results and we are working on the final steps of our restructuring plan. So good first quarter on all accounts. And with that, I'd like to open the call for questions.

Q&A

Operator

Thank you, sir. The first question is from Farquhar Murray from Autonomous. Please go ahead.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Good morning, gentlemen. Two questions, if I may. Firstly on the surprisingly strong Basel III ratio. The €8 billion reduction in RWA coming from the change in calculation method seems to be driving around about 30 bps of that, and I wondered whether you might give some more detail around what changed that specifically, which lending books are involved, and was there a particular change in the risk weights there. Secondly on NN Group, should we regard the 277% IGD ratio for the group as the kind of capital target for the future? What specifically drove the change there versus what we were talking about at 4Q? And can we regard this as a level from which dividends can be paid in the future? Thanks.

A - Ralph A. J. G. Hamers {BIO 3253692 <GO>}

Farquhar, the first question will be answered by Wilfred Nagel and the second one will be answered by Patrick.

A - Wilfred Frederik Nagel {BIO 1827973 <GO>}

Yeah. So on the reduction in risk-weighted assets, the 30 basis points you're referring to, that is mainly comprises two things. One is the next step in developing our master skill (00:31:24) which links BDs ultimately to risk weights where we have extensively disclosed actually on page 395 of the annual report what we were planning to do there, and that is what we have executed on. So this is replacing essentially external data with our own internal data as per the Basel ambition. That is about 12 basis points of the 30 basis points that you're talking about. And then there's another 10 basis points linked to part of the law that puts CRD IV into implementation in Europe which provides specific risk weight reductions for SME exposures. And then there are some smaller things.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Thank you.

A - Patrick Gerard Flynn {BIO 16360820 <GO>}

Okay. On the capital for NN, the €850 million that we've injected, that does boost the IGD ratio as well but it also is primarily aimed at improving the NN Life solvency ratio up to 251% as you see in slide 6 and also increasing the cash buffer and reducing debt. With this capital injection, we do obtain regulatory approval, the regulatory green light to go forward with the IPO. We have approval for the capital structure which is very significant. That means now that we're into the end phase of preparation for the IPO and the remaining pieces are within our control. Obviously we need to have a maintained and continue to have a receptive IPO market. So dividends, I can't really talk about in too much detail about dividends or the lawyers will put me in jail. We are in the process of I'll just say preparing for the IPO, and I think it's fair to say that dividends will be a feature prominently in the IPO equity story which you'll hear more about that soon. But in conclusion, yes, we have regulatory approval of the capital structure to go forward with the IPO

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Okay. Thanks (00:33:30).

Operator

Thank you. The next question is from David Lock from Deutsche Bank. Please go ahead.

Q - David Lock {BIO 16145046 <GO>}

Morning, everyone. Two quick questions from me. The first one is on your EM exposure. So I note in the back of the presentation book you've given some helpful disclosure on Ukraine, Russia. I just wondered if you could give any color on what you're seeing there at the moment. Obviously it is a difficult time when we look at the news but what are you really seeing in the exposures that you have there? Is there anything that really concerns you from your exposures? And if you could also just update us on the goodwill balance in the Turkish business. And then my second question is on net lending reduction in the Netherlands. Clearly, when you had the slide in the fourth quarter the net lending reduction is slowing. Just wondering when you expect that change to really trough. Is it going to be in the next couple of quarters or could it be longer? Thank you.

A - Ralph A. J. G. Hamers {BIO 3253692 <GO>}

David, let's first answer the last question because I will take that one on the net revenue reduction in the Netherlands. But basically on the mortgage side, on the mortgage side we see a net reduction coming in on the mortgage side of €1 billion but we see a decrease of the portfolio of €1.3 billion. So you see that basically the engine is working, new mortgages are coming in, and we see a transfer of mortgages from the Dutch banking book on the bank side to the NN Bank side, so you see a transfer from the bank to the insurance company there. So net-net, you see a decrease but you see that basically the engine is running, the mortgage business is doing okay. And if you look at the business lending side in the Dutch market, you basically see that on the smaller SME businesses that you see that the repayments are still a little bit higher than in new production. Although we've seen new production, we see higher demand but that's off by €300 million for the first quarter so a bit of a decrease. If we then look at the larger companies announced, we actually see a growth in net lending. So I think that most of these are now positive signals that demand is coming in, and in the end that should increase the loan books although on the mortgage side we will continue with a transfer of some of the businesses at reset moments from the bank to the insurance company. So that's...

Q - David Lock {BIO 16145046 <GO>}

How much remains of that to be transferred? Sorry to interrupt. How much remains to be transferred to NN Group?

A - Ralph A. J. G. Hamers {BIO 3253692 <GO>}

That's €7 billion, €7 billion.

Q - David Lock {BIO 16145046 <GO>}

Thank you.

A - Ralph A. J. G. Hamers {BIO 3253692 <GO>}

Yeah. Then we go to the emerging market exposure. I'll transfer to Wilfred for that.

A - Wilfred Frederik Nagel {BIO 1827973 <GO>}

Yeah. Obviously Russia, Ukraine is a bit of a developing story. Maybe to dwell briefly on what our business is there, it is a pure Commercial Banking business. We don't do Retail or SME. The focus is really on the top local names, mainly exporters of energy and essential metals for the world economy. We've been in both of these countries for over 20 years. We've got a long history with a number of our clients there. If you look at what at the moment is going on in terms of exposure, then the lending exposure, the breakdown indeed is at the back of the presentation, but it's hovering between €7 billion and €7.5 billion. We're obviously in daily contact with our clients there to keep track of what's happening and discuss their next steps and our next steps with them. We try to continue to support our clients to the extent reasonably possible. Obviously this is a balancing act between managing risk on one side and supporting the franchise in these long-standing relationships on the other side. We have pruned our exposures where we can both in coordination with our clients as well as by reducing the number of counterparties on the financial institution side that we deal with.

We do feel that our clients are taking generally a very prudent approach. They're hoarding cash, not our cash, but the cash that comes back because of a reduced business volume. And they're using that opportunity to strengthen their balance sheet. So at this point, if you look at the quality of the book in Russia, it is very good. We've got a 0.1% NPL ratio and virtually no provisioning there. Ukraine is a little bit weaker. There's a bit of detail on that in the presentation as well. But there also we've got a long history. It's mainly exporters that we're dealing with. It is reasonable to expect some more provisioning at some point there I believe. But at this point there's not a lot of detail to give you.

A - Patrick Gerard Flynn {BIO 16360820 <GO>}

Yeah. The goodwill number of which we are very comfortable in Turkey is €600 million; unchanged.

Q - David Lock {BIO 16145046 <GO>}

Thank you.

Operator

Thank you. The next question is from Omar Fall from Jefferies. Please go ahead.

Q - Omar Fall {BIO 20138121 <GO>}

Hi. Good morning. Two questions, please. Firstly on the NIM, just on your comment around high yielding assets maturing and that impacting the reinvestment income. I thought that most of that process was largely behind us in terms of the mix shift in the reinvestment portfolio particularly on peripheral debt. And given that Financial Markets boosted the NIM materially I guess this mix shift had a pretty substantial effect. So could you give us an indication of how much more of this yield shift there is to come, please?

Secondly, and I know it's just one quarter, but the capital position seems to be ahead of most people's expectations, and, yes, you've benefited from a model update. But are you tied to the guidance you gave at the Investor Day around the pace of dividends on ordinary shares or if the capital position is ahead as it seems to be tracking you can revisit that pace of dividends? Thanks a lot.

A - Ralph A. J. G. Hamers {BIO 3253692 <GO>}

Okay. Patrick will answer the NIM and I will take the one on dividends.

A - Patrick Gerard Flynn {BIO 16360820 <GO>}

Yeah. In respect to the NIM, I think there's a couple of questions and I'll try to answer them. Yeah, the NIM is up 250 basis points in the quarter which is primarily due to financial markets which can be somewhat volatile. Also, with Vysya coming out which is 2 basis points, I think it's more likely to ease back towards the year end position of 145 basis points. Interest margin on funding increased marginally on the back of the modest base rate cuts we had in Q1 but was offset a bit by the lower rate environment of which you refer to.

Yeah, the lower rate environment, it's influenced by the duration of our reinvestment of deposits which is around the three-year piece but it's a little bit more complex than that. And I'll try not to get into too much complexity, but there's other factors at play. We also have our capital investments which are longer dated, 7 to 10 years, which is a drag effect. And actually the mechanics of how these works, which is the piece I don't want to dwell on too much, is that we actually use internal transfer rates to reflect the yield on deposits and they don't exactly link with the timing of the lower yield in reinvestments. So a bit of a complex answer but it comes to the point we think that maybe 10 bps could be a drag in the Netherlands and maybe 20 bps in Belgium over the course of this year from a lower rate environment.

However, there is still scope on deposit rate reductions. So our guidance on this is that, yes, it could drop back from the 150 bps to the 145 bps level about because of the volatility in FM. But longer-term, we still maintain our ambition to get to the 150 bps, 155 bps which we announced only a month ago. And that's going to be executing on what Ralph referred to, higher-yielding asset deployment, SME, consumer finance, industry lending. This is an ambitious target. It's going to take time, so it will be gradual.

Q - Omar Fall {BIO 20138121 <GO>}

Sorry, just a very quick follow-up to that. Have you cut any savings rates this quarter to-date?

A - Patrick Gerard Flynn {BIO 16360820 <GO>}

No.

Q - Omar Fall {BIO 20138121 <GO>}

Thank you.

A - Ralph A. J. G. Hamers {BIO 3253692 <GO>}

Okay. Yeah. So we did cut in Belgium for (00:42:35) but it's only in April I think we did, only in April. So it's not in the first quarter results. Now on the acceleration of the dividend payments, clearly that (00:42:49) is first and foremost on the repayment of the Dutch State as we have indicated at the Investor Day. So if this year we have a successful IPO of NN and we see the results of AQR and stress test as I've indicated in the past, clearly we will consider acceleration of the repayment of the state but that one has to be – if we can accelerate that one then we can accelerate also dividend payments. So we will see it when we get there so let's first focus on the IPO of NN and then we'll take another look at that.

Operator

Thank you. The next question is from (00:43:39) from Barclays. Please go ahead.

Yes. Good morning, guys. I'm just trying to reconcile 5, 14, and 15 (00:43:46) in terms of the balance sheet and loan book because your loan book looks largely static but you've added €17 billion to the balance sheet. So is it fair to say that it's Financial Markets that's driving the growth this quarter? And related to that, is it fair to say that your risk-weighted ratio is potentially more of a constraint for you shorter-term than your leverage ratio looking at where both those ratios are at the moment?

A - Ralph A. J. G. Hamers {BIO 3253692 <GO>}

(00:44:14), I'll give the question to Wilfred, but could you repeat the second part of your question?

Q - Operator

Yeah. In terms of I guess linked to earlier questions about earlier accelerating repayment, is it fair to say that the (00:44:32) 11% risk-weighted requirement is more of a constraint for you than your leverage ratio which when I compare to a lot of your peers, when I look at other French banks, you're in the high 3s. Is it fair to say the leverage ratio is kind of pretty secondary in terms of how you think about capital and your constraints?

A - Ralph A. J. G. Hamers {BIO 3253692 <GO>}

Okay. Well I'll come back to that after Wilfred has given the answer on the first one.

Q - Omar Fall {BIO 20138121 <GO>}

Okay.

A - Wilfred Frederik Nagel {BIO 1827973 <GO>}

Yeah. I think the question on the loan book and the fact that the two don't immediately seem to reconcile, although they do in the end, is mainly related to two things. One is the deconsolidation of Vysya Bank and the other one is the loan transfers that Ralph already mentioned that we're doing from the mortgage book in the Netherlands in ING Bank to NN Bank.

A - Ralph A. J. G. Hamers {BIO 3253692 <GO>}

And then on the leverage ratio versus the core Tier 1, both are important clearly. On the core Tier 1, you basically see that the capital generating capability of the bank actually can kind of support further growing core Tier 1 ratio to 11% and have growth and have dividend payment as we have shown to you and told you on the Investor Day. Now on the leverage ratio itself, on one side you can come to the conclusion that since we are far ahead on the 3% itself, certainly that's currently a European requirement that we are managing on but there is also debates in the Netherlands as to wanting to increase that to 4% over time. So which one is more restrictive than the other, we don't know yet. The core Tier 1 for the moment that we are able to make, we're able to grow it as well in line with our own ambition. Leverage ratio for the moment is not a point but we have indicated already also in the Investor Day that we want to manage it at around 4% anyway.

Q - Operator

Understood, that's very clear. Thanks.

Thank you. The next question is from Matthias de Wit from KBC Securities. Please go ahead.

Q - Matthias de Wit {BIO 15856815 <GO>}

Yes. Good morning. Two questions, please. Just to come back on the leverage ratio of the bank. Just wondered whether you see a possibility to reach the 4% target by issuing AT1 capital now that the tax deductibility of coupons for these instruments has been confirmed in the Netherlands? And then second question on insurance on NN Life. Investment margins are increasing despite a low yield backdrop. It seems that you're rerisking the portfolio but just wondered whether you're seeing an ability to continue that rerisking process and whether or not we could expect any further increase in investment margins going forward in the quarters ahead. Thanks.

A - Ralph A. J. G. Hamers {BIO 3253692 <GO>}

Leverage ratio, Patrick. The second one I'll take.

A - Patrick Gerard Flynn {BIO 16360820 <GO>}

Okay. On the leverage ratio, yes, AT1 does play a role in the leverage ratio and it's positive that the government has announced its intention to address the tax deductibility piece, but I haven't done it yet. So we want to see that actually implemented first but, yes, we do see AT1 as a key piece in the leverage ratio computation and we'll be looking to avail of the tax deductibility once it is confirmed in legislation.

A - Ralph A. J. G. Hamers {BIO 3253692 <GO>}

On the second one, the investment margin, so basically you see the increase now because of rerisking. Specifically in this one, you see the income from the mortgage transfers now on the insurance side and so therefore you see that book building up so you can expect that to grow further. The further rerisking beyond that depends on the capital build up, and clearly when capital is being released and produced we can further rerisk on the insurance side.

Q - Matthias de Wit {BIO 15856815 <GO>}

And what's currently the binding capital constraint for NN Life? Is it Solvency I or is it 1.5 or Solvency II or any other economic capital metric you're using?

A - Operator

Yeah. Indeed, as Ralph has mentioned, the explanation for the increased investment mortgages is related to particularly the increase in mortgages that were performed during the last

Q - Matthias de Wit {BIO 15856815 <GO>}

That's very helpful. Thanks.

Operator

Thank you. The next question is from Anke Reingen from Royal Bank of Canada. Please go ahead.

Q - Anke Reingen {BIO 3535491 <GO>}

Yes. Anke Reingen here from RBC. I just had one follow-up question on the net interest margin. Yeah, I mean, if you say that the reinvestment portfolio drag could be about 30 basis points for this year, I just wondered if you – not probably in terms of numbers but just directionally – how much of the benefit you expect from an improvement of the savings rate as well as on the lending rate? Thank you.

A - Patrick Gerard Flynn {BIO 16360820 <GO>}

It's not 30 basis points; it's the average of the two. So it's 10 basis points in the Netherlands, 20 basis points in Belgium but this is not (00:51:16). Yeah, I mean, it is a bit of a drag. And as I said, we have potential in the savings rate. There's headroom there as I said before. And as we have reduced rates, this is something we look at very carefully, any further steps that we might take and we have to be aware of competition and obviously customers. So this is a potential that we have but we will be careful in how we execute it, and certainly the pace of reduction which you've seen in the past will be slower in the future.

Q - Anke Reingen {BIO 3535491 <GO>}

And on the lending rate?

A - Patrick Gerard Flynn {BIO 16360820 <GO>}

Again, core to our strategy is to deploy customer deposits in higher-yielding assets as I mentioned earlier. Margins on lending have remained stable-ish although there is plenty of competition out there for the growth. But as Ralph said, we're pleased that we're able to achieve some growth. So yes, we'd like to see margin improvement but I think it's more about deploying customer deposits which we have an excellent capability of generating another €8.5 billion this quarter in higher-yielding assets as where the boost will come from.

Q - Anke Reingen {BIO 3535491 <GO>}

Thank you. Just to clarify. So the drag from the reinvestment portfolio, the 10 and the 20 basis points, that's not at the group reinvestment portfolio, that's on the local level so, i.e., the impact on the group net interest margin would not be the 10 and the 20 basis points? It would be much lower if I compare this with the group investment portfolio?

A - Patrick Gerard Flynn {BIO 16360820 <GO>}

I think that's right.

Q - Anke Reingen {BIO 3535491 <GO>}

Okay. Thanks.

Operator

Thank you. We have a follow up question from Omar Fall from Jefferies. Please go ahead.

Q - Omar Fall {BIO 20138121 <GO>}

Hi. Just quick. You mentioned the AQR and stress test. Given where we are in that process, could you highlight any areas of concern, what remains an early stage, please, particularly with regards to the Dutch mortgage portfolio? Thank you.

A - Ralph A. J. G. Hamers {BIO 3253692 <GO>}

Omar, Wilfred will answer the question.

A - Wilfred Frederik Nagel {BIO 1827973 <GO>}

There's not a lot to say at this point for two reasons. One is the stage of the process that we're in is we're still delivering data. We're working with DNB and ECB on putting together what we need to do in terms of executing the stress test. It's a lot of work. The progress is good. We've been able to deliver on time and completely what we needed to do, so we're pleased with that. It's much too early to speculate on any outcomes also because, yes, we have seen of course what the inputs for the stress test are going to look like. But one very important input nobody knows yet and that is the output of the AQR which determines the starting position for each individual banks. So there's not a lot to say. We also have clearly an agreement with both the other banks as well as ECB to not communicate about anything until we are there which means until we have concrete results. What we can say is that you asked specifically about Dutch mortgages. I think if you look at our quarterly numbers, and this quarter is not an exception, they behave as predicted. We said before it is a large book but it's behaving fairly well. We're not overly concerned about it. I think we've been able to also get that across to DNB. And DNB, by the way, has shown confidence in general about the ability of the Dutch banks to come through this whole process with a positive outcome, and I'd like to leave it at that.

Q - Omar Fall {BIO 20138121 <GO>}

Very clear. Thank you.

Operator

Thank you, gentlemen. There are no further questions.

A - Ralph A. J. G. Hamers {BIO 3253692 <GO>}

Okay. If there's no further questions, then I'd like to close this call. Thanks for attending this morning and thanks for sharing with us your questions and your queries. It's always appreciated to show the keen interest. We have a good quarter on the strategic front, on the restructuring front, on the financial performance, and the commercial performance. So thanks for your attention and have a good day. Bye.

Operator

Thank you, sir. Thank you, ladies and gentlemen. This does conclude today's presentation. Thank you for participating.