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Q3 2019 ING Groep NV Earnings Call

EVENT DATE/TIME: OCTOBER 31, 2019 / 8:00AM GMT

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PRESENTATION

Operator

Good morning. This is Anita Trillin welcoming you to ING's Third Quarter 2019 Conference Call.

Before handing this conference call over to Ralph Hamers, Chief Executive Officer of ING Group, let me first say that today's comments may include forward-looking statements, such as statements regarding future developments in our business, expectations for our future financial performance and any statement not involved in any 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 statements 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 solicitation of an offer to buy any securities.

Good morning, Ralph. Over to you.

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

Thank you very much. Good morning, everyone, and welcome to the third quarter 2019 results call. As always, I'll take you through the presentation. I'll give you some kind of highlights per slide. And Tanate, our CFO; and Steven, our CRO, are here with me to answer some questions.

Going through the key points. We posted a net profit of more than EUR 1.3 billion in the third quarter, leading to a 4-quarter rolling underlying return on equity of 10.3%. The negative interest rate environment continues to be a challenge, but as in the previous quarter, we have been able to counter the resulting pressure on income. In retail, we retained real good commercial momentum with further growth of our primary customer base by 165,000 and now exceeding 13 million. This basically means that more than 1/3 of our clients see us as their main bank, as their primary bank, which for a digital bank is a real testimony to our strategy. We also achieved loan growth in the retail businesses, specifically in mortgages, where we continue to improve margins in almost all of our countries. In the Wholesale Banking area, our lending businesses declined this quarter due to some external factors such as the oil price and some incidental large repayments, but I'll discuss that with you later. Overall between wholesale and retail, the customer lending went down by EUR 1 billion. Now the loan growth in retail, the resilient margins, as indicated, combined with very good fee growth, countered the margin pressure on customer deposits as well as the higher cost related to KYC.

On the expenses, besides the increase in regulatory cost, which is the real cash-out, we saw an increase in the legal provisions. Also, the KYC enhancement program continues to weight on cost.

The CET1 ratio improved to 14.6%. However, we do expect to see effects on capital from banking regulation and reviews in the coming quarters.

As our key priority, we keep taking steps to counter financial and economic crime. We have further strengthened our organization, as you can expect from us, as well as our governance with KYC. We do see, again, the cost of KYC going up for this quarter. And as you can expect from us, we are using innovation and technology to make the management of our nonfinancial risk more efficient and, even more important, more effective.

Now turning to the commercial momentum slide. You see continued commercial momentum in the slide. Customer -- primary customer base went up again to 13.1 million. Specifically growth in Germany, Australia, Poland and Romania, that's where we saw the most growth in primary customers. In terms of Net Promoter Score, as you know, a very important component for us, we ranked #1 in 6 out of the 13 retail markets.

Next, with the core lending growth, we saw growth in retail amounting to EUR 3.6 billion; wholesale, EUR 4.6 billion negative. And that negative, so the decline in Wholesale Banking was mainly driven by oil price developments. As you'll remember, we also saw that in one of the quarters last year.

Furthermore, syndicated loan activities remain subdued given the favorable bond market, which also led to exceptionally high loan repayments in the third quarter in our book. We don't think this decline is setting a trend for the quarters to come, so we maintain our ambition of 3% to 4% overall loan growth, with a slightly lower loan growth on the Wholesale Banking, 2% to 3%. To remind you, last year, we were the first to signal that due to market dynamics, loan growth in Wholesale Banking could slow down. It was exactly this quarter when I mentioned that first. We were putting caps already then at leveraged loans as well as real estate finance. We also indicated to you that in view of some of the capital requirements and our own ambitions around that, we would focus on repricing on the wholesale lending side. So you see some of that coming through as well in this now.

Customer deposits grew by EUR 4.4 billion. That's in line with the general market trend in the Eurozone countries, where we do not see the effect of increased spending due to low interest rates. We see rather the opposite. Not to repeat myself from last quarter, but balances on customer deposits are increasing as loan demand is and was already being met and market uncertainties incurred savings rather than spending. This is -- what we also see is the underlying growth on customer deposits for us is also related to clearly getting more and more customers and doing more with us on a current-account basis as well.

Turning to Slide 4. As indicated in the key points, as one of the key priorities, if not the key priority, we'd continue to take steps to counter financial and economic crime by improving our management of nonfinancial risk. We started the rollout of our global KYC enhancement program in 2017. We're implementing that across all the different countries in which we are present. As part of this program, we have both reinforced the way we -- the governance in this area as well as the pure strengthening of the KYC organization in terms of the number as well as the quality of the people.

As you can expect from us, we'll also keep applying technology in our innovation skills to develop tools, which increase the accuracy and the efficiency of the management of our nonfinancial risk. And just to mention a couple of jobs that you see here on the slide, in the Netherlands, a tool was created to improve the file enhancement process for SME customers, and that would support our KYC centers by digitalizing the data need and then feed really into the transaction analysis. And that is basically moving away from a cumbersome manual process to an automated one, saving time, as said, being more efficient, but also reducing the risk of errors so more effective as well.

Now onto Italy. Sure, you will want to have an update there. We continue to implement our program there. We are leading up to the program that we presented on the improvements that were required by the Banca d'Italia. In the meantime, we will continue to refrain from onboarding new customers, but we are fully servicing and successful servicing, I must say, the existing customer base.

As I've said before as well, banks can't do this alone, so we need to work together with other banks. But we also need to work together with law enforcements as well as regulators. And together with our -- with 4 other banks in Holland, we will investigate the possibilities to cooperate on transaction monitoring, for example. And we believe this represents an opportunity to better knowledge and resources, on one side, and the other side, to really strengthen the collective role that we have as a gatekeeper to the financial system.

Turning to the next page. As you know, every quarter, we like to spend a few minutes highlighting one of our businesses. We've discussed Spain's successful model before. Having built a fully -- a full-fledged digital bank in Spain with close to 4 million customers now and growing, growing fast. This quarter, I want to actually zoom into on Spain, more specifically on how we have reviewed and redeveloped, recalibrated our approach to mortgages and the success that we see there. As you know, mortgages is generally an advisory product. It's a challenge to successfully sell this product in a fully digital way. But the new development -- the new relationship model that we developed by ING Spain provides customers with a dedicated mortgage adviser. I think that is the key here. And that adviser supports the customer throughout the process from start to finish. At the same time, we have reviewed the process itself, and we've also improved our risk acceptance process as part of that, not changing our risk appetite but the way you accept the risk. And so that newly developed model with this dedicated accounting -- account manager, with this review process, with this new risk acceptance process, we've been running that model next to the old model. And here, you see a little bit the comparison. So when we compare the commercial results of the 2 models, and you see it on the right-hand side of the slide, we see that the model -- the new model is delivering really promising results literally all over the different categories. So the number of incoming calls is really lower than for the old model, which is a cost savings in itself, and it shows the improved efficiency of the model.

Also working on the customer satisfaction side, so you can actually get a higher customer satisfaction at a lower cost. You see that here as well, going up from 3.9 to 4.5 on a 5-point scale, so really, really good. Then the conversion in the whole process is almost twice as high. So the effectiveness of the whole process, and clearly supported by the personal approach, having this dedicated relationship management throughout the process leading to a much higher conversion; and all of that leading to a new production year-to-date that is 20% higher; and with that, leading to a 1.5% market share increase, so additional market share of 1.5%. And maybe to round it off as a success story, the new production is also being produced at higher margins.

So basically, whether it's from a cost perspective, an efficiency perspective, a customer satisfaction perspective, conversion perspective, effectiveness, sales effectiveness, as well as from a margin perspective and market share perspective, it's a real good example of how a continuous review, even in a digital bank, you can have high market shares, a good pricing at a decreasing cost. So a real success story.

Then turning to Slide 6. As you know, we have given you updates on this as well over the last couple of quarters. We are committed to do our part to combat climate change. And also, this quarter, we've taken several actions which reinforce this commitment. We're backing several initiatives on this one both on a global level as well as in the Netherlands specifically, as well as are really, really fighting climate change. We can't do this alone. We realize that. One bank can only do so much, impact you'd get if you have a group of banks, and therefore, we are happy to see that many of the other banks are joining us in signing these initiatives. These initiatives are the Principles for Responsible Banking that we signed in New York, but with that also putting all of that in action by signing the Collective Commitment to Climate Action, which is basically kind of a continuation of our commitment that we already kind of launched more than a year ago in the market that we would manage our own lending portfolio in line with the Paris Accord on climate change. And a year ago, we did launch our own Terra approach. That makes all of this measurable. You may remember, we launched that together with the 2-degree investing initiative. And through that, we basically use a science-based scenario per sector to see how you can actually decrease your indirect footprint per sector. And now you can actually also get into a conversation with your customers in order to apply new technology, in order for them to decrease their footprint and with that decrease our indirect footprint.

Now with the commitment comes also taking the accountability. And the accountability you can only show by publishing the results of what you have set out and what you've committed to. And therefore, this quarter, we released our first Terra progress report. We were proud to be the first bank to publish such a report showing climate alignment. In addition, we've also signed an initiative together with the European Investment Bank to support large business clients in the Benelux with similar projects, basically financing the transition to more sustainability.

But it also works on the commercial side. So clearly, our stance on this is combined with developing specific skills and capabilities. So we saw another strong quarter with 12 sustainable bonds -- sustainability bonds, 11 sustainable improvement loans, 5 green loans completed, again, including some firsts, that we're really still developing these products, as highlighted in this slide.

To mention one of those transactions, Porsche is investing in its first battery electric vehicle and have tapped the green bond market. And we were a green adviser for EUR 1 billion Green Schuldschein, so the first-ever Schuldschein for Porsche and also a green one. So good commercial positioning right there.

Now turning to the results, Slide 8. The underlying pretax result, as you can see here, is just over EUR 1.9 billion in the third quarter. That's EUR 213 million below the same quarter of last year. That's, as you can see, only slightly lower on income year-on-year, which is I think the good news in all this, but with higher expenses specifically on the KYC side and still relatively lower risk cost. Now year-on-year, underlying income as a component was EUR 20 million, reflecting the combination of higher margins and mortgages, higher fee income, and we'll also dive into that later. And that's offset by lower treasury-related income and the margin pressure we see on customer deposits due to the low rate environment. So may be a bit lower but certainly of higher quality, and I think that's the good news in all of this. It's only a tick lower but good-quality earnings here -- income here. Sequentially, underlying income was down by EUR 40 million. That was fully driven by lower treasury-related income. And as you know, that can always be volatile.

Turning to Slide 9. If you exclude Financial Markets NII, it was a bit lower, just 1% year-on-year. While we clearly would rather see a growing NII, and we continue to aim for that, I believe it's actually a good achievement that we managed to keep NII stable. Especially since the market rates have gone negative, you see that our model proves resilience, and we're keeping the commercial momentum.

We have been able to achieve this as we continue to improve our mortgage margins, increase mortgage volumes as well, and that partially counters the negative impact from margin pressure on customer deposits and the lower treasury-related NII, as I mentioned earlier.

Also, going forward, we'll continue to focus on margin improvements and loan growth with further benefits from our activities in the non-euro retail countries, so that's also strong in our franchise, and also negative rates that we can charge on our deposits for professional customers. Furthermore, the deposit tiering at ECB, which was announced some time ago, will be -- or is enacted to these days, it will help as it will largely cancel out the negative rates on deposits at the ECB.

On the NIM, the net interest margin specifically, that was slightly higher this quarter, 145 -- 154 basis points, 154 basis points, getting my numbers right, mainly driven by Financial Markets. Our NIM guidance, and here we go again, end of the year if -- on NIM is that we stay in the high-140s. I'm aware that you and the market closely watches the NIM development. However, as we also see that some of the volatile items such as treasury and FM can impact the NIM, as well as the size of the balance sheet impacts the NIM, we believe it is better to look at the underlying development. And that is good. I mean that shows real resilience. And the NIM development over the last couple of quarters has shown resilience as well, by the way. Good.

Now we turn to net core lending and just dive a bit deeper here. As I said, the net core lending decreased by EUR 1 billion driven by a EUR 4.6 billion decline in core lending in Wholesale Banking and increase of EUR 3.6 billion in growth in retail. The decline in Wholesale Banking was predominantly driven by the Daily Banking & Trade Finance with the oil price development impacting the volumes and TCF. Core lending was also lower, as I mentioned, given the repayments of some of the larger loans, but we continue to grow underlying as well. So I mean it's not like the machine has stopped. On the contrary, the machine is in full production, but you have these 2 specific effects that doesn't show a net growth but in that decrease for the quarter.

Retail Netherlands, so turning to retail, saw a modest growth both in mortgages as well as auto lending. In Belgium, we see continued growth to the mortgage book. However, the overall core lending was EUR 0.2 billion lower, mainly related to a large institutional client that we have there. Then retail Challengers & Growth Markets, so the combination of Germany but also all the other digital banks that we have and the growth -- and the ones that we have in the growth markets. We see that net core lending was up at EUR 2.7 billion, also largely mortgages but also a modest increase in nonmortgage lending. So as I already mentioned, the commercial momentum is still there. Volume is there, new clients is there, and margins is there, and that is a good combination.

Now turning to fees, Slide 11. If you adjust for a reclassification of Financial Markets-related fees in both quarters, net fee and commission income increased by EUR 40 million year-on-year, and that's 5.8%, and that's coming in then at a strong EUR 733 million of fee income. Now that fee income was fully driven by Retail Banking. And so if you kind of make the analysis, the Retail Banking year-on-year increase is 9.4%. That's in mortgages, that's in daily banking, it's in insurance products, it's across all of the different countries, so this is really good-quality commission income, showing the strategy is working in launching new products and continuing to grow. So it's a good sign.

If you zoom in even further, you see that Germany saw particularly strong growth in fee income, recording 21% higher fee income, mainly in Interhyp, our mortgage broker. wholesale Banking income adjusted for the aforementioned FM reclassification was stable. Now sequentially, fees in retail also increased, while Wholesale Banking fees were lower mainly due to lower lending-related fees as transaction volumes were impacted by, as we earlier mentioned, oil price development.

Looking at Financial Markets, an okay quarter. Total income was EUR 19 million higher year-on-year. Income growth in several segments was more than offset by higher negative valuation adjustments. Sequentially though, you see that the FM income improved by EUR 49 million, and that is because of a lower negative valuation adjustment. So the underlying business there is constant, if not growing, so that's a good news. Then the valuation adjustments, which have been negative for the last couple of quarters, you see them having an effect on it. But what we're constrained on is the real client-related business, and that is solid, that is a solid development.

Turning to the expenses, Slide 12. Excluding the regulatory costs, the expenses were down EUR 20 million, so moving down if you compare it to the second quarter of 2019. And I think that's a good result. At the same time, if you compare them to the same quarter last year, they were up EUR 118 million. An important factor driving this higher cost specifically if you look at the year-on-year, already came with KYC-related activities. Quarterly cost increasing by some EUR 50 million compared to last year, and that's the enhancement program, it's the strengthening of our KYC activities across the board. Furthermore, specifically in this quarter, we took several legal provisions in the Challengers & Growth Markets amounting to EUR 40 million. That's across several countries, various underlying reasons. We also had to absorb CLA-related salary increases across the markets where we also see the effect of generally tight labor markets. And then we also had a VAT refund, so that helped us a little bit.

You can expect from us to have continuous cost focus. We do realize that KYC costs are increasing. We can't absorb those increases by the negative cost developments on the back of the earlier transformation programs. But you can expect from us that over time, we will continue to look for further efficiencies and further digitalization of our operations so that, over time, these costs will be absorbed.

Now on a quarter-to-quarter picture, results were lower driven by the combination of the earlier mentioned VAT. But also last quarter, we had a provision in Germany and which you may remember. And then this quarter, we had these higher KYC expenses and legal provisions. As you know, in the third quarter, the cash-out regulatory cost, which is the right-hand side of the picture, the cash-out regulatory cost in the third quarter are not the highest, but we do see an increase here. That increase is mainly due to an additional DTS contribution and higher cost in Poland.

On the 4-quarter rolling average basis, the cost/income ratio was 55.8%, which is more or less the same as last year in the same quarter, and it was 55.5%. But you see that over time, even with increasing costs, that we are able, from a C/I perspective, to either work on the income side or continue to work on the cost side over time. And we will continue to focus on that.

Turning to the risk costs, Slide 13. In the third quarter, we saw the risk costs coming in at EUR 276 million. That's 18 basis points of average customer lending. That's up from EUR 209 million in the last quarter and EUR 215 million in the same quarter a year ago. It's driven by some things in the Retail Benelux and Wholesale Banking as well. Compared to the second quarter in the Netherlands, the main driver was the change in the house price index for mortgages, which mechanically increases the LTVs, and that then leads to an additional -- to an addition to the general loan loss provision. Retail Belgium risk costs were back to a more normalized level after very low second quarter, and you can see that in the chart. In Germany, we saw actually a EUR 7 million net release versus EUR 25 million release last quarter. And that all has to do with model updates on mortgages, the EUR 7 million. All our Challengers & growth Markets reported lower risk costs, mainly driven by Turkey and Poland, if you compare quarter-on-quarter.

Wholesale Banking risk costs were higher this quarter at EUR 116 million with a few non-correlated individual Stage 3 files in the Americas, Belgium and Poland. We don't see a trend here, but we can go into that in the Q&A as well with Steven there.

Overall nonperforming loans for ING, as measured by the Stage 3 ratio under IFRS 9, was slightly higher at 1.6%, still low. And for the remainder of 2019, we continue to expect risk costs to stay well below through the cycle average of around 25 basis points of average customer lending.

Turning to capital, Slide 14. We're almost at the end, so hold your questions. CET1 increasing to 14.6%., basically, we benefited from an inclusion of the EUR 500 million of interim profits. Just to remind you that we reserve last year's full dividend already now in the first 3 quarters, limiting the profit added in this quarter, but therefore in the fourth quarter, a large part of the profit can be contributed to capital. Risk-weighted assets increased by EUR 1.4 billion mainly caused by model impacts as we absorb the impact related to this TRIM review with Dutch SMEs; also the impact of a mortgage model update in Australia. Currency impacts, higher market risk-weighted assets further contributed to an overall risk-weighted assets growth, and that was partly, again, offset by positive risk migration and lower operational risk-weighted assets.

Now with the 14.6%, we are still well positioned to achieve our CET1 ratio of around 13.5%. We may see risk-weighted assets inflation in the coming quarters coming from other regulatory developments such as the finalization of the TRIM exercise on some of the corporate portfolios as well as the implementation of the new definition of default. That could impact CET1 levels in the coming quarters as set, though the magnitude and the exact timing of these risk-weighted assets inflations remain uncertain.

As you can see on Slide 15, we continue to perform very welcome against nearly all of our financial ambitions. Both CET1 and leverage ratio remain well ahead of the minimum regulatory requirements. And despite the higher regulatory requirements, we continue to pursue a very attractive return on equity of 10.3% for the quarter. That's a 4-quarter rolling average. And to reiterate cost/income is not how we run the business, but it certainly remains a very important factor for our own analysis as to where we have to improve. And it's certainly also an important factor to calculate your return on equity. And we still have the ambition to -- over time, to reach the 50% to 52%. Our policy for 2019 on the dividend is to pay progressive dividends, like we did in the past years. Good.

So to summarize. Honestly, I think in view of the macro environments, the negative rate environments, we show good results, very good results maybe even on the NII in the third quarter. And that leads to a net profit of EUR 1.344 billion. And we continue to see the pressure on the interest rate environment, but we are able to offset it with a continued strong commercial momentum on the retail side. Both the volumes and margins, we see continued commercial momentum on the increase of primary customers with 165,000. But we also see an increase in cost as set besides the regulatory cost, as the KYC cost and the CLA cost that clearly we'll have to absorb over time and make sure that we continue to run an efficient franchise, all of that in order to deliver a handsome return of 10.3% for the quarter. And that fits in the ambition rate of 10% to 12%. CET1 ratio improved to 14.6%, well above regulatory minimums. And as said, and I will repeat it, we do expect to see some effects on capital from banking regulation reviews in the coming quarter.

And with that, let me open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Mr. Stefan Nedialkov, Citi.

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

It's Stefan from Citi. Two questions on my end. Number one, are you ready to give guidance for the net interest margin for 2020? And secondly, some press reports show that some of your shareholders are angling for M&A in Spain specifically with much more traditional bank. Can you just comment what are the attractions and challenges of such an initiative and whether this is something that you could consider?

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

Stefan, it's Ralph. I'll give the NIM question to Tanate. I'll pick up the second question now.

Yes, as you know, we don't go into any of these comments of press and rumors around M&A. I don't expect us to do that in the future either, to go into that. Our strategy, and as you see it again this quarter, is an organic growth strategy, very much focused on delivering a differentiating client experience. And with the innovation and with the new products and even with KYC, knowing our customers even better, we can make that as much as an improvement for our role as a gatekeeper, also a commercial tool. And that's what you can expect from us, focus on organic growth.

But we have said before that on M&A, we would be looking for -- if any, for teams that have specific skills in some of the more lending products that we may not have our own skills in and then see how we can develop that or for specific technology players that can help us to deliver that differentiated customer experience. And I will repeat that when in a market in which we're active as a large bank, if consolidation is happening, we'll analyze whatever is happening. But this is it, nothing more, nothing less. On NIM, Tanate?

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

Yes, thanks, Stefan. On NIM, I think we gave our guidance pretty much looking forward for the next 6 months, where we guide now towards the 140s in terms of net interest margin, and I think the high-140s. And then I think in terms of looking at the rate, I think it can be quite volatile. I think if you look at the August curve, it was really quite bearish, where we see strong recovery in September and October. That's why I think we are more comfortable guiding the net interest margin over the next 6 months.

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

Okay. So it's basically high-140s through the end of the first quarter of 2020?

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

Yes.

Operator

The next question is from Mr. Pawel Dziedzic, Goldman Sachs.

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

Two questions from me as well. The first one is on risk-weighted inflation relative to regulation, the macroprudential policies and so on that you highlighted. I completely understand that details and magnitude and timing, this is all uncertain at this point. But can you help us understand to what extent this inflation comes on top of the 15% to 18% risk-weighted assets inflation guidance that you gave in relation to Basel IV. So in other words, are goalposts for ING, capital goalposts still moving up, or this is more a timing issue?

And the second question is somewhat related to that. It is on your dividend policy. I think you reiterated it. But we witnessed over the last 2 weeks the first buyback in -- the first major buyback in the Eurozone. And of course, that captured our imagination. So given all the uncertainty on, let's say, regulations at this point, would you be in position to review your capital policy over the next 1, 2 years, you think? And would buybacks potentially feature into those given the flexibility they could give you over the, let's say, progressive dividend growth policy and obviously at your current valuations?

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

Thank you, Pawel. The risk-weighted inflation will be taken by Steven. I'll start on the dividend policy. We launched the policy a couple of years ago, it's a progressive policy. We feel comfortable with it as we speak. We keep generating capital every quarter, and we continuously look at the -- how we kind of manage that capital, do we manage it to support growth, do we manage it in order to support our capital buffers, or do we manage it in order to pay dividends. That is how we can play this. Over time, we'll have to see, and that's what Steven will certainly fill in, and so what the risk-weighted inflation will bring. But if we would come into a situation where we feel as comfortable, we will always look at distributing capital to the shareholders. But again, it's the 3 purposes that we want to fulfill with capital generation is buffers or tackling risk-weighted assets inflation, it is growth, and it is capital return. And we're not ruling out any additional return above the policy but given what we're looking at over the next couple of quarters. And I'll give the floor to Steven.

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

Yes. Thank you. So indeed, how we may expect some impact on the finalization of the TRIM exercises and the definition of default inclusion under the new standards or the models that we need to apply of the ECB to an extent that it's a prelude to Basel IV, the extent of which we will only know in more detail once we have received the final letters. But at this point in time, we remain comfortable, also given the current capital ratio that we're at with 14.6% core equity Tier 1, to maintain our ambition of 13.5%.

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

I think 13.5% is clear. But is 15% to 18% risk-weighted asset inflation still an accurate guidance over the next years? I think that was the...

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

On Basel IV, it is. And we will need to see what the impact...

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

No, I think all you need is you should get it right.

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

And we will need to see what the impact is on the TRIM and the definition of default. But on Basel IV, we're still comfortable with that number.

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

And overall, do you believe that this could be higher given the new initiatives? Apologies for drilling into this.

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

I repeat myself in saying that we need to wait for the final letters to see the total and final impact.

Operator

The next question is from Mr. Robin van den Broek, Mediobanca.

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

My first question is a bit digging into the margin dynamics. You mentioned during the previous earnings call that you expect to see some pressure on generalized -- of General Lending on the back of [TEU Article 3] having better conditions, more liquidity coming to the market while demand, according to ECB data, seems to be dropping off a bit. I presume that, that pressure has not really hit your book yet and is more likely to come early stage next year. How is that factored into your guidance? Is that basically fully offset by the [euro swaps pounds] we've seen over the last quarter? That's the first question.

And the second question is a bit on costs. I appreciate if you've set your cost savings from a restructuring plan are more back-end loaded than initially foreseen. But could you give us an update on where we stand? I mean according to the program, you would reach accumulated savings of EUR 550 million by the end of 2019, going to EUR 700 million by the end of 2020. Yes, could you give an update on where we stand on that, please?

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

Yes. So Robin, so on -- basically, the dynamics in loan growth, and whether that's for the market dynamic the ECB is kind of hinting at or our own dynamic, whatever the ECB is hinting at, we don't see that necessarily. I can't really kind of come to that conclusion from how the lending develops in our own loan book because it's really a combination of our own strict repricing as we have announced in the beginning of the year, specifically in the wholesale area, we felt that given where capital levels are going, we have to make our returns. And therefore, we have our return on equity hurdles that we apply there at least to some fewer deals on one side. At the same time, that doesn't mean there is less demand. Same with the repayments that we've seen this specific quarter, the fact that some clients tapped the bond markets rather than the banking markets doesn't mean there is no demand. And so that's another dynamic there as well. So I wouldn't come to the conclusion. Honestly, I would turn it around more from our perspective. We don't see a trend yet, if there is one coming, that there is going to be lower demand. You know that we have exposure across the whole globe. And across the globe -- whole globe, we are still growing. Also in the Wholesale Banking side, even with this quarter, we're just short of the 2% growth on an annualized basis. We continue to guide that. Although Wholesale Banking will not grow as much as Retail Banking, we do expect it to grow 2% to 3%, continuing. It's not a target because I don't like targets on the lending side. It's certainly an ambition but at the right price. So that's more or less on that side.

Now the cost savings, actually, the transformation programs are delivering the cost savings. Actually, we had a review of those yesterday once again. But some of these cost -- the transformation programs deliver these cost savings, as specifically the Netherlands and Belgium program, may be a little bit later. But in the other side, we also see some of these transformation programs would deliver more savings. So all in all, we're not that much behind on delivering on the savings as we speak. But we have specifically for the Netherlands and Belgium, for the Unite program, we have announced a change in tactics, as per our Investor Relations Day, in which we basically said that given where technology is going and given the opportunity that the technology is providing us, where the front end of the business can be connected to the mid-end, if you want to call it like that, where the products sit and where your accounting sits or your account management sits, through APIs, that we felt it was better to disconnect and decouple the migration of clients in one go -- the Belgium clients onto the Dutch systems in one go with products and accounts and everything in order to benefit from these digital channels but connect the Retail Banking clients in Belgium directly onto these channels. And we're in the midst of that. And with that, we feel we can have better commercial momentum. So we're currently running a pilot with around 1,000 retail clients in Belgium as we speak, where they experience the digital channels. Generally, where we introduce these digital channels, we see the app rating going up from just below 3 to more than 4 or 4.5, so these are real good experiences that we're providing. We want the Belgium clients to benefit from that. We do expect that all clients will be migrating towards that front end by the end of 2020. And that will continue with that, the commercial momentum that we currently see in Belgium, because if you look at the Belgium numbers, although there's a bit of an uptick on costs, the income component is pretty impressive given where we are on the rate environment. So that's a little bit what I can say from you.

Overall, as I've said before, even in markets where we are lower in cost/income ratio like in Germany, but if we do see pockets where we can improve from an efficiency perspective and putting digitalization in, we will do so. And you can expect it from us as a digital player. Thank you.

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

And then maybe one follow-up. So your underlying cost base, is it fair to assume that your restructuring program actually can capture -- you basically said that KYC is not fully -- is not going to be fully captured, but at least the other factors of CLA increases and stuff like that. Is that basically captured by the program?

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

Absolutely. Absolutely. And over time, even the KYC cost will be captured, like we have been able to capture the EUR 1 billion of cash-out regulatory cost over the last 5 years. But you can't take EUR 1 billion on the chin and compensate for the 1 quarter. But we do this over time, continuously reviewing what can we do better, looking at new technology, as I said, which does make us change tactics in some of these transformation programs because new technology is available. And we'll certainly apply that where we feel that it can improve both our customer experience as well as in efficiency.

Operator

The next question is from Mr. Johan Ekblom, UBS.

Johan Ekblom ***UBS Investment Bank, Research Division - Equity Research Analyst of Benelux and Nordic Banks***

Just one question from me, please. Could you talk a little bit about the development of mortgage margins? I think you mentioned that mortgage margins are up in most markets. And I guess the biggest driver of that is still the falling long bond yields, which, as you also mentioned, have rebounded somewhat. If I look at pricing in the Dutch market, for example, we can see pricing coming down still with the biggest threat to long bond yields than what we saw 6 months ago, but the direction is clearly less positive than what we saw in Q3. So how should we think about the potential impact of improved retail margins at the group level for the next couple of quarters?

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

Tanate?

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

Yes. Okay. Thank you very much, Johan. I think overall, we look at basically product margin, and we split that through basically use of the FTP, right? And with the negative interest rate that I think we have seen from the ECB, basically, the funding cost for our lending business has dropped quite dramatically because of that. Having said that, I think if you look through pretty much all of our geographies, we do not pass on that benefit to our customers, right, which means our product margin, particularly on the front book, you see improvements in margin. Specifically what you talked about in the Netherlands, for example, indeed, we see some pricing competition coming in, in September where, actually, absolute pricing is under pressure. But I think overall, the evolution over the months has been actually quite positive. We do see absolute price improvement in Belgium coming in, in July and August, moderating in September. And in one of the more competitive market like Germany, we also see product margin improvement there as well.

Johan Ekblom ***UBS Investment Bank, Research Division - Equity Research Analyst of Benelux and Nordic Banks***

And maybe just a follow-up on that, I mean, could you comment how big is the difference kind of front versus back book now versus when we spoke after Q2? Because I guess at that point, there would have been kind of the big differential given where rates were.

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

I don't think we basically give that information, but I think typically, mortgage pipeline from origination to actually being booked is, depending on markets, anywhere from 3 to 6 months. So it's hard to say on such a quarter-by-quarter basis. I think we do measure monthly our new origination margins. And so far, with a little bit of pressure in September, that has been accretive over time.

Operator

The next question is from Mr. Tarik El Mejjad, Bank of America.

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

Two questions. First, on the costs, clearly, the compliance costs you mentioned a few times that are quite sticky and becoming a bit structural to your cost base. And you just mentioned in the question before that will be absorbed within the current plan. Did I understand that well? Or do you need to put in place a new savings plan with new investments and deliver the savings to absorb this over time?

The second question is on capital and dividend. I mean I understand that it's still not clear about the impact of TRIM and so on. But if all these things are actually front loaded, the TRIM, the definition of default and also the DNB decision to put forward the output -- I mean the floors in terms of mortgages and so on, would you be comfortable to keep still this progressive dividend policy despite seeing your CET1 actually falling quite sharply? I know it's like just a timing difference, but you'll still be in a position where CET1 and buffers would be lower than what you usually had.

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

Thank you, Tarik. Thanks for your -- so in terms of your first question, clearly, if we feel that current programs can be accelerated or, well, can have a bigger impact, we will do so even if we -- in reviewing all of the programs that are going on or all initiatives, that on a quarterly basis, are coming to our table because we run this on a quarterly basis, the investment programs that we have in order to deliver, for example, improvements of KYC but also the investments programs that deliver on a better experience or further efficiency, we continuously rank them as to impact. And therefore, it is maybe a mix of the current programs and more effective implementation of current plans -- programs. Could be also new programs as the one that I was alluding to that we did in Germany just last quarter, and you can see the results already on the cost side this quarter. So if there's better programs than the current programs, we will certainly switch over to the ones that are better. But in the end, you have to make sure that you don't run into programs that you don't finish because, in the end, it's also important to finish programs. But clearly, on a quarterly basis, we review all the programs that we have, we review all the investment, the discretionary investment money that we have in all of that, as with the effectiveness on compliance, customer experience as well as efficiency, and that's how we kind of take our decisions.

On the second one, I will give the word to Tanate.

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

I think it's really reiterating what Steven has done. We have in this quarter continued to accrete capital at a good rate at 14.6%. And I think we are fairly confident about our guidance on Basel IV, the 15% to 18%. But I think for these new regulations on capital and the results of DoD and TRIM, we simply need to wait for those things to come along in the next quarters. So nothing more to add beyond that. I recognize it's a request for clarity, but I think we just need to wait for that to come.

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

I mean I understand the maths and, clearly, that you are comfortable in terms of buffer in light of sort of full picture. But it's just more than timing and how, from management's perspective, you feel you can see through a bit of a blip in terms of lower capital because it's just timing difference, or you can't actually take that onboard, and you have to basically keep that buffer reasonable levels. So it's more like on a strategic view than the maths. I agree that on the maths, we need to wait for clarity.

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

I think if you look, we have a comfortable buffer, right, because our current MDA buffer requirement is 11.8%, maybe rising a little bit to 11.9% because of the countercyclical buffer requirement. But I think we still stand several basis points above that number. And given time, we believe we can adapt ourselves and our strategy to come back to that 13.5% or around 13.5% post-Basel IV target.

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

Okay. Can I just follow up very quickly on the cost line? The legal provisions, is that related to compliance issues you had in different jurisdictions? Or -- because I think, Ralph, you mentioned that that's in many countries.

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

Yes. So this is related to several cases and several countries, and they're not necessarily compliant or AML issues all together now. So it's a mix. It's a mix. So maybe coming back on the CET1 ratio and the capital effect there and just to reiterate, we have the 14.6%, where we are. We have a minimum of 11.93%, whatever we need to have. With the countercyclical, it's quite a buffer, so -- Tarik, on your question, strategically, every quarter, we generate capital. This machine is really working very well, 10%, more than 10% return on equity. So we do feel comfortable to absorb that. But again, timing-wise, it could be one quarter a little bit more than the other, and we'll have to see how we manage that. But -- yes, so no specific worries on that side.

Operator

The next question is from Mr. Adrian Cighi, RBC.

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

Two questions from my side, the one question on cost of risk and one follow-up on cost, please.

On the cost of risk, I understand that a large part of your cost of risk in Netherlands, there's been some change in methodology in terms of the House Price Index. What would that have been under the old methodology? Would you have seen a big increase as well or have been differently? And maybe a follow-up on that, have you seen any IFRS 9 impact in the cost of risk increase?

And then on the costs side, the KYC investments, the EUR 50 million this quarter, how much more do you expect to have to take in the coming quarters as part of this remediation program? And is this sort of something you have visibility into?

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

Yes, I'll take the cost, and then Steven will take the one on the mortgages and the IFRS.

So the KYC cost, clearly, we're running up these costs. And that's a combination of what we agreed, which is do look-backs. That is almost done. It's about file enhancements, which we're really on track. And it's about structural solutions. Now look-backs as well as file enhancements, that in itself will, as for the moment, stop, and therefore, you could see the next quarters to kind of see the growth of cost stop there and maybe even decrease there.

On the other side, from a structural solution perspective, that is something that we have to look at on a quarter-by-quarter basis as to how we can improve the effectiveness but also the efficiency of that. So I can't really give you anything there. But clearly, the enhancement and the look-back aspect of it is something that is temporary, but having said that, we will have to do continuous review of our clients. And so some of that capacity will stay with us.

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

Okay, Adrian. Then on your first question regarding the price index from the Dutch houses, if we would have been using the old index, the NVM index, the cost of risk would have been lower in Netherlands. So this is a, I would say, a more a less volatile, a more stable but also a more conservative index that we're currently using.

With regards to IFRS 9, the impact is limited. It depends on the markets. We have some -- we are seeing some better macroeconomic circumstances in Turkey compared to, for example, a number of quarters ago. But if you look at the overall scheme of things in risk costs, that has had limited impact.

Operator

The next question is from Mr. Raul Sinha, JPM.

Raul Sinha ***JP Morgan Chase & Co, Research Division - Analyst***

May be on the replicating portfolio to start with. Could you give us some more color on what you're doing here. And how sensitive you are to the 30 basis points or so increase in the 5-year swap rate that we have seen since the lows in August. Should we start to think about that drag may be potentially alleviating a little bit?

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

I think our critical point is really the 3 year, the 5 and the 10, right, in terms of our replication. And I think, if you look at the perhaps situation back in August, I think the picture looks a bit bleak given where the curve was at that particular point in time. Since then, as you know, we've seen really quite an improvement coming into September and now into October. So I think, the picture varies, but I think, it's improving given where the curve is today. And of course, we take various different hedging strategy in terms of hedging when we feel it's appropriate, and that also has a positive impact on margin as you can see in Q3 as well.

Raul Sinha ***JP Morgan Chase & Co, Research Division - Analyst***

Could I request for more disclosure on this, please, going forward? It would be really helpful, I think, from a market perspective to get a little bit more information around how it could impact your NII because, I think, obviously it's become quite key to the outlook into next year.

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

Okay. We'll have our Investor Relations be in touch with you there.

Raul Sinha ***JP Morgan Chase & Co, Research Division - Analyst***

If I can just follow up on NII then, excluding the Financial Markets line. And I think, Ralph, you talked about the performance in this quarter being down 1%. That's Obviously quite good in the challenging environment, but your volume growth is, obviously, being offset by a lot of the pressure you're seeing. Do you think this down 1% sort of performance is the best you can hope to achieve going forward, or is there something you could do from a management perspective that could improve this NII growth, excluding the Financial Markets line?

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

Yes. So Raul, basically, the way we look at this is that given the commercial momentum that we have, and the continuous growth of new customers that we get, and with that, not just the factor that the market is growing, but also that we are continuing to grow market share and improve margins. We think that over the next couple of quarters that we can offset the pressure on NII coming from more of the saving side of it with growing in our lending, improving our margins, growing in non-Euro areas. So from an NII perspective, we expect to see a flattish picture. But, clearly, if the yield curve improves, it may help us a little bit upward on that.

Operator

The next question is from Omar Fall, Barclays.

Omar Fall ***Barclays Bank PLC, Research Division - Analyst***

Just a couple of things for me. Firstly, could you just quantify the amount of RWA relief from positive risk migration this quarter? Also, where is that coming from given all the metrics you've discussed on credit and the worsening macro and more broadly?

Then secondly, can you just give more color on the impressive performance on commissions, even if it's just a split in performance between account-related fees and more market sensitive fees, please? And how much of that performance is related to the acts of partnership, for instance?

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

Okay. On the fee side, I'll take that and then Steven will come back on the risk-weighted assets relief.

On the fee side, I'll give you a bit more insight there. As I said, year-on-year, it's 9.4% on the retail side. It's 5.8%, wholesale -- 5.8%, including wholesale. I think the -- what you should kind of realize now is that the onetime effect of the change of the composition of owned branches versus agent branches in Belgium, and the fee mix of that is now neutralized because that all happened in the third quarter last year, and so that is now here as well. So this is a real good comparison now. And therefore, the 9.4% on the retail side is a real 9.4% on the retail side. If you go deeper into that, you see that this is a high-quality improvements across the board because in Holland we see an increase of just short of 5%. In Belgium, we see an increase of short of 8%. Then in Germany, I already mentioned, specifically given the superb performance of Interhyp there as a mortgage broker, over 21%. But then other C&G, so these are all the other growth, but also the digital banks with new products or new fees being introduced or -- and including the AXA program, it's over 11% fee growth. So it's kind of a -- it's proving that focusing on this primary business -- this primary relationship in a digital way, looking at how you can kind of offer simple, transparent products to your customers digitally, that, that is really working.

Now on your questions specifically as to AXA. I think, it's too early to give you insight there. We are in the first quarter now of this JV, initiating new products. We launched 7 products across 4 different markets, that's really too early to tell you, or give you insight as to how much fees we're making that. Actually, so basically it is really early days. So the impressive performance on fees is not because of this. I mean, this was just launch, and it's not like this is now immense. So it's really because of all other products as well. So AXA and the growth and the success of the joint venture with AXA will kind of help us going forward, even more.

Omar Fall ***Barclays Bank PLC, Research Division - Analyst***

Got it. And just as a quick follow-up on that. In terms of that split between account-related fees and then more market sensitive fees that are put within retail. Could give us sense to that?

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

I don't have that here with me. So if you want to get a bit more insight, we'll see whether the Investor Relations guys can give you -- I just don't have it here with me as we speak. So Omar, if you could call the lady and gentlemens of Investor Relations, that would be helpful.

Omar Fall ***Barclays Bank PLC, Research Division - Analyst***

Great. That will be great. It's just that the growth is so much higher than the pace of loan growth side. So I just want to get a sense of that.

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

Yes, but it's not likely, we didn't kind of indicate our comfort that we would be increasing our fees between 5% to 10%. So we have been guiding that for the last couple of quarters, and so we're realizing it. So yes. Thank you, Omar. And Steven?

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

Thanks, Ralph. Omar, on your question on risk migration. So for the quarter, that was a positive impacts on CET1 of 19 basis points, so that's over EUR 4 billion in RWA. It's actually realized across the board. So in Wholesale Banking C&G in Netherlands, mainly, on the back of increasing prices in their retail franchises and Wholesale Banking driven by some LGD improvements in (inaudible) finance.

Operator

The next question is from Mr. Bart Jooris from Degroof Petercam.

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

Just a follow-up question from my side. Could you give us some more quantified idea about how the TLTRO III and the positive it could help in your NII?

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

I think, about on the deposit tiering, which has now come into affect, roughly, we have EUR 50 billion in deposits with Central Banks. So we will benefit from the tiering on that amount. Roughly, it will make it neutral, right? You can count on average that we get negative 50 basis points until the tiering scheme has come into place. From a TLTRO III, I think, we still look at it on an opportunistic basis, we are actually quite well funded for the year and going forward, so we may or may not participate on the TLTRO III. We just look at it on a pricing perspective going forward.

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

So on the deposit tiering effect, is that already included in your NII outlook to stay flattish?

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

It's part of the outlook, indeed.

Operator

The next question is from Mr. Kiri Vijayarajah, HSBC.

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

Just quickly, firstly, a follow-up on that tearing question. Does all of the benefit get booked in the treasury unit that sits within the wholesale bank, or does it feed through into some of the other divisions through the internal transfer price?

And then secondly, can I just come back to the volume decline in Belgium. I can understand about the repricing and trying to get a wider margin there. But I wonder, is there any kind of change in risk appetite in Belgium mortgages, are there any underlying worries about the Belgian housing market? And looking forward into next year, should we expect your market share in Belgium mortgages to make it bounce back, or do you think it's still going to sort of stay more subdued lever at least grow slower than the rest of the market?

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

Kiri, I'll take the second one. Tanate is the first one.

So in Belgium, the fact that you see a bit of a decrease there, that's not because of the development in the mortgage book. It is a particular client that has a bit of a swing in terms of outstandings and drawdowns.

Now on your underlying development on the mortgage book, we are increasing our mortgage book in Belgian because the market as a whole is growing. Our market share may be a bit down because, as said, we are very disciplined in pricing. So we try, or we play a return game and not a volume game on this one. But with that, the mortgage book is increasing, albeit, may be at a bit lower market share. But the market as a whole is increasing.

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

Your question on the impact of the tiering. So, as you know, we run a centralized treasury function. But these impacts, we would distribute into the business unit, depending on the level of liquidity each unit has. So a lot of the impact will be in the retail bank.

Operator

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

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

Two question from my side. First, on negative rates and some competitors, or in some markets increasingly discussions are on passing debt on to retail clients as well. How do you see that influencing the competition and also deposit flows? Do you still see it as an opportunity to gain customers, or is there increasingly a cost associated with that?

And then secondly, your Stage 3 loans went up a bit, in particular, driven by daily banking. So just wondering what was driving the increase?

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

So Benjamin on the first one. So we do charge rates to the larger professional clients and the clients that have really large deposits with us. And then we, certainly, also do so in different currencies. And that's basically where I think -- where I can give any indication on that one. We are certainly looking at compensating the pressure on the savings side, more in terms of looking for growth in non-Euro environments and growth in the lending book, the change in the asset mix, the repricing on the asset side.

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

Sorry, there was a particular on retail client. So I know you don't just charge it but some others do. So just wondering, how you see that going forward, significant deposit inflows, and then the second question, what do you with it in case it materializes?

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

Yes, well, we don't see that, so let's not speculate on things that may happen. Steven?

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

Regarding the NPL increases, the needing benign overall NPL increase back to 1.6%, which is the same level as where we were in the third quarter of 2018. So it also -- you also see that a few of the portfolios have a slight increase and that tips the balance over from 1.5% to 1.6%. So it's not particular to daily banking. These are very small portfolios. It has a slightly increased NPL level, as a result of which the move up is worth 10 basis points.

Operator

The next question is from Ms. Alicia Chung, Exane BNP Paribas.

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

Just one question for me. And it's really on the provision outlook for next year. I'd love to get your thoughts on that. I suppose what I'm wondering is, do you think it will start moving closer to your through-the-cycle cost of risk because, I guess, there are a few moving parts to how should we think about visions next year. I mean, obviously, we're starting to see a little bit of an uptick in terms of provision normalization in Wholesale Banking, where provisions have deteriorated a little bit across a number of sectors.

And secondly, I see that NPLs are -- they've obviously, crept up, but also the coverage ratio has now fallen to a new low of 29%. I'm just wondering, if you see 29% as a sustainable coverage ratio going forward, and is a higher coverage ratio not more prudent -- appreciate there is an asset mix within that. But you do have a decent way to within Wholesale Banking.

And finally, I imagine, you will once start looking ahead to implementing ECB guidelines on calendar provisioning and definition of default, which certainly, for some of the banks, which just started implementing the definition of default so far, taking it through higher P&Ls. So taking into account the underlying provision normalization, your current view, very low coverage ratio and the upcoming regulatory guidelines on provisionings. How should we think about cost of risk next year?

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

Wow, Alicia. So on the cost of risk, I mean, yes, there have been increase in risk cost in this quarter, partially due to changing benchmark in the mortgages in the Netherlands. But I'd say, a year ago, we saw a release based on some older dates. There were a couple of files in the Wholesale Banking that led to some higher risk costs. There isn't an uptick in NPL, but that's a limited extent. We see here and there the watchlist creeping up and that's based on a couple of files. So I think, it's too early to call to change the risk outlook for what I have said before. So the risk costs are still, if you look at over a 9- to 10-year cycle at a low end of the spectrum, and we see an uptick here and there, we see a slowdown on GDP forecast and confidence here and there. But I think, it's too early to call that this is a real change.

If you then -- so in that sense, I would not change the outlook that I've given before, which is that for this year, we will be well below the sort of cycle average in risk cost. And for next year, I do not see, at this point in time, a change in that outlook.

If you look at NPLs and the coverage ratio, I mean, the coverage ratio in the end is an outcome of the way that we provision. And indeed, as you rightfully pointed out, the business mix that we have, we have a large mortgage book and hence, the coverage ratios, there are always relatively to be benign, and so the mix, what you see there, is what you -- what we end up at. And in that sense, there is not a change expected in that sense.

If you look at the definition of default indeed, that will likely come in the next coming quarters. We do not see an impact in that regard in cost of risk moving into our books.

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

Very clear. If you don't mind, I wouldn't mind just one other question. Just going back in terms of capital and headwinds from here. Is it fair to say that between now and 2021, the main non-headwinds as far as you all are aware, is a trend, definition of default, the macro potential, how do we add-ons, and I guess, I would add to that calendar provisioning, or is there anything else that you see in the pipeline?

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

I thought it was enough, Alicia. So no...

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

(inaudible) .

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

So TRIM, DOD and the macro potential impact on mortgages in Netherlands is currently what we have on stock. If there is something new that I will report on that.

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

Okay. Great. And TRIM is just a corporate portfolio.

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

That's TRIM. That's basically TRIM. So TRIM, DOD, Dutch mortgages.

Operator

The next question is from Mr. Jason Kalamboussis, KBC.

Jason Kalamboussis ***KBC Securities NV, Research Division - Executive Director Research***

A couple of things. The first one is on fees and commission. If we agree that for those that 1- to 2-year, Ralph, you were saying that you know the second half we could to see an uptick in fees and commission. But I just wanted to look, when I'm looking at consensus this year, that line specifically has come down by 5%. So effectively, the 5% to 10% growth targets that you have was eaten up already in a certain way. And when I look at also consensus -- if I look at the CAGR, '17 to 2021, it's probably at 3% or roughly about there. So how should we take -- how should we see the outlook on fees and commissions in the short or longer term, and do you stick to the 5% to 10%, or is it more likely to be a 5% because at the end of the day, we even, going forward, we're well below that?

And the second thing is on cost. The EUR 118 million, just a small clarification, the EUR 118 million differential, let's say, EUR 50 million was for KYC, we've had the legal provisions of EUR 40 million, but then the VAT was more than offsetting that. So if anything, there is probably about the difference of EUR 118 million minus EUR 50 million would be give you EUR 70 million, plus the benefit of the VAT (inaudible) is about EUR 100 million. Is there any chance we get more granularity, is it all CLA? So that we have an idea.

And for the KYC, the EUR 50 million, is it fair from your previous comments to assume that this is the kind of thing that we could expect year-on-year for at least the next 1 or 2 quarters until we get more clarification?

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

Well, the fees, not sure exactly what kind of information you're looking at. But don't forget that the fees are a net number, which basically means it's fees that we get paid minus the fees that we pay. And, I mean, you were going through a couple of numbers pretty quickly but one point -- one part that's really distorting the fee growth picture, historically, is the real switch in Belgium, which we made from owned branches to agent branches when we merged the 2 branch networks of record and ING. Basically, we have opened much more agent branches and closed more own branches, which means that our cost go down on one side, but we pay out more fees and that payout of fees affects the net fee growth picture. Therefore -- and that's distorting the historical analysis. Therefore, I think this is the first quarter in which we see because we have been able to neutralize that effect year-on-year. So this quarter, last year, versus this quarter, this year, basically you see that as more or less the same. The underlying fees paid out to the agents in Belgium, and now you can see the real growth. And based on that, and based on the growth of our primary customer base, based on the introduction of new products, the behavioral fees that we're introducing some of the digital banks, some of the good mortgage production for which we get paid fees here and there as well. We do feel comfortable. We're continuing the guidance going forward of fee growth between 5% to 10%. That's one.

The second question on the cost. Can't give you more granularity at this moment in time than what we've already given, which is the combination of the KYC, increase of EUR 50 million. Yes, that is what we think you can expect the coming quarters. And we'll be a bit of an effect of KYC cost going down because of the enhancement part being finished, but some of the structural parts being fully on stream then. So it's -- we don't know exactly how that mix is going to look like. And then, yes, we do have a pretty big impact on CLA increases across the globe. So we see that as well.

Jason Kalamboussis ***KBC Securities NV, Research Division - Executive Director Research***

Quick here on the fees. Just on the -- and good to know that you reiterate strongly the 5% to 7% outlook on cost. Just the Record Bank, the commissioning, I think, there was -- you had said, I think, Q2, that it was not necessarily going to come in second half. Is it this an item that we should be keeping in mind for first quarter of next year?

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

Yes. Well, that's -- I mean, in the scheme of things, that is like below EUR 10 million, and it will be in Q4.

Operator

The next question is from Mr. Jean-Pierre Lambert, KBW.

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

So 2 points, if possible. The first one is KYC. I look at the staffing in the Netherlands. It's been growing since the second quarter last year by 635 people, staff. So is that KYC, or is that related to the arranged bridge? And is KYC concentrated mostly in the Netherlands, the

KYC cost?

Second question is on your budget process, which you are probably undergoing for the moment. How do you look at the cost base, and how is that related to the pile of projects you have with diminishing returns? Do you feel that next year, you need to accelerate and add more projects to absorb the KYC? Or you feel things are safe as they are for the moment, and you don't see the need to accelerate initiatives?

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

Well, on the cost or the FTE growth in the Netherlands, it's basically 3 components. The first one is that with the Unite program between Netherlands and Belgium, we guided in the past already that you should look more and more at the combination of the cost factors and therefore, also the FTE factors between the Netherlands and Belgium, if it comes from the perspective of the domestic banking business. And so we are preparing the Dutch systems and the Dutch channels for migration after Belgium clients, and therefore, we are less investing in some of the systems in Belgium and more in the Netherlands, and hence, you would expect to see some FTE and cost growth in the Netherlands in order to prepare for that. So that's one effect of what you see happening in the Netherlands in terms of FTEs.

The second one is certainly also KYC. Both for the domestic bank in terms of the final enhancements, the look-backs and all the stuff that we need to do, but also the central KYC cost. So we have set up, as we launch these programs as a global program, we set up a central team, developing central tooling, which is partially in the Netherlands and partially in different Nordic countries, working on that and that also has a specific effect on FTEs in the Netherlands.

Thirdly, with a lot of the work coming from a more regulatory perspective, we do see also a further increase in people working on the risk side, if it comes to, for example, the modeling aspect of the risk management. The data knowledge and the data scientists that we have to hire -- we hire them all over the place, but specifically also in the Netherlands. So I mean, you can't just point at one factor, increasing the expense of the increasing staff in The Netherlands. It's a combination of all these 3 things.

Now on the cost base and the budgeting process. I think, the only thing I can say there, because we don't give cost guidance per se, just going back to the recipe that we have been using for the last couple of years, 6 years even, as to what you can expect from us, which is that over time, you should expect the cost in market leaders to go down because we do expect the income line to be flattish, if not negative. And therefore, the cost should go down faster, and that's what we're working on. Programs to support further efficiency gains between the market leaders activities, improving customer experiences, and with that, a more digital experience, and with that, also lower cost, that's what is happening. So expect cost to decrease there.

On the C&G side, honestly, we have good momentum. We're offering a good service. More and more customers to choose for ING as their primary bank. We don't mind cost to grow there as long as we also see that is comes along with more business and good price business, so also better income. And as I said already, large part of fee growth comes from these digital franchises and the growth franchise that we have in C&G. So cost could increase and continue to increase in the C&G environment, but we will, certainly, also look at the top line because if there is no top line, but only an increasing cost line, we will not accept that.

And then the third area where -- that we look specifically at is the wholesale bank, in which we have a continuous program for efficiency running. Depending on the pockets and that need improvement -- that need improvements, you could expect, if the Wholesale Bank does not deliver on income growth, that cost will be stable, if not decrease. But, for example, if you just took -- take a look at the financial markets franchise, you know that we have had a real transformation program in that area for the last 2 years, centralizing a lot of the trading, cancelling some of the product capabilities. Over time, the top line has been stable, if not increasing. Now lot (inaudible) value adjustments but the client business. But just look at the this quarter, costs vis-à-vis last year, have gone down by 6% in Financial Markets. So it is very much specific programs in order to improve specific performances in areas in order to make sure that if an area is not performing according to our wishes, we're not making the hurdles, we will have to improve either on the income side but also on the cost side.

Operator

The next question is from Mr. Josema Coll, Santander.

Josema Coll ***Grupo Santander, Research Division - Equity Analyst***

The first one is on OpEx, and more specifically, on group salary cost. So when I look at the number of FTEs, it grows 2.8% versus third quarter last year. And your salary costs may grow 2.1% in the first 9 months of this year versus the first 9 months of last year. So the question is, whether this FTE growth is driven by compliance staff, which should be non-revenue-generating stuff, and if so, whether they're making the same salary as your average base?

And the second question is, well, I suppose, it's too early to talk about dividend guidance, but this may be a silly but honest question on your dividend policy. When you say you have a progressive dividend policy, does this mean that the amount that you pay in dividend should grow, or is it the payout ratio that should grow. If you could please clarify?

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

Well, Jose, on the first one -- Yes. I don't know the specifics here. We should maybe come back to that question on your salary cost versus the increasing FTEs. It is clear that we are getting more and more people in on compliance in KYC. But it is something we need to do. So I mean, this is what it is. At the same time, also, in that area we see innovation coming through, that the new technology coming through, that both improves on the efficiency as well as the effect of the site. So we will continue to work on that. We also see temporary staff in that area in order to do the final enhancement. So that's also a picture that you could -- that you see coming through in right there. And so you see there that, if you have kind of the external staff, some of these are also more expensive than internal staff, but they're also temporary. So it's a mixed bag really. It is really difficult to draw conclusions there.

On the dividend policy -- the dividend policy that we have had over the last couple of years, is a progressive one. It's progressive in terms of that the amount grows.

I think those were the questions then. Okay, then I'd like to thank you. Thank you for being here with us this morning and go through the quarterly numbers. I'm sure during the day, you may have more questions. You know the IR staff is there in order to answer or more questions and more detailed questions as well.

For now, just summarize the quarter. I think that the top line shows resilience in a time of real challenge, negative rate environment challenge, and that resilience comes from the fact that we do have a franchise that grows, we do have capabilities to improve margins and combine volume growth. So that's helpful. At the same time, we see the fee guidance that we've given now actually coming through because we have a clear picture now year-on-year. So you see that these franchises, these digital franchises, if you make them primary client-driven, that you see more cross buy coming through, and with that also, more fees coming through. So that's a resilience on the income side. On the cost side, 2 specific remarks to be made. One is the KYC and the other one, the overall cost CLA-driven cost, and some one-offs, as a mix overall, leading to a good picture of EUR 1.3 billion bottom line. And as said, focusing on the client is important, and with that, KYC, and understanding truly your client, is important as well.

Thanks very much, and I wish you a good day.

Operator

Ladies and gentlemen, this concludes the ING Third Quarter 2019 Conference Call. Thank you for attending. You may now disconnect your lines. Have a nice day.
