



3Q18 ANALYST meeting Transcript

1 November 2018

Operator: Good morning, welcome to ING Q3 2018 conference call. Before handing this conference call over to Ralph Hamers, CEO 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 statements not involving a historical fact. Actual results may differ materially from those projected in any forward-looking statement. A discussion of factors that may cause actual results to differ from those in any forward-looking statement is contained in our public filings, including our most recent Annual Report on form 20F, filed with the US Securities and Exchange Commission, and our earnings Press Release as posted on our website today. Furthermore, nothing in today's comments constitutes an offer to sell or a solicitation of an offer to buy any securities. Good morning Ralph, over to you.

Ralph Hamers – CEO ING: Thank you, operator. Good morning everyone. Welcome to the third quarter 2018 results call. As always, I will take you through today's presentation. Both our CFO, Koos Timmermans, and our CRO, Steven van Rijswijk, are here with me.

The key points for today. Our net profit was lower at EUR 776 million this quarter and that is because of the EUR 775 million settlement agreement that we have with the Dutch authorities in early September. We clearly and sincerely regret that the outcome of the investigations identified serious shortcomings in the execution of our policies to prevent financial and economic crime at ING in the Netherlands. We take this very seriously and we accept full responsibility for it.

Today, we will walk you through some of the initiatives that we have in place to strengthen the management of compliance risk as well.



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Commercially, things have actually progressed very well this quarter. The underlying pre-tax result, which excludes the settlement impact, was just over EUR 2.1 billion. Primary customers continued to increase this quarter as well by 200,000 to 12.2 million. We have a no. 1 Net Promoter Score position in 7 out of 13 retail countries.

The four-quarter rolling underlying return on equity improved to 10.7% in the third quarter and that is on the back of continued lending growth at resilient margins, continued strong fee income despite seasonality and a focus on strict cost discipline across the bank. Group CET1 ratio ended this quarter at a solid 14%.

Turning to slide 2, I would like to emphasize that we are committed to conducting our business with integrity. We want to conduct it in compliance with the applicable laws, regulations and standards in each of the markets and jurisdictions in which we are active. Therefore, already at the beginning of 2017 we initiated a bank-wide 'Know your customer'-program, supervised by the Dutch Central Bank. The program includes activities to improve the accuracy of our client files, transaction monitoring in the Netherlands which includes to redefine the drivers which trigger an event and not capping the number of daily triggers, monitoring clients at customer level. We are also developing bank-wide processes and tooling to support improved client activity monitoring. The KYC program is just one of the many initiatives that we started with in the bank. In addition, we have initiated to improve employee awareness around compliance, such as behavioural risk assessments, strengthen the internal compliance culture, strengthen the mindset and the risk management function is ensuring a client-integrity risk committee, which takes compliance-driven decisions on a client on- and offboarding, with a further focus on a uniform execution of policies and procedures through more rigorous testing prior to implementation and also centralising our operational KYC-activities for ING in the Netherlands.

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We have also substantially increased the number of compliance-rated staff for ING in the Netherlands from 150 early 2010 to 450 today. Lastly, we are parting with third parties to better control – to better combat money laundering.

Many of these initiatives we already started some time ago, so the cost of these as we run them currently are in the plans. Compliance regulations, however, continuously evolve and we will of course invest when and where needed in order to ensure that compliance risk and non-financial risk in general become one of those categories of risks that bankers have to deal with, like market risk and credit risk. It has to become part of our DNA.

Turning to Slide 4. It illustrates that we are on track with regards to the execution of our Think Forward strategy. Primary customers went up 200,000 in the quarter to 12.2 million. That is versus the target of 14 million by the end of 2020. Basically, we are progressing nicely towards that 14 million. In the first nine months of the year all of our countries were contributing to growth on the primary customer growth side and as you can see in the slide, Australia is doing really well, Germany is really doing well but also countries like Romania, Poland and Spain are doing quite well.

Again, this quarter net core lending growth outpaced the net customer deposit growth, which helps us in this low rate environment defending the NIM, the net interest margin. For the year to date, we have already exceeded our 3%-4% loan growth ambition. However, particularly in the Wholesale banking we see more stiff competition in certain regions. We have put in place structured risk parameters in certain sectors, particularly in real estate finance and leverage finance.

In the third quarter, as you can see also in this slide, we rank no. 1 in 7 of our 13 retail markets in terms of Net Promoter Score and you know that this Net Promoter Score is a compass for



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us. It is certainly a leading indicator of more primary customers and more customers to come. So, it is a really important indicator for us. In another three markets we are actually no. 2.

Let's turn to the next slide, the integration of Belgium and the Netherlands. Given the importance of these two retail markets to ING, I thought it would be helpful to briefly recap why we are integrating them and what is the progress that we have made so far.

Part of the slide that you see here is actually a copy of what we presented during the Investor Day in 2016, when we presented the business case for embarking on this Unite transformation program. Clearly, we have started it because we see that the mobile and digital banking trend in Belgium continues to accelerate. At the same time, our main IT components in Belgium are reaching the end of life cycles, so we needed to invest. That is what we concluded at that moment. Furthermore, there was scope to integrate our two brands in Belgium, Record Bank and ING brand, and optimise the combined branch footprint, which was successfully completed in the second quarter of this year when we reached the most important milestone today, basically the legal integration of the two banks and with that also the migration of almost 600,000 Record Bank customers to ING in Belgium.

At the same time, we have been reducing the physical footprint in terms of the reduction of branches in one quarter from 1250 to 650 and over the period that we have been working on this transformation program, so the last two years now the number of internal FTEs in retail banking in Belgium has gone down by 1150.

At the same time, we are preparing the target platform for the next step in migration of customers from Belgium onto this target platform, which we are running in the Netherlands. We are preparing this platform by introducing instant payment 365 days a year. That replaces the batch-based payment architecture with a real-time solution. Also, the app we have in



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Holland is very highly rated so basically, you can see why this is the target platform to move to, because it is really state of the art.

The major next step will be to prepare the omnichannel Dutch banking platform further, also from a language perspective, to agree on the standardisation of customer propositions across the two countries, to manage expectations and then we will migrate these customers.

We are convinced that we can deliver this large-scale transformation, as we have extensive experience, for example by integrating Postbank and ING Bank in the Netherlands. But now clearly also we are extending that experience into our Belgian labour force, because they have done a major migration of the Record Bank clients onto their own systems as well. So, all of that looks to be going quite well.

Let's turn on how we continue to innovate and improve the customer experience. As you know, the core of our strategy is to deliver a differentiating customer experience, so when customers get in touch with us, their experience should be simple and should be smooth. Across different channels it should be almost the same. To this end, ING has built a common contact centre platform for use in retail countries, providing customers with access to the same services. This means that if you are chatting with a customer online and you want to continue the same conversation over the phone, it is one button to push so that you can actually to service across all the different channels. That is what we are building and that is what we are introducing in 12 of the 13 retail countries.

On top of that, we will have to continue to open to new ideas and collaboration. If we look at other initiatives: our investments in the international payments platform TransferMate is one of those examples. This provides our customers and corporate clients with faster, cheaper, easier than national payment solutions. It is a real good example of that.

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We have also extended our existing partnership with TradeIX, the world's first open platform for trade finance base and it is entirely based on blockchain. With Komgo, the other example that we have here, we take the earlier pilots that we called Easy Trading Connect; remember that I updated you on how we basically digitised the total trade and commodity flow with a couple of client traders as well as shipping companies. That is growing into a company. Komgo is one of those companies. In these companies we are agreeing to this is the standard while we partner with the industry players, like Gunvor, Mercuria, and Shell but also with banks because one bank cannot set the standard. You have to agree on that standard. ABN AMRO, BNP, Citi, SocGen are also on this. So here you see the disruption in the making from a pilot into a business. With that, I think that the global trade flow in the end will be on DLT, Distributed Ledger Technology, so faster, safer, and more efficient as well.

Turning to Slide 7, As a bank, ING makes the most climate impact through our financing. The direct footprint of banks is generally managed well. It is also not big but we can actually make the biggest impact through the management of the indirect footprint, which is through our customers and the money that we lend to our customers.

We have a loan book of EUR 600 billion across manufacturers and we will now begin steering this towards meeting the Paris agreement of the 2-degree goal. We are able to start doing this by creating accurate way to measure the climate impact of our portfolio and that we call Terra. This approach is being co-created by the 2-degree investing initiative, a leading global think tank and Terra looks at the technology shift that is needed to cross certain sectors to keep the risk of global temperatures to well below the 2 degree Celsius. For example, in the automotive sector it is not enough to lower the emissions by making fewer petrol-powered cars; you really need to produce more electric cars. Terra that measures the needed shift in the technology against the actual technology clients are using today and planning on using it in the future.

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That is where financing comes in and that is where we can have a major impact by having that conversation with our clients.

I think it works basically on two sides. On the one side clearly, we are together working on how we will comply with the 2-degree ambition that we have and on the other side, from a risk management perspective, it gives you control over mitigating the risk of ending up with stranding assets. So, it works on both sides. It is an important thing to do but from both the bank's perspective as well as the society perspective.

We clearly realise that we cannot do this alone. We have made this Terra approach now open source. Many banks have indicated their interest and I hope they will join us in this one. Clearly, if new technologies will come around and better methodologies are developed, we will move towards that as well but we did not want to wait for a global standard and everybody agreeing to it. It took already too long. So, we launched our own to start really having an impact on climates with this.

Let me turn to the third quarter results.

Slide 9. The underlying pre-tax result was just over EUR 2.1 billion in the third quarter, which marks one of the highest quarterly pre-tax results we have seen in the history of the bank. The quarter's pre-tax profit is largely a reflection of the 5.4% improvement in the underlying income that you see on the right-hand side and that as a result of the loan growth, the fact that we continue to do this at resilient lending margins but also higher bank-treasury related items, solid net fee and commission income, as you will see later, and the annual dividend from Bank of Beijing is always in the third quarter and was also remarkably higher.

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Furthermore, the third quarter's strong result was supported by tight cost control and relatively low risk cost, albeit that risk costs were up versus both comparable quarters, as we will touch upon later in the presentation.

Sequentially, the underlying result before tax rose 5%.

If you zoom in to NII you see that NII excluding Financial Markets and the impact from some of the hedge relationships increased 5.4% year on year. That is mainly explained by a higher interest result and the retail Challengers & Growth Markets, Industry Lending and General Lending & Transaction Services.

Year on year, net interest income on customer lending improved as we continued to lend at slightly higher overall lending margins.

NII was further supported by a slight improvement in the interest result on savings, due to the higher client balances and a broadly stable margin, whereas current accounts continued to be a drag. This was one of those quarters in which we were still able to manage some of the effects on the savings side and that is what you see here.

The mix of these two effects actually led to a 1 basis point improvement on our net interest margin to 152 basis points, which is nicely in line with the guidance that we have given before and that we expect will be at the high 140s – low 150s guidance.

Turning to the lending growth in the third quarter, we recorded net core lending growth at EUR 6.8 billion, as you can see here, which is a more normalised pace when compared to the first half of 2018.

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Retail banking growth outpaced Wholesale Banking this quarter. Retail the Netherlands saw good growth in mortgages, even including the run-off book. Retail Belgium saw a drop but this is more the net effect because it is fully caused by a lower overdraft usage by a major client. If we exclude this impact, there was growth in net core lending, almost fully in mortgages.

Retail Challengers & Growth Markets continues on a strong growth trajectory with a majority in mortgages this quarter.

The wholesale bank net core lending growth was EUR 2.8 billion, predominantly recorded in general lending in the third quarter. Our focus on return on appropriate risk may lead to lower growth going forward, given some increasing competition and some looser credit standards in the market. But we can also cover that during Q&A.

Turning to fees, we see that if we adjust for a re-booking of capital market related fees from other income to fee income, which is the 27 that you see there in the bar. Even if you correct that, net fee and commission income came in at a strong EUR 693 million, which is up 7.8% year on year. You see it is nicely and increasingly diversified across the different segments.

The year-on-year fee improvement was driven by increases in most retail countries but particularly in the Netherlands and Germany, despite seasonality in the areas like investment products.

The third quarter also saw higher fees in Wholesale Banking and that is particularly due to an improvement in Financial Markets.

Despite this, if you then look at the Financial Markets performance you see that Financial Markets had a more difficult quarter, impacted by the challenging market conditions, reduced client activity and low interest rates in Europe.

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On the rates' side we do not see too much volatility as a consequence of which there is not a lot of hedging demand and if there is not a lot of hedging demand you do not see that coming through on the rates' side.

If we look at the total Financial Markets result – and then we would include the business that we do for SME and mid-corporate customers, the return on equity on our Financial Markets business would actually improve meaningfully. Nevertheless, we are looking at how we can improve the performance of Financial Markets going forward.

Turning to Costs now. If you look at the expenses excluding the regulatory costs, which are just like the second quarter lower in the third quarter, our expenses were down EUR 33 million or 1.5% versus the second quarter. This reduction is mostly visible in Retail Belgium, due to a continued reduction in FTEs, which I mentioned earlier already, but also visible in the Wholesale Banking side and the Corporate Line.

On a four-quarter rolling average basis, the cost/income ratio improved to 55.5%. In the quarter itself, the cost/income ratio was actually 49.7%. So you can conclude that we are committed to tight cost management here where reductions in some areas are used to selectively invest in growth return areas. Combined this is leading to a continued decrease of our cost/income ratio but we remain committed to the 50-52 cost/income ratio ambition that we had given to be delivered by 2020.

Slide 14. Risk costs in the third quarter came in at EUR 215 million. That is 27 basis points over average risk weighted assets, which is a more normalised level especially when compared to the very low level of risk costs recorded in both comparable quarters.

As you can see in the graph on the left-hand side, Retail Netherlands recorded another release of 21 million and that is particularly in mortgages. Risk costs at Retail Belgium are mostly

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related to business lending while in Retail Challengers & Growth Markets is a combination of business and consumer lending.

Wholesale Banking risk costs were 108 million in the quarter and that is mainly caused by some larger Stage 3 files in the Americas and the Belgium region. It is also across sectors, so there is no specific trend here to be detected.

Non-performing loans for ING, as measured by Stage 3 ratios under IFRS 9, remained at 1.6% as you can see on the right-hand side of this slide.

For the next quarter, we would expect risk cost to stay well below the through-the-cycle average of 40 – 45 basis points over risk weighted assets.

Zooming in on Turkey now. Given the macro-economic events in Turkey in the third quarter it is worthwhile that we spend some time here. I am sure some of you will have some questions around it anyway. But we have composed this slide so that you have a good summary in front of you.

The Turkish loan book is just 2% of ING's total loan book and is still performing well. The NPL ratio is at 2.3% in the third quarter, as you can see. Overall, the portfolio remains in good shape but clearly, we expect some of our clients to be affected by the macro-economic situation.

We take comfort from the fact that all of our exposure to private individuals is in local currency, while we only provide foreign exchange loans to companies that have proven foreign exchange revenues. For larger corporates we can make an exception if there is a parent guarantee or if there is an export credit agency insurance covering it.

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Furthermore, I think it is good to mention that our Turkish book has generally a short remaining maturity. You can see that in the slide as well. On the right-hand side you see that our remaining maturity of the credit outstanding that we have in Turkish lira is just shorter than a year, foreign currency is around two years, so short-term books. What we are basically doing now, the focus in Turkey in our team is to manage the risk in our portfolio by de-risking where possible, particularly by not rolling over foreign exchange loans. The aim is to reduce to reduce intra-group funding. Since the start of the reduced by EUR 700 million. As said, I can only compliment the team on the ground in Turkey, which is doing an excellent job to control our risk and running the business during challenging times.

Turning to the capital side on slide 16. The CET1 ratio remained strong. At the end of the quarter it is 14%, down 10 basis points quarter on quarter, but still well above the SREP requirement of 11.8%. This is despite the fact that we had to add the full net profit to the quarter 2 dividend reserve following the impact of the settlement agreement.

CET1 capital was further impacted by foreign exchange and lower equity securities revaluation reserve, which were only partly offset by lower risk weighted assets there.

We remain confident that we will meet future capital requirements including the potential impacts from Basel and TRIM. We have a large set of potential management actions at our disposal to mitigate these inflationary risk weighted assets' impact. That includes asset distribution and data enrichments to avoid punitive risk weights and lending mix optimisation going forward as well. Maybe as an example of one of the management actions that we have taken in the third quarter and to test the readiness of the market as well as the organisation here, as we successfully closed a synthetic capital relief transaction on German mortgages. So, there are things that one can do.

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Finally, looking at the slide that shows our ambitions. Both the CET1 and leverage ratios remain ahead of minimal regulatory requirements. We continue to be broadly on schedule with our large digital transformation programs, which will help us to bring down the cost/income ratio to our target range of 50-52% by 2020. Compared to the previous four-quarter rolling average we have already improved our cost/income ratio by 0.6% in the third quarter.

Finally, the other four-quarter rolling basis, the underlying group return on equity increased to 10.7% as we keep growing the franchise. We are able to command higher margins in most segments actually. We focus on cost control across the different businesses and still have relatively low risk costs, while at the same time facing continuous pressure from the low-rate environment.

Clearly, the third quarter in ING and reputation-wise was overshadowed by the settlement that we agreed on the back of serious shortcomings on the compliance side. Therefore, I can assure you that enhancing our compliance and non-financial risk practises will have the highest priorities within this firm.

But if you look at the underlying performance, you can actually also conclude that in the third quarter that we keep executing well on our Think Forward strategy, whether it is on primary customers, whether it is on Net Promoter Score, whether it is on lending or fee growth. That combined with our focus on managing cost, optimising operational excellence and executing our digital strategy makes us confident that we will continue to improve on the financials side.

Lastly, I am pleased to announce that we will hold an Investor Day on 25th March 2019. Then we can actually take more time to take you through some of the examples, some of the milestones and give you more updates as to where we are in the transformation but clearly

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also on compliance. The day will focus on giving you deeper insights in our capabilities and digital leadership.

With that long introduction, I open the floor for questions.

QUESTIONS AND ANSWERS

- **Robin Van Den Broek – Mediobanca**

Good morning, gentlemen. My first question is on cost of risk. If you take your guidance of 40-45 basis points on RWA and you translate that to the loan book, on a loan book basis you are between 20 and 25 basis points. Some could argue that that is a fair level for a mortgage-bank-driven focus. Your other retail lending exposure is between 100 and 150 billion at the moment. Could you give a little bit more colour on what underlying costs of risk you assume for that book and what level of collateral is in place for that part of the book?

Secondly, on your dollar lending exposure. It is roughly somewhat towards EUR 100 billion, I think. To what extent are you relying on commercial paper and the swapping of euro deposits to dollars in order to fund that dollar lending book and could you describe the dynamics you see at the moment versus your back book, whether there are negatives coming through or positives?

Steven Van Rijswijk – CRO ING: Regarding the cost of risk, yes, the cost of risk for the last four quarters on average was 18 basis points. This quarter is a bit higher, up to 27 basis points. There are a number of files in Wholesale Banking amongst those and Belgium and U.S that have caused that. Those are individual files. They do not bear a particular relationship. But if you look at the bank as a whole, we have approximately EUR 600 billion in lending. Approximately half of that come from mortgages. We are not only a mortgage bank, but we

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are significant and large in mortgages. There is a relationship between RWA and risk costs. On average, we see that over a longer period to 40 to 45 basis points. But currently you can see that risk costs are relatively lower across the board, so also in Retail and Wholesale banking. So yes, if you look at tenors and coverage in mid-corps, SME and Wholesale banking typically are a bit higher than in retail. That also causes higher RWA. But across the board, the risk cost as a percentage of RWA are currently low.

Robin Van Den Broek – Mediobanca: I appreciate that answer, but my question is more a little bit about the other retail lending, because if I look at the guidance of other banks on a loan book basis, I can basically make a fair estimate for mortgages and for your Wholesale banking exposure, but for other retail lending, which is still a sizable part of the book, it is a little more difficult. So, could you perhaps give a little bit more colour on what your assumption is on that part of the book?

Steven Van Rijswijk – CRO ING: We do not disclose particular risk costs from particular segments of the book but I can tell you that also for those segments the risk was relatively benign.

Koos Timmermans – CFO ING: On the dollar book, you are right that we have a dollar book and that is in total roughly 40 billion shorter term and 70 billion longer term. Normally, the shorter term is funded with CP issuance and the longer term is funded by a number of sources, which is equity, AT1-dollar denominated, long-term debt and also part of the MREL. So long-term assets are funded long term. If you then particularly ask about back book cost, then I think the cost is now rolling over CP more expensive over these ultimo to fund the short-term assets. We had seen that last year as well; the ultimo was already completely covered and so, that is not an issue.

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Robin Van Den Broek – Mediobanca: Okay. That is very clear. I presume you match maturities in your funding, so there is no immediate impact on that perspective if spreads move for example?

Koos Timmermans – CFO ING: That is correct.

Robin Van Den Broek – Mediobanca: Thank you.

- **Nick Davey – Redburn**

Good morning. I will stick to two questions then, please. The first one is on cost. It has obviously been a volatile year on the cost line. You settled in the last couple of quarters towards about 1% growth excluding regulatory expense. Is that a fair run rate from here? I feel like we have had a year of confusion in understanding this interplay between expenses and underlying savings. Do you think this kind of underlying run rate at 1% cost growth is representative?

My second question is on Wholesale growth. It does seem like there is a slight change in language here today. You have talked about bringing closer control on real estate finance. So, is this a shift in strategy or is it based on risks that you are seeing? Is it based on competition? I think you mentioned not getting adequate returns. Is it driven by a desire to build more capital? Could you just talk a little bit around if I am right in picking up a change in language and, if there is, what is driving it?

Ralph Hamers – CEO ING: So, on cost the run rate; we have not guided on the run rate. We have guided on cost income. And I think that is also the way we run it in ING. So, when we launched the strategy, we had three recipes for three different activities. The market leaders' activity is expected to really decrease its cost base. These are mature markets and we are investing heavily in digital. Efficiency is leading there, and that is where you can expect the

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cost to go down. In the C&G, the Challengers & Growth Markets, if we see there is profitable growth and we can keep the commercial momentum by running these digital banks, we do not mind investing selectively and therefore, even have a cost growth that is higher than the one percentage you mention, because it is the cost/income ratio that we look at that. On the Wholesale banking side, from the beginning we have said that within the sphere of Wholesale we feel that over a period of time that efficiency gains can be used to [...] the opportunity to grow the front office in order to be more commercially active. That is a little bit how we run it.

Then on any given quarter, this may be a little bit up or a little bit down because you see that sometimes we invest a little bit more in ATF in a given quarter and then some of the savings come through a little bit faster, like we see this quarter. Then in another quarter, there may be a little bit the other way around. Certainly in 2017 and 2018, we have indicated that those are two years of real investment in the Accelerated Think Forward, so that more towards the end of next year you should really see the effects. Now we see some of the effects already, which is what we are very happy with. It does not give us room now to suddenly start growing the cost or the investment. That is not how we run it. We have a program to invest and we look at its effectiveness. Overall, we look at the development of the cost/income ratio.

On Wholesale banking growth: is there a change of language? There are areas where we see a little bit more competition. That is specifically more on the US side. We see a little bit more competition, at least we see pricing that in our strict pricing does not help us to do more business there. But there are many sectors where there is quite some business that does well and that is how we look at things. So, if you look at how we price our business, we keep the same discipline. In this quarter, we saw the margins on the front book in the industry lending being under pressure in some areas, but overall stable-ish. Credit quality was actually better in the front book, but we have come a little bit more selective, for example if it comes to the domain of real estate finance, which we have kept, leverage finance, where we actually see

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structures coming through and leverage rates just coming through that we do not feel good with. As you know, we will never compromise on structure. That is a golden rule here. On the general lending side, also in Wholesale, we see actually margins coming up a little bit. So, we have different areas, different sectors, different geographies, but we keep our pricing disciplined, and sometimes we grow a little bit faster than others from a risk perspective. The two areas as indicated: real estate finance capped, and leverage finance capped as well.

Nick Davey – Redburn: Can I ask just a couple of follow-ups on the cost and just ask to focus on a couple of units? You mentioned about really trying to get absolute cost down in particularly the Benelux Retail. So, this quarter, we are now declining cost year-on-year in Belgium. Do you think we have got past the worst and that we are into a period now where we can start to see those savings materialising? Is this a tipping point quarter?

And then sorry to ask the inevitable, but the Financial Markets business, which is now loss making, and I know it is a quiet quarter, but this does tend to happen in the second halves of the year. Have you done enough on cost there? I understand your point about efficiencies and planning them into the front office, but it just does not seem to be bearing fruit. So, is it acceptable to you to be losing money in the Financial Markets business in a quiet quarter?

Ralph Hamers – CEO ING: Good questions, Nick. So, on market leaders, this is an area of major transformation where still some investments are being made. I would not call that the worst is behind us. That is not the terminology that we use. We are investing in order to improve our client experience in order to continue to deliver to our clients in an efficient way. So over time, you have to expect those costs to come down, absolutely. That is the recipe. Whether quarter by quarter you can start predicting the cost to come down, I cannot tell you that, because there are investments going on there as well.

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On Financial Markets, I can see your question. As you know, we just finished a major transformation in Financial Markets is also to decrease the cost further by centralising our activities from three locations: Belgium, the Netherlands, and London on to the London platform. So, we are reducing the cost there by these movements. Clearly, you know the current situation is not something that is sustainable, and we will continue to look at how we can improve either in the revenue of volume side or in the cost side, absolutely.

- **Farquhar Murray – Autonomous**

Good morning, just two questions, if I may. Firstly, on the slower growth in Wholesale Banking, how will that impact on the group growth aspiration? Should we think of it as past the trade-off within the 3% to 4% growth aspiration for the group or is that aspiration potentially coming down a little bit?

Secondly, just coming back a little on the money laundering issue. The DNB has made clear that in future it intends to publish all sanction decisions barring exceptional circumstances? Could you give us a sense of how often we might have historically seen those kinds of sanction decisions against ING? Would that have been one a year or two a year, just to get a sense of the frequency? How do you see that publication system developing?

Steven Van Rijswijk – CRO ING: With regards to the loan growth in Wholesale Banking, first of all, we do not solely depend on Wholesale Banking to grow. So what Ralph said is correct: sometimes we grow a bit faster in Wholesale Banking and if not in Wholesale Banking sometimes more in Structured Finance and sometimes in General Lending. And then we grow more in mid-corporate, and then we grow more in mortgages.

Second of all, the loan ambition is 3% to 4%, but it is an ambition and not a target. In the end, we want to make our returns. We have clear return hurdles in our company. We have clear

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risk structures that we adhere to, and if we cannot make the returns on the capital that we provide to our clients, then we will not lend and then we will keep it to either grow our capital or pay it in dividend. That is the way that we manage that capital on the balance sheet.

Regarding the sanction disclosures, what DNB would do in the past is that they could give directives or instructions to banks, and those are published in the local state price newspaper issue, the Dutch Staatscourant, as it is called. That has happened to a number of banks, including ING. I do not know the number by heart, but I think those directions or instructions have been given a couple of times over the past five to ten years.

Farquhar Murray – Autonomous: Given the kind of current pricing environment, would you see any difficulties or opportunities across the business? Would there be any issues trying to meet the 3% to 4% ambition?

Ralph Hamers – CEO ING: If you look at the current quarter, where we see margins across the board a little bit higher, whether it is in Retail Netherlands, on the mortgages we see a bit higher margins, on the Belgium mortgages have a bit higher margins, on Germany mortgages a bit higher margin and on the business lending side, in the Netherlands and Belgium, we see stable margins, and on the Wholesale Banking side, as I indicated, we see some pressure in some regions if it comes to industry lending. But in general lending and transaction services, we see improved margins. In Challengers & Growth Markets except for Germany, we see also improved margins. So, we see margins and we are okay with that. Therefore, with our strict pricing policy we can still get the volumes in. This quarter, at 6.8%, is just over 1% for the quarter, which is more than 4% if annualised, even this quarter. It is lower than last quarter, but it is still annualised more than 4% this quarter. But honestly, on the other side, with our selective pricing and given the fact that we will have to hold more or more capital because of Basel, the returns and the way we price will give higher NIMs as well, going forward. If that is

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decreases the volume growth, but at good margins, we are also okay because in the end, again here, it is a cost/income play.

- **Stefan Nedialkov – Citi**

Good morning, a couple of questions on my end as well. First of all on Turkey, could you elaborate a bit more on your funding strategy there? Are you basically trying to pay down the entire intra-group funding over time and delever as much as possible? Or is there a business strategy more in terms of replacing the intra-group funding with syndicated lending down the line given the successful syndicated roll-overs that we have seen from some of the Turkish banks recently?

Secondly, if you could give us the delta in the number of compliance officers since the end of 2016 to today? I think you were saying 300 people delta from 2010. I am just wondering what that number is from year end 2016? And related to that, whether you have had any communication from the regulator, that the 450 FTE number needs to go up and by how much?

Lastly, if I may, on loan growth, from what I remember at the Investor Day back in 2016, your ambition was to grow by around 5% in wholesales. Is that still the ambition given the current trade outlook for 2020?

Ralph Hamers – CEO ING: Steven will take Turkey and also compliance staff.

Steven Van Rijswijk – CRO ING: Yes. So, will take the first four questions! With regards to Turkey, you have seen that our intercompany funding has come down from 4.1 billion by the end of last year to 3.4 billion as per the third quarter. We have a balance strategy here. Gradually, we want to decrease the intercompany funding from ING to ING in Turkey. So, if there is excess funding or excess capital from Turkey, then we will ask that to be repaid. But

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again, we do that in a balanced way. We have a franchise in Turkey, also with international companies being in Turkey and Turkish companies working abroad in our network. And again, with due care for our foreign currency structures, we gradually will bring that funding down. It also means that we increasingly get more local funding tools, including securitisation, syndicated loans, deposits or other public means of funding. That we will then balance with intercompany funding.

Then the delta in compliance staff. Maybe I could rephrase it. This is not only the compliance staff, but also people who work to make ING and keep ING compliant from an AML-perspective, an anti-money laundering perspective and the legislation that we have in that regard. So indeed, in the Netherlands, the number of people working on that increased from 160 to 450. If you look at this on a global basis, then the staff working on these parts of the bank grew from 600 to 1,800 over the past six or seven years. So that is ongoing. It is not the case that we have received a message from the regulator that the number has to be a certain number or whether it has to be more or not.

Ralph Hamers – CEO ING: And Stephen, on your 5% loan growth ambition in Wholesale Banking, I do not remember that we had a specific Wholesale Banking loan growth ambition. The 3% to 4% was the ambition. At the same time, we had the ambition and we still have the ambition to change the assets composition of our balance sheet away from mortgages and towards higher margin lending, which is also Wholesale Banking. There is a consequence, maybe, and that is where you are driving from, is that the only 5% number, I remember, is the one that the fee should grow with a minimum of 5%, and we are beating that.

Stefan Nedialkov – Citi: Thank you, so just to follow up on the compliance question. What was the number at the end of 2016, in terms of AML compliance or global compliance?

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Steven Van Rijswijk – CRO ING: We do not disclose that directly, but you can safely assume that we have been gradually moving those numbers up over the past number of years.

- **Maxence Le Gouvello du Timat – Jefferies**

I have two questions. The first one would be on deposits. We saw an inflection point in Q3. Is that a seasonal impact or is it a change of policy on your side?

The second would be on Germany. You launched a lot of investments and you moved to Agile banking. What should we expect in the coming quarter?

Koos Timmermans – CFO ING: Maxence, the reference you make on deposit inflection point. What is it precisely that you are referring to?

Maxence Le Gouvello du Timat – Jefferies: Lower growth, and you also mentioned some outflows in France and Spain.

Koos Timmermans – CFO ING: I think what you see is the following. Overall, we are more approaching in the inflection point, because one of the things what you see is growth on the lending side. That enhances your margin more than attracting additional savings. At the same time, are we at the point of that exchanging? Well, that has all to do with the interest rate policy going forward. But overall, we are quite happy that we do attract a fair bit of the deposits. If you then look at the deposits overall on this quarter, I mean there you talk more about seasonality because normally in Q2 particularly people cash in their holiday allowances. So, they get rich and they spend it in their holidays in Q3 and then they have a little bit less money.

Maxence Le Gouvello du Timat – Jefferies: Thank you.

Ralph Hamers – CEO ING: Maxence, could you repeat your second question?

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Maxence Le Gouvello du Timat – Jefferies: Yes, on Germany you made some long-term investments and you made the announcement that they moved to Agile banking in this quarter. Should we see an acceleration of the top line in terms of fee generation? I believe you are going to be more active on that part. Or are you going to take a little bit more time? Is it a story of one or two quarters or is it more for next year?

Ralph Hamers – CEO ING: The digital investments are happening and, as you indicate, the Agile way of working is currently being introduced. What it will bring along is more efficiency, for sure, a platform in Germany that is more scalable than it currently is. So, it will help over time the cost/income ratio. I do not there will be an accelerated effect that you can expect from that perspective.

On the income side, clearly, this is still a business that is dependent on interest income. However, we are introducing several fees by moving towards a primary digital universal bank. Also, in Germany, we get more and more primary customers as you have seen in my report. With that, some more fees come along, like behavioural fees, that you introduce in order to ensure that clients are incentivised to behave if they withdraw money or how often they call and stuff like that. So you will see some of that happening. This is not going to be a very 1-2 quarter acceleration and that is the next level, but over time, you can expect a more diverse income picture in Germany as well with the introduction of more and more new products, which also generate fees.

Maxence Le Gouvello du Timat – Jefferies: Thank you and have a good day!

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- **Benoit Pétrarque – Kepler Cheuvreux**

Just two questions on my side, the first is on the cost. Could you update us on the timing of the cost cutting, so the 900 million cost cutting expected? I think you were originally expecting 300 million by the end of 2018 and 550 million by the end of 2019. So, I was just wondering where you are and what you expect for next year.

My second question is on the mortgages in the Netherlands. You have been getting market share, so could you recall what your market share is currently? I have the impression that your front book margin is maybe slightly below your back book margin on the mortgages in the Netherlands. I just wanted to have that statement confirmed.

Ralph Hamers – CEO ING: Thank you, Benoit. Now on cost timing, you will not see those costs necessarily to go really down there, from an ING overall perspective, because as I said, we do not mind to selectively invest in initiatives, in C&G for example, and in how the franchise supports the growth. But we do measure internally the effect of the transformation and the investments in the transformation. We have a very rigid process around approving business cases as well as benefit management. So we make sure that the investments make their return, but you cannot necessarily rely on seeing that in cost numbers going down overall in ING, because that is not how we work, as I just explained. On mortgages, Steven will work on that.

Steven Van Rijswijk – CRO ING: So on mortgages, our market share in the Netherlands is approximately 15%. If you look at the margin, the front book is actually better than the back book, and that has gone up mostly in the quarter, but it also includes the impact of a combination of on the one hand, refinancing of bullets, and the other hand, new to bank production, which is more 'annuity'd' than in the past and therefore, there is a composition of

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the front book. But if you look at the product-for-product, the front book is better than the back book.

Benoit Pétrarque – Kepler Cheuvreux: Can we assume that by the end of 2018, you will realise the 300-million-level of cost cutting out of the EUR 900 million. So, one third has been achieved so far?

Steven Van Rijswijk – CRO ING: No, I think what we do is the following. Overall, we have indicated that this year we will work with a cost income at around 55 and that might be slightly below. We are on our path of doing that but I find it very difficult to do that precisely. Look at this quarter, Benoit: we are seeing that we spent money on accelerating Think Forward but that differs by 20 to 30 million per quarter. That is just the kind of non-standard activity which is happening and that is why this exact guidance is difficult. At the same time what you do see, overall, we expect for this year to have the cost within that guidance or what we have given. Overall, for 2019 onwards, we will make the next steps towards the 50-52.

Benoit Pétrarque – Kepler Cheuvreux: Great. Thank you very much.

- **Bruce Hamilton – Morgan Stanley**

Hi, morning guys and thank you for taking my questions.

Most of my questions have been asked already, but I have a couple on capital. In terms of the cost of the AML-case that you absorbed in the quarter. Am I right to understand that the operational risk charge is probably still to come? Do you expect that to be in Q4 or later?

Secondly on the capital optimisation. Obviously, you talked about the originate-to-distribute model. Do you think that using that to drive some capital relief will be the majority of your

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current mitigation efforts? Or do you also see the need to reconsider some of the global footprint? Are there any areas that you are thinking that might not be non-core or thinking disposals? Do you think you can mitigate just through the areas you discussed on slide 16?

Steven Van Rijswijk – CRO ING: With regards to the operational Risk Weighted Assets, so the capital, the fine we have taken as a cost in the third quarter. But the impact on capital, on our operational risk-weighted assets will likely come when we update the model next year. But that will be a limited effect.

If you look at the capital optimisation, there are more things what we do. So we do not only rely on the originate-to-distribute. Things we can still do and have to work on is if you take our lending to specific corporates or conglomerates to optimise the converse which you have, will help because it gives you different capital numbers. We will also work on the data to make sure that unrated corporates get a rating, so that will be a capital relief. But the other thing – and that is maybe the most important – is to make sure that we look at the pricing, what we started in 2013 onwards, to make sure that you adapt your pricing regime to the new reality, If you take those things together it will help you to optimise on the capital side.

Bruce Hamilton – Morgan Stanley: Thank you.

- **Pawel Dzedzic – Goldman Sachs**

I will start up with a follow-up on your answer right now on management actions on Risk Weighted Asset mitigation. Can you give us a sense what is the timing of those measures? I think you say that 80% of them could be implemented ahead of 2022, but should we see any impact in the next one or two years? That would be useful.

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My second question also a follow up on the cost remark that you made about your market leaders and especially in Belgium. You mentioned that you expect cost decline, but obviously, you cannot guide quarter-to-quarter, it can be volatile. Can you walk us through the next stages of pending of timing migrations? What should we expect to see operationally in 2019 and should we see a cost reduction in parallel to that?

Ralph Hamers – CEO ING: I will take the one on the cost and Koos will come back on the management actions regarding capital. Regarding the market leaders business, as I updated you during the presentation, a lot of the groundwork and preparation is being done as we speak. More investments need to be made on the target platform in order to receive those Belgian customers and that will continue for some more quarters. Although on the one side you can expect that the further FTE reduction, just by virtue of efficiency that is already being realised, but we need to continue to invest, at least in the first couple of quarters of 2019, because the planning of the migration of the first batch of clients is probably towards the end of 2019. Only when all clients have been migrated onto the target platform, you can really start to switch off systems and decommission stuff as well. So the real cost decrease is always going to be back-ended in the whole program. Now what you can expect in 2019 though, already as a cost decrease in Belgium, is the decommissioning of the Record Bank systems. That is for sure. They have now migrated. So slowly but surely, we will be able to decommission and switch legacy systems off there. On capital?

Koos Timmermans – CFO ING: On the capital side and the management actions we state. Rating unrated corporates is something which we will do as soon as we have the data and that will be quick. But at the same time, it is not easy to see because we will get our frequent model updates and TRIMs. For sure, this is one part we will do as quick as we can. If you look at cover reallocation, it is a similar point. The originate-to-distribute will be a bit more visible, because over the next three years we would like to do that. So, the expectation to do 500

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million or 1 billion trades in a quarter on this type of activity, if markets allow us, it would be interesting for us. At the same time, various things play a role in making that happen.

If you look at the pricing side, indeed, we were already looking at longer-dated pricing against a higher core Tier 1 ratio but right now we will start to focus also on the shorter-term rating, because as you know, 80% of the increase of the Basel requirement is caused by the input floors, and they have an earlier date. That means these are the ones where we have to make sure that we focus a bit more on the short-term lending repricing. That will happen very soon.

Pawel Dziedzic – Goldman Sachs: That is very helpful. May I just ask one follow-up? You mentioned TRIM; do you have any more insights into what the impact could be as of now, or is it still unclear?

Steven Van Rijswijk – CRO ING: Regarding mortgages Netherlands, the impact is final, so we got the final letter. It was initially an investigation. There are initial findings and then there is a discussion about it and then you can respond to those findings. That leads to a final letter that also includes the impact on your model. So on these mortgages that is finalised and the impact was almost negligent. The next letters or finalisations that we are going to have are on mortgages Belgium, on SME Netherlands and on the trading books that I expect to come in the fourth quarter or the first quarter. Then the TRIM exercise on the low default portfolios in Wholesale Banking only recently started and only in the course of next year we will see any outcomes with regard to that. But the only final outcome we have received so far was on Dutch mortgages and that was negligent.

- **Alex Koagne – ODDO BHF**

Two questions from my side as well. The first question is on the operational leverage. I think that if we look back to the last six quarters, this is the first time that you are about to generate

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a positive operational leverage. I am just wondering whether you are more confident on being able to do so in the next quarter? The last time I raised the question, you said that you are expecting that basically on H2 2019, so how comfortable are you on your revenue growth?

The second question is on the capital. Excuse me to ask the question [...], but the 200 basis points in fact from Basel IV, was that a gross or a net number from mitigation? And then also on the capital: the 13.5% target you are looking for under Basel IV, was that for 2020 or more in 2022? How do you see regarding your dividend policy? Are you still looking to grow your dividend or are you looking, going forward, to move more to a let's say pay-out ratio than a progressive dividend?

Ralph Hamers – CEO ING: So on the operating leverage side, I think we have achieved it in the more quarters but this is certainly a quarter in which it is showing. We are very happy with that. Whether this is going to happen every quarter going forward from now, I cannot guarantee you as I have indicated, but we are managing on a cost/income ratio that gradually but surely will go down over time. And you know the cost/income ratio is distorted because of regulatory cost anyway in some cases. But if you want to track the underlying, you should over time certainly see that going down and see that trend picking up as from mid-2019 for sure.

On capital, the 200 basis points and then will give the floor to Koos, as well. It is an all-in impact. Basically, the idea is 200 basis points impact, one third of that is to be managed and that is your mitigation side. So, two thirds are left, 140 basis points more or less. These are left to be managed in a different way, of which 80% is what we would need to solve by 2022 because that is the input floor of things. So, that 80%, that 140 will then go down to 110, which is 35 basis points per annum, because that is the remaining period to get there. That is how it works and that is also why we feel comfortable to be able to make that with the 13.5% CET1 ambition. We have indicated that we want to manage capital around that number. So there

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may be quarters that we are going to be below that ambition but there may be quarters that we are going to be a little bit above. That also has to do with our dividend reserving policy, because as you know, we want to reserve as much of the dividend in the first three quarters and keep it outside of capital. And then the remaining in the fourth quarter will always up the CET1 numbers. That is why we have indicated to manage it around that number.

On dividend, Koos?

Koos Timmermans – CFO ING: Alex, we are happy with the level of dividend we are paying. In that sense, we do not see a reason to change. What we always take into consideration is that in the future Basel will come and make RWAs a little bit more stable. However, IFRS with stage 2 migration, might make things more volatile. So we always look at whether we should also adapt our capital strategy to that. No, we have not yet concluded that but please be aware that the level what we are paying, no matter what form we are looking, we are quite comfortable with.

- **Jose Coll – Santander**

Two follow-up questions, please, on Turkey. You guys had a strong quarter in Challenger & Growth Markets and Industry Lending. Could you give us some detail regarding what was the contribution of Turkey to the strong performance, including cross-border lending?

Secondly, I appreciate the progress that you have made in reducing exposure to Turkey but I wonder whether we have already seen the lion share of the reduction or should we expect much more wind-down progress going forward? Also, are you currently allowed to pay dividends from Turkey to the parent company?

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Ralph Hamers – CEO ING: The contribution of Turkey to the third quarter result was actually a good contribution but it is a combination of the fact that on the one side, there clearly there is quite some repricing happening in that market as we speak but on the other side there is also devaluation on the profit that we make. So, I think, the overall contribution is what is normal. It is not something that is extraordinary and therefore, has caused the OC&G results to go up or down. So that is not a conclusion that you can derive. It is the combination of improved margin but given the devaluation, in euro terms, it is kind of stable-ish.

In terms of the reduction in Turkey, we have started this program quite some time already if it comes to the decrease of intercompany funding and we will continue to do so. This is clearly the hard-currency part of the funding, as we are working on changing some of our foreign exchange exposure to our clients into local lira exposure. With that, you do free foreign exchange capacity and with that, you can expect us to continue to decrease the intercompany funding. That will certainly continue. But again, we are a player in Turkey. We are committed to Turkey as a market and we will have to do this in a close collaboration with our customers as well.

Yes, so we have dividends from Turkey at this moment, it is not there is something we are currently discussing, but is there a specific idea behind your question there?

Jose Coll – Santander: Yes. If things turn even more sour in Turkey, you can leave CET ratios to [...] and start trying to pull money back to the parent company? That is the idea. Worse comes to worse, what can you do about it? If you can anticipate some of it and start winding down loans, but also getting money back from your subsidiary?

Steven Van Rijswijk – CRO ING: First of all, our capital there is very limited and you see basically that we are getting repays from our loan source. That is basically the way that we are

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reducing the exposure from ING Groep to Turkey, but there are no capital controls in this regard. So we can freely distribute in terms of what we think we should distribute.

Jose Coll – Santander: Thank you.

- **Alicia Chung – Exane**

Just a couple of questions from me. First of all on the capital. It looks like, for Q3 but also for a number for the last three or four quarters that there has been quite a powerful tailwind for capital from positive credit risk migration, so it is added about 10 to 15 bps of capital per quarter over the last year. And that is, obviously, quite significant, given that this broadly offsets the 15 bps negative impact from loan growth over the last quarter, for example. How long do you expect to benefit from this positive tailwind, from positive credit risk migration? What is driving in particular this quarter given that we are starting to see provisions creeping up?

My second question is just on the Financial Markets business. You had flagged that you are doing a review into the business and into the structural profitability of the business. I just want to get a sense for what kind of actions you would consider taking? Do you have any kind of update? You mentioned that you needed to do more in revenues and costs, but also is there more that you can do on RWA? So over the last couple of years, we have seen RWAs and Financial Markets falling about 6 billion but that seems to have slowed now. Is there more you can do to optimise this? How should we see that trajectory?

Steven Van Rijswijk – CRO ING: Regarding positive risk migration indeed, we have tailwind but we still see that coming through. The NPLs are going down, our forbearance are going down, the wash list books are going down and that also impacts capital. For the last five to eight years we have seen across the board that the larger composition and the calculation for our models still have an impact on our model and therefore, you see capital coming down. How

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long this will last, is the one million dollar question. Until now, we still see credit migration in the number of these books. Risk costs are also low. Yes, they are a bit higher than they were over the past couple of quarters. Again, that came from a number of Wholesale Banking files, which are largely unrelated. At the same time, the macroeconomic cycle has been positive for a number of years and that is why we also are more careful with regard to some of the books, which are more cyclical in nature, including real estate finance, including large leverage levels in the leverage finance or acquisition finance space and sometimes in longer-dated infra construction projects. There we become a bit more careful to at least cater for a change in the cycle if and when it occurs.

Ralph Hamers – CEO ING: The way we report Financial Markets is from a Wholesale Banking perspective. If you look at Financial Markets, including SMEs and mid-corporates business you see they are not making the 10% hurdle, but they are making 3% to 4% over the different quarters. The profitability and the whole structure are under review. Basically, you can think of any action from that perspective, because if you really want a structural review, you should consider everything imaginable from that perspective. Having said that, we have a decent business across the different countries and across the different clientele, it is just that at this moment and specifically also in the rates business it is a very slow business. As you know from also the other banks, that as there is a lot of volatility on the rates as a consequence there is not a lot of demand for hedging on the client side. We have a client oriented business and not so much a very big trading business. That is also why you have seen our RWAs going down. Also, from the perspective of the operational side with the further centralisation and the clean-up of systems the operational RWAs have also gone down.

I do not think there is a lot of scope to decrease that further, per se. On expenses, I think that also there, if you look at our new business models in Financial Markets also from an innovation and digitalisation perspective, there may be still a scope there to reduce expenses, either within

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the activity itself or you basically start something next to your activity. And with that, you build a new activity, which has a completely different kind of expense composition. But as said – and you can hear from my elaborate answer -- we are reviewing it as we speak. The moment of plan is ready you will probably see some of that coming through.

Alicia Chung – Exane: Thank you very much. Maybe just one final question. You have planned the Investor Day in March; do you have any initial views as to some of the things you would like to address?

Ralph Hamers – CEO ING: There are a couple of things that we certainly would like to address. We are, at that moment, in the middle of the transformation that we announced late 2016 and we want to give you a real thorough update as to where we stand in terms of the major transformation programs like Unite and Model Bank to give you feel for what we have delivered, where the milestones are, or what you can expect. That is one side. On the other side, we also want you to experience some of the digital initiatives that we have taken; how some of these business are growing and why we feel that there is a still scope for further digitisation and business costs on that side? So that is on one side. And on the other side, we will also take you through some of the things we are doing on the Wholesale Banking side. This is a bit of the program. We have announced it now and clearly, in the next four to five months we are going to work on it and see what are the deep dives that would be really interesting for you to take you through.

- **Kirishanthan Vijayarajah – HSBC**

My first question is to just really trying to understand the decline in shareholders equity in the quarter. Obviously, paying the interim dividend is the biggest item but I just wondered how much of an impact Turkey and the devaluation of the lira have that through the FX line in

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shareholders equity? And actually, has there any of that then reversed, maybe recovered a bit post quarter-end?

And then just going back to the Wholesale Bank and your self-imposed cap on leverage finance and the real estate books, is there a case to be a bit more proactive and actually may be managed down your exposures on those books, if you are really turning a bit more cautious on those? Maybe a bit ahead of the curve rather than - instead of a cap, actually manage down the risk here in bits of the portfolio?

Koos Timmermans – CFO ING: Yes, you are right on the shareholders equity, so that has come down. There are a few reasons. First of all, we accrue or we reserve all the profit. That is one thing. One of the two things that play a role are the FX side and on the FX side indeed you have seen that the Turkish lira was at September 30 at a weaker rate around 7, I believe, than where it is right now, because right now, it is around 6.32. So FX played a bit of a role there as well. The dollar plays a bit of a role as well and then the final one is equity. The valuation of the stakes also played a role. Those are the negatives on the absolute amount of equity.

Steven Van Rijswijk – CRO ING: Yes. Regarding the self-imposing caps: caps are only one element of how we manage these books in leverage finance. If you look at the final take as we take, those are no bigger than 35 million per entity. These are all, by the way, in unrelated sectors, so there is no correlation risk. In terms of covenants, we look at certain structures that we want to buy, otherwise, we do not take part.

In Real Estate Finance, we have something similar. We only look at certain durations. We still only look at certain cash flow and loan-to-value ratios and beyond that level we not take part. So the caps are one thing, indeed, but there are more ways that we are steering our portfolios within the risk appetite that we have.

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Kirishanthan Vijayarajah – HSBC: Understood. Thank you.

- **Bart Jooris – Degroof Petercam**

Two questions from my side. First of all, near the end of September, there was an article in Het Financieele Dagblad stating that you will have to roll back part of the move to London of your dealers. Can you give some information on this and where you are in the talks with ECB and what effect this could have on your cost saving?

My second question is a short question. In the last two quarters you had loan loss provision releases in the Netherlands in mortgages; do you still see room for more of those in the coming quarters?

Ralph Hamers – CEO ING: On the first question: we never comment on discussions that we have with regulators. I can just assure you that clearly there is a discussion around how you organise for your EU 27 business going forward and how do you make sure that you can cater for your clients on the continent? We think, we can do so and the discussions that we are having will not materially change the business case of having everything centralised in London. So that is what I can tell you. For that, we never comment on the discussion that we have with regulators, but it will not materially impact the business case. On loan loss or provision releases, I will give the floor to Steven.

Steven Van Rijswijk – CRO ING: The most important factor or an important factor and the driver for loan loss provisions and a decrease in that regard, is also the loan-to-value levels that we have, especially on mortgages. Now you see prices in this country going up every quarter. They have gone up quite steeply and that, in the end, then also has an impact on our models and also on the stages in which our loan losses go to from 2 to 1, for example. And

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that means releases. As long as these prices go up, that then actually means for further decreases in loan losses or releases.

Bart Jooris – Degroof Petercam: Thank you very much.

- **Marcell Houben – Crédit Suisse**

Thank you for the presentation. I have two questions left. The first is on the net interest margin. It has been holding up pretty well. I am just looking at the 2019 to 2020 level. Is it just a replicating portfolio that is pressing down the margins? Also on the lending side and on the asset side you have said that margins have been keeping up very well, including Belgium and Germany, which, to me, are a little bit a competitive market. So can you keep margins stable for 2019, 2020? Or is it other than a replicating portfolio pressing those down?

My second question is on capital. The language on capital seems to be a little bit more bullish, more upside there. On what level would you consider having excess capital? Is it above the 13.5 or is it above the requirement? Would you consider paying out extra dividends on top of the progressive at the end of the year if you are below the 13.5%?

Ralph Hamers – CEO ING: Clearly, you have seen that on the NIM side, we have been able to manage the pressure on the savings side very much by managing the savings rates up to now. On the other side, we have also managed the NIM by making sure that we have disciplined pricing and – this actually that this implies the pricing – we have changed the composition of our balance sheet on the asset side of the balance sheet towards higher-margin business. That has always been part of the strategy when we announced it five years ago that we wanted to be less depended on the lower margin mortgages from a risk perspective. And that supports the continuation of a higher NIM, which is what you have seen.

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Now going forward, depending on how the replicating develops itself and that is all related to how the yield curve develops, basically, we will have to manage it with strict and disciplined pricing, which in the end, will have to go up because you will have to keep more capital for it if you adjust towards Basel and also the continuation of the changes to the composition of the asset side of your balance sheet. So those are two levers through which you can still manage your NIM. We do not give guidance all the way into 2020, but certainly, for the next couple of quarters, we expect to continue to manage the NIM in the high 140s to low 150s. On capital. Koos?

Koos Timmermans – CFO ING: As we have stated previously, we have an ambition to keep it at 13.5%. Now that is an ambition and what does an ambition mean? It means, basically, that if we are at 13.2%, we are not falling off a chair, but it also means at 13.8% that we do not immediately, say that now it needs to be redistributed. You look at the number of factors. The factors you look at is, is there anything procyclical like IFRS 9, which warrants that you need to keep it? But the other thing you look at is, are there any interesting lending opportunities and do they give you a return, which satisfies you? And if the answer is no, nothing procyclical is happening and no, there is no interesting opportunity then you consider whether to give it back because then their money has no employ in the company. But before we are there, we see it as for the next two years to make sure that we accumulate over the next two years towards that Basel standard. But we will cross that bridge when we get there.

Marcell Houben – Crédit Suisse: Thank you. Just a follow-up, Ralph, on your answer on the net interest margin. Could you disclose the pressure from the replicating portfolio in the first nine months of this year, please?

Koos Timmermans – CFO ING: If you look at replicating portfolio, then clearly see the following. On the short term, so if you roll over your short-term reinvestments, we start to make

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a little bit of money because right now, the three-year swap rate is actually higher than the moving average over the last three years. On the five years it is kind of break-even, because that is where it is. Where you find that you are still 'leaking' in reinvestment, is on the seven and on the ten-year. If you look at the ten years over the last ten years, the average was higher than where you currently reinvested. So 1/10 of your portfolio is still rolled over at a lower rate. So you find a bit of a drag, therefore, more on the current accounts because that is invested longer than that you see that on the savings, because that is invested shorter.

- **Jason Kalamboussis – KBC**

I have some follow-up questions. First, coming back to the compliance, the number of compliance people that you have since 2010; can you just confirm that there was no hike in 2016? We have just a leaner progression of the compliance people you have since 2010?

The second question is on Belgium and just on costs. You elaborated in 2019 and 2020 and how a lot of things have back ended, but am I right to understand that in the fourth quarter we should still see a drop, notably due to the fact that you had a lot of people that consultants et cetera that will be leaving?

On Belgium on the impairment side: you gave the reason for the higher retail number in Wholesale. I think you say they are unrelated files. So should we see them more as a one-off or do you see more pressure general in the Belgium market?

Finally, just a clarification. You said that you see better margins in mortgages in Belgium. Is that correct?

Ralph Hamers – CEO ING: Jason, I will cover question two and question four and Steven will come back on question one and question three. So on the cost side. Yes, as I said, the program

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is back ended. There is a continuing reduction of FTEs on one side and on the other side, as we said, there is also some backfilling going on in order to ensure that we can continue to service our customers. So how that actually plays out in the fourth quarter, I am not going to guide on that. But structurally over time, the cost will go down. That is the reason why we did the transformation; it is a combination of improving the customer experience and also become more and more efficient.

On the Belgium mortgage margins, indeed, over the last quarter, we have seen that we have, been able to produce against a margin in which the new production, the front book, is a little bit better than the back book. Yes, absolutely. Steven?

Steven Van Rijswijk – CRO ING: With regards to compliance staff, we have been building up over a year since, but the increase is also on the back of more stringent legislation over the latter years has caused the increase to be higher in the years 2014, 2015, 2016 and before, but still we have been building that up and not only in the Netherlands, but on a global basis. So on the global basis, we went up from 600 to over 1,800 this year. When you look at the cost of risk in Belgium, indeed there are a couple of files there in Wholesale Banking and in business lending. If you look at the risk cost of Belgium over the past number of quarters this is nothing out of the ordinary. Again, with Wholesale Banking in one quarter you see a popping up a few files in one country and in the next quarter it is in another country. So, this is not particularly a Belgian issue or something like that.

Jason Kalamboussis – KBC: Great. Thank you.

- **Adrian Cighi – RBC Capital Markets**

I have just one question on fee income and one follow-up on Turkey, please. On fee income, you are growing at an adjusted rate of 7.7% year-on-year. But this growth rate includes

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Payvision contribution. Can you maybe help us quantify the underlying like-for-like growth and whether you still see the underlying growth picking up towards the 5% to 7% rate? Or does the 5% to 7% ambition include the contribution?

And then the follow-up on Turkey. Do you have any contributions this quarter that you would define as one-off either from hedging or from CPI links?

Steven Van Rijswijk – CRO ING: From Turkey, no. So there is no specific CPI links or hedging that have influenced the result on Turkey. I mean, we stay with our clients where we can but we also try to reduce the foreign currency book and only focus on foreign-currency-lending to client that also have foreign currency income, except when we have clients, for example, foreign clients, who will give guarantees to the Turkey subsidiaries. Then we will step away from it, but there are no particular one-offs in the country that are worth mentioning here.

Ralph Hamers – CEO ING: On your fee question Adrian, I think it is a good question to get that clear. Yes, Payvision is included. Even if you correct for Payvision it is a very small number. Payvision is going very fast. If you look at the fee number, it is a small number. It does not lead to a different conclusion. But you can expect higher fees to come from that in the future for sure. To correct it for this number now, you would not come to a different conclusion.

Adrian Cighi – RBC Capital Markets: Perfect. Very helpful. Thank you very much!

Ralph Hamers – CEO ING: If there are no further questions, I would like to thank you for being with us this morning. Thanks for attending this elaborate call. Just to summarise, clearly, the third quarter has been overshadowed by the fine and the settlements that ING had with the prosecutor in the Netherlands on the back of the investigations that identified serious shortcomings in the execution of our policies to prevent financial economic crime. I want to repeat that we regret this, that we take this very seriously, that we take full responsibility for it



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and that we have already been working on this enhancement program for the last 18 months and we will continue to do so in order to make sure that we do play our role as a gatekeeper thoroughly going forward.

On the other side, we see a quarter with a continued primary customer growth of 200,000 increase in the third quarter, continued net core lending growth at 6.8 billion, a continued fee income growth at almost 8% from a year ago, and we see strict cost discipline coming through. So on all levers, in terms of what is important to show that our strategy is working from that perspective, I think this is a good quarter. But again, it is all overshadowed also by the settlement itself.

Thank you very much, and if you have further questions, you know to reach our Investor Relations guys. Thank you.

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End of call

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Important legal information

ING Group's annual accounts are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS-EU'). In preparing the financial information in this document, except as described otherwise, the same accounting principles are applied as in the 2017 ING Group consolidated annual accounts. All figures in this document are unaudited. Small differences are possible in the tables due to rounding.

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assumptions and methodologies including changes in valuation of issued securities and credit market exposure, (13) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (14) changes in credit ratings, (15) the outcome of current and future legal and regulatory proceedings, (16) operational risks, such as system disruptions or failures, breaches of security, cyberattacks, human error, changes in operational practices or inadequate controls including in respect of third parties with which we do business, (17) the inability to protect our intellectual property and infringement claims by third parties, (18) the inability to retain key personnel, (19) business, operational, regulatory, reputation and other risks in connection with climate change, (20) ING's ability to achieve its strategy, including projected operational synergies and cost-saving programmes and (21) the other risks and uncertainties detailed in the 2017 annual report of ING Groep N.V. (including the Risk Factors contained therein) and ING's more recent disclosures, including press releases, which are available on www.ing.com. Many of those factors are beyond ING's control.

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