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PRESENTATION

Operator

Good morning. This is Lena welcoming you to the ING's third-quarter 2016 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 business, expectations for our financial performance, and any statement not involving historical facts. 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 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 Hamers - *ING Group - CEO & Chairman of the Executive Board*

Okay. Good morning. Welcome, everyone, to ING's third-quarter 2016 results conference call. Thanks for joining us today.

I'll talk you through today's presentation. Patrick Flynn, CFO; Wilfred, CRO Wilfred Nagel, will be here with me in order to answer your questions.

If you have your -- if you have our presentation in front of you, let's go to slide 2.

ING Bank posted a strong net set of results again this quarter with a net profit of EUR1.3 billion. We continue to grow primary customers, particularly in the challengers & growth markets, and this is driving the top-line revenues.

Our capital position has further strengthened to 13.5%. Underlying Bank return on equity improved to 11.3%. And as we announced during our recent Investor Day, we intend to invest EUR800 million over the next five years in our digital transformation in order to converge towards a single, scalable banking platform and deliver an even better customer experience.

Turning to slide 3, the underlying net result for the Bank was nearly EUR3.6 billion in the first nine months, which is up 6% year on year; and that's despite the almost EUR300 million of higher regulatory cost versus the same period last year.

And even though the Bank's common equity Tier 1 ratio has increased by around 100 basis points to 12.6%, which was also supported by lower risk-weighted assets, we achieved a return on equity of 11.3% for the first nine months of the year, as you can see.

The underlying income in the nine-month period improved by 6.7%, as you can see on slide 4, with an increase visible in all the income line items. With core lending growth of EUR25 billion year to date, we've been able to grow the NII by 5.1% over the same period last year. However, it's not just the NII that drives the result, as we also saw substantial progression in fee and commission income which has grown even faster at 6.4%.

Then turning to slide 5, you can see how we have performed well on expenses and risk costs as well this quarter. Excluding restructuring and regulatory costs, the underlying expense base remained broadly flat as our cost-containment programs are funding the investment in the growth businesses like Germany, the challengers & growth in general industry lending.

Also, lower risk costs supported the underlying result and came in at 35 basis points over average risk-weighted assets for the nine-month period.

Now combined, this leads to a cost/income ratio of 54.2% year to date, which is an improvement, but still above our target range.

Turning to slide 6, and this is a slide you probably recognize from our Investor Day presentation.

On the left-hand side you see the 2016-2020 roadmap. In that roadmap, we expect income to be flattish, decreasing the market leaders, but making sure that we decrease our cost. In the challengers & growth we expect income to grow and, therefore, we would allow cost growth. And then also banking we expect some growth in income and we want to manage our costs more or less flat.

Now if we then compare that to our performance over the first nine months, we see rapid income progression at the challengers & growth markets as we continue to grow primary customers and gain market share.

In the wholesale bank we also see a steady growth, but the top-line growth in the Benelux is proving more difficult, particularly in Belgium, and the low-rate environment is starting to impact our results there.

And that's why we have announced further investment in our digital transformation to enable us to increase the operating efficiencies across all of our businesses, and at the same time meet customer expectations now and in the future. So it's really focused on improving the customer experience going forward as well.

Turning to slide 7, and that's another slide you will recall from our recent Investor Day. This depicts our journey to converge and optimize banking models across the different markets in which we're active.

Given the need to renew our IT platform in Belgium and the change in behavior as customers rapidly adopt mobile banking, we intend to move to an integrated banking platform for the Netherlands and Belgium.

In the challenger markets, the model bank and project Welcome will help us to position us to capture customer growth at lower cost going forward; and we continue to improve our target operating model in the wholesale bank as well.

Now regrettably, our intended transformation would impact many of our colleagues, and we'll do our utmost to help them find new job opportunities.

Slide 8 provides the summary of the financial impact of the transformation programs that we talked about at our Investor Day.

The combined programs should deliver EUR900 million of gross annual cost savings by the year 2021. That will help us to bring the cost/income ratio down to our revised 52% target from the current level of 54% over the first nine months of this year.

These are major programs which are very important to delivery of our strategy, so their execution will be the top priority, the absolute top priority for management in the coming years.

Turning to slide 9, as you can see, we're convinced that our focus on growth of customers, and particularly the growth of the primary customers, is the right one.

Our data show that primary customers generate 2.5 times more value, are 8 times more loyal, and have twice the cross buy. In this year alone, we have added more 400,000 primary customers; and we have updated our ambition to increase the number of primary customers to 14 million by 2020.

At the same time, we've also developed the simple calculation of economic value of the primary customer strategy. It's measured as the number of customers versus the share of primary, versus the improvement in cross buy, and versus the -- times the improvement in product value.

And you can work on these different levers to improve the economic and customer value. So in one country, we would focus more on one, and then other countries we would focus more on other elements of this formula.

Then on slide 10, just to show you that we continue to innovate. These are some of the innovations that we launched and developed in the past quarter. Some of these have been developed completely in house, while we also partner with more than 65 fintechs at this moment.

In the third quarter, we created and launched money management platform Yolt in the UK. This gives customers insight in their account information from different banks in one easy overview, and that helps customers to stay on top of their finances. And the app is currently being tested in the UK, and depending on the results, we will launch it for broader public as well.

Now in Spain, we have introduced Twyp Cash, which is an efficient way for customers to withdraw cash using their smartphones, at more than 3,500 retailer venues.

But also in the wholesale bank we developed a virtual cash management application which gives corporate treasurers the opportunity to manage their cash across banks and borders, anytime, anywhere. So this is a multi-bank virtual cash management dashboard.

Once again, on the sustainability side, I would like to remind you of how that sustainability is embedded throughout our organization, slide 11. Some of the main sustainability [themes] that we have within the firm are energy transition, the circular economy, and water.

In the third quarter, we were involved in the proposed merger between the Shanks Group and Van Gansewinkel, which is a great example of our focus of supporting the circular economy, but I'm particularly proud of our strong sustainability ratings.

In August, leading agency Sustainalytics ranked us as number 1 out of 395 banks worldwide. And we also have strong ratings for the other agencies, as you can see on this slide. So it's truly an integral part of our strategy, and we're really proud of the progress that we're making on this front.

Now turning to the third-quarter results, let's focus on Q3 here, and I'm turning to slide 13 now. Slide 13, we posted the strong set of third-quarter results with EUR1.9 billion underlying pre-tax result, which basically confirms our good business momentum.

The overall result was driven by net interest income, which is up again in the quarter, and higher volumes and slightly improved margins are driving that growth. And you can see that on the right-hand side of the slide.

Then on the NIM, the net interest margin, net interest margin was up 5 basis points quarter on quarter and increased to 155 basis points.

Now we always isolate the financial market's impact on the margin, and this quarter this was 3 basis points. So it's better to think of this improvement as a 2 basis point increase. And this is mostly because of the adjustments of our savings rates to the market rates in core markets like the Netherlands and Germany, and they're feeding through now, though we also saw a very small increase in lending margins in the quarter.

While the amount of interest income in FM is up this quarter, the aggregate FM income, excluding CVA/DVA, is down versus the strong second quarter. But if you look at the other quarters, not so much to the second quarter, you see that it's broadly in line with the previous three quarters. So if you don't look at the second quarter but you look at all the quarters before, you see that the results are holding up at that level.

Looking at our growth of core lending, slide 15, we continue to deliver lending growth, but at a more modest pace than in the first two quarters in 2016. This is largely because of seasonality when it comes to lending activity. The third quarter is traditionally the slowest quarter in the year.

ING's core lending business recorded a net growth of EUR3.6 billion. About one-third is accounted for by industry lending and two-thirds in our retail franchises, as you can conclude from this slide.

Now geographically, the lending growth is coming from all regions, with the exception of the Netherlands where we continue to see modest declines.

As I said in the introduction, it's not only the net interest income that is increasing, it's also the commission income, and you see that on slide 16. Crucial here is that we keep growing our primary customer base, and on the back of that, we see further opportunity to grow fee income, particularly in the retail bank.

Some of the initiatives that we are looking at are retail investment and insurance products, as well as the daily banking fees in selected markets, but we also look at new sources for fee income, for example, by attracting third parties to our platforms.

Commission income was broadly flat on the second quarter, but up 16% on the third quarter last year, as we see some of our fee initiatives starting to pay off.

Wholesale banking lending fees were down a little this quarter, but that's due to more modest activity in industry lending, which is more or less what I explained to you on the lending growth, the seasonality effect here, as well as a slower quarter for the capital markets in which we are active.

So you see that the fee income on the retail banking side continues to grow. Wholesale was a bit lower, and that's more seasonal than structural.

Turning to the underlying operating expenses and slide 17, as you know, our expense base remains impacted by regulatory costs. But most of these costs are, in fact, skewed towards the first and the fourth quarter, so in the third quarter, you don't see too much of those.

So on a quarter-on-quarter basis, if you exclude the regulatory cost, our expenses remained flat. So we're growing the business at flat costs, and hence improving efficiency.

For the full year 2016, we now expect regulatory cost to be around EUR900 million as we have been able to meet some of our contributions through irrevocable payment commitments; so less cash out and replaced by irrevocable payment commitments.

Slide 18, the risk cost picture here, the underlying quality of our loan book continues to improve. The NPL ratio for the Bank as a whole was down slightly to 2.2% from 2.3%, and we recorded EUR265 million of risk costs for the quarter.

Dutch retail still trending lower, specifically in mortgages, but also in the wholesale bank there is generally a benign trend visible here.

We've taken some minor extra risk costs in our oil & gas book against the overall again, but the overall picture in the oil & gas portfolio is that it continues to perform rather well actually. It's a reflection of the senior secured nature of our lending, as we have discussed with you over the last couple of quarters.

Turning to the challengers & growth markets on slide 19, challengers & growth markets delivered another strong quarterly result. We continued to grow primary customers throughout our geographies while achieving further diversification in our product portfolio. And this, combined with the balance sheet optimization, is driving improved margins and the increase in the interest result in these markets. It's also helping us to deliver an even faster rate of increase in commission income, as you can see here as well.

Risk costs are well controlled. The cost/income ratio is below the 50%. Again, this is a geographical picture; it's not only a retail picture, just for your information. And the cost/income ratio below 50% includes regulatory costs.

So you see that we do really have a far more efficient model in the challengers & growth markets and that the digital model that we have there is the way forward, and hence our announcement three or four weeks ago.

Another good example of our Think Forward strategy at work is Poland, and that you can see on slide 20. Poland has been a difficult market over the past year; quite some changes there. The performance in our Polish business actually speaks for itself.

We have a number 1 Net Promoter Score in the country. As you know, that's really our compass. We really, really, really focus on Net Promoter Score. That drives client satisfaction, client experience improvements; that drives the growth in number of clients, and you see all of that here as well.

So focusing on the Net Promoter Score, we're number 1 in Poland. Then you see the same effect as we have seen in many other countries that we see that this market is becoming increasingly digital and mobile. The launch of our Moje platform helps us to change that behavior but also grow the number of retail customers.

The primary retail customers is growing faster. The number of retail customers is growing fast there as well. And through that, we can also create a more sustainable balance sheet.

The combination that we have in this market and the success that we have in this market on the wholesale banking side helps us to further optimize the balance sheet here with savings coming from the retail side and more wholesale lending coming from the wholesale banking side.

This all leads to higher lending volumes, a lower loan to deposit ratio -- or an increased loan to deposit ratio as well, and we expect that to reach 90% by the end of 2017 versus only 70% in 2013. So here you see both commercial growth and balance sheet optimization at work, making our balance sheet must more efficient.

Overall, the different income lines show good progress here, both over the last three years, but also if you compare nine months 2016 versus nine months 2015; so truly our strategy at work in a country like Poland here.

To conclude, the capital position of ING. The Group CET1 ratio strengthened further. It's up 40 basis points to 13.5% fully loaded, and that's principally on lower risk-weighted assets.

Similar to previous quarters, we have not included interim profits in capital, which currently leaves us with EUR3 billion of profits set aside for the 2016 dividend -- or after the 2016 dividend payment we have EUR3 billion set aside.

Our final dividend will be decided upon in February, as you know, where we expect that the rate of dividend progression will be slower than the growth in underlying earnings.

Lastly, I'm pleased to share that at least one of the regulatory uncertainties that we face is likely to be clarified soon. Subject to confirmation by the Single Resolution Board, we have concluded that ING Group should be our designated resolution entity. So it's the HoldCo and not the OpCo.

How are we doing against the targets that we announced three/four weeks ago? And we're already performing well against these comprehensive set of financial targets for 2020. With a Group CET1 ratio of 13.5% and a leverage ratio of 4.4%, we're well above fully loaded requirements on both.

We've slightly revised our cost/income ratio target to 50%/52% underlying; our aim to remain a cost leader in the industry. And as we said during our Investor Day, given the regulatory uncertainty, we believe it's prudent to wait for further clarity until we announce a Group return on equity target. However, if calculated over the first nine months of 2016, we achieved a Group return on equity of 9.8%.

Also, I'd like to mention that our progressive dividend policy remains unchanged.

To wrap up before we turn to Q&A, as you've been able to see, we keep recording strong commercial growth in our retail and wholesale banking businesses. However, at the same time, we see a change in customer behavior, we see that the regulatory agenda is not finished, we see a low rate environment; and all of those posing real challenges to us.

In our Investor Day, we announced that we will accelerate the execution of our Think Forward strategy with a major investment in digital transformation in order to cope with these challenges, and I think that the performance of this quarter shows that we have the right model to deal with them.

Our clear intention is to move towards one scalable banking platform which will allow our customers and the Bank itself to stay a step ahead.

With that, I'll open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Anton Kryachok, UBS.

Anton Kryachok - *UBS - Analyst*

Just two questions, please. The first one is on capital.

If we look at consensus DPS forecast for this year and deduct it from this EUR3 billion capital buffer that you have accumulated, which is not included in the CET1 ratio, then your CET1 ratio will go up by about 40 basis points or so; so your Group CET1 is closer to 14% now. I was wondering whether this is a good indication of where you want to be in terms of the minimum capital requirements plus the management buffer in the longer term, or do you think you need to run with a temporary higher buffer before we get clarity on Basel IV regulation at some stage in next few quarters?

That is the first question, please.

And the second question is on net interest margin. During the Investor Day, I think we've discussed that you expect margins to be broadly flat throughout 2017. We have a boost now. Some of this is temporary, of course, driven by financial markets, but underlying, let's say, is slightly above 150/152 basis points mark. Is this a good run rate for next year, or do you expect it to be a little bit lower and flat versus a full-year run rate which will be closer to 149/150 basis points?

Thank you.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Thank you, Anton. I'll give the first question to Patrick

Patrick Flynn - *ING Group - CFO*

Yes. Thank you, Anton.

Capital, really, the position hasn't really changed since the Investor Day. Yes, we're very pleased with the strong profitability and the improvement in the core Tier 1 ratio. We haven't defined a capital target other than being above prevailing regulatory requirements or a management buffer yet until we get some clarity on what the regulatory requirements will be, which, of course, is promised for this year.

In terms of buffer, I think in the Investor Day I had a slide up and it said that we had just under 300 basis points of buffer as compared to the prevailing requirements. Well, it's over 300 basis points now, so eminently comfortable, and more than we would need. So that won't be the end-state buffer.

And finally, there's also going to be, although we haven't got it fully confirmed -- finally confirmed yet, a Pillar 2G element involved as well, so we need to get that nailed down.

So although those components need to get clarified before we can confirm what our target ratio is and what management buffer we think we need, but again, as I said previously, we're in a luxury position of having ample buffer above the current prevailing requirements.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Yes, Anton, on the NIM, we're repeating our guidance that we gave three or four weeks ago on the Investor Day. Basically, we feel that we're -- interest rates are moving, or where they're staying basically which is low to negative, that over the next 12 months to 18 months we can manage our NIM by making sure that the lending margins stay healthy on one side and that one way or the other you manage on the deposit rates as well.

But as we all know, there is a floor on the deposit rates, either legal or psychological floor at a certain moment in time as well. We have to be very careful as to how that would move on the savings side. But we think we can manage this for the next 12 months to 18 months to the high 140 basis points, reaching 150 basis points region.

Anton Kryachok - *UBS - Analyst*

Thank you. That's very clear.

Operator

Benjamin Goy, Deutsche Bank.

Benjamin Goy - *Deutsche Bank Research - Analyst*

Two questions, please, the first on credit quality.

Now oil & gas NPLs are down for the first time in a while. Is it fair to say that has peaked and basically there were no cans kicked down the road so maybe also in the loan loss we should get some improvement?

And separately on asset quality, can you maybe comment on shipping in Q3, and then also into Q4 maybe a bit?

And then the second question is you sold part of your Kotak share. Is it a bit of change in your attitude towards minority stakes?

Thank you.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Thanks, Benjamin. Wilfred will answer the first question.

Wilfred Nagel - *ING Group - Chief Risk Officer*

Thanks. Yes, on oil & gas, well, we're not typically kicking any cans down the road, and certainly we're not doing that here either.

So the way we look at it, NPLs indeed improved slightly. We've said all along that this is a cycle that will take time to really trickle through and get to an assessment of the full impact.

It's I think too early to say that it has peaked or it hasn't. We've said for a while that we expect the impact of this to be gradual. Given the current oil prices and the recent developments there, there's no development on the horizon that leads me to believe that we should change our views or our communication around that.

There was a bit of provisioning again in Q3. The overall impact on the total amount of provisions is still minor there, and at this point, the outlook around that hasn't really changed.

On shipping, you see actually that the NPLs there are up a little bit. This is mainly in the short sea. And it duplicates, as we said before, with business lending in the Netherlands where that book for a large part resides.

If you strip that out, then you take the core shipping book, deep sea, the NPL is more or less stable at 1.4%, and again, the provisioning impact on this quarter was fairly minor.

If the current cycle persists and the upturn that at some point will come is going to be pushed out further in the future, I think we can't rule out a bit more pressure on the book, also on the deep-sea side. But at this point, we're not concretely seeing that yet.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Benjamin, on your second question, well, you know the story around India. We follow the sustainable share aspects of our activities in every activity that we have, whether it's a geographically -- whether you look at it from a geographical perspective or a more business-line perspective.

And that sustainable share analysis gave us an improvement plan for ING Vysya which we were following and implementing. At a certain moment we ran into this opportunity to conclude a merger with Kotak Bank which would actually accelerate some of the value creation versus the way we would otherwise have achieved the value creation if we would do it organically and ourselves. That's why we decided for that merger with Kotak. It's been a very successful merger.

Now we see that also the cooperation and collaboration on the wholesale banking side is solidified and that we just see and take a look at how we can further decrease our share as and when.

So that's a little bit how we work.

To the extent -- so this is a general answer to how we deal with every share that we have, whether it's a fully-owned activity or not. All of the activities have to live up to our expectations. All of them need to have a plan to improve sustainable share. But if there is ways to accelerate that value creation we will certainly do so.

Thanks.

Benjamin Goy - *Deutsche Bank Research - Analyst*

Great. Thank you.

Operator

Tarik El Mejjad, Bank of America.

Tarik El Mejjad - *BofA Merrill Lynch - Analyst*

Just a question again on capital, especially on Pillar 2 requirements. I understand that most of the large European banks already get their ratio; in some cases it's not final but it's a good idea already. So is there any reason why you don't disclose it, or you didn't receive it yet?

And my second question which is linked to that. So I'm asking about this [DSIF] again because I'm still not get used to the idea of this 3%. How now the [local] regulator reacts because we have (inaudible) on Basel, the SREP now is more precise because of the Pillar 2R and Pillar 2G; so G is only a buffer, it's not binding. So how regulatory is now -- I think it's in a weaker position to basically force this extra DSIF on you. What's the thinking around that?

Thank you.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Patrick -- Tarik, Patrick will take this question.

Patrick Flynn - *ING Group - CFO*

I totally agree with you. We don't understand the DSIF either. But the fact of the matter is there, and we believe as well that with the introduction of TLAC and MREL, and all the buffers we need to have, that there's good arguments why this is no longer needed. So I thoroughly agree with you on that point.

Yes. We've got our initial letter from the ECB, the SREP letter. It is draft to be finalized later in the year. It means there is the Pillar 2G and a Pillar 2R element to it. But we've decided not to disclose it just yet until it's final, and that's to some extent respecting the wishes of the regulator.

But there's no big secret in it. It's just simply -- well, sometimes when the regulator asks you to do something and you can do it, we'll do it. We will disclose elements that are price sensitive as we have in the past. So I'm afraid you're just going to have to bide your time a little bit on this.

Tarik El Mejjad - *BofA Merrill Lynch - Analyst*

So the Pillar 2 -- so you'll be disclosing the Pillar 2R and the Pillar 2G as well, or just Pillar 2R?

Patrick Flynn - *ING Group - CFO*

We'll disclose the elements that we need to disclose that are price sensitive.

Tarik El Mejjad - *BofA Merrill Lynch - Analyst*

Okay. Thank you.

Operator

Alicia Chung, Exane.

Alicia Chung - *Exane BNP Paribas - Analyst*

Just a couple of quick questions from me.

Firstly, at your Investor Day, obviously, you gave a number of details around the restructuring charge and cost savings we can expect in the future, but discussions were still ongoing with the Works Council. Can you just give us a bit of an update of where we are on that?

And then secondly, obviously, IFRS 9 will be coming in next year. I'm just wondering whether you can give us a bit more color on what you expect the impact will be for ING.

Thank you very much.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Thank you, Alicia.

So on the restructuring, where are we on that? You know that the restructuring basically touches upon about 7,000 jobs around the globe. So it's not necessarily limited to the Netherlands and Belgium, although a large part of the intended restructuring will touch about -- will touch [the numbers] in Belgium.

Where are we? We're three or four weeks after the Investor Day announcement. In Holland, we have a constructive dialog with our social partners. In Belgium, we have a constructive dialog as well.

In Belgium, we have to follow a strict order of how we do so given the fact that we are working on intentions and we go by a specific law, and that makes that -- at this moment we are in a phase of giving information to our social partners, and that's where we are.

On IFRS 9, I'd like to give the word to Patrick.

Patrick Flynn - *ING Group - CFO*

Yes. IFRS 9, we're working through the models to nail them down as to what the impact will be. There's quite a bit of work involved and that is -- it's quite a complex process because it's very different to how we operated before. Work is going well.

As I said at the Investor Day, there's two elements to this. In terms of the loan loss provision, you've got to remember there's the existing expected loss element that's in capital of EUR1.1 billion that will be reversed.

So the key question is, at the point at which IFRS 9 is implemented, because that's relevant for determining the impact on equity, as we talked about earlier that loan loss numbers are somewhat benign, the trend is benign, you've to determine at that point what the extra amount will be and then compare it to the amount you release for the expected loss.

So, yes, we're working through that. We can't give you a number just yet, but it's important to remember the two points at play.

And then the other bit to remember is that for classification and measurement you currently have, or we currently have, or most people currently have, bonds at AFS. I think the majority of people would like to, and us included, to have those in the equivalent to accrual accounting.

So you don't have variability. The current mark to market on that we disclosed, it's EUR1.3 billion. Some element of that maybe lost at the point of transition, but that's a public number. It's not -- I don't think it will be the full amount, but some element of that would go on transition as you re-state those bonds to the initial cost. And that mark-to-market is currently in people's capital ratios.

So that's the position, and with a very strong 13.5%, as one of the earlier commentators has mentioned, capital ratio plus some extra as well in the dividend bucket, we're very well placed to absorb any of this.

Alicia Chung - *Exane BNP Paribas - Analyst*

Brilliant. Thank you very much.

Operator

Daniel Do-Thoi, JPMorgan.

Daniel Do-Thoi - *JPMorgan - Analyst*

I've got two questions, one on provisions and the other one on capital.

Just on provisions. I guess more broadly, given the decline in provisions in the quarter, how are you thinking about your previous messaging, i.e., for flattish provisions in 2016 versus 2015.

And also, given slightly more constructive messaging I think on the oil & gas portfolio, would it be fair to expect that going forward [provisioning] should come in at slightly below normalized levels, I guess similar to what we've observed so far this year?

And secondly on capital, your risk-weighted assets were down about EUR6 billion in the quarter, and from what I can see, about EUR2 billion of that is due to lower market risk, so FM driven. Should we expect that to reverse in the fourth quarter, and are there perhaps any other elements of seasonality or temporary factors that helped depress RWAs in Q3?

Thank you.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Thanks, Daniel. I'm asking Wilfred to answer both.

Wilfred Nagel - *ING Group - Chief Risk Officer*

So on provisioning, going into the year, our guidance was for something around the 2015 level with two opposing forces. One was the expected continued improvement of the book positive risk migration; and on the other hand, of course, the potential impact of at that point in particular the low oil price that everybody was very worried about.

Well, clearly, three quarters into the year, we can see which of those two forces has been on the winning side. The oil & gas impact is fairly benign; and on the other hand, the book has continued to improve.

So looking at the expectation for the overall number for this year, I think it's safe to assume that Q4 will bring something not dissimilar to what we've seen in the first three quarters, and will, therefore, end up below the 2015 number.

On the RWA, that is indeed a relevant question. So first of all, let me say that you shouldn't be assuming that we continue to grow the loan book without at some point incurring more RWAs. What you saw in this quarter, and I can give you the mechanical answer, is that we have a combination there.

First of all, we had credit growth in the core business; the core lending, as Ralph pointed out, has been growing. But that effect has been largely offset by run-off in the non-core books.

Then secondly, we have quite a significant reduction from the positive migration; that was about EUR3.4 billion or so.

And then we had two opposing and canceling forces; a bit of an uptick due to model updates on one hand, and then a ForEx effect that pushed it back down again.

And then, of course, there was the sale of part of our stake in Kotak that also contributed to a drop on the RWAs.

We also saw a drop in market risk-weighted assets based on lower volatility in particular in the markets that we operate in, and a slight uptick in operational risk, RWAs.

But on the whole, I don't think you should see a trend here.

Daniel Do-Thoi - *JPMorgan - Analyst*

Okay. But that's -- it's a reasonable base to be working off from?

Wilfred Nagel - *ING Group - Chief Risk Officer*

Well, as a starting point, it is what it is. But the trend I think generally, we don't see too many capital requirements that come down.

Daniel Do-Thoi - *JPMorgan - Analyst*

Okay. Understood. Thank you.

Operator

Cor Kluis, ABN.

Cor Kluis - *ABN AMRO - Analyst*

I've got a few questions, first of all about the RWAs on the Dutch mortgages. What's currently the risk weighting on that? And that's probably most of the EUR3.4 billion credit migration effect [estimated] around 12%. But that's the first question.

Second question is about savings rates. You're around 0.3% in most countries outside of Belgium which you pay to retail clients at this moment. Are there any legal minimums outside of Belgium to which you can reduce that? So could you at least legally reduce it to 0% everywhere?

And also, on the corporate side, what kind of savings yields are you currently paying, or what are clients paying, and what's the development over there?

Those were my questions.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Thank you, Cor. Wilfred will answer the first one. I will take the second one.

Wilfred Nagel - *ING Group - Chief Risk Officer*

Yes. So on the risk weights, the answer, Cor, is very short. You're right. It's 12% for the Dutch mortgages, down from 14% a quarter ago.

Cor Kluis - *ABN AMRO - Analyst*

Okay. Thanks.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

On the savings rates, yes, Cor, clearly in Belgium there's a legal minimum. Whether there's a legal minimum or not, in other countries, I think you have to be careful as to moving rates in line with market rates because you have to make sure that in the end you're managing the client relationship there as well. It depends on how the market itself in which you operate develops as well. It depends a little bit on the psychology of your clients as well.

So it's a combination of factors that we take into account as to how to manage the combination of wanting to grow savings on one side and paying a decent rate to our clients. That's on the consumer end of things.

On the corporate end of things, clearly, for the more professional corporates, the ones that play in the markets just like we do, we charge them the way we are charged as well. So we do charge negative rates.

Cor Kluis - *ABN AMRO - Analyst*

Okay. And for the mid-corporates, the SMEs mid-corporates?

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

For the SME mid-corporates, that's not the case.

Cor Kluis - *ABN AMRO - Analyst*

Okay. Thanks.

Operator

Pawel Dziedzic, Goldman Sachs.

Pawel Dziedzic - *Goldman Sachs & Co. - Analyst*

Two questions from my side. The first one is a follow-up on capital.

So you mentioned that you await regulatory clarity which was promised for later this year, and I was hoping if you could update us where the discussions currently stand. Do you have any better visibility as to potential impact of Basel IV? And do you in fact expect that you will know more by the end of this year, or perhaps that the process will be pushed into 2017?

And the second question is on your loan growth, and I appreciate you mentioned that the pace of growth, and particularly in wholesale banking is lower because of seasonality, but I was hoping if you can comment if there is anything more to read into that.

This quarter is essentially first one after the British referendum and I wonder if you noticed any changes in lending demand from a large corporate on the back of higher uncertainty.

Thank you.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Thank you, Pawel.

Well, on the loan growth, so to start with the second question, it's really more a seasonal effect on the wholesale banking side than anything else. As you know, we are -- on the wholesale bank, we have our teams globally active in different sectors within the industry lending. We have corporate clients across the globe as well. So we're not necessarily dependent on either the eurozone or Europe, but really the GDP growth of the whole world.

Ad we're gaining market share as well. So it's a combination of GDP in a world that's still growing. We're active in sectors in which there's still investments going in, in markets and in countries which are still going through transformation for which infrastructure, media, telecom, oil and gas is all important.

So we don't see any reason why we should divert from the plan that we think we can grow by 3% to 4% over the different quarters in the year. So in our view, this is just the seasonality effect in the third quarter on the wholesale banking side.

On Basel, I'll give you a bit of information and Patrick will follow on.

The discussions are happening right now. That's Basel. And in the next two months, yes, we do want to -- we do expect to know more, but the question is what it is that we will know.

Patrick?

Patrick Flynn - *ING Group - CFO*

Yes, indeed, we will know more because there are formal meetings scheduled in November and January. Whether they're conclusive or not remains to be seen.

What I can tell you is that the industry is working in a coordinated manner and is proactively measuring the impact, the four different iterations of Basel proposals, and reporting those back to the relevant authorities being the ECB, the PRA. And all I can tell you is that all four of those, albeit the last most recent is slightly lower, but all four of those have impacts which are significantly higher than the no significant impact amount, approximately 10%, which the ECB and others have said is the only acceptable outcome.

So we're not there yet in terms of getting to a point where Basel proposals meet the threshold of no significant impact, but I think it's significant that you saw the BaFin come out yesterday quite forcefully and say it's unacceptable.

So we are expecting that the regulatory bodies, ECB, PRA, will stand by their commitment to ensure there's no significant impact. And because we're not there yet, that's why I think, as Ralph says, we will have some outcome, but I'm not sure what it's going to be.

Pawel Dziedzic - *Goldman Sachs & Co. - Analyst*

And as a result of the proposals being not in line with no significant impact, is there a risk that those negotiations will continue for longer?

Patrick Flynn - *ING Group - CFO*

Can't rule that out.

Pawel Dziedzic - *Goldman Sachs & Co. - Analyst*

All right. That's very clear and helpful. Thank you.

Operator

Kiri Vijayarajah, Barclays.

Kiri Vijayarajah - *Barclays Capital - Analyst*

Just going back to shipping and just trying to understand what you said earlier that if there is going to be an uptick in risk costs on shopping, it's actually going to come through in retail Netherlands rather than the wholesale division. And is that because it's got to do with the high-profile issues in dry bulk and containers and it's really your kind of inland or some sort of local shipping exposures?

And just on the numbers, could you just give us the coverage ratio on those shipping NPLs? That would be helpful.

Thank you.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Kiri, Wilfred will answer those questions.

Wilfred Nagel - *ING Group - Chief Risk Officer*

So on shipping, what I was trying to get across is the message that we have a bit of an uptick in NPLs this quarter from 4.4% to 4.9%, and that uptick is completely due to files in the mid-corporate book in the Netherlands [short] the shipping type of business.

That's been the case for a while. We've highlighted before that there is an overlap between our total shipping exposure and what we do in business lending in the Netherlands.

The remaining business, i.e., if you take out the short sea which is booked in the Netherlands from the total shipping portfolio, then NPLs on the deep sea shipping book are still at 1.4%. And the impact of the total provisioning, including what I mentioned for business lending in the Netherlands, on the quarter has been minor.

Now if this cycle lasts for much longer, then we do expect to see a bit more pressure also on the deep sea book. We've seen one major container line that got into trouble and filed for bankruptcy, as you're all aware. That might happen in the near future 1 or more times as well with other companies.

So in other words, at this point what we're seeing is mainly related to shore sea and inland, but we can't rule out a bit more pressure if this cycle continues.

And on the coverage ratio, that is around 47% at this point. That is for the whole shipping book.

Kiri Vijayarajah - *Barclays Capital - Analyst*

Great. That's helpful. Thank you.

Operator

Anke Reingen, Royal Bank of Canada.

Anke Reingen - *RBC Capital Markets - Analyst*

Two questions, please, firstly, on your normalized loan loss ratio of 40 to 45 basis points. I was just wondering how quickly you think you will get to that level, or do you think it's reasonable to assume that 2017 will remain below that level?

And then, secondly, on the point that you decided that ING Groep should be your resolution entity, I'm not quite sure. Should this have any implications on funding costs? And does it also mean in future we no longer look at the Bank capital ratio and return?

Thank you very much.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

So on the longer-term guidance on provisions, obviously, this is always a difficult subject in the sense that predicting these things is difficult. But if you step back, we do believe the 45 basis points longer term is the right through the cycle average.

Logically speaking, having been above that level for a number of years, it is expected that we should be below for a while to continue to maintain that long-term average. That's logic.

Is there anything at this point in what we know that leads me to believe that 2017 would be a massive deviation from that trend? No. But it can always happen.

Patrick?

Patrick Flynn - *ING Group - CFO*

So what resolution entity means is that for bail-in purposes, bail-in debt issuance purposes, be that MREL or TLAC, we simply issue senior debt out of the HoldCo as opposed to the OpCo, which has been the case in the past. So Tier 1 was issued out of the HoldCo, so that doesn't change. Also, Tier 2, which in the past was issued out of the OpCo will come out of the HoldCo.

There may be some pricing differential for senior out of the HoldCo because it will be [structurally] subordinated. As to how much that is, difficult to say at this point. I think given the first-class name that ING represents, I would expect that to be not significant; and I'm looking at my Head of Capital Management squarely in the eyes on this one.

So, yes. There will be some increase in the cost, but not significant, and nothing we can't absorb and haven't factored into the plans we announced in our Investor Day a month ago.

Anke Reingen - *RBC Capital Markets - Analyst*

Okay. Thank you.

Patrick Flynn - *ING Group - CFO*

It doesn't mean anything for -- from a capital perspective from the Bank to the Group in terms of capital ratio. It's simply about debt issuance.

Anke Reingen - *RBC Capital Markets - Analyst*

Okay. Thank you.

Operator

Stefan Nedialkov, Citi.

Stefan Nedialkov - *Citi - Analyst*

Two quick questions. On the -- my first question is on margins. I would love to get some color from you on the lending margins by product in Belgium, Netherlands and Germany.

And as a second question, in terms of just overall volume issuance of [AT1], as much as you can share with us in terms of any immediate plans over the next few quarters to issue AT1 instruments.

Thank you.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Yes. On the lending margins, Patrick?

Patrick Flynn - *ING Group - CFO*

Yes, I can talk around it, but we don't -- I know you'd love to get it but we're not going to give you the detail. So I can talk a bit around it but we're not going to disclose precise numbers.

So I think, as Ralph Mentioned, the NIM was up 2 bps. There was a bit of that due to re-pricing and deposits that also was helpful that there was some firming of margins on lending. Some of that is in the mortgage space in the Netherlands.

As mentioned earlier, in Belgium we do see and have seen prepayments. They're easing off as compared to the past but they're still there, which means better margin; mortgages are dropping off the book and they're being replaced at returns which deliver the required return on capital, a bit lower. So that is a bit of a margin erosion piece which Ralph alluded to.

In the lending structured finance, which is a big chunk of our lending, the margins are holding up reasonably well and we're growing that book. So that's the positive point that -- and it's a point that we've had for several quarters is that we're growing and maintaining margins.

Obviously, in terms of deposit margins, we've seen a bit more money moving from savings accounts to current accounts which is margin negative because you don't pay anything on those, and low rates steadily eat into that.

On deposit margins, the Netherlands, Germany, they blipped up in the quarter because of the rate [trimming] that was done a little earlier. But to some extent that's temporary because the rate, the negative rate environment persists and continues to erode there. So it steps up a bit and then progressively steps down.

So that's a talk around it per se, and hopefully that's helpful.

On AT1, we don't have fixed issuance plans. We certainly don't announce them in advance. A guidance, there's a 1.5% envelope that is there and we would typically like to fill that. But as to timing of when and where, you'll only see a press release when you see a press release saying we're doing it.

Stefan Nedialkov - *Citi - Analyst*

Okay. Thank you.

Operator

Patrick Lee, Santander.

Patrick Lee - *Santander GCB - Analyst*

Just one quick question on deposit volume, what you mentioned earlier on anyway.

I notice that you saw a deposit outflow in the retail Netherlands business and retail Belgium business. How much of this outflow is a Q3 seasonality thing, or was it a response to your recent rate cuts, or whether you are seeing market share loss to other competitors?

And I guess the interesting thing is whether this would change your thinking on further rate -- deposit rate cuts in the Dutch saving rates in the coming quarters.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Thank you, Patrick. Well, what you've seen is certainly seasonality. That's one specifically on deposits. The other thing that you see is that given the fact that the rates are pretty low that customers don't mind keeping their money on current accounts either because it's certainly also more in the SME side and the mid-corporate side you see that current account balances are increasing. But specifically on deposits, you see a seasonality effect here.

As to the rate cuts that we have done, we did one just before the quarter in the Netherlands. That's why you see a bit of an improvement in the margin, as Patrick has alluded to.

In Belgium, we have reached the legal floor. It's 11 basis points, so nothing to be expected in Belgium.

In the Netherlands, as I have indicated before, it's a combination of how the funding develops, how your client growth develops, how your relationship with the client develops; the psychology of going lower and what it will do to your funding base and the behavior of your clients.

So I can't really indicate to you whether or when there's going to be cuts.

Patrick Lee - *Santander GCB - Analyst*

Perfect. Thanks a lot.

Operator

[Natasha Blackman, Societe Generale]

Natasha Blackman - *Societe Generale - Analyst*

I have two questions related to your choice of resolution entity.

The first one, I know that you made the comment earlier about issuing HoldCo senior. Should we expect that on your senior funding strategy that you'll only be doing HoldCo in the near term, or would you be doing both OpCo and HoldCo, as some other banks are doing?

And separately, ING Bank issued a Tier 2 bond back in April, the 3%, and that bond could be exchanged into HoldCo at ING's option. Could you confirm whether this is an action ING is looking to take?

Thank you.

Patrick Flynn - *ING Group - CFO*

I'm sure, Natasha, you'd love for me to answer all of that and give you precise timings and dates, which I'm also pretty sure you know I'm not going to do.

So we have the option [out of the S] on the Tier 2, but we look at whether it makes sense to do that within the period of time we have that option, which is just some time in the future, and that depends on getting confirmation that the resolution entity will be confirmed. It's our election to do so, but the SOB has to confirm that.

And in terms of senior, certainly we will be issuing some out of the HoldCo to meet TLAC and MREL requirements. I think that's fully clear that we will be doing that. Whether we will issue out of the OpCo or not, I will reserve judgment at this point.

Natasha Blackman - *Societe Generale - Analyst*

Okay. Thank you.

Operator

Farquhar Murray, Autonomous.

Farquhar Murray - *Autonomous Research - Analyst*

Just one question from me. Obviously, a relatively stable quarter in terms of RWA development. I just wondered if you could just outline how much of that might be sustainable, particularly in terms of the market risk and the reduction that you saw in the quarter.

And then also in terms of outlook, could you just outline what you're thinking in terms of credit migration and model developments from here?

Thanks.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Okay, Farquhar. Wilfred will give an answer.

Wilfred Nagel - *ING Group - Chief Risk Officer*

Yes. So on market risk, obviously, for us, that is not a very big part of the RWA to begin with. The drop that you saw was partly due to lower positions. It was also due to lower volatility. And the combination of the two led to relatively speaking quite a large drop. That could easily migrate in a different direction as circumstances change, so I wouldn't see that as a permanent or a trend.

As for the impact of potential model updates, like I said earlier, the general trend in capital requirements tends to be up. I think a lot of the model redevelopment work that is going on is going to lead to some increases, but it's too early to say by how much and also by when because the throughput time of this process, including the assessment by the ECB, as well as our own, is relatively long.

So there's nothing immediately big on the horizon, but there will be a steady trickle of these things for the coming few years.

Farquhar Murray - *Autonomous Research - Analyst*

And then on the credit migration from here?

Wilfred Nagel - *ING Group - Chief Risk Officer*

Well, we're still seeing a positive trend there. The production of new lending at the moment tends to be still be a bit better than the quality of the stock; and the stock itself is also showing positive migration. So it is absent any other changes on the model side. If you freeze all of that, I think it is a fair assumption that a bit of positive RWA development from that front is still to be expected.

Farquhar Murray - *Autonomous Research - Analyst*

Okay. Thanks very much indeed.

Operator

Benoit Petrarque, Kepler Cheuvreux.

Benoit Petrarque - *Kepler Cheuvreux - Analyst*

Two questions on my side. The first one will be on the dividends.

I think you are guiding for a relatively slow progressive increase of your [DPS] from the EUR0.65. How can I -- how shall I reconcile this to the relatively strong performance of your EPS growth expected in 2016? It looks like EPS will grow faster than the expectation of the [DPS] growth. So is the regulatory uncertainty holding you back on a more bullish outlook for DPS growth?

That's the first question.

And the second question will be on the small steepening of yield curve which is an interesting trend we see now in the third quarter. I'm sure you would like to see more, but a positive [call-out] for INGT, or is your [ILM] position for yield curve opening, or (inaudible) that feeds into your NI potentially?

Thank you.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Patrick?

Patrick Flynn - *ING Group - CFO*

Okay. I'll do the last one first because it think it's the shortest.

A small increase can be temporary. We are predicting and planning for a prolonged low rate environment. The plans we set are based on that being the case.

And the commercial momentum we have and the measures we've announced in investing in future digitalization means that we believe, even with the lower rate environment, even if we get to the point where deposit margins start to tip lower, we will continue to grow top-line earnings, and we'll deliver EPS growth in a low rate environment.

So we're not counting on a minor uptick in the curve. In fact, I don't think that's significant. So we're expecting it to be tough for [longer] and we're set to navigate through that.

That's point 1.

On dividends, maybe it's useful to just recap what the thinking was on the dividend and why we are where we are; why we're couching dividend in the way we are.

When we set the dividend policy, we spent some time talking to a number of investors to figure out what the right approach was. We had committed that we would return the surplus to -- from [insurers] to shareholders, and the consensus view on the best way to do that was to do it with a sustainable elevated dividend rather than having a one-off or specials. Hence, we set the dividend at a relatively high elevated level of EUR0.65, so it's incorporating the -- paying out of the insurance bonus, as it were, and it would be progressive from that point.

Capital has three purposes for us. One is to build buffers to meet regulatory requirements; and second, and importantly, it's to support profitable loan growth; and third, for shareholders, return to shareholders. And as Wilfred has mentioned, the current benign environment where RWAs drop and loans go up is not a trend we can rely on. In fact it could well flip in the opposite direction. We need capital for lending and you could have quarters where other model events push it in the opposite direction.

And I'll just be honest with you. In our projections where we see us growing throughout 2020, we see that we'll be using the capital for those three elements.

So, yes, the dividend policy is reaffirmed at EUR0.65 progressive, and we also have to remember that there is still regulatory uncertainty. So we aim to use the capital for those three levers, and then, adding all that up, we think that the progression is going to be slower than earnings per share growth.

Benoit Petrarque - *Kepler Cheuvreux - Analyst*

Great. Thank you very much.

Operator

Bruce Hamilton, Morgan Stanley.

Bruce Hamilton - *Morgan Stanley - Analyst*

Two questions from me.

On the initiatives to grow fee income from here, I wonder if you could maybe outline -- there are quite a lot of areas you are looking to grow, but what are the two or three that would move the needle most? And how big a revenue opportunity do you see from robo advice specifically?

And then secondly, just looking at the Belgian unit, obviously, revenues are a bit weaker both year over year and q on q. Just to check; were there any sort of one-off impacts in the quarter [in specific] dynamics? And how to think about the outlook? Obviously, you're limited on what you can do on deposit re-pricing, but what are the levers from here and how do you think about the top line for Belgium from here?

Thank you.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Yes. So on fee income, I don't think there is a golden bullet on this one. The fee income should not be a golden bullet in the first place. This is about strategy. Our strategy is very much to focus on growth in the number of customers, the improvement of the number of primary relationships within that, and then develop products that clients would want from us.

So this is really about longer-term value creation; making sure that we turn the franchise from a product-by-product franchise to a client-focused franchise with a primary relationship strategy. That's what we see on the retail side; that's what we see on the wholesale banking side.

Now if you have that primary relationship, you will know the customer better, and if you know the customer better, you will be able to be more relevant, more instant and more personal in your service. And on the back of that, the customer will be more interested to buy different products from you.

That's why we need more products so that's why we're looking at how can we distribute insurance products on the retail side, how can we use robo advice on the retail side with the huge savings base that we have. With the growing number of customers on the savings side that we have, robo advice could come in particularly handy as well. So on the retail side, it's truly across the board.

Now on the wholesale banking side, the same thing there. We're improving our customer relationships. We are very relevant to the top customers that we have. We're absolute a top player in all the industry-lending aspects here as well. So the cross buy needs to come from financial markets business there; transactions service business there as well, as well as that capital markets business there.

So it's not a golden bullet here. It's all about the philosophy as to how you build a client business rather than a product-by-product basis. And you will find that we will improve that value over time by rapidly increasing the number of clients and improving the percentage of primary relationships as part of that.

Then on Belgium, I will you give a bit of information there. Patrick may add there as well.

What we've seen in Belgium here is that given the lower-interest rate environment and the fact that on the savings side, which is the savings are basically our predominant funding base that we have in our Belgian franchise, that we've reached the legal bottom there in terms of re-pricing on the funding side. That's one thing. On the other side, we do see continued growth on the lending side.

So it's a good franchise; we have commercial momentum there. That's why we want to invest and intend to invest in the Belgian franchise and further improve it.

So good franchise, good commercial momentum, but from a funding perspective, given the fact that the savings are the biggest funding source, we have reached the legal bottom in terms of managing our margin on that side.

Patrick, anything to add?

Patrick Flynn - *ING Group - CFO*

Just to say that if you're looking at the fall sequentially in Belgian of 50%, that is not representative of the underlying. There were, to your point, a number of one-offs; not in Q3 so much but more in Q2, the big [Visa] gain and the procured saving.

So I think if you look at the revenue decline year on year, its closer to the 10%. I think that's more representative of the issue we're talking about.

Bruce Hamilton - *Morgan Stanley - Analyst*

Got it. That's very helpful. Thank you.

Operator

Robin Down, HSBC.

Robin Down - *HSBC Global Research - Analyst*

Can I just quickly come back on Belgium and the cost of risk? I think it's the second quarter where we've seen a slightly elevated charge there, and described as coming from a small select group of customers. Just wondered if you could give us bit more color and whether you expect that to persist.

And then secondly, can I just come back to the credit, the positive credit RWA migration? It looks like -- and this isn't the first time we've see this, it looks like you're running more of a point-in-time model, in which case I would expect to see further improvements coming through from this over the next few quarters. Or are you under some sort of regulatory pressure perhaps to change that model towards more of a through-the-cycle type approach? Just any color you can give on that would be appreciated.

Thanks.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Yes. So on the risk cost in Belgium, I think it is worth pointing out that the absolute level at which we have those risk costs is relatively low and has traditionally been low in Belgium. We're seeing a bit of movement where retail is coming down a little bit on the whole, but within that, you see business lending in particular going up a bit. There is apart from underlying addition to provisions for specific files also a bit of model updating going on.

So there is no particular big trend there that we worry about or at this point need to address.

Robin Down - *HSBC Global Research - Analyst*

Sorry. Can I just quickly come back on that?

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Sure.

Robin Down - *HSBC Global Research - Analyst*

It wasn't so much a worrying trend. I'm just more interesting in whether or not we're going to suddenly see a step down as things like that model update and the addition of specific cases drops away.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

No. That is why I pointed out that the levels that we're at are relatively low, so I don't think there is a lot of room for improvement there. There's just a bit of noise around the average that we're looking at this point.

On risk-weighted asset migration and the question is there a point-in-time model, so for provisioning, one tends to use point in time LGDs. For capital, it is all through the cycle. So when you talk about risk-weighted assets, that is not a point in time; that is a through-the-cycle that we use.

Of course, it does get adjusted pretty much every year by adding more and more recent data, so there's always going to be some movement and there's always going to be a reflection of recent trends, but it doesn't mean point in time. It's not.

Does that answer the question?

Robin Down - *HSBC Global Research - Analyst*

Yes. It's just interesting when you read the commentary though within the Pillar 3 how quickly things seem to be adjusted for that recent data. So I'm slightly surprised you're saying that you're running on a through-the-cycle model given that situation. But, yes. Thanks for the answer.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

All right. If you have any more detailed questions on that, we'll be happy to take them through investor relations and we'll get you the explanation.

Robin Down - *HSBC Global Research - Analyst*

Great. Thank you.

Operator

Jean-Pierre Lambert, KBW.

Jean-Pierre Lambert - *Keefe, Bruyette & Woods Europe - Analyst*

I have a question regarding the development of the client base. You focus on primary customers, and effectively you have four segments. You have primary, non-primary, digital and non-digital. But the traditional segmentation would include income, wealth factors, and I was wondering. Are these factors no longer relevant in the digital world, or you have sub-segments within primary relationships which include then sub-segments dealing with income or wealth?

Thank you very much.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Well, we certainly don't have the segmentation the way you are depicting. So basically, we have customers, and they could come in from different sides of the balance sheet. Some need a mortgage and, therefore, they're probably not as wealthy; and some need -- some have wealth and they will deposit money. So they come in from different sides.

Now whether they're digital or whether they are a client of a branch, a bank, we don't differentiate there either. We do segment in terms of consumers, private banking, SMEs, mid-corporates and corporates. That's the way we segment our business and generally also segment our business models and our value propositions.

Now going deeper into that, across all of the segments we approach our customers as much as possible as primary relationships. We're in this business to build a longer-term relationship and not do the occasional opportunistic transaction.

Clearly, in opportunistic transactions, it can lead in the end to a relationship, and we will certainly do so. But on one side we want to grow the number of customers; and the other side, we want to improve as part of the number of customers that part of the customer base that we have a primary relationship with, and that is generally defined as a client that sees us as their primary bank.

Now in a branch bank environment or in more relationship banking environment, that was the model of the past, but we do think that even in a digital environment, you can create primary relationships, and you can create such a digital experience that clients actually regard you as their primary bank.

Clearly, for that, you need a current account business, a payment account business, a cards business as well as you need -- as much as you need a savings and a mortgage business, and that's what we're trying to do here.

So do we segment our customers very well? Yes. If it comes to consumer as a segment and private banking as a segment, yes, we do. Do we segment them by size on the corporate side? Yes, we do, because size generally -- generally, not specifically but generally -- does determine what kind of needs our customers have. And we very much look at the needs that our customers have in the way we segment.

Jean-Pierre Lambert - *Keefe, Bruyette & Woods Europe - Analyst*

Thank you very much.

Operator

[Marcel Huven], Credit Suisse.

Marcel Huven - *Credit Suisse - Analyst*

I have two questions , if I may. The first is on loan growth. Especially retail Belgium has been a main growth driver as well as for the mortgages. How do you see that going forward? Will it be in the same rate? This also applies to retail Germany.

And the second one is on fees. Yes, most regions are -- some of the regions, southern regions, you don't charge fees for current accounts. Would it be in your strategy to start charging these? If so, what is your strategy? What are your comments on that customers might leave ING?

Thank you.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Thank you, Marcel.

Well, Belgium has always been and is an important market to ING, and we see that generally, the economy in Belgium has held up quite well. Even during the crisis, the economy has held up quite well. And therefore, we have been able to grow our business in Belgium throughout the crisis and you see that that momentum is continuing.

And we see our growth in Belgium across all the different segments. Whether you're talking about the consumer end of things or private banking, SMEs or mid-corporates or corporates, we see growth all around.

So also on the loan growth, in the mid-corporates segment, we see loan growth. And on the mortgage side we see loan growth. And that's just because the underlying economy has been rather stable in its growth pattern and it's a good market.

In Germany, we see a combination of a good underlying market, a good economy and, therefore, loan growth coming from that, but at the same time it is really gaining market share. So the loan growth in Germany is just the underlying growth plus the fact that we are a challenger in that market, and because we are a challenger and we have access to many -- to the market as a whole, we see growth both on the loan growth, both on the consumer side of things, in consumer lending in mortgages, as well as on the wholesale banking side of things.

So over the last two or three years we have really grown the wholesale banking team in our German operation and have started to grow our corporate relationships in Germany. On the back of the relationships that we generally already have with those clients across the globe. But we never had it really in Germany because we were never a big wholesale bank in Germany.

But that's a change of strategy. It's a change of strategy that we announced three years ago. It's a change of strategy that we feel also helps us to grow sustainably in Germany, and also further optimize our balance sheet use in Germany. So that's the combination there.

On your second question in terms of current account fees and the challenges and the impact of customers, let's take a step back here.

So in the challenger markets we generally have a digital model, which means that we almost have no branches. In a digital model, we have a particular positioning of our brand, and that brand says we give simple, transparent services, and an experience that is very easy and that empowers you to do your banking with us.

In all of that, we have always looked at how do you price your services. During the crisis, as you may recollect, we were not allowed to compete on prices in some of these markets, and yet the growth continued. And that is because the experience is so much better than that of our competitors.

So when you then start to think about is there an opportunity to charge fees, you really have to wonder, okay, what would I be able to charge fees for? The client needs to see the added value of your service before the client will accept the fact that you charge a fee. That's one.

And the other side to it is then does charging fees limit the growth opportunity. And if I then go back to the [formula] of that, I repeated in this presentation today and I also explained in the Investor Day, in that formula you see four drivers: the growth of customers, the improvement of the percentage of primary relationships, the improvement of the cross buy, and the product value. Just working on product value through increasing fees may limit your growth on the customer side.

So per market, you will have to see how you manage this formula. In some markets we would basically see, well, we have real, good momentum -- that's just continued growth of customers -- before we look at introducing fees on specific products.

In other markets, we may look at the development and think we should charge fees for services that we can charge fees for because of the value-added that we provide. So it's really a market-by-market approach that we have here. But for you to get our logic, I think the formula is important for you to get a sense for how we manage the different elements in that.

Marcel Huven - *Credit Suisse - Analyst*

Okay. Thank you.

Operator

Farquhar Murray, Autonomous.

Farquhar Murray - *Autonomous Research - Analyst*

Just a quick follow-up on the dividend and the progressive outlook there versus earnings.

When you do say DPS growth will lag EPS growth, should we read that as saying that over the time period outlined at the Investor Day, the structural growth of dividends will be lower than the structural growth in -- sorry, the structural growth in dividends will be lower than the structural growth in earnings? Or is it a slightly more pragmatic issue in the sense that near term EPS is probably going to be slightly faster than your view on structural growth, and as such, the payout ratio is likely to moderate that way? Just -- I'm just trying to get a sense of what the current guidance is there really.

Thanks.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Yes. Thanks, Farquhar.

I think you've got it right. The structural growth in dividends is to be expected lower than the earnings per share, or the earnings growth that we have indicated over the next couple of years, and that goes back to basically the three uses of capital that we already touched upon.

Patrick touched upon it during today's call. We made it very clear when we launched the strategy, two and a half/three years ago that we will always look at three uses of capital.

The first one is let's make sure that we are sufficiently capitalized, and we never want to be in a position again in which we would have to go to the taxpayer to help us. So capital is an important element here.

The second part is as a bank that has a pretty simple business model taking savings from a market, we also feel the responsibility to give loans into that market. And if you grow your loan business on the back of your savings business, you need more capital.

So the first source is make sure you have good capital buffers. The second use is -- so the first use is improve your capital buffers. The second use is make sure that you have capital to grow your business and play your role in society.

And then the third use is, and this is not in any order of priority by the way, is make sure that your shareholders, who share in the risk, get a decent return.

Now when we set our dividend a year ago, we basically had a discussion with many of our shareholders to get a sense for how they would want us to pursue a dividend policy. Do you prefer a payout ratio which brings in volatility? Do you want to have a dividend that increases and is progressive over time? And most of our shareholders basically chose for the latter. And that's why at that moment in time we set a dividend level from which we think we can grow progressively.

Now that dividend level that we set at that moment in time was already including a bit of a surplus there that we generated on the back of the sales of the insurance stakes and, therefore, is an attractive dividend level.

Certainly, if you do calculate it from a greater percentage, it is already an attractive dividend.

Now -- and we will manage this dividend over time progressively that it stays attractive, but again, we will have to balance that also with the other two uses of capital generation: make sure that we are adequately capitalized; make sure that we have capital to grow the loan book and play our role in society, clearly profitably with the right returns. And thirdly, make sure that our shareholders get an attractive return. So that's the philosophy.

Farquhar Murray - *Autonomous Research - Analyst*

Okay. Thanks very much indeed.

Operator

Jackie Ineke, Morgan Stanley.

Jackie Ineke - *Morgan Stanley - Analyst*

I've got two questions linked again back to the resolution entity being the HoldCo.

First of all, I was just wondering if there was any pressure, or you expect any pressure from the resolution authority to move any of your subordinated OpCo debt up to the HoldCo, or if you're more thinking this will be a slow process over four to five years and ultimately probably all your sub-debt will be at the HoldCo.

The second question is about this decision, and I appreciate it's not finally confirmed yet, but the resolution entity being the HoldCo, is that more of a Dutch general approach and we could really expect that as -- approach for other banks in the Netherlands? Or is it a tailor made single approach for ING?

Thank you.

Patrick Flynn - *ING Group - CFO*

I can only speak for ING. We have a HoldCo; therefore, we can use it, and it's good to have it. Some of you were asking why we weren't getting rid of it in the past and we pointed out this could be one of the uses. So I can only speak for ING in that regard.

And then terms of issuance, clearly, in terms of meeting an MREL or a TLAC requirement, bail in [of a senior] will be part of that. If you're talking about TLAC at the minimum of the 23% level, given our 18% total capital ratio, you're talking maybe EUR16 billion of issuance as a minimum. That will have to come from the HoldCo, needless to say.

So, yes. We will be issuing senior from -- again subject to confirmation by the SRB -- we will be issuing senior from the HoldCo to meet that.

Jackie Ineke - *Morgan Stanley - Analyst*

But there's no pressure to move the OpCo TLAC, the subordinated debt, the OpCo up to the HoldCo in the near future?

Patrick Flynn - *ING Group - CFO*

Well, we have a requirement to meet TLAC at a date in the future. We can do that by virtue of issuing senior in our HoldCo. I think that's we intend to do.

Jackie Ineke - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

Bart Jooris, Degroof Petercam.

Bart Jooris - *Degroof Petercam - Analyst*

Most of my questions have been answered. One left looking at regulatory cost in Germany this quarter where you said that some contributions were met by irrevocable payment commitments. Is that something that is set now for the coming years too, and is it something that could be repeated in the coming quarters bringing your regulatory costs down somewhat further from what you guided?

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Bart, so basically, this is something that is possible in Germany, and that's why we've elected it for the moment. So 30% of the DGS in Germany can be guaranteed rather than [fended], and that's what we have elected. I don't know whether it's going to happen anywhere else, but this is the way it works in Germany, and that's what we have elected to do so.

Bart Jooris - *Degroof Petercam - Analyst*

Okay. Thank you.

Operator

Robin van den Broek, Mediobanca.

Robin van den Broek - *Mediobanca - Analyst*

Two questions left, first one on Basel IV.

Patrick, you said there were four calibrations going around and I was just wondering if you can share some thoughts about which books would be most in focus in those calibration. Is it upward flows on mortgages? Is it industry lending? Is it large corporate exposure being more standardized? Then maybe you can give some more commentary around that.

The second one is fairly simple. I appreciate all the moving parts you discussed at the Capital Markets Day related to your cost base, but if you just -- if you take that aside and you just look at the [EUR2.15 billion] of underlying costs you've been reporting for I think six quarters now, how should we look at that going forward? Do you think you can manage that cost base flat for much longer, or should we assume 1% inflation on that going forward? And any guidance there would be very helpful.

Thank you.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Thank you, Robin. I will take the second question and Patrick will take the first one, so on the cost base.

As you have seen over the last couple of quarters and over the last two or three years, we're very much focused on managing an efficient franchise, and that efficient franchise you can -- an improvement in efficiencies; you can do by making sure that the cost per transaction, the cost for volumes that you get through your business that that is either stable in a growing environment or goes down in a stable environment.

In a market-leaders environment, we see that volumes and income is not going to grow too much and, therefore, you should expect cost to go down in a market-leaders environment.

In the challengers & growth environment, as we have indicated, we have a grow model there. We are pretty successful and, therefore, the volumes are growing to an extent, and the number of clients are growing to an extent that it is pretty unlikely for us to keep the costs flat in that environment. Actually, we don't mind the cost to grow if the income grows faster and as a consequence of that the cost/income ratio goes down.

And in the wholesale banking environment, as indicated, we do expect income to increase if at the same time we can keep the cost flattish, not per se on a quarter-by-quarter basis, but over the period of which our plan is, then we expect the cost/income to improve.

So given the fact that there's three completely different businesses that we're managing, we don't want to come out and say, well, on a quarterly basis you will see a flat cost basis. Clearly, even in challengers & growth markets the income will not grow as fast, or the volumes will not grow as fast. Then the cost growth will not be as fast either. So it's really something that we look at how the franchise develops.

Overall, and therefore we keep managing on a cost/income ratio -- from a cost/income ratio perspective overall, we have guided that we do think we can further improve efficiency by building a model bank, basically a bank that is scalable across different countries.

We think we can further improve the efficiency even of the most efficient model that we have, the digital model. And as a consequence of all of the intended actions that we have, we will move the cost/income ratio down to the 50/52 percentage area.

But we're not going to manage specifically on a flat cost base on a quarterly basis because I don't think that's wise in building a strategy. And building a strategy, certainly given the fact that we have a disruptor model, that we have a challenger model, I think you should allow growth to be there as well, but clearly in relation to your cost growth, and you have to manage that.

On Basel IV, I give the word to Patrick.

Patrick Flynn - *ING Group - CFO*

Yes. I think the only people who will -- who come out of the current [performance] looking favorably are those small banks that are unstandardized because trying to apply standardized -- and they're the only ones who will not have a material -- would have a material -- not have a material impact.

Yes, there have been four iterations. I think the Basel group has been struggling to try and find how to introduce -- reintroduce a standard model essentially [on our floors] with an impact that's not material, and so far, they have not succeeded, as I said earlier. So it remains to be seen, and I -- how they square the circle, but right now they're struggling.

Robin van den Broek - *Mediobanca - Analyst*

Okay. But there's nothing you can say on which books --? So it's mortgages, it's industry lending, or large corporate loans where the main issue is? Or is it across those books?

Patrick Flynn - *ING Group - CFO*

There's nothing I'm going to say. No.

Robin van den Broek - *Mediobanca - Analyst*

Okay. Thank you.

Operator

As there are no further questions, I'll now turn the call back to your host for any additional or closing remarks.

Ralph Hamers - *ING Group - CEO & Chairman of the Executive Board*

Okay. Thanks. Thank you for joining us in this call. I think we had a good discussion; good questions. Thanks for that. And the way you prepare for these sessions and the questions you raise makes it all the more interesting for us as well because it's with people like yourself that we improve our franchise going forward.

Now that improvement has shown this quarter as well with a profit of EUR1.3 billion for the quarter. We are showing that the Think Forward strategy is working. We're growing our number of customers. We're growing our number of primary customers again this year with having more than 400,000 new customers year to date. We're growing our loan book and savings book as well. And at the same time, we are improving our capital position. So this quarter again showed that the strategy is a good recipe to make sure that we improve on all accounts.

Thanks very much, and talk to you later. Bye.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.