

THOMSON REUTERS

# FINAL TRANSCRIPT

Q3 2017 ING Groep NV Earnings Call

EVENT DATE/TIME: 11/02/2017 09:00 AM GMT



## CORPORATE PARTICIPANTS

**J. V. Timmermans** *ING Groep N.V. - CFO & Members of Executive Board*  
**Ralph A. J. G. Hamers** *ING Groep N.V. - Executive Board Chairman & CEO*  
**Steven J. A. van Rijswijk** *ING Groep N.V. - Chief Risk Officer & Members of the Executive Board*

## CONFERENCE CALL PARTICIPANTS

**Alex Koagne** *Natixis S.A., Research Division - Analyst*  
**Alicia Marianne Chung** *Exane BNP Paribas, Research Division - Analyst on the Pan-European Banks Sector*  
**Bart Jooris** *Banque Degroof Petercam S.A., Research Division - Analyst*  
**Benjamin Goy** *Deutsche Bank AG, Research Division - Research Analyst*  
**Benoit Petrarque** *Kepler Cheuvreux, Research Division - Head of Benelux Equity Research*  
**Bruce Allan Hamilton** *Morgan Stanley, Research Division - Equity Analyst*  
**Jean-Pierre Lambert** *Keefe, Bruyette & Woods Limited, Research Division - SVP and United Kingdom Analyst*  
**Kiri Vijayarajah**  
**Marcell Houben** *Crédit Suisse AG, Research Division - Research Analyst*  
**Matthew Clark**  
**Pawel Dziedzic** *Goldman Sachs Group Inc., Research Division - Equity Analyst*  
**Rajesh Kumar**  
**Sofie Caroline Elisabet Peterzens** *JP Morgan Chase & Co, Research Division - Analyst*  
**Stefan Rosenov Nedialkov** *Citigroup Inc, Research Division - Director*  
**Tarik El Mejjad** *BofA Merrill Lynch, Research Division - Equity Analyst*

## PRESENTATION

### Operator

Good morning. This is Patricia speaking, welcoming you to ING's Third Quarter 2017 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 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 and any forward-looking statement is contained in our public filings, including our most recent annual report on Form 20-F filed with the United States Securities and Exchange Commission and our earnings press release as posted on our website today. Furthermore, nothing in today's comments constitutes an offer to sell or a solicitation of an offer to buy any securities.

Good morning, Ralph, over to you.

---

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

Yes, good morning. Thank you, operator. Good morning, everyone. Welcome to the third quarter results conference call. As you are used to, we'll walk you through today's presentation. With me are CFO, Koos Timmermans; and CRO, Steven van Rijswijk.

Let's turn to the key points of the presentation today. We posted a net profit of nearly EUR 1.4 billion for the quarter, which marks a 2% increase year-on-year. On the retail side, we reached 10.5 million primary customers, which shows that we're well on our way to achieve our Ambition 2020 level. As you know, we recorded a lending growth of EUR 8 billion this quarter at resilient margins, and net deposit growth stood at just over EUR 4 billion -- EUR 4.2 billion. It shows how well diversified we are from a geographical and product perspective that really provides for a strong foundation for this growth.

We continue to invest in our digital transformation. Underlying operating expenses remain under control. I'd like to highlight the success of the early transformation programs in Retail Netherlands, where costs actually came down significantly. Furthermore, risk costs remain well below our through-the-cycle average, as you probably have seen already. We'll go into that later. And this all, growth on one side, stable cost and the low risk cost, contributed to a healthy 4-quarter rolling average return on equity of 11%, while our CET1 capital position remains stable in the quarter at 14.5%. That's the short summary.



Now the long summary. Moving to Slide 3 in the third quarter. Clearly, the Think Forward strategy is paving the way for a strong commercial performance. Given the pressure from the low-rate environment on savings, I'm happy to see that lending growth is outpacing deposit growth yet again. We see the mobile device becoming ever more important as a channel for our customers, so we're heading in the right direction in terms of where we want to invest and how we want to improve our customer experience. This helps us not only to grow in the number of customers and primary relationships, but also in improving the cross-buy ratio for those primary customers in the markets in which we operate. That's what you see there as well. Every region, we see an improvement there. And in the third quarter, we made a significant progress in the internal digital transformation.

In the Benelux, amongst other steps, decisions have been made on the rationalizing and/or merging the local products into what we call a single shared future product catalog, which is a starting point in order to simplify everything that is -- that comes from there. Overall, we also increased our digital investment spend in the third quarter.

We've accelerated the pace of innovation. We announced recently to increase our investments in fintechs to EUR 300 million. We launched a EUR 300 million investment fund -- a venture fund in order to support our strategy there in collaborating with fintechs. Over the next 4 years, the fund will focus on investments in both start-ups as well as companies that have gained already some market traction. The venture fund will build on the success that the current approach has brought us in the past 3 years. In fact, our current 115 strategic fintech partnerships need investments in order to keep improving customer experience. As one of those examples in our new partnerships, we have Scalable Capital, which is a partnership with a robo-adviser. Since the start of the collaboration, we have onboarded more than 1,000 customers every week in this new approach.

Part of helping the people and businesses to stay ahead is also to make sure that they -- that we prepare them for the world of tomorrow, and that is generally resembled in our efforts on the sustainability side of the business. I'm now on Slide 5. We have joined Madaster. And what Madaster does is they provide a so-called digital material passport for buildings, and that stimulates the construction with recyclable materials and stimulates the reduction of waste and encourages the investment in smart designs.

In the quarter, we were also involved in some groundbreaking, sustainable finance transactions like, for example, the green bond that we did for the Public Utility Anglian Water in the U.K. as well as a project finance deal for one of the largest solar plants in Australia. And I'm particularly proud of our strong sustainability ratings. We, once again, are included in the Dow Jones Sustainability Index, both the World index as well as the European Index for banks. And also, CDP awarded ING a position in its climate A List again. We're proud of progress of the transactions that we're doing, the collaboration that we're doing in this field in order to ensure that we truly prepare our customers for the world of tomorrow.

Well, let me take you through some of the results on Slide 5. These are the year-to-date results, the first 9 months. Underlying net result was nearly at EUR 4 billion in the first 9 months of the year, which marks a 10% improvement over the same period of last year. Even though the group common equity Tier 1 ratio has increased to 14.5%, we managed to achieve an attractive return on equity of 11% on a 4-quarter rolling average. So higher capital ratios and higher return on equity. That's a healthy picture. That's a good picture.

On the next slide, you can see some of the key drivers of these underlying results. Firstly, flat to high net interest income, which showed, if we exclude financial markets, an increase of 4% year-on-year. And that's despite the continued pressure from the low-rate environment. This increase in NII is very much a result of the continued lending growth that we report to you on every quarter, and that is supported by relatively stable margins on the lending side. So that's what you see over the first 9 months. Of -- growth in fee income of 12% year-on-year was broad-based and reflects an improvement in almost all segments and products, which -- with the relatively strongest increase in the retail challenges in growth markets, but you will see that later on as well.

On the expense side, again, the first 9 months of the year picture. Excluding the regulatory cost, the underlying expense base increased only slightly as the ongoing cost savings initiatives largely offset our digital investments in higher marketing and staff expenses to support the business growth. Also, very low risk cost. At this moment, we support the underlying result. Risk cost came in for the first 9 months at 21 basis points of average risk-weighted assets. And if you combine all of this, the revenue picture, the cost picture, the cost/income ratio is established at 53.8% on a 4-quarter rolling average basis, and that's an improvement as we move towards our 50% to 52% target range.

So much for the first 9 months. Let's dive into the quarter specifically. Slide 10. On Slide 10, we see that the underlying pretax result was up 6.2% year-on-year to nearly EUR 2 billion on the back of a robust net interest income, also healthy commission income growth and the annual dividend from Bank of Beijing and the low-risk cost, low if compared to the over -- if you compare to the through-the-cycle cycle average.

In the quarter, we continue to grow both our retail and wholesale loan books. Year-on-year, we do see some modest pressure on the lending margins in certain areas, and the pressure on the saving margins is alleviated somewhat by further cost savings rate adjustments that we did in the quarter or just before. Net interest income was partly distorted by our decision to end some hedge relationships. That's where you see the uptick on the net interest income of EUR 91 million there in the chart. It's a positive impact on NII, but this is fully offset by a similar decline in other income. So the net-net effect of the ending of some of these hedge relationships is 0.

Turning to Slide 11 then for you. Net interest margin was up 6 basis points for the quarter to 157. But the quarter-on-quarter move is largely explained by the technicalities of the earlier mentioned decision to end some of the hedge relationships, and that is contributing 4 basis points to the NIM. But again, from a line-by-line perspective, that is offset in order income, but it distorts the NIM picture by 4 basis points. It's not structural. We can go into that later as well. And then we have the 2 basis points of uptick from the higher interest result in financial markets that we kind of show you every quarter as well because that is somehow volatile as well. So overall, a good picture. Stable NIM, if not increasing NIM. It's a good picture here.

A correction for the 2 items I said. We would have come out at 151 basis points, and that's at the higher end of the range that we guide you for, which is the high 140s to the low 150s.

Turning to the core lending, Slide 12. In the third quarter, we grew core lending at EUR 8 billion. It's actually above the 3% to 4% loan growth guidance on an annual basis. If you are used to this growth, it comes at good returns, meets our current risk appetite framework while we faced tough competition, so we're not changing our risk appetite and we're not changing our return hurdles. But we do see that the broad footprint that we have from a product and geography perspective gives us ample opportunity to find the right commercial opportunities.

This quarter, we saw the strongest contribution from the wholesale bank, again, particularly in General Lending and Working Capital Solutions. To a lesser extent, the real estate finance business, that is doing well as well. Growth of the wholesale bank underscores the strength of the franchise and the benefits of the diversification across the geographies and specifically also in the wholesale bank, the diversification across different industries and sectors.

Except for the Netherlands, there was also strong growth in all of our retail segments. You see Retail Belgium growing. You see Retail Germany growing. You see the Other C&G Markets growing as well. If you dive a bit deeper, this is more skewed towards mortgages on the retail side.

And just like in the second quarter, it's important to point that there was again quite a meaningful foreign exchange effect, which we exclude from the core lending numbers to show you what is really happening. From a balance sheet effect perspective, though, you have to correct this for your FX effect, which is clearly a dollar weakening against the euro, in which we report, and that has a negative EUR 3.8 billion effect you see in the chart as well.

Another way to look at our commercial growth is to compare the customer lending and the customer deposit growth. And it also touches something about how effective we are in further optimizing our balance sheet. You see it in 2 charts on Slide 13.

Now one of the main levers, as you know, to offset pressures from the low-rate environment is to make our country balance sheets more efficient by originating lending to partly replace low-yielding liquid investments in our Challengers & Growth Markets. It's the picture you see on the right-hand side. You see that, that is really happening with the gray bar, to the extent you have a color of that copy, or at least the top bar, the 33% you see going down to 22%. That is the investment portfolio. We are basically using those balance sheets more and more for lending, which is -- which helps us in optimizing the balance sheet.

On top of that, in our Challengers & Growth Markets, and that's the left-hand side of the slide, we see that customer lending is significantly outpacing customer deposits the last 2 quarters. And that is positive as well because it kind of shows that on one side, we are able to stem deposit inflow in order to ensure that we don't attract savings that may be loss-generating on one side. But on the other side, we see that the commercial management, in terms of attracting new customers, is not dependent on savings anymore because the commercial (inaudible) customer growth. This continues both in number of customers as well as primary relationships.

So it kind of shows that we really have turned the savings franchises over the last 4, 5 years into digital universal banks, and that's what you see here from a commercial opportunity. From a commercial momentum, we're not dependent on it. And from a balance sheet management perspective, we're not dependent on investment portfolio. And increasingly, we have the right assets in the places where we have funding. All of that helps clearly in protecting the NIM.

Now we'll move to Slide 14, which goes a little bit deeper into the commission income. The commission income rose 6.3% year-on-year to EUR 643 million. And again, it kind of shows that our bank-wide focus on primary relationships through which the cross-buy increases leads to fee income growing faster than NII. The increase in commission income was visible in all segments and nearly all products, with the relatively strongest in Retail Challengers & Growth Markets and Retail Netherlands. In Challengers & Growth Markets, the commission income growth is driven by the increase in the number of primary relationships, as I said. [They're] buying more products. We are increasingly diversified from a product range that we offer through our digital channels. So that really helps. The Netherlands is mostly attributable to the higher fee income on current accounts.

Quarter-on-quarter, the fees are down. Wholesale Banking fees in the second quarter benefited from larger deals and increased M&A activity, which partly explain the drop -- explains the drop here as well as there is a modest impact from foreign exchange to explain to the drop. Retail Belgium also had an exceptional strong second quarter due to the mutual fund inflow, which was not repeated in the third quarter. And if you remember correctly, when answering your questions last quarter on which percentage of the fees was structural increase, we already indicated some of this. We do see a structural increase year-on-year on the back of the change in our model to an increasing primary focus -- primary client-focused bank, which presents cross-buy opportunities through a digital offering and with that, an opportunity to further increase the commission income. And that's what you see as an underlying picture here. That's the good movement.

Turning to then on -- to the underlying expenses on Slide 15. It showed good improvement quarter-on-quarter as particularly the ongoing cost savings initiatives in The Netherlands are offsetting digital investments as well as higher cost to support the business growth. You see more or less flat picture here from a quarter basis on the underlying operating expense. Regulatory cost ticked up a little, and that -- if you compare it to last year, the previous year quarter, then you may remember that, that included a lower DGS contribution in Germany, and that's what distorts this picture from a year-on-year basis for this third quarter. As our expense base remains impacted by regulatory cost, we prefer to look at the fourth quarter running average cost/income ratio. The regulatory costs are just too volatile to any meaningful cost/income picture derived from a quarterly basis. That's why we have gone to a 4-quarter rolling average. You see that is a slight uptick here at 53.8%.

Benefits from the digitalization transformation programs will be back-end loaded. We stay committed, though, to our ambition to have the cost/income ratio be between 50% to 52% by 2020.

Turning to risk cost. The risk environment remains benign, very benign, with the overall NPL ratio for the bank at a favorably low 2%. Now clearly, that is because of effective risk management on one side. But on the other side, we just see that the economic circumstances help us as well. So this is why they are much lower than the below -- than the through-the-cycle average of 40 to 45 basis points.

In fact, the risk cost in the Netherlands were negative this quarter, as you can see, due to a release in the back -- further improving macroeconomic and housing market conditions in the country. A similar pattern is visible in the wholesale bank, where risk cost came in at EUR 46 million or only 12 basis points over risk-weighted assets. That's also supported by net releases for larger clients in Asia and the U.K., combined with some limited new additions during the quarter. So yes, it's a healthy picture. It shows us a good picture. It is far lower than the through-the-cycle average of 40 to 45 basis points, but this is cyclical. So let's not fool ourselves.

Now we turn to ING's capital position. CET1 capital ratio was stable at 14.5%. The capital position benefited on one side from the inclusion of the EUR 500 million of net profits for the quarter and positive risk migration. And on the other side, this was offset by a modest increase in risk-weighted assets due to the lending growth as well as higher operational risk-weighted assets. Again, we decided to reserve an amount equal to 1/3 of the 2016 total dividend in the quarter, which leads to a total dividend reserve after paying the interim dividend of EUR 0.24 in August of EUR 1.6 billion. Just to kind of remind you, last year, we decided that every quarter, we would reserve the dividend from our profit at -- in the first 3 quarters of 1/3 of the previous year dividend in order to ensure that we would have built a reserve to meet the same dividend payment. Then in the last quarter, depending on how the development is, we will decide on the progressiveness of the dividend.

And if we look at the total capital stack, this has -- this is a strong position of 19.8%, supplemented by more than EUR 5 billion of group senior debt issuance during 2017. And that laid the foundation for rating uplifts at bank level for both S&P as well as Moody's just this quarter.

Finally, looking at where we are versus our 2020 financial targets. First of all, CET1 leverage ratio, well ahead of minimum regulatory requirements. Happy with the progress of cost efficiency. We will keep doing more in order to reach our cost/income range to make our cost/income target to meet the range in 2020. We have again reached important milestones with respect to the transformation programs, which will help us in that regard.

Finally, on a 4-quarter rolling average basis, the group return on equity improved to an attractive 11% while we keep growing the lending book and face the pressure of a low-rate environment.

With that, I would want to open the floor to questions, but not unless I have actually expressed my gratitude for our staff. And the reason for that being is that we see the consistent focus on the implementation of the strategy. We see recognition in the market for this. We see recognition like being awarded Best Bank in the World, and we can't do this without all of the 52,000 staff working for ING being committed to delivering on this strategy every day.

So with that, I turn to the questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question is from Mr. Tarik El Mejjad from Bank of America Merrill Lynch.

---

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

Just one question actually on your dividend policy. Because as you highlighted, within 9-months '17, you've accrued your paid dividend 2016. So if you look at on consensus numbers, you have to accrue less than 10% of your Q4 numbers to deliver the consensus dividend per share. So what's your thinking about that? Are you looking to the -- go to CET1 ratio to decide on the discretion of capital? Or you'll stick with your, like, EPS growth kind of dividend per share growth? So what's your updated thinking on that? And how do you square that with the regulation and model?

---

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

I'll start answering the question, and then Koos will fill me in, for sure. For the moment, we want to be cautious on this. We want to continue with our guidance that, over time, we will pay a progressive dividend. We see a good, operating environment for the moment. We see that our strategy is working, that the capital is being generated. And what we decide to do with the capital has generally 3 -- we can use it for 3 forces: The first one is, how can we build capital in the future; the second one is, how can we support growth in the future; and the third one is how do we pay a dividend. Now at this moment, going by current regulatory environment, we are well capitalized. But as you know, there's discussions around changing the capital requirements, and we don't know exactly where this is going. I'm sure there's going to be follow-up questions on that as well. And therefore, we want to be careful in view of that. So that is kind of our way of thinking around the -- how we will deal with the dividend. Maybe Koos you can fill in.



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

Yes, maybe. So Tarik, one other specific point to add. The way of accruing distinctive from a policy, so what we do is the way of accruing by accruing already the last year in the next 3 quarters that is basically to make sure that we allocate some to our accrual reserve, but also add something to our equity. And our policy is basically something different, and that is just we have a progressive -- a careful progressive policy, and that hasn't changed. So that means like, yes, in Q4, we make up our mind, but don't expect major surprises because otherwise, we would have announced a different policy.

---

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

Okay. I mean, so just kind of a follow-up on that. I mean, on the level of capital where you'll be comfortable. I know that you don't -- you can't disclose that yet because you don't know the rules yet. But it seems that for the last 2 quarters, you favored growing your balance sheet and captured profitable volume growth rather than trying to build capital ahead of any announcements. So is it fair to think that's a level around 14.5%, 14.8% is level where you would feel comfortable as there's no need to rush and build capital ahead?

---

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

I think overall, you have it exactly right. That if we can grow whilst maintaining an ROE north of the 10%, that, that is something which we clearly like and that is what we are doing. What we find difficult, however, right now is to say whether 14.5% is the good number because we don't know the rules of the game going forward with Basel. But again, the first initial reaction internally is always whatever new capital system we get, can we price new loans with an ROE of 10% against new rules? And that's the first thing we have to answer. But before doing that, we need to know the rules.

---

**Operator**

Our following question is from Mr. Benoit Petrarque from Kepler.

---

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

Benoit Petrarque from Kepler Cheuvreux. The first question will be on the cost. I mean, clearly, Q3 shows that you get some impact from the transformation programs on the cost base. It will be clearly increasingly important going forward. We are 1 year from your update in November '16. You have been guiding at that time EUR 200 million of benefits in 2017 and \$250 million for next year. So I would like to understand where you are now. How much has been realized? And whether you are still comfortable on realizing actually an increase of the cost-cutting next year. And also on the digitalization cost, I think you are on track to generate -- or to pass the EUR 170 million investment in digitization this year. I think you were going for a slight decrease next year to EUR 120 million. Now given all what happened on the digitalization side, are you still comfortable that you will -- your investment in IT will actually decrease in absolute term in 2018 versus 2017? That's the first question. The second question will be on -- in fact, quite some undisclosed one-off items, which make the analysis per division quite difficult, especially on Dutch Retail. If I see the Q-on-Q development of the NII, I see an increase of EUR 35 million. I was wondering how much is kind of the underlying development if you strip out the one-offs there, I think you had a one-off on the [investment to try to] gain, especially considering the savings rates are now at 0% in the Netherlands. I like to understand what the Q-on-Q trend is and what your outlook is for next year in the current interest rate environment. And then maybe final question will be on the -- also on the cost side in the Netherlands, down EUR 75 million. Actually it links a bit to the first question I had. The cost reduction program is clearly visible there, but how much is kind of coming from the one-off provision release? I'd like to clarify that.

---

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

Benoit, yes. So from a cost perspective, the transformation program, as announced a year ago from an investment perspective, we're probably a bit behind in terms of the money that we are investing, and that is because of the different programs that we have launched. We have to make sure that they all land, that they're all aligned and that it's happening on one side and the other side. In some scenarios, we need regulatory approval, which sometimes leads to a bit of a delay as well. So in terms of the cash spend in this transformation as well as the -- for building the additional bank, probably in the 2017 investment, a little bit behind. That's one. Secondly, we do feel very comfortable that, that will not lead to further delays in terms of the savings to be reaped because the total period in which we are to generate the savings is the 2020, 2021, as we have indicated to you. So the savings from that transformation itself that we're going through in the next couple of years will be a little bit more back-ended. So that's for debt program. Now what we see specifically coming in as savings for this quarter and also for the year and why Q-on-Q and year-on-year you see that our operational costs are more or less flat is that the savings from previously



started programs, specifically in the Netherlands but also some in the wholesale bank, but specifically in the Netherlands, on the IT side and the actual decrease on the IT spend in the Netherlands, that's what we actually see coming in through the P&L. And that's why, overall, you see a flattish picture from an operational expense perspective, more or less. So that is what is happening there. Now specifically on the -- on your next question on the NII, I'll give the floor to Koos.

---

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

Yes. I think overall, if you look at the NII and you refer to the Netherlands, there is some higher income related to mortgages. And indeed, it's a transfer to the value how on which we make a one-off profit. So if you look at the normal volumes and the normal lending since their volumes are not growing, that is where you don't get the higher NII from. So we also had one other thing, and that was related to a company called Payconiq, where we made more incidental profit. So overall, I would say a part of the increase in NII was attributable to more one-off items. So underlying (inaudible) was more or less stable. So that is, in essence, what you've seen on that side. You also mentioned the Netherlands on the cost side. Indeed, we have a significant improvement there, and part of it is, indeed, what Ralph alluded to. It's just the programs which we have run in the past and they lead to lower expenses now and they lead to lower third-party stuff right now and you don't need to take more provisions because of new programs announced. So that is a big part of it. And then, of course, the other part was what was mentioned, the CLA provision, and that contributed to it as well.

---

**Operator**

The following question is from Mr. Bruce Hamilton of Morgan Stanley.

---

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

Yes. Firstly, so just details on -- I'm thinking of the last question. Is it possible to actually size the benefit of the, whatever it was, the mortgage book disposal in the top line in the Netherlands and also the cost benefit from the provision release? And then secondly, I guess, looking at the Belgium business. Clearly, I understand the seasonality (inaudible), but the NII dynamics and slight change Q-on-Q look particularly tough. Is that simply a function of no room to move on deposits and competitive dynamics on sort of new business? Or is there something else going on there? And then just finally on IFRS 9. You've given us a narrow sort of guidance range for the first time in banks. But if I can maybe ask how you're thinking about the cross sort of cycle impacts on your -- in the management buffer, given the procyclicality in new rules, whether that would be an addition to the management buffer you've historically run with?

---

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

Thank you, Bruce. I will take your question on Belgium, and then Koos will fill you in on IFRS 9. Regarding Belgium, yes, you do see here the impact on one side from the lower rate environment, the replicating portfolio that is producing lower returns versus a savings rate that you can decrease further in order to offset pressure from a low-rate environment. That's one thing. On the other side, we are growing in Belgium. We have commercial momentum in Belgium. So on the lending side, whether it's in mortgages, whether it is in SMEs or whether it's in mid-corporates, we actually see the book continuing to grow at stable margins. So the margins Q-on-Q are rather stable. And the combined effect of that leads to the pressure that you see on NII at this moment in Belgium. So there's no specific effects beyond that. It's business. It's pressure on return on the savings business versus a continuous growth of the lending book at stable margins. Koos?

---

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

Yes. Bruce, so sizing benefits and costs, overall, on the benefit, if you look at the sale of the mortgages, that's a low double-digit number, which we have. So on that part, we give you that benefit. The one-off on the cost side, we rather don't give it on the CLA. So there is -- we always have ongoing dialogues with our unions and everything. And sometimes you gain some, sometimes you lose some. So we rather say like there is something incidental in there, but we don't know a lot about that further. If we talk about the procyclicality of the new rules under IFRS 9, there, clearly, you know now that the start of IFRS 9 is giving us basically an impact in core Tier 1 terms of 10 to 30 basis points. The procyclicality and how that will develop over time, so if you have quarterly changes, we do not have that yet. We have early indications, but we find that too early to already test with you. I mean, we are working on the way right now to create structural scenarios because you don't provision on a best case, but also on a worst-case and a good case, and we are still in a testing phase of this. So no doubt, we will come back on that in the next quarter.

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

Maybe one thing on the IFRS 9. So if you look at the impact of the 10 to 30 basis points, in fact, it is not because of higher provisioning. It is because we are reclassifying part of the investment portfolio. And in the process of reclassification, that is where you will find the impact. It will lead to a more stable Retail reserve, but you'll take a certain upfront capital hit.

**Operator**

The following question is from Mr. Alex Koagne from Natixis.

**Alex Koagne** *Natixis S.A., Research Division - Analyst*

This is Alex from Natixis. A question from my side as well. I was just wondering on IFRS 9, just to come back on that. Thank you very much for the update, but what does it mean for your cost of risk going forward? Should we expect the cost of risk to go up, like, in 2018 due to the implementation of that? I don't know how we can read on the implementation of that above the first-time application. Second question is more on the contribution of loan to your balance sheet. I think on your Slide 13, you will see that mortgage represents what 45% of the balance sheet. Is that the number that you're pleased with? Are you looking for this contribution to decrease going forward? And I mean, what is the optimal income of -- breakdown of the contribution of each type of loan to your balance sheet?

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

Yes. So on the IFRS side, the question is, are cost of risk going up? First of all, we still make the same loans. So -- and if the loan is losing or not losing money, that is the ultimate part. And in that sense, I would say that is not changing. So the question is, are we now provisioning more and therefore, releasing more in the end? Or are we provisioning earlier and then releasing that later? That is the real question around there. I think the way how we look at it is that probably due to, what is called, Stage 2 migration in -- when you enter into a negative scenario, you start to take your provisions somewhat earlier, but that will lead to reductions later on. So you get a slight shift in the cycle, and that is all what we see there. But we don't necessarily see more provisioning because at a certain moment, the loan is still a loan.

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

Okay. Then to your question on the percentage of the loan book that is made of mortgages, Alex. When we launched the Think Forward strategy 2.5 years ago, we put up a picture in which we indicated that if the 4% of our balance sheet was made of mortgages and we indicated at that moment that one of the things that we have learned from the crisis is that you can have good assets. But if you have a concentration risk and good assets, it can still be seen as something bad by the market. And we wanted to move away from concentration risk in asset categories. Over the last 4 years, we have moved from the 54% to almost 50%. I'm talking ING overall. The picture that you are referring to on Slide 13 is the C&G numbers. The overall picture for ING is a move from 54% to 50% in 2016. And in our Ambition 2020, we move the percentage -- mortgages down to 48% of our balance sheet. That is the way we think things will go. That is the way we're managing the composition of our balance sheet on one side from a concentration risk perspective. And the other side, from the perspective that, as indicated, we're seeking for higher NIM loans as part of our balance sheet. And in order to ensure that we can do so, you reduce a little bit on the lower NIM percentage-wise, which is generally mortgages.

**Alex Koagne** *Natixis S.A., Research Division - Analyst*

Okay. If I can have one last question. On Basel IV (inaudible) I think not yet at this point of time. But I'm just wondering if you have any comment made on all the rumor or statement that was on the market lately around the 72.5% output floor? What does that mean for you in terms of implication and so on?

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

Yes, it's a good question. I get these questions all the time. And my first line, generally, is that predicting Basel has become an art. Clearly, at this moment, what we hear back is that there is momentum to do a deal. I don't think we're creating a level playing field. I've mentioned that before. What we should be trying to do is creating a level playing field, ensuring that the same risks should be treated in the same way rather than the same assets, as they are called, are treated in the same way. Because mortgages in one country are completely different from mortgages in another country. Bankruptcy laws are different. The roles that banks play on the continent versus the U.S. are completely different. However, despite all these arguments, one way or the other, there seems to be momentum to do a deal if and when both sides of the ocean agree on credit risk approach, the operational risk approach, but also the fundamental review of the trading book approach. And that's basically where there is not an agreement yet, and that is what makes that -- the Basel has not come to an agreement yet. That is one thing.

The second thing is that, indeed, what we hear back is that there is some discussion around settling on, from a credit risk-weighted perspective, a 72.5% floor of standard. We know and all of the European banks know that for -- every bank leads to an outlier situation from the statement that this should not lead to a more-than-significant increase in capital. We haven't seen any bank where it would not lead to more than significant from that perspective. So then we go back to the ECB and the SSM leaders indicating that they would not allow the Basel to lead to a more-than-significant capital increase for European banks because they are convinced that European banks are sufficiently well capitalized. You can also refer to the statement of EC Commissioner, Dombrovskis, that said, "Well, we don't need higher capital for our banks in Europe. And therefore, we will not support that." You should realize that everything that people agree in Basel is just an agreement in Basel. It is not law. It has then to go into European law. So that's where the next discussion will happen then. So before all of this, it will become something clear. It may take some time, and that's where we currently are.

---

#### Operator

(Operator Instructions) Our following question is from Mr. Pawel Dzedzic from Goldman Sachs.

---

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

Can I just start by following on your Basel IV remarks? So obviously, you said there was a lot of uncertainty as how the rules will be implemented and so on. Now most of the assessment studies that has been done has been done based on the consultation papers published by Basel back in, I think, 2015 and '16. And I was wondering, as you look at the proposals or maybe the sensitivities of new rules that are being discussed, have you seen any changes in the underlying framework when it comes to credit risk, operational risk, eligibility of IRB models and so on, that would make the potential impact much softer than implied by, let's say, over 70% output floor? And I think this is something that very recently was published by one of the Eurozone Central Banks that actually a lot of changes have been done in the background. And the second follow-up on Basel IV is the following. So the new Dutch government, it seems, lifted 4% leverage requirement, and I understand that this is

not a constraint for ING, but do you view it, as a perhaps, a welcome signal that should the Basel IV be very harsh for yourself, the new government and new policymakers in the Netherlands are much more willing to work and potentially lower your O-SII domestic buffer to account for that?

---

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

Yes. So on the Basel IV assessments, output floors after being -- you know, sort of tooling around with that, the answer is yes. Particularly on the mortgages side over time, what you have seen is that the standardized approach has been changed somewhat in a sense there is a form of a slotting approach on mortgages. So in other words, you have different buckets for LTVs and that gives somewhat a relief on the output floor. That is what we have seen as a big picture over the last half year. So that is some relief. Nevertheless, there are many open questions still around it as what was Ralph was saying, so I wouldn't know for instance if American banks are having a standardized approach included op risk in there or not. So there is still quite some things where, us banks, we are a bit puzzled around. So still to be answered further. More going back to the question on the Dutch government. Indeed, what I have said is we want to move more towards European standards with regards to the leverage ratio. Now on the one hand, you can say that's a pretty sweet thing in a sense that capital standards are going up potentially with Basel anyway. So if the leverage ratio standard goes down, I mean, that doesn't mean a lot, but you can also interpret it slightly different and that is that Netherlands might be converging somewhat more towards European standards. And then obviously, we are also looking at our D-SIB buffer and the D-SIFI buffer and see whether there is room for a lowering debt somewhat over time and moving more towards a level playing field on that element. So there's 2 ways how to interpret it. We tend to always look at it from the bright side of life, so we hope that we are moving slightly more towards European standards.

---

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

And can I just maybe as a second question, and it would be just on your results and a very quick one, clarification. Obviously, your impairments have come below EUR 0.5 billion for 9 months so far and your previous guidance on the last call was for EUR 1 billion for the full year. Can you give us some clarification as to what to expect in the fourth quarter? I understand there might be some pickup, but perhaps, quite modest.

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

Yes. Thanks there, Pawel. Clearly, the risk costs in the first 9 months have been relatively benign. Basically you see that on all areas, both in the wholesale bank as in the retail bank. Of course, we remain careful with industries such as oil and gas and real estate and acquisition finance, and we carefully watch markets such as Turkey. But at the same point in time, we see generally, across the board, the risks costs being benign on all fronts. And in that sense, we expect the risk costs to end up well below what we have seen in 2016.

**Operator**

Our following question is from Mr. JP Lambert of KBW.

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

Two questions. The first one is on the ending of the hedge relationships. So we have a shift up of EUR 91 million. For this quarter, how should we look at this going forward? Is this EUR 91 million going to remain stable or is it going to taper off or is it a one-off? Second question is regarding your fintech portfolio. Can you explain a little bit how you look at this and how you see like the priorities? Is based on return on investment? Is it based on the acceleration of transformation, the impact on the customer journey? You have a large portfolio. I wonder how you cluster and organize these investments.

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

Okay. Koos, you will take the first one?

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

Yes. So on the hedges. Indeed, what we do is we have quite a lot of derivatives for hedging purposes and we do that for mortgages, we do that for savings. So from time to time, we do 2 things: One is, end hedge relationships and that is where you -- particularly why you have short dated swaps and the other is we try to, from time to time, reduce the amount of hedges as well. So that gives us room to clean up the portfolio. In this case, what happened is this quarter is, indeed, that we de-designated some hedges and that means like you have a result of EUR 91 million and we expect that also in the next quarters to be there and that will only slowly start to taper off. What we will do is each quarter just tell you what the effect is so that you can calculate your normal NIM. So we talk about normal NIM and you always have this number in there by the case -- in case that it is in there, but expect it to be there for the coming quarter.

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

And Jean-Pierre, on your question as to how do we deal with the different investment opportunities that we have and how do we prioritize. The highest priority is always everything that has to do with compliance. There's a -- we don't need business cases for that. I mean, these are -- you need your license to operate. So everything that has to do with the compliance always has the priority. And then, on the other categories, whether it is from a foundational perspective, if you kind of take our strategy presentation, from a support (inaudible) perspective, new business perspective, a proof and in client experience perspective, all of those need to have business cases. Business case in terms of improving the Net Promoter Score, business case in terms of increasing revenue or a business case in terms of decreasing costs. So all of those are simply to the same principles of business cases apart from the compliance one. And that's the way we do that. We have a very strict governance around this in terms of you can't start a project without an approval from a central committee that reviews all of this, that has the same standards on every project, compares these projects, that also checks the progress of these projects. And then in the board, we are -- we review these every month. That is on the changed investments that we have. Now on the investments that we do with fintechs, which is related to the EUR 300 million investment fund, the way we look at that is that everything that we do there and every collaboration that we enter into needs to be aligned with our strategy. We are not a venture capital fund and I will repeat that and I think the story from our perspective is clear. We're not here in order to look and find -- look for and find best investment opportunity that makes the best return. That has nothing to do with our strategy. No, we're looking at those fintechs that can help us improving the customer experience, that can help us launching a new product like robo-advice or collaboration with Kabbage in entering into the SME markets in Spain and Italy and France in a completely different way, in a challenging way. That's what we're looking at. And if in those cases it is better to take also an equity participation, some kind of a risk participation in order to solidify that partnership, then we do that through this fund. And that is how we work.

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

On Germany, the expansion of the SME program, do you have an idea of the potential timing, because this will be a very attractive market, the automated lending?

---

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

The expansion of what, of the...

---

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

The SME lending.

---

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

So we are not -- so in terms of going into the SME markets, we've started to do that in a challenging market in Spain first, collaborating with Kabbage. We've been working with them now for 2 years. On the back of the experience, getting the algorithm right, getting the customer experience right, we've now chosen that as a platform to also go into Italy and France. We first want to see how it works there before we decide on other countries. But in Germany, we are -- for example, in Germany, we launched robo-advice and depending on the success we have with that, we will then also go into different countries. So every country -- in every country, we take kind of a different initiative and depending on the success, that will then become the standard for other countries to follow.

---

**Operator**

Our following question is from Ms. Alicia Chung of Exane.

---

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

Just a couple of questions for me. Firstly, going back on the cost. I noticed that in the Challengers & Growth Markets, it looks like costs have moved up quite markedly in the last quarter. Just wondering, is this the new run rate there given there is higher investment spend there and also higher growth? Or are there also some one-offs in there that we should take into account that maybe, going forward, it's a little bit lower? And then secondly, is it possible to give us an update on where we now stand with various litigation and investigation issues, such as this Uzbekistan case, the EC investigations into anti-competitive behavior across the Dutch banks? And also, can you quantify what the Spanish litigation provision is?

---

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

Okay, Alicia, thanks for the question. On the cost itself, the cost will grow in C&G. We have always indicated that we have different recipes for different areas. So in market leaders, we don't expect revenues to go up. We expect cost to go down and, hence, improve return and improve cost income. C&G, we have always said, if there is growth, and there is growth of revenue, we don't mind the cost to go up. So we are investing in C&G to grow, to reach more customers, launch new products, and through that, improve revenue both on the lending side, on the interest related side as well as on the commissions side. So the fact that you see in some parts of C&G, the cost go up, that is what it is. Now clearly, we see for this quarter, we see in C&G the cost inflation coming from the provisioning in Spain that we have indicated and Turkish foreign exchange rate. So those are 2 one-offs from that perspective. But the trend in cost in C&G can be up as long as the revenues are up as well. If the revenues are not going up and the strategy is not working, we will also have to be much more stringent with cost growth in C&G. On the litigation, I give that to Koos.

---

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

Yes. So, thank you. I think if you look at the litigation, we have the AML part, the anti-money-laundering. That investigation is about the on-boarding of clients and the money-laundering. On that one, we have not taken a provision yet because we cannot decide at the moment on both the timing as well as the size of what the provision will be. And since this investigation is ongoing, we cannot comment further on how this is progressing.

If you look at the other part, the anti-competition investigation, which happened or -- whether it's an investigation, I don't know, the rate which happened with our (inaudible) offices, as this is happening there, I mean, we cannot comment on what is happening on that part because that is not necessarily in our institution. So we don't know what the consequences of that will be. And then, if we look at the Spanish mortgages, maybe on the Spanish mortgages a couple of comments. This is about origination costs. So with regards to the provision, we

cannot disclose what we provide because we are appealing in some cases as well, so in that sense, otherwise, we are undermining our own position and we just have to await jurisdictional clarity going forward. In a sense, yes, we think we are provided adequately for what we know at this moment, but we have to await further how that goes.

---

**Operator**

Our following question is from Mr. Stefan Nedialkov of Citi.

---

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

It's a Stefan from Citi. 2 questions. First one is on fees and your strategy in that area. And the second one, unsurprisingly, on Basel IV. On fees, obviously, looking at the slides in your presentation where you talk about initiatives to drive fee income growth and something stood out. You say that you are selectively increasing the lending and payments fees to corporate clients and also you are reviewing the daily banking fees across your different markets. Obviously, your model, when you attract deposit relationships, has recently been a very low cost one. I was just wondering how increasing fees effectively without really adding value to the customer, as has been your philosophy, how that is likely to affect your brand in, say, Spain, France, Italy, et cetera? Or are we basically talking about just the small catch-up with the competition? Also on the C side of things, could you just give us some color on the proportion of fees that are derived from third parties in the various segments? So Belgium, Netherlands and also CGM? On Basel IV, I had a question on how the various buffers are likely to interact. Is it your understanding that the P2R and the P2G buffers already include component for risk weights so that if Basel IV comes in, the ECB can effectively automatically reduce those buffers down? Or is it unclear whether risk weights are basically unaccounted for in those pillars? And also on the P2G versus the management buffer. What is your thinking if Basel IV comes on? Would you be willing to reduce your sort of undisclosed management buffer and make it coincide more or less with the P2G requirement or would you still be stacking a pretty significant management buffer on top of the P2G?

---

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

Thank you, Stefan. I will answer the question on your fees and then I think Koos will go into the Basel IV questions. Now specifically on fees. I'd like to be clear. We are here to truly empower our customers. And with that, we feel that investing in digital is the way to go in order to ensure that we do deliver a differentiating client experience. At the same time, we have said that, while we're doing this, we have to develop a primary relationship and because we feel that primary relations, at least we know from research, they're 8x more loyal and 4x more valuable than product relationships regardless of the product. Regardless of the product. And hence, we are trying to develop relationships across the board, both in the Wholesale Banking side as well as in the Retail Banking side. If you develop these relationships across the board and you want to improve your cross buy, then you need new products. And many of the new products come with fees, brought in and with interest income. And therefore, we do expect fee income to increase over time. Now whether this is fee income that we charge directly to our clients or whether it's fee income that we get from third parties on the back of that, it really depends on the offering, on the product. It also sometimes depends on the local regulatory environment from that perspective. That's the one side. Now your specific question on the introduction of daily banking fees, I think, it's a good question. It's one of the discussions that we have had. Really, ING stands for an empowering brand, it stands for an efficient bank, it stands for a digital bank, and then you have to make sure that if you do charge fees and clients are to paying fees, there is a reason for that, there is a value added for that. And therefore, before we introduce fees also on daily banking, it really comes with the package that we then offer to our clients through which they can see the added value. If we don't see the added value, it's going to be difficult to charge the fees for it. So we are very careful to do so because, indeed, it may impact on our brand and we have to be very careful with that. With that, I'll give the floor to Koos.

---

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

Yes. So on the interaction of buffers, and buffers on buffers because we normally -- as we have a 4.5% minimum buffer, we have a 2.5% capital conservation buffer and then on top of that, we need a buffer, which is then called our systemic risk buffer. So that brings us already at 10%. And then we have our P2R, so that is a stress test buffer on top of that buffer that brings us with counter cyclical around to the 11.8% and currently we are at 14.5%. So you might say there is a buffer between all the add up of these requirements. And will that be reduced if Basel IV happens? Normally, you hold a buffer because of uncertainty and if Basel IV is clear, then we start to determine what the buffer will be north of the P2R requirement. So we would determine a management buffer and that management buffer will include the P2G. But the size of it will be determined by a few things. #1, volatility and that could be IFRS 9. #2, volatility because that could be based on our revaluation reserve or our [effectual] sensitivity. And then, the third element is RWA migration, which you might get because as you see we are living right now in a pretty benign environment. At a certain moment if a market turns you have both IFRS 9 against you as well as that

you have negative credit migration. So for these kinds of things, you want to hold the buffer as compared to your P2R, but let's first wait what the Basel requirement will be and from then on, we will say like, hey, what will be our buffer at that time?

---

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

Maybe to add. Clearly, we, as Koos is indicating, we are making this case that if regulators think that we are sufficiently capitalized as we speak, the CET1, EUR 45 billion, because discussing buffers and percentages, this is all very interesting. But in the end to EUR 45 billion of CET1 capital. Is that sufficient for a bank with the risk that we have on our balance sheet? Yes or no? At this moment, they're saying, yet it is. So whichever way you want to calculate things through Basel changes, whichever buffer you want to call or whichever percentage you want to determine because of whatever formula you think of, is EUR 45 billion enough? Yes or no? And at this moment they're saying, yes, it is enough. So if we go north from the EUR 45 billion, for whatever reason, the question can certainly be, "do we need all those other buffers, whatever you call them, and all those percentages, in order to improve?" And that is the only way to have the discussion. Because otherwise we continue to trick ourselves into percentages that represent completely different numbers of the underlying risk and that is the only way to have a clear discussion around all these subjects. I mean, we confuse ourselves to death as to how we want to calculate things and what kind of buffers and percentages we want to put on ourselves through. But in the end, for a bank like ING, is EUR 45 billion CET1 enough, yes or no? That is the question.

---

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

Ralph, just to follow up on your observations. I completely agree with you. Basel IV is effectively a change in regulatory accounting at the end of the day. But some of the comments, and some of these comments are coming from central banks is that capital requirements were not set in absolute euro amounts. They were set in basically percentages. And in order for the ECB to offset this regulatory inflation, basically, which is not necessarily based on any economic reality, you might have to basically bring your P2R and a lot of the P2Gs down to 0. So at the end of the day in Europe, you might have to have just the 4.5 plus 2.5 as an overall capital requirement at the CET1 level and that just looks bad from the point of view of the ECB. So we as analysts are just -- and everybody is trying to square these 2 things off with each other.

---

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

Same goes for us. So, yes. Okay.

---

**Operator**

Our following question is from Mr. Bart Jooris from Degroof Petercam.

---

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

Two questions on the results. What do you see on the potential for further provision releases in the future? I understand that maybe in Retail Netherlands, they may be more limited than in the Wholesale Banking. Can you give us a flavor on that? And second, can you just give us some more insight on your RWA growth? Could you elaborate on what caused the market RWA to increase and how that could evolve in the future and what was the FX effect on RWA?

---

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

Thank you, Bart. With regard to future provisions, basically at least in the short term, what we see for this year is that we believe that the risk was well become -- well below what it was last here. But I mean, that's only a couple of months. Clearly, there are always volatile portfolios and especially in Wholesale Banking, provisions can be relatively lumpy. So if you then look further head, it becomes a bit more difficult to predict. In the end, and I think also Ralph said it at the beginning, through this cycle, we look at a risk cost level of 40 to 45 basis points across a cycle and also in this cycle, we do not see that to be different. At least for now, we didn't see any immediate change in the economic environment. So for the short term, we continue to expect risk costs to be benign, but again, there are volatile sectors and there is lumpiness also in the wholesale banking books, so we need to be careful there. When it comes to risk-weighted assets, basically, this quarter, there was an increase of EUR 0.7 billion, which was comprised of volume elements, which is a growth in lending, which caused an increase of 3.3 and there was an operational risk increase of about 2.7. There was some risk migration in a mobile sense, so an improvement of the macroeconomic environment and there were decreases due to ForEx as well as a decrease in our market risk and that, in the end, made up --

that combination made up the RWA or the relatively limited RWA increase of EUR 0.7 billion. And in the end then, that's what you also see when you look at the composition of our RWA, which is largely credited, to some extent, markets and operational risk. I mean again the largest driver, all things being equal, will be the increase in our loan book.

---

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

Yes. But did you see more room for market risk decrease of RWA?

---

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

Can you repeat the question?

---

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

Do you see more room for further market risk decrease in the RWA?

---

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

No. Basically, that depends on our activities. As you can see, our CVA is rather limited. We always link our market activities to our client activities. When volatilities are low, the risk weights in that regard are a bit lower. But in the future, of course, and Ralph also talked about it, FRTB will be coming and that, in couple of years' time, could have an increase in RWA as an effect.

---

**Operator**

Our following question is from Mr. Kiri Vijayarajah of HSBC.

---

**Kiri Vijayarajah**

It's Kiri Vijayarajah from HSBC. I just wondered if you could share your thoughts on the impact of potential Dutch tax reforms, not just for your kind of blended corporate tax rate, but also what it might mean for the Dutch mortgage market? And if there are potential changes to mortgage interest deductibility and if there's a risk you could see an acceleration in mortgage redemptions, but just your thoughts on that will be helpful.

---

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

Yes. So the proposal of tax reforms are on different fronts. On the income tax, it goes hand in hand indeed with the proposal to further decrease the mortgage tax deductibility over time. And yes, it may mean that over time, you would see a further repayment or prepayment of Dutch mortgages if that is the case. But we should all realize that these changes are happening over a period of 20 years. So it is something that goes gradually over time. And therefore, it will probably not necessarily disrupt the markets themselves and also certainly not the way we deal with our clients and the income profile of our business. I mean it will just be a lengthy process. So that's the one on tax reforms, on the income tax and the tax deductibility of mortgages. On the corporate tax, there is going to be a decrease, at least that's the a proposal, of corporate tax on one side. On the other side, there's this discussion about tax deductibility of leverage. On the other side, we don't know the specific wording there and we'll have to wait until we see that whether or not that's effective -- -- whether that's going to affect us or not. Then in the end, I think, which is the news for investors is that there's a proposal to abolish dividend tax altogether, which should, I guess, be a positive.

---

**Operator**

Our following question is from Mr. Benjamin Goy of Deutsche Bank.

---

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

2 questions on your loan growth, please. First on the Netherlands. It seems like your net production is getting incrementally less negative. So wondering when we see a turnaround here and return to positive growth. And then secondly, on the wholesale bank, it feels like over the last 3 quarters, you're moving away a bit from your dollar lending and doing more in the Eurozone and General Lending in particular. So I'm wondering about the rationale here. Do you -- are you a bit more worried about, let's say U.S. dollar exports credit cycle, or do you just see more opportunities in the Eurozone, some more color will be appreciated.

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

Thank you, Ben. Specifically on the Netherlands. Yes, so we're increasing our market share in mortgages, for example. It has to do with the fact that we have a little bit more appetite on the longer end of the market, on the back of the clarity that the mortgage credit directive gave us from a prepayment cost perspective, but also there as you are used to. We do price longer assets, longer return on assets both on the Retail side as well as the Wholesale Banking side. And a different rate from shorter in order to -- not to have a legacy book under whatever proposals come from Basel. But we do see that we're picking up on market share there, which is offsetting the automatic repayment that is under the portfolio as well as the (inaudible) transfer that we do. That's on the mortgage side. On the SME side, we see demand picking up, which is almost equal to the current kind of level of repayments on that book. So basically we see the market turning there and that's the positive effect there. On the Wholesale Banking side, and Steven will fill me in, it is not so much a worry. We see a lot of market activity in the U.S., taking out bank loans that reprice at levels which are not sufficiently attractive for us. As you know, we're very disciplined in the way we price our lending. We see actually more activity also in the General Lending in the Eurozone. Therefore, we can shift our activities there and grow there. As you know, we benefit from a diversification in product and geography, but we keep the same pricing hurdles irrespective of the activities also on the Wholesale Banking side. Steven?

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

I mean, if you look then over the past 3 quarters, you see every quarter in the Wholesale Banking there's something else. So the first quarter was an increase in structured finance, then there was an increase in the ref and Working Capital Solutions. The third quarter, there was an increase in General Lending and Working Capital Solutions. So there is not a particular concern about the U.S. versus Europe in that regard. You see still growth continue on both sides of the ocean. We have a well-spread portfolio and the reason why we grew faster this quarter in General Lending and Working Capital Solution was, on the one hand, there were a number of larger corporate activities including M&A, which then goes and turns big underwritings and loans -- corporate underwritings on loans that has increased General Lending and moreover, we've grown our Working Capital Solutions business. That is our trade finance business, if you will, whereby on the one hand from supply chain finance, we focus on the higher rate of corporate for the unsecured loans and for the rate receivable portfolios, which is secured receivables, we grew across the board, and when the trading activity is picking up in Europe, i.e. in the Eurozone, that book is growing.

**Operator**

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

**Matthew Clark**

Two questions on net interest income, please. Firstly, on the hedge treatment change and the accounting distortion. Would you expect the impact to be at a similar level in coming quarters? Or is that a completely random, kind of could be positive, could be negative depending on market moves and how that affects fair values, et cetera. And could you also, if it's going to be persistent, obviously it will distort the segmental revenue trends as well, so would it be possible to get the full breakdown of the segmental impact? I think you've only given the impact in the Dutch retail and the corporate rather than -- presumably, there's a residual that also sort of affecting other divisions. And then second question also on net interest income. I mean, should we be worried that kind of pressure we're seeing in Belgium this year, we're going to see in Germany and the Netherlands next year or the year after as you run out of scope to cut deposit rates? Maybe if you could just give us some guidance on the medium-term outlook for the, I guess, the savings margin there.

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

So on the NII versus NIM because I think your last question is more on NIM versus NII. So yes, you can expect that from a NIM perspective, the income on the savings side of the business is under pressure, so the margin is under pressure. I mean, they're replicating portfolios in the end. If we reinvest at lower rates and therefore margins that we make that we normally offset with decreasing savings rates, and so the moment you have reached the bottom, we're not there quite yet, but there is margin pressure on that side. But from a NIM perspective, there's a couple of things we can do in order to still manage our NIM, which we have indicated already in the presentation. One is further balance sheet optimization; second one is to change the composition of the asset side of the balance sheet gradually, prudently, but increasingly improving and -- or changing the percentage, increasing the percentage of higher NIM assets. So those are 2 things that we do in order to offset the pressure that we see on the savings rate. That's the NIM. Over time, given the fact that we are growing our book, the NII should



increase, but it will -- but that's a different factor. I mean, we're growing the book and the NII will increase. And the NIM, we feel we can, for the foreseeable quarters, manage at the high 140s, low 150s. Now specifically on the effect of the hedge relationship, I'll give the floor to Koos as well.

---

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

Yes. So on that hedge relationship, so again, maybe to reiterate, we have EUR 91 million, which is basically now part of interest result and not part of other. So overall in the whole company, it's a wash. We expect that to be there the next quarter as well. Later on, we will guide for how long or when that will taper off, but expect it to be there next quarter. And if you ask a breakdown, it's 38 in the Netherlands, 23 in wholesale bank, 27 in the corporate line and 3 in Belgium. But again, please remind that, overall, it's just a different categorization. So in that sense, it's not a profit or a loss.

---

**Matthew Clark**

Just coming back to the NIM for a minute. I mean, you had flat net interest margin for a couple of years broadly and all the factors that you've mentioned, the balance sheet optimization, the mix shift away from mortgages have been present there and necessary to keep it flat. So I'm just wondering, if we look beyond the next quarter or 2 to the next year or 2, when you don't have that additional lever of falling savings deposit rates, can you still maintain that high 140s, low 150s margin outlook? Or should we be more thinking mid- to high 140s and waving goodbye to the great low 150s, is that what we've seen this year when you still have that scope to cut saving deposit rates?

---

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

Yes. I think you have -- I can see that you spend considerable time on analyzing this like we do. In essence, what you see is that overall for the next half year, the high 140s, low 150s we can guide. Also remind that we have kept our NIM flat despite the fact that in some of the countries, say, Belgium, we already have encountered that we hit a bottom in terms of what we can do with savings rate. So that means like it's not a matter of everything completely starts to change as of a certain date as this is already the case there. But you're right that in both Netherlands as well as Germany, you start to at a certain moment hit a bottom in terms of how low can you go lower with your rates. But we still have the other levers. We can still be smarter about the mix. We can still grow and we can still make sure that we reduce our investment portfolio some further. So there is room to do that. So that gives us some comfort over the next half year, how this goes. If you talk about 2 years out, please also note there, that if you look at the forward curve, you see interest rates at a certain moment increasing as well. So if then your reinvestment starts to be somewhat higher and you don't change your savings rate, then you might get an uptick. So it's, all-in-all, I would say for the next half year guidance, it's still around similar. So the high 140s, low 150s and that is where we see it and again we are also looking forward to (inaudible) at a certain moment taking some actions, but we haven't seen that yet, but a forward curve points to some alleviation there at a certain moment after a year.

---

**Operator**

Our following question is from Ms. Sofie Peterzens of JPMorgan.

---

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

This is Sofie Peterzens from JPMorgan. I wanted to ask about your loan growth in the retail, other -- on the -- or the NIM growth being a challenger on gross margins. If it's [still busy and up] this quarter. Could you just give a little bit more details from which countries you -- or in which countries that you're seeing the highest loan growth? And my second question is on TRIM. Do you have any update on TRIM what has the -- what have you discussions with ECB been so far? And when do you think you can give further details on TRIM?

---

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

Steven will answer the question on TRIM. I'd come back with the loan growth thereafter.

---

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

Yes, thank you, Sofie. So until now and we've told you before in September, the (inaudible) TRIM, the initial focus is on the mortgage books in the Netherlands and Belgium. Then, on the SME book in the Netherlands and then on all the trading models and in 2018, the focus will be on the low default portfolios which are the Wholesale Banking books. So until now, the initial focus has been on mortgages. I think [the

on-site] in the Netherlands is largely done and the Belgium is still ongoing. And as of early 2018, the SME portfolio (inaudible) will be reviewed. So those are the next steps. We've answered many questions, we've had lots of discussions, but official feedback from the ECB, i.e. an outcome, if that is what you're asking me, that will only come somewhere early 2018, at least, from the initial part of the TRIM exercise.

---

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

And then, Sofie, to come back on your loan growth, which countries contribute principal -- they all contribute, but specifically for the quarter, you've seen better performance in Poland, in Australia and Spain and Romania. But then there is also a -- we see growth across the different segments across different asset categories. So it is mortgages and specifically in countries like Romania and in Poland, it is also SMEs and mid-corporates.

---

**Operator**

The following question is from Mr. Rajesh Kumar of Société Generale.

---

**Rajesh Kumar**

Rajesh Kumar from Soc Gen Credit Research. Can you please talk about your 2018 issuance plan? You have still over EUR 8 billion opco senior maturing in 2018. Is it fair to assume that you'd like to replace those with holdco senior? And what about hold-co subdebt, any plans out there?

---

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

Yes. Thanks for the question. If you look at the issuance, broadly speaking, what we're doing as we don't need any money, is making sure that when senior debt matures, we replace it with op-co senior, so then we can fulfill our TLAC/MREL requirements. So that this broadly speaking how 2018 would look like. More specific plans on that side, we don't want to give. If you look at the Tier 2 part, there, what you've seen is we are well and comfortable within our Tier 2 jacket at this moment. Next year, you will have some grandfathering and, to be honest, so we already anticipated that. That is roughly speaking how our plan looks like. So lower on that part, a bit higher on the senior, but that is a recycling strategy.

---

**Rajesh Kumar**

Okay. So you are done with your 2017 plans? Or is there's some room out there?

---

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

We don't comment on exact issuance now, but we are always looking at markets.

---

**Operator**

Our final question is from Mr. Marcell Houben of Crédit Suisse.

---

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

I have 2 left. The first one is on the hedging strategy, there was a change, the EUR 91 million and the NII. Can you just explain to me a little carefully what exactly means the end relationship. What were you hedged against, does that not increase your risk profile of the entire bank or volatility? Can you just -- just trying to explain what happened there, what was the reason for the ending of the relationship? The second one is on the Belgium. Obviously, we've seen in the Netherlands quite a good performance on cost and I was just wondering when can we expect something similar for the Belgium market?

---

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

Maybe on the hedge relationship, first and foremost, it doesn't increase the real economic risk of a company if you relabel it from an accounting perspective. So a hedge is still there, it's only in another category. And what we do again, and what I said is like from time to time, you want to change some, where you look at your hedges and you say, like, "Hey, can I do with a bit less? And can I use hedge accounting a bit less?" So there, what you can do is, say, particularly short-dated hedges, which has low basis point values anyway, you move them a bit out of your hedge relationship. So that's exactly what we've done. But please note, it's more an accounting reclassification what you do than to say that you lift the hedge or eliminate it.

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

And then, Marcell, on your last question, specifically on Belgium. So we had a long negotiation with the unions and we changed some of the plans and the way that work out softening or reducing the impact on our employees. From a business case perspective, it doesn't really change. We are currently going through -- or we just finished the process, the wave 1 in the redeployment process, which means that people working in specific areas have to reapply where there are jobs, and there's less jobs, we realize that. But they reapply. And so the first wave, we have completed from that perspective. And there was 2,000 roles impacted in that first wave. And people on the other side are picking up the packages, the redundancies packages that we are offering. Wave 2 of the redeployment is ongoing as we speak. It has to do more with the branches and the client services and there will be 2,500 roles impacted in that. And that is ongoing as we speak. So in terms of when you can actually see it in the cost numbers, maybe Q4, but certainly Q1, Q2 next year, you should see some of the effect going through the cost line.

Okay. Those are all the questions then. And I'd like to thank you first for calling in again and going with us through the quarter. As always, your questions, your preparations, the way you follow us truly help us steer this company as effectively and efficiently as possible. So again, my credit also to you that you keep calling in, that you keep asking the questions and keep us sharp in the execution of what is seen as a successful strategy. We retain strong commercial momentum in both retail and wholesale and as reflected in the growth of our customer numbers, core lending numbers. The risk also are low as and reflects currently benign operating conditions that we see. And so we're happy with the quarter and we're working on a successful strategy of growing our customers and growing our customer experience. So thanks for now. And for further and more detailed questions, you know that our team from Investor Relations is always happy to take your calls. Thanks a lot. Bye.

---

**Operator**

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

---

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS THOMSON REUTERS'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2017 Thomson Reuters. All Rights Reserved.

