Balance sheet optimisation under Basel III

ING Investor Day

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Vice Chairman ING Bank

Amsterdam – 13 January 2012

Priorities

1. **Transition to Basel III**
2. **Balance sheet optimisation**
3. **Return on Equity**

Strategy for the coming years is based on two phases

2012 | End 2013 | 2015

Bank: Transition to Basel III

- Manage through the crisis
- Limit B/S and RWA growth
- Execute B/S optimisation
- Invest where needed to achieve operational excellence
- Further simplify the business portfolio and the organisation
- Prudent approach to capital and funding given unstable market conditions

✓ Basel III requirements met

✓ EC restructuring and Repayment of Dutch State complete

Bank Standalone

- Grow deposits across the bank
- Evolve ING Direct units towards mature business model using loans from Commercial Banking
- Grow the franchise without growing the balance sheet
- Resume dividend after restructuring and State repayment

ING has a good starting position to reach Basel III capital targets by 2013

	3Q08	3Q11	Targets	Actions
Core Tier 1	6.5%	9.6%	≥10%	• To be reached in 2013 • Strong continued capital generation and RWA containment
Leverage ratio	57	29	< 25	• To be reached in 2013 • Further reduction via balance sheet optimisation
LCR[1]		~90%	> 100%	• To be reached in 2015 • Further optimising the investment portfolio • Implementation as of 2015
NSFR[1]		~85%	> 100%	• Implementation expected as of 2018 • Uncertainty around definitions

[1] Excluding ING Direct US

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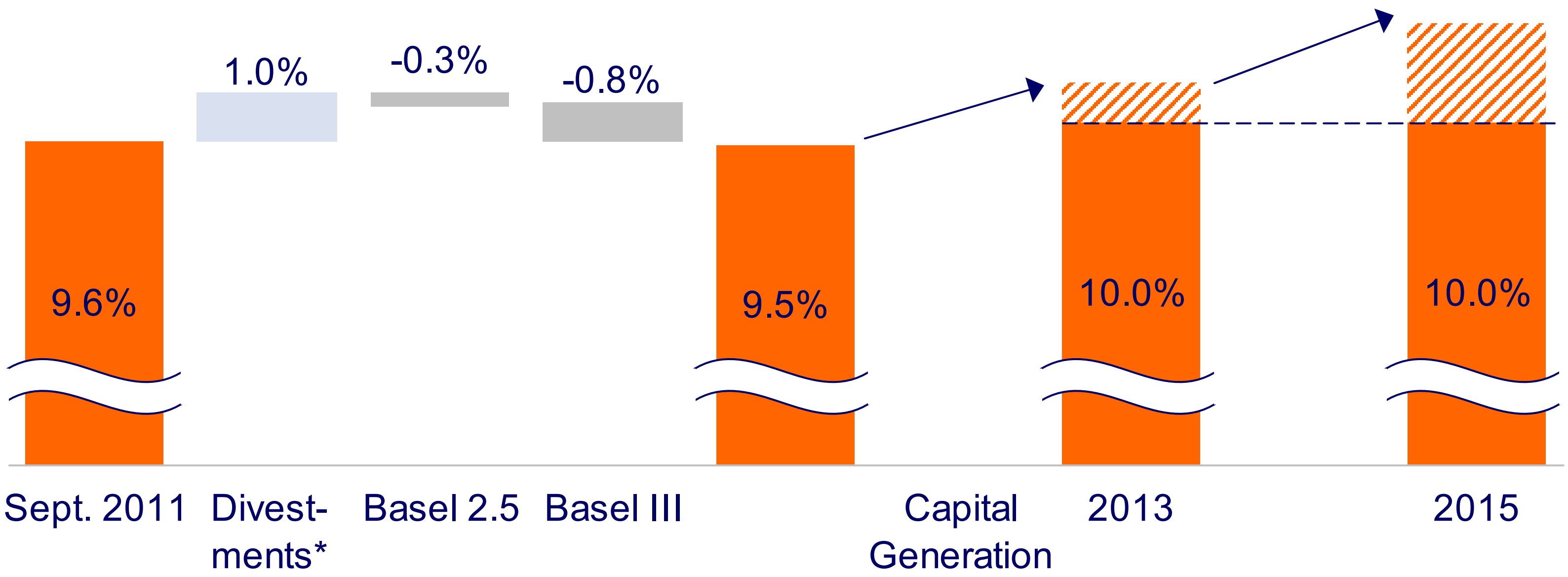
Core Tier 1 target of >10% to be reached in 2013



Strong focus on core Tier 1

- Strong earnings generation should enable ING to grow into Basel III targets before the end of 2013
- A further review of non-core assets in the Bank may also accelerate repayment of the State
- Dividend payments can be resumed post State repayment and restructuring

* Divestments include part of REIM and ING Direct USA

Basel III capital impact a manageable 80 bps by end of 2013

RWA impact implemented in 2013*	bps
IFRS assets below 15% threshold	-20
CVA and correlation	-50
Other RWA	-5
Capital impact in 2013*	
AFS Revaluation reserve	+10
Minority interest	-15
Total 2013	**-80**

Mgt actions 25 bps

-55 bps

- Basel III impact in 2013 is expected to be -80 bps
- This excludes currently identified management actions of +25 bps by 2013
- Currently identified management actions include adaption and de-risking of Financial Markets platform

Additional phase 2014-2018*

- AFS Revaluation reserve
- Pension fund assets
- Expected loss
- CVA derivatives
- Intangibles

-12 bps per annum 2014-2018

- -60 bps is expected to be phased in during the period 2014-2018 and based on figures as of 30 September 2011
- Total Basel III impact before management actions amounts to -140 bps
- This does not incorporate 25 bps DTA impact, which is expected to be utilised before the end of 2013

* Estimated impact based on figures as of 30 September 2011

Further optimising the investment portfolio will support the LCR

Automatically growing into LCR[1] target

- Liquidity coverage ratio will force banks to hold more cash, government bonds and covered bonds
- Liquid asset definition is currently very restrictive, which will likely impact margins for the industry
- To increase the LCR to the targeted level, we will
    - Reduce short-term funding
    - Increase long-term funding
    - Replace maturing non-eligible investment portfolio with eligible assets
- Regulatory observation period has started. Revisions to LCR to be made by mid-2013. Implemented in 2015

Based on indicative definition NSFR[1] ~85%

- Net Stable Funding Ratio metric has an uncertain status and is not expected to be implemented before 2018:
    - BIS scheduled to be implemented with a binding minimum ratio
    - CRDIV drafts of July 2011 do not contain NSFR calibration nor minimum requirement
- NSFR addressed via target balance sheet where long term lending and investment assets require stable funding in the form of funds entrusted, equity and long-term debt

[1] Excluding ING Direct US

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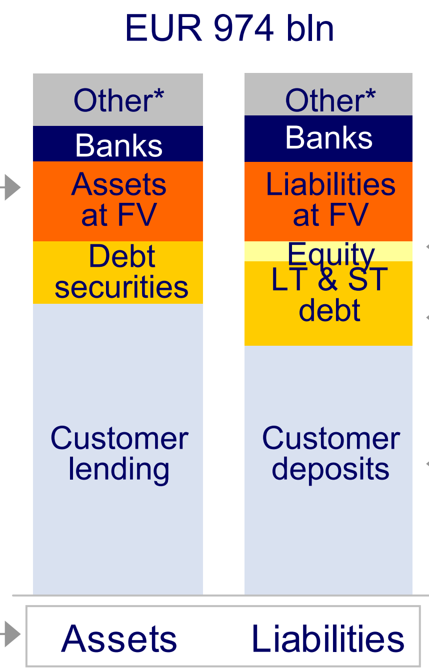
1. Transition to Basel III
2. **Balance sheet optimisation**
3. Return on Equity

Basel III is a catalyst to manage our balance sheet more efficiently

30 September 2011

Liquidity Coverage Ratio requires larger holdings of government bonds and other liquid assets

Limits on total asset leverage introduced



Increasing capital requirements will put pressure on returns

NSFR requires more long-term funding, putting pressure on margins

Increasing competition for savings will put pressure on margins

- Regulatory changes will put pressure on earnings and returns
- We can offset part of the impact of Basel III by managing our balance sheet more efficiently

* Other includes among others asset/liabilities held for sale

While some constraints require an optimisation of the product mix

…Basel III impact varying for different asset classes

	ROE	Funding		Leverage	LCR
		DGA[1]	LT funding		
Mortgages	🟢	🟠	🟠	🔴	🟠
Mid-corporate/SME lending	🔴	🟢	🟠	🟢	🔴
Lending Corporates	🟠	🟢	🟠	🟢	🔴
Specialised lending	🟢	🔴	🔴	🟢	🔴
Trading assets	🟠	🔴	🟢	🔴	🟢
Liquid investments	🔴	🔴	🟢	🔴	🟢

[1] DGA = Deposit gathering ability
Note: Constraints may differ per country

Balance sheet can also be optimised geographically to improve efficiency

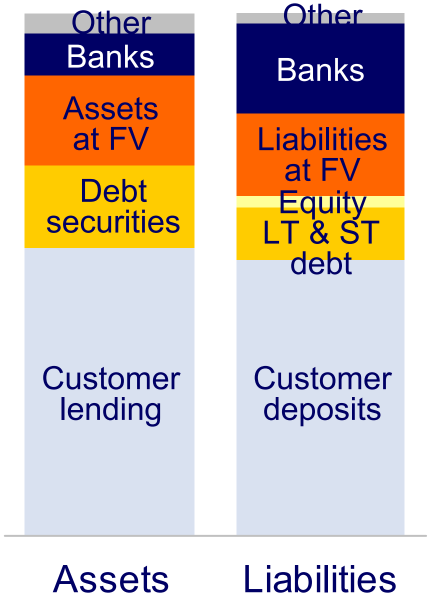
	Netherlands NV	Belgium	Germany	ING Direct[1]
Funding	Funding gap due in part to international assets being booked in Dutch NV	Funding surplus	Funding surplus	Funding surplus
Liquidity (CRDII)	Long liquidity in domestic bank compensating for shorter liquidity in international banking activities	Long liquidity	Long liquidity	Long liquidity
Capital	Adequate capital on stand-alone basis	Higher capital on local statutory basis	Higher capital on local statutory basis	Branches low; Subsidiaries high

[1] Excluding Germany

ING Bank has already significantly changed the balance sheet

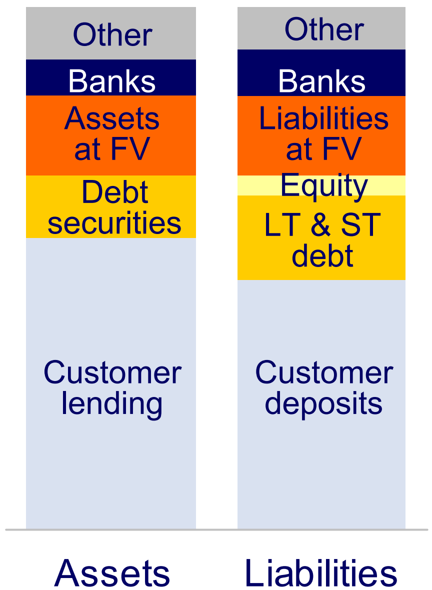
30 September 2008

EUR 1,076 bln



30 September 2011

EUR 974 bln



	30 September 2008		30 September 2011
CT1	6.5%	CT1	9.6%
RoE[1]	10.5%	RoE[1]	11.4%
LtD	1.04	LtD	1.15
Leverage	56.5	Leverage	28.8

Asset base carefully managed down

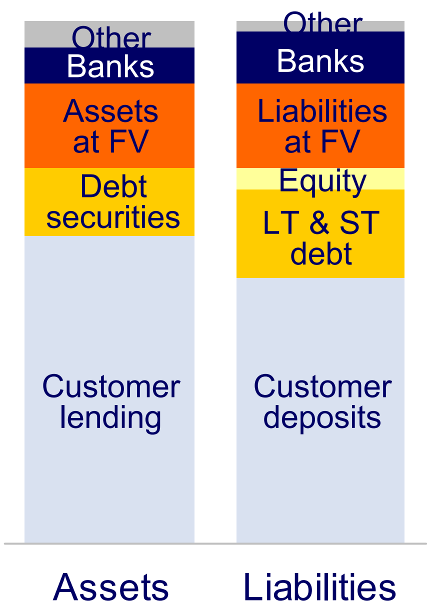
- Balance sheet reduction achieved primarily through reduction of investment portfolio and trading assets
- ABS exposure declined strongly
- Including divestments of REIM and ING Direct US, total assets would be EUR 915 bln and leverage would be at 27 and core Tier 1 ratio at 10.6%

1 Based on underlying net results and IFRS equity

But there is further room for optimisation while keeping balance sheet growth flat

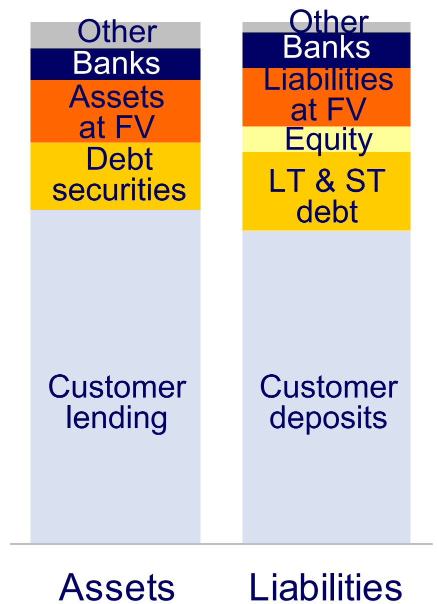
30 September 2011[1]

~ EUR 900 bln



Indicative 2015

~ EUR 900 bln



	30 September 2011	Indicative 2015
CT1	10.6%	≥10%
RoE[2]	10.0%	10-13%
LCR	~90%	> 100%
NSFR	~85%	> 100%
LtD	1.15	< 1.1
Leverage	27	<25

[1] Proforma excluding ING Direct US and part of REIM
[2] Based on underlying net results and IFRS equity

Optimisation

Liabilities

- Continue strong deposit growth
- Reduce short-term funding
- Conservative approach in long-term funding

Assets

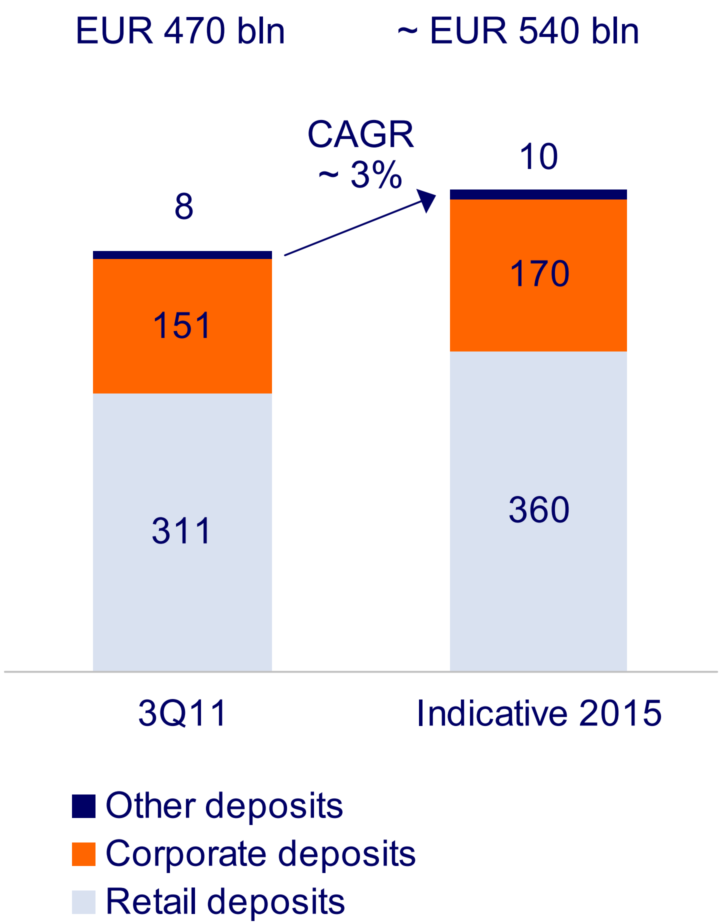
- Replace low yielding assets with customer lending
- Transform investment book into liquidity portfolio
- Reduce (non strategic) trading assets

Key priorities for balance sheet optimisation

Continue strong deposit growth	• Continue strong deposit growth at ING Direct and Retail Banking units • Increase market share in corporate and mid-corporate deposits by investing to improve Payments & Cash Management offering
Reduce short-term funding	• Structurally reduce use of short-term professional funding • Continue to increase and term out long-term funding as market conditions permit • Maintain diversified funding mix and conservative maturity ladder
Replace low-yielding assets with customer lending	• Reduce non-strategic trading assets to make room for growth in customer lending • Evolve customer loan book towards higher-return businesses while keeping low risk profile • Prudently re-price lending to reflect the higher cost of capital
Transform investment book into liquidity portfolio	• Maintain investment portfolio only as required for liquidity purposes • Further shift to high-quality liquid assets driven by favourable maturity profile
Balance sheet integration	• Eliminate cross-border inefficiencies by creating self-sustainable balance sheets which are locally funded • Income diversification enabling a more competitive offering for retail liabilities

Deposits – Continue strong deposit generation

Deposit growth



Invest in PCM network and increase corporate deposits

- Intensifying relationship management in Payment and Cash Management (PCM) services for (mid-)corporate clients
- Clear targets for commercial sales force
- Going for high liquidity value deposits
- Investments in trade and flow products (fee generating, low capital intensity)
- Supporting core Benelux franchise and network capabilities
- Supporting deposit gathering by cross-selling
- Investing EUR 80 million in the coming 4 years

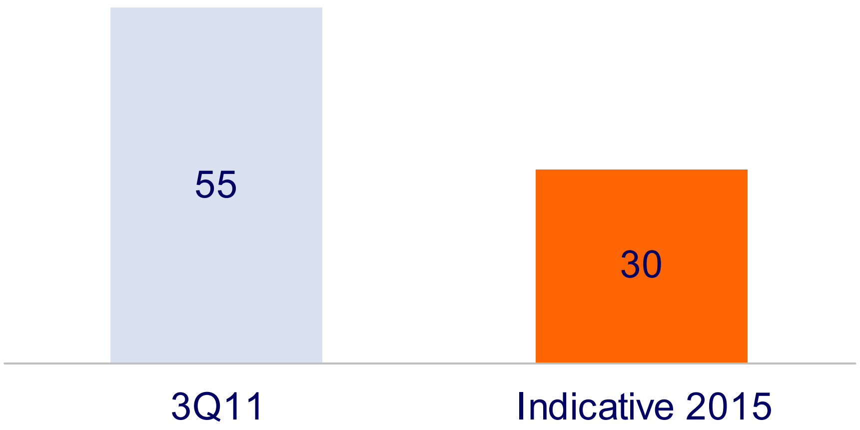
Continue strong deposit growth in Retail Banking

- Increase cross-buy by transforming ING Direct into a full retail bank
- Further innovative product offerings
- Introduce new savings products
- Growth is largely driven by Germany, Belgium and Netherlands

Reduction of short-term funding

Reduce short-term professional funding

EUR bln

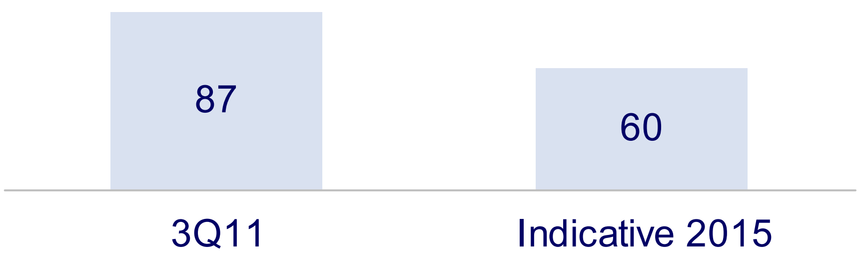


Short-term debt in issue

- Short-term funding partly opportunistically used for short-term assets
- Reliance on short-term funding is modest in relation to size and duration of total balance sheet (~5%) and versus EUR 155 bln eligible assets
- Both short-term assets and short-term funding will be reduced as we optimise our balance sheet:
  - Reduction of opportunistic trading opportunities
  - Further increase of client deposits and long-term debt issuance

Lowering amounts due to banks

EUR bln



Amounts due to banks

- ING Bank is seen as a safe haven and strong credit, which is why other Financial Institutions deposited money with ING
- The excess versus EUR 55 bln 'Amounts due from banks' was largely placed with Central Banks
- Exposure will be reduced to optimise the balance sheet and reduce leverage

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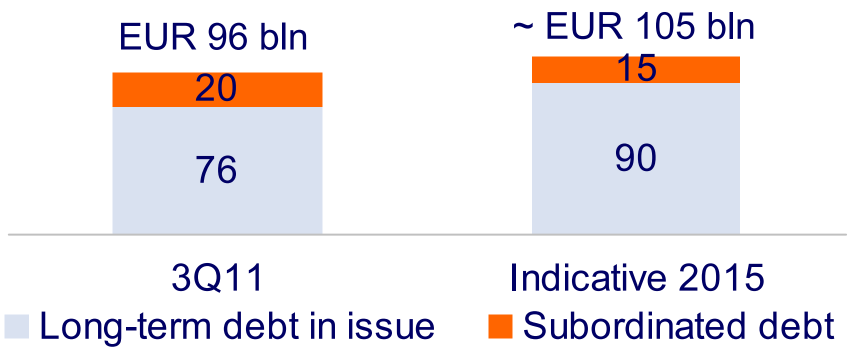
Conservative approach towards long-term funding with limited refinancing needs

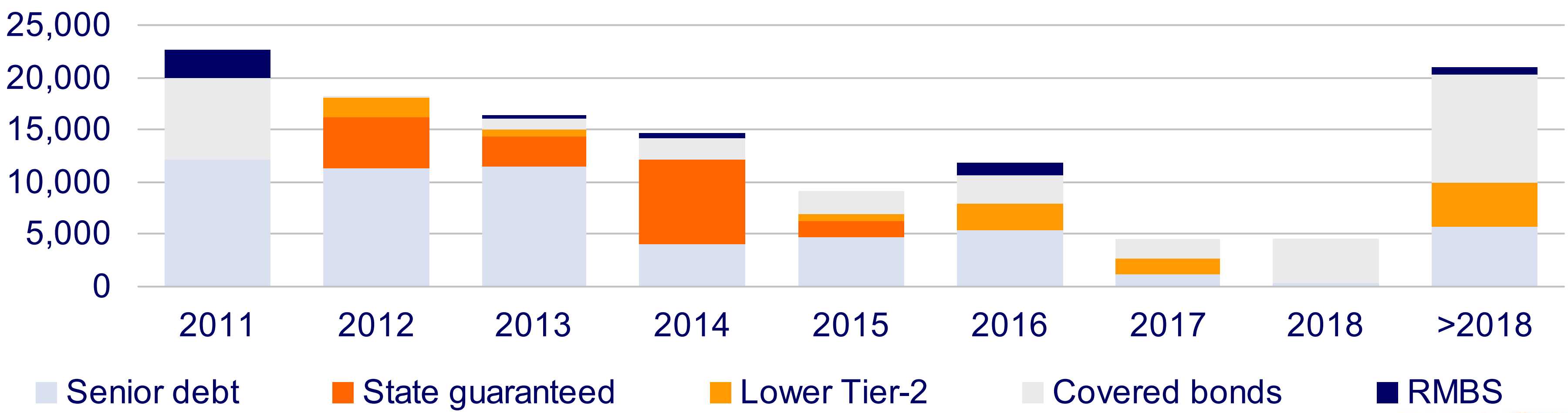
Long-term funding increase reflects conservative approach



Maintaining a diversified funding mix and conservative maturity ladder

- ING Bank partly pre-financed 2012 funding needs by issuing EUR 23 bln in 2011 versus EUR 10.7 bln maturing in full-year 2011
- ING Bank has EUR 18 bln of debt with tenor longer than 1 year maturing in 2012
- Year-to-date, ING Bank has already successfully issued EUR 2.75 bln

Limiting refinancing needs (EUR mln)



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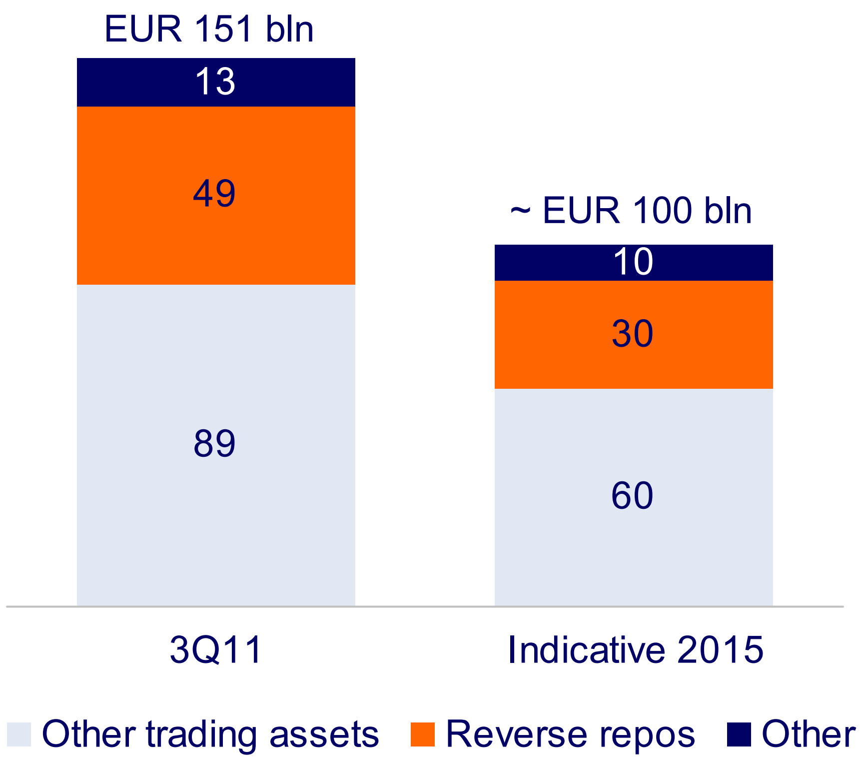
Reduce non-strategic assets

Assets at fair value



Reduce repo exposure

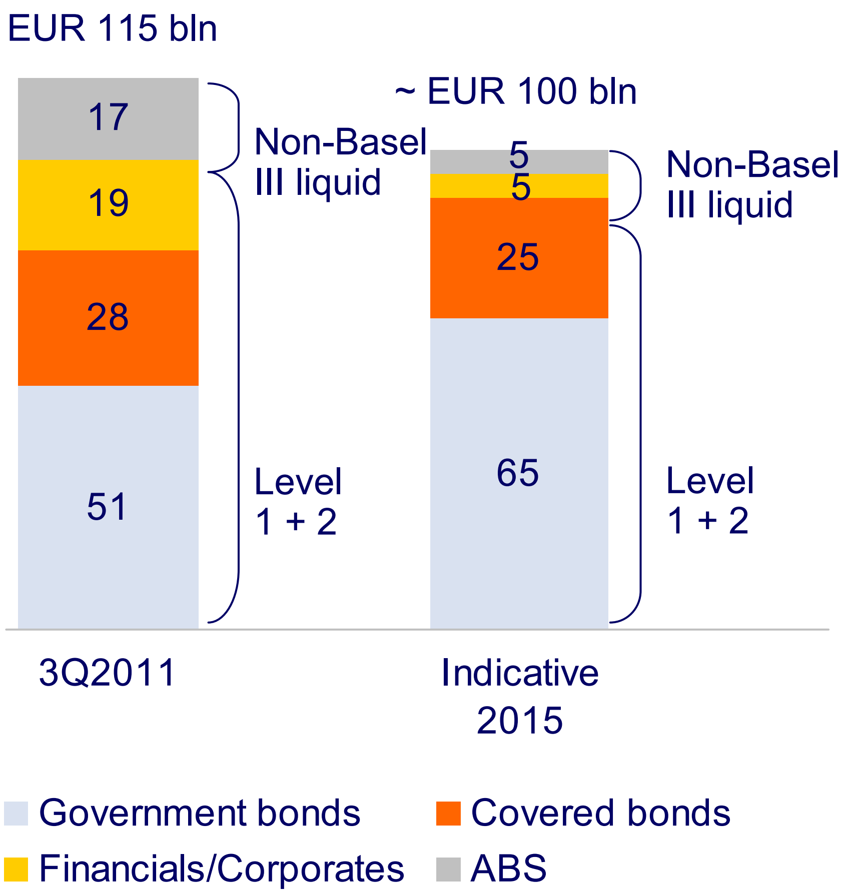
- Focus on client-driven business
- Lowering exposure to professional markets by reducing repo intermediation
- Impacts both assets and liabilities

Reduce derivative exposure

- Regulatory changes impose a stricter capital regime for CVA under Basel III
- Product re-design can help mitigate the adverse impact which will result in lower use of derivatives
- Interest rates expected to increase post-crisis in the coming years to 2015 (more normalised circumstances), which will reduce the market value of the derivatives
- Impacts both assets and liabilities

Transforming the investment book into a liquidity portfolio

Investment portfolio to be maintained for liquidity purposes only



NIM not significantly affected while liquidity values improve

- NIM preserved due to low historical credit spread
- EUR 68 bln will mature before 2016
- Re-investments in liquid assets deliver higher liquidity value

Investment portfolio actively transformed

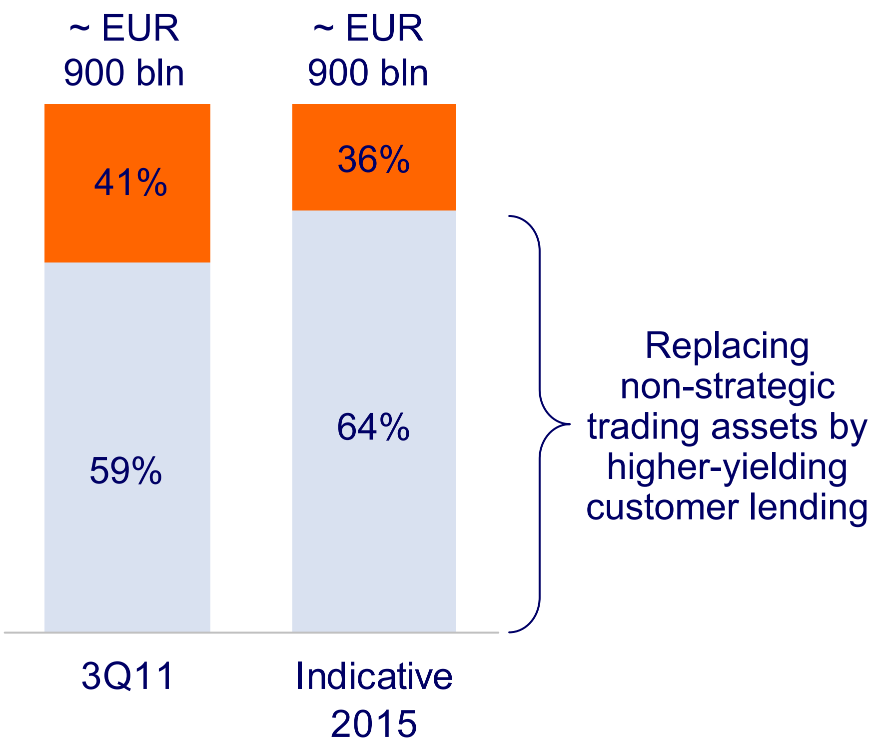
- Proceeds used to:
  - Fund client business
  - Redeem wholesale funding
  - Re-invest in covered bonds

Pro-actively reduced periphery sovereign exposure and ABS

- EUR 4 bln GIIPS sovereign sold in 2011
  - GIIPS exposure further reduced in 4Q11 by EUR 1.1 bln
- EUR 4 blon ABS matured in 2011
- EUR 0.6 bln ABS sold, preventing EUR 2.5 bln RWA migration

Grow customer lending

Proportion customer lending increasing



Selective shift to higher-yielding assets

- Balance sheet optimisation will allow us to continue to support our customers and grow our loan portfolio without growing the balance sheet
- Targeting growth in long-term assets at shorter durations
- Mortgage:
  - Mainly grow in our home markets
  - Divestment of WestlandUtrecht Bank should reduce mortgage portfolio of ING Bank
- Focus on growing in key market and product positions with high return businesses and attractive risk / reward characteristics such as Structured Finance
- Continue growth in SME and mid-corporate markets by using our international network

Balance sheet integration to result in higher return

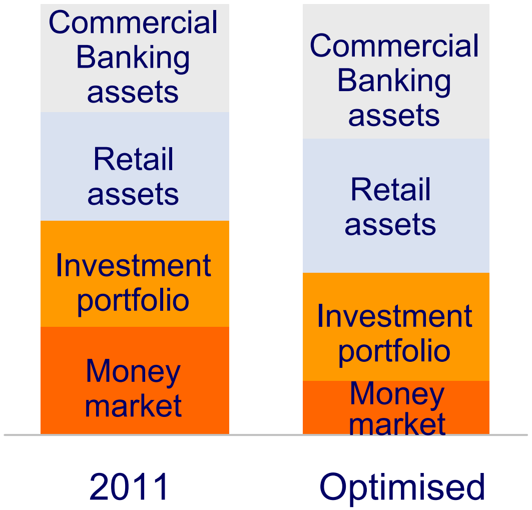
Balance sheet integration

- Align capital, assets and liabilities
- Reducing low-yielding investments with own-originated assets to optimise returns
- Balanced growth in Commercial Banking assets via organic growth and selected portfolio transfers

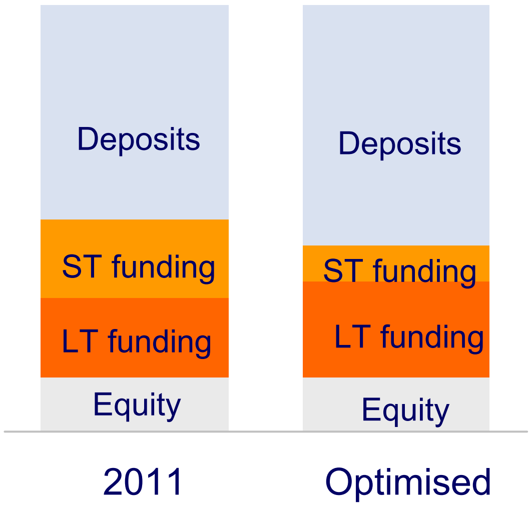
Eliminate cross-border inefficiencies

- Asset and liability generation to create locally sustainable balance sheets
- Income diversification enables more competitive offering for retail liabilities
- Diversified income drivers offering the full Retail and Commercial Banking product range

Assets



Liabilities



- Balance sheet integration initiatives have delivered EUR 23 bln and a further EUR 30 bln targeted
- An optimised balance sheet should result in a higher return on assets
- Within regulatory constraints

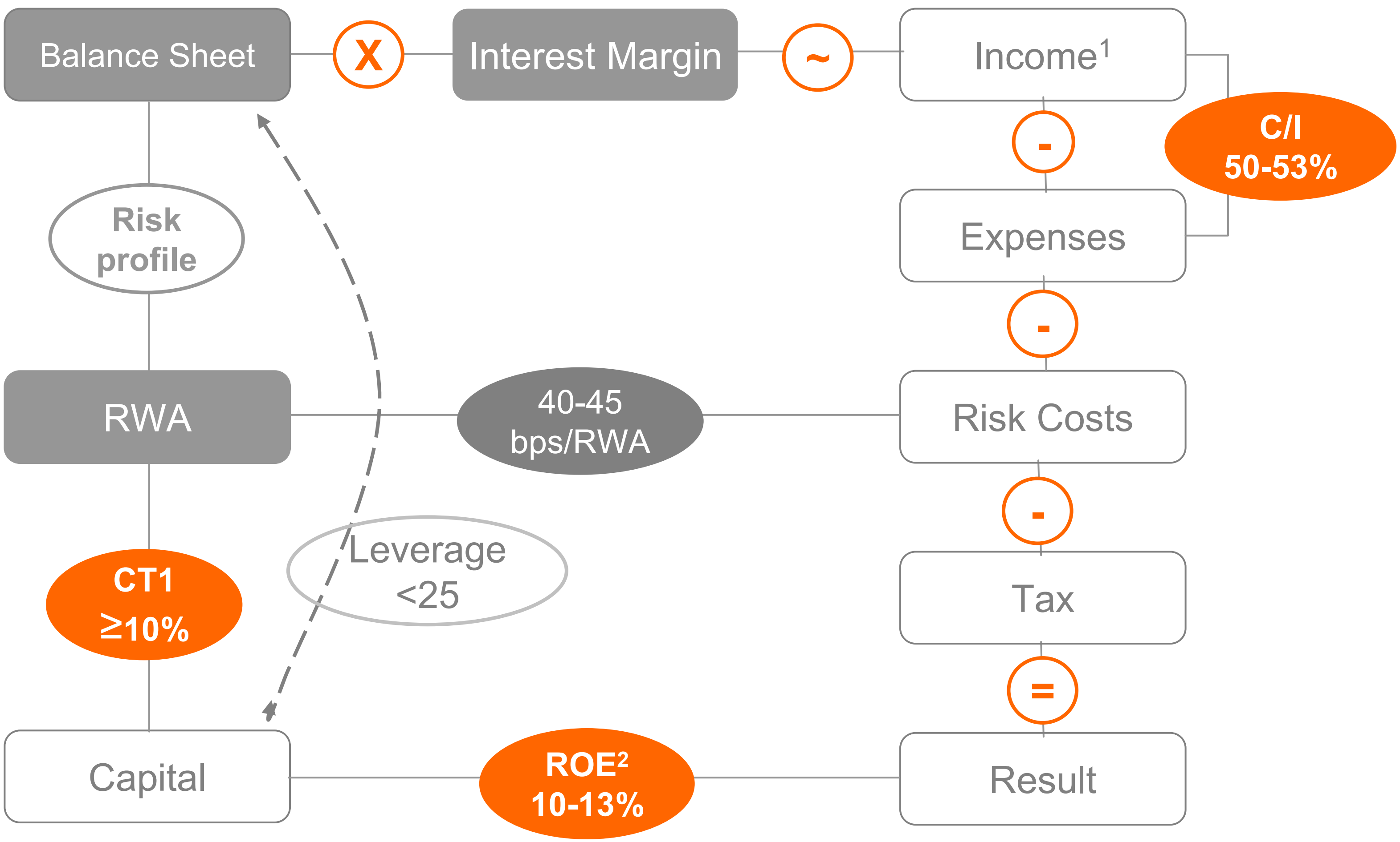
Priorities

1 **Transition to Basel III**

2 **Balance sheet optimisation**

3 **Return on Equity**

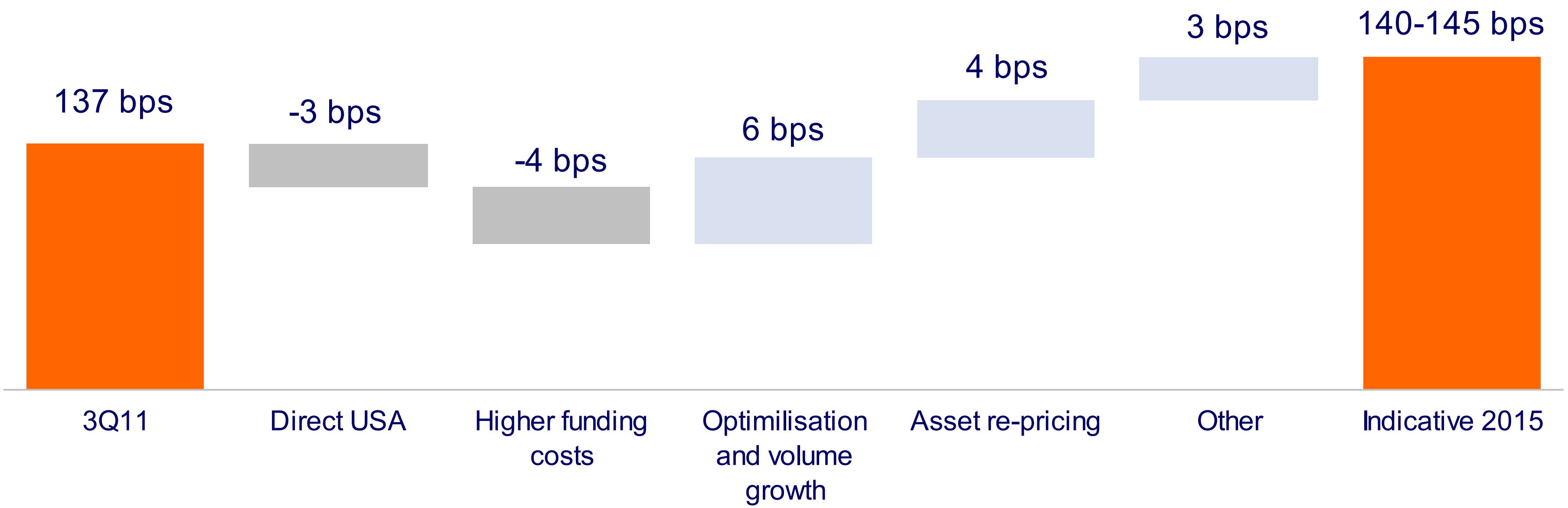
An optimised balance sheet should result in an attractive ROE of 10-13% under Basel III



[1] Income includes interest, commission and other income
[2] Based on IFRS equity

Basel III will put pressure on margins in the short term until assets re-price

Longer-term NIM should increase to 140-145 bps



Balance sheet optimisation and re-pricing to support NIM improvement

- In short term, margins are expected to come under pressure as funding costs and deposit rates increase
- Over time that should be offset as low-yielding trading assets are replaced by higher-yielding customer lending, and as assets are re-pricing to reflect higher capital and funding costs

Repricing and deleveraging are supportive for NIM

Replacing low yielding trading assets with higher yielding customer lending

- Historically, repos and derivatives are generating 2-3 bps of net interest income
- Replacing (part of) these activities with customer lending will result in an estimated 6 bps net interest margin uplift

Other positive factors

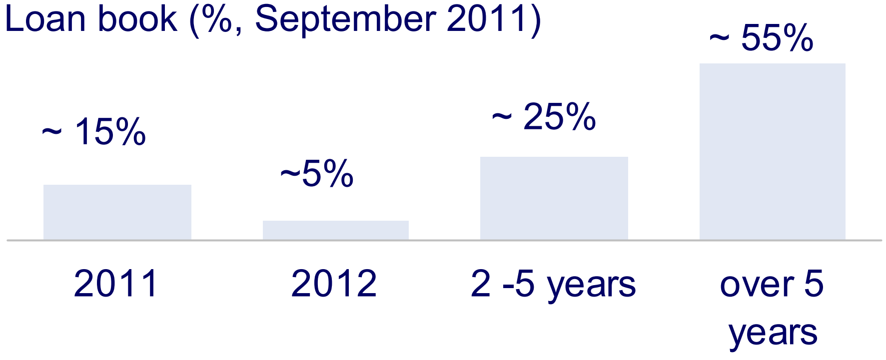
- The investment book was largely built up in years where yields were low (~ 11 bps on average)
- Replacing these assets will result in a comparable spread and higher liquidity values
- Higher retained earnings to meet higher capital requirements will earn an additional margin

Re-pricing mostly in business lending

- Pricing discipline (centralised pricing model) for new production and existing portfolio
- Review of non-core (low returning) client relations
- In Structured Finance, pricing is increasing again since June 2011

Run-off loan book (by contractual maturity)

Loan book (%, September 2011)



Optimised balance sheet still translates into 40-45 bps loan loss guidance

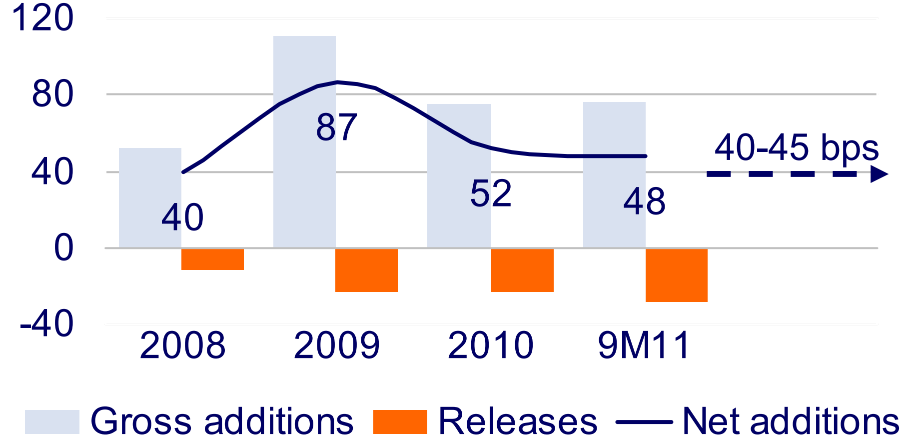
Good risk profile

- Conservative risk approach as risk costs declined (bps of RWA) while coverage ratio improved:
  - Risk modelling
  - Underwriting practices
  - Portfolio management
  - Collection and arrears
- Regional diversification:
  - Larger lending exposure to developed countries

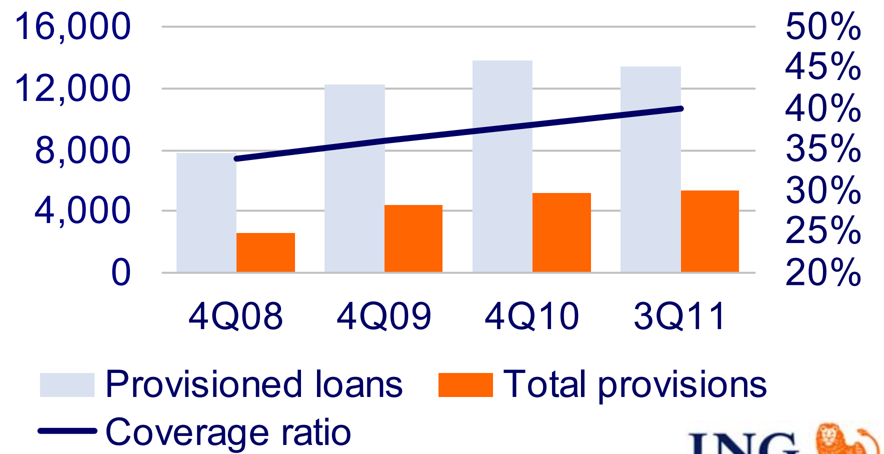
Loan loss guidance unchanged at 40-45 bps of RWA over the cycle

- Selective shift to higher-yielding assets (e.g. Structured Finance)
- RWA to increase due to Basel III
- Risk costs guidance maintained at 40-45 bps over the cycle

Risk costs at 48 bps of average RWA



ING Bank coverage ratio (EUR mln, %)



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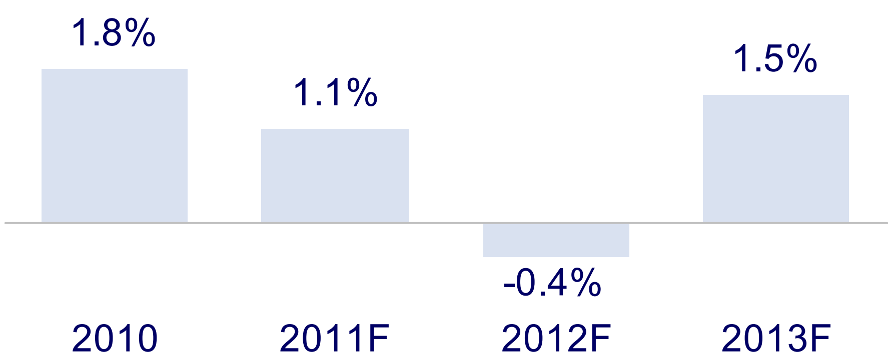
Risk costs may increase in the short-term because of economic uncertainty

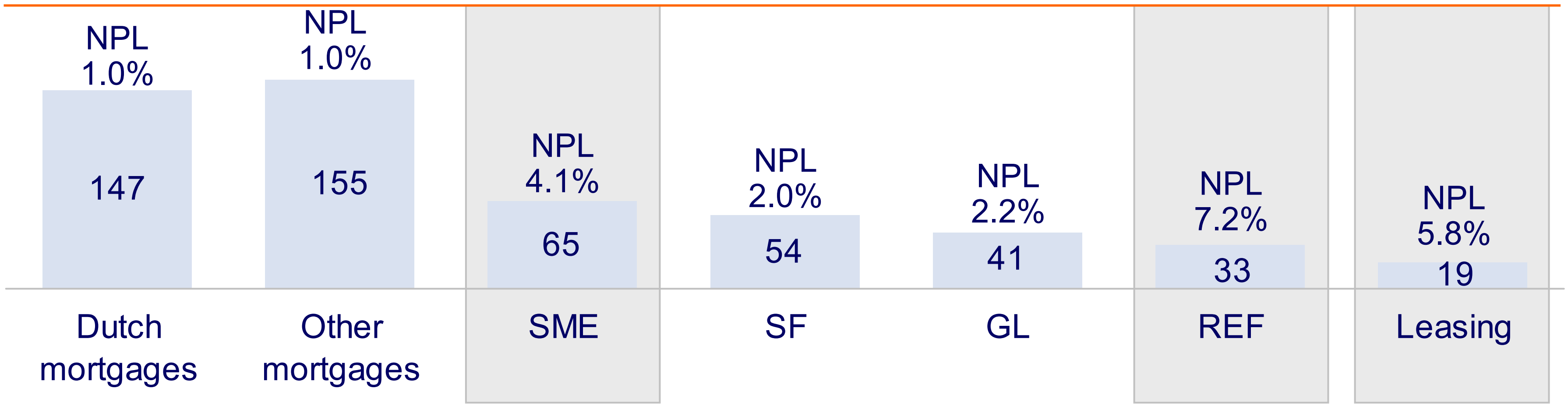
Uncertain economic environment

- Very uncertain economic outlook for GDP growth in EU, US, Asia
- Volatility in financial markets
- Sovereign debt crisis ongoing

Muted outlook Eurozone GDP (%, YoY)[1]



Early signs of weakening in the same portfolios as earlier in the crisis[2]



[1] ING Economics Bureau
[2] Based on credit outstanding

An optimised balance sheet would have higher earnings and less leverage

Assets	• Balance sheet to remain stable
NIM/assets	• Re-pricing and deleveraging to support NIM to 140-145 bps
C/I	• Cost/income ratio to decline to 50-53% in 2015
Core Tier 1	• Above ≥10% in 2013
RoE[1]	• Return on Equity to be in the range of 10-13% over the cycle
LtD	• Loan to Deposit ratio to decline to below 1.10
LCR	• Liquidity coverage ratio to move >100% in 2015
Leverage	• Leverage to decline below 25

[1] Based on IFRS equity

Balance sheet optimisation has been translated into KPIs to guide business line management

Core Tier 1 ≥10%	**Maximise Capital Generation** • Increase profitability while minimising RWA growth • Capital generation to fund repayment to Dutch State, grow into Basel III capital requirements
Cost / Income 50-53%	**Increase Efficiency** • Continue to improve efficiency through strict cost control and focus on operational excellence • Re-price assets where possible and diversify income
Loan to Deposit <1.1	**Improve Local Funding Profiles** • Grow deposit base in Retail and Commercial Banking • Optimise balance sheet by bringing assets to funding and capital-rich countries
ROE 10-13%	**Increase Returns** • Optimise returns by allocating capital to higher-return businesses and ensuring pricing discipline • Mitigate impact of Basel III on RWA where possible

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Disclaimer

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, the same accounting principles are applied as in the 3Q2011 ING Group Interim Accounts. All figures in this document are unaudited. Small differences are possible in the tables due to rounding.

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