



# ING 2008 Results

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# In 2008, ING posts full-year loss; banking remains profitable

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- ING's 2008 results were adversely impacted by the global financial crisis
- Turmoil in financial markets caused a sharp decline in results for ING's insurance operations
- Banking reported positive net results despite the challenging circumstances
- Steps taken to strengthen ING:
  - Several de-risking actions
  - Capital support facility of EUR 10 billion
  - Illiquid Assets Back-up Facility for Alt-A portfolio

# Key figures over the past five years

	2008	2007	2006	2005	2004
<b>ING GROUP</b>					
<b>Income (in EUR million)</b>	<b>66,291</b>	76,587	73,621	71,120	68,171
<b>Underlying net result (in EUR million)</b>	<b>-729</b>	9,241	7,750	6,234	4,959
<b>Earnings per share</b>	<b>-0.36</b>	4.32	3.57	3.32	2.71
<b>Total assets (in EUR billion)</b>	<b>1,332</b>	1,312	1,226	1,159	964
<b>ING Group debt/equity ratio</b>	<b>13.8%</b>	9.5%	9.0%	9.4%	10.2%
<b>Bank Tier-1 ratio</b>	<b>9.32%</b>	7.39%	7.63%	7.32%	6.92%
<b>Assets under management (in EUR billion)</b>	<b>551</b>	643	600	547	492



ING's capital and solvency ratios are within target



# Market deterioration led to significant impairments and negative revaluations across almost all asset classes

	FY08			FY07
(in EUR million)	Bank	Insurance	Group	Group
<b>Commercial result before risk costs</b>	<b>5,263</b>	<b>2,057</b>	<b>7,319</b>	<b>7,605</b>
Impairments, etc on pressurised assets	-2,039	-560	-2,599	-255
Impairments on equity securities	-331	-1,376	-1,707	-52
Impairments on other debt securities	-255	-520	-775	-43
<b>Impairments and losses</b>	<b>-2,625</b>	<b>-2,455</b>	<b>-5,081</b>	<b>-350</b>
Revaluations on real estate	-732	-452	-1,184	481
Revaluations on private equity		-399	-399	359
<b>Revaluations</b>	<b>-732</b>	<b>-851</b>	<b>-1,583</b>	<b>840</b>
Equity capital gains/ equity hedge	30	1,181	1,211	3,197
Equity related DAC unlocking		-567	-567	-5
FX hedge/Other*	-206	-600	-806	-83
<b>Other market impacts</b>	<b>-176</b>	<b>14</b>	<b>-162</b>	<b>3,109</b>
<b>Risk costs Bank</b>	<b>-1,280</b>		<b>-1,280</b>	<b>-125</b>
<b>Underlying result before tax</b>	<b>449</b>	<b>-1,235</b>	<b>-787</b>	<b>11,080</b>
Tax and third-party interests	273	343	615	1,872
<b>Underlying net result</b>	<b>722</b>	<b>-893</b>	<b>-171</b>	<b>9,208</b>
Divestments and special items	-267	-291	-558	33
<b>Total net result</b>	<b>454</b>	<b>-1,183</b>	<b>-729</b>	<b>9,241</b>

\* Other includes FX hedges and other market-to-market valuations

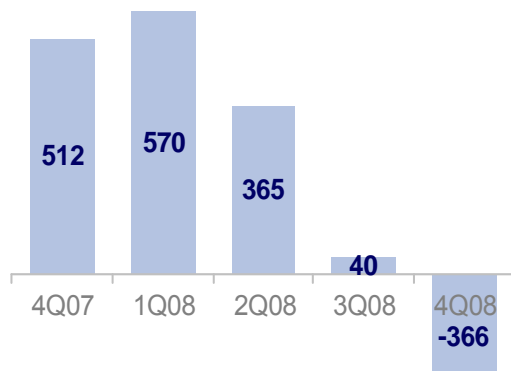
Numbers may not add up due to rounding



# Banking: Lower result driven by impairments, negative revaluations and risk costs

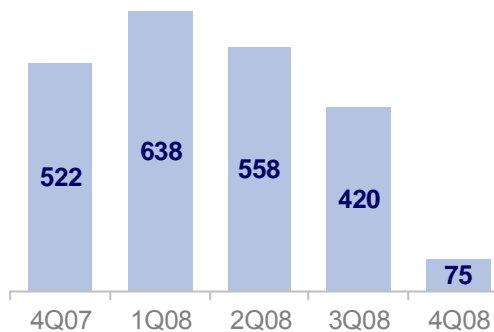
Underlying result before tax (in EUR million)

## Wholesale Banking



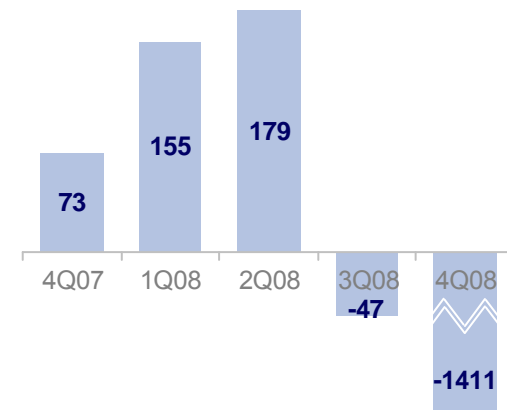
- 2008 underlying result before tax: EUR 609 million

## Retail Banking



- 2008 underlying result before tax: EUR 1,691 million

## ING Direct

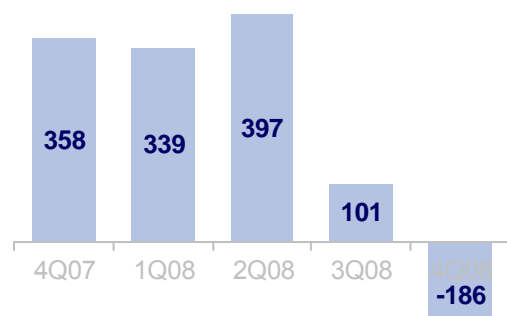


- 2008 underlying result before tax: EUR -1,125 million

# Insurance: Financial markets downturn and volatility reduce earnings

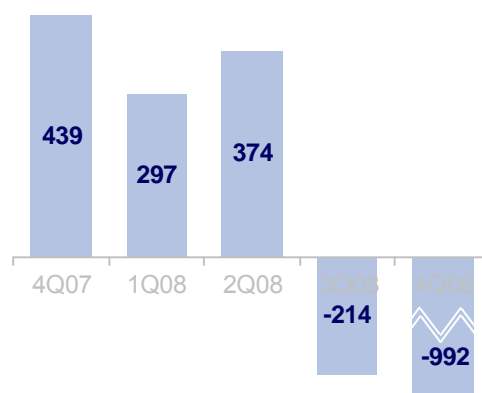
Underlying result before tax (in EUR million)

## Insurance Europe



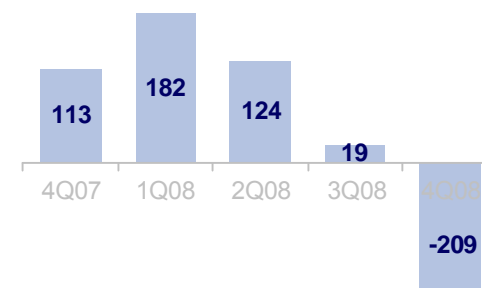
- 2008 underlying result before tax: EUR 651 million

## Insurance Americas



- 2008 underlying result before tax: EUR -534 million

## Insurance Asia/Pacific



- 2008 underlying result before tax: EUR 116 million

# Steps taken to strengthen ING

De-risking actions

EUR 10 billion capital strengthening

Illiquid Asset-Back-up Facility

# De-risking actions

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## Steps taken in 2008

- ING de-risked its balance sheet, reducing exposure to equities, interest rates, and asset backed securities
  - Equity hedges were put into place
  - Sale ING Life Taiwan and interest rate swaps
  - Closed several CDO positions
  - Reduced activities in Leveraged Finance and Financial Markets
- Product de-risking
  - Underwriting standards were tightened
  - Product redesign

# Steps taken to strengthen ING

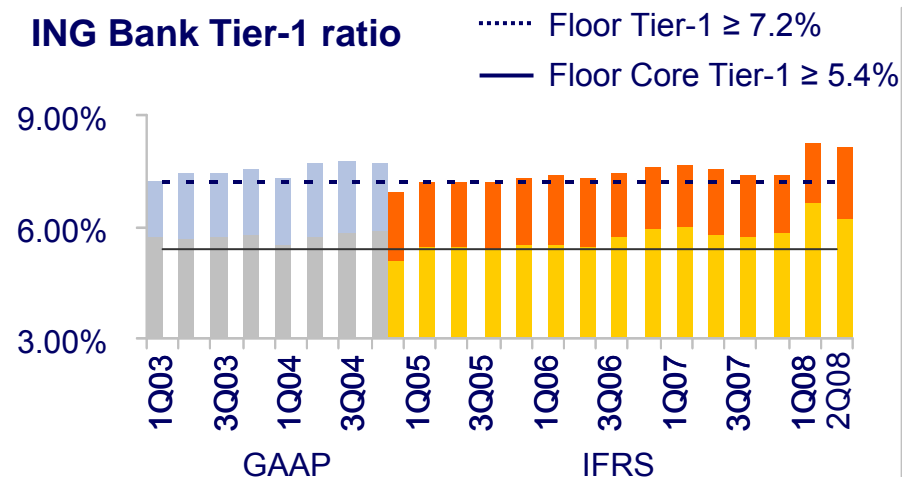
De-risking actions

EUR 10 billion capital strengthening

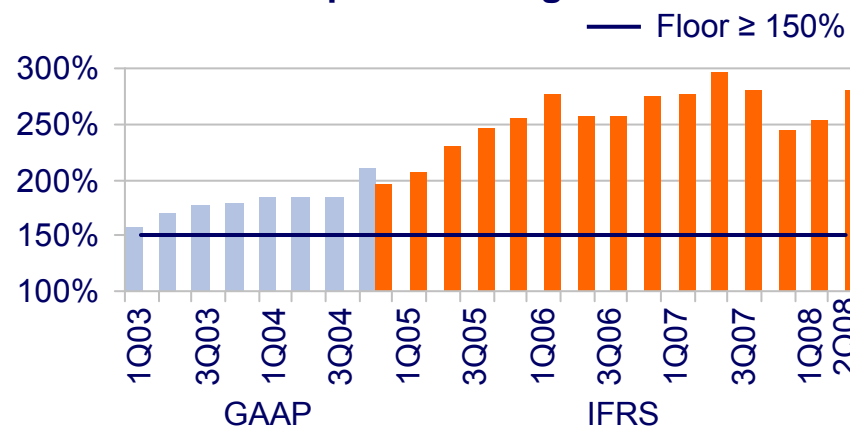
Illiquid Asset-Back-up Facility

# ING's capital ratios were above their targets when the crisis deepened in September 2008

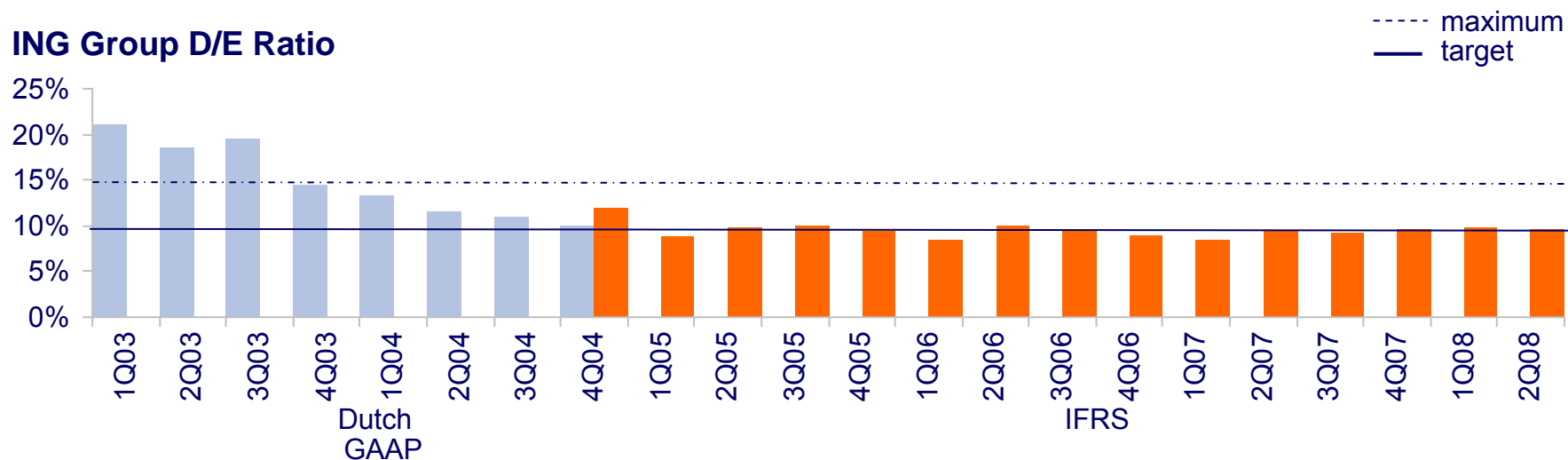
**ING Bank Tier-1 ratio**



**ING Insurance Capital Coverage Ratio**



**ING Group D/E Ratio**



# Stock markets declined, credit spreads widened

## Stock Markets



● FTSE Eurotop 100 Index  
● S&P 500 (right-hand side)

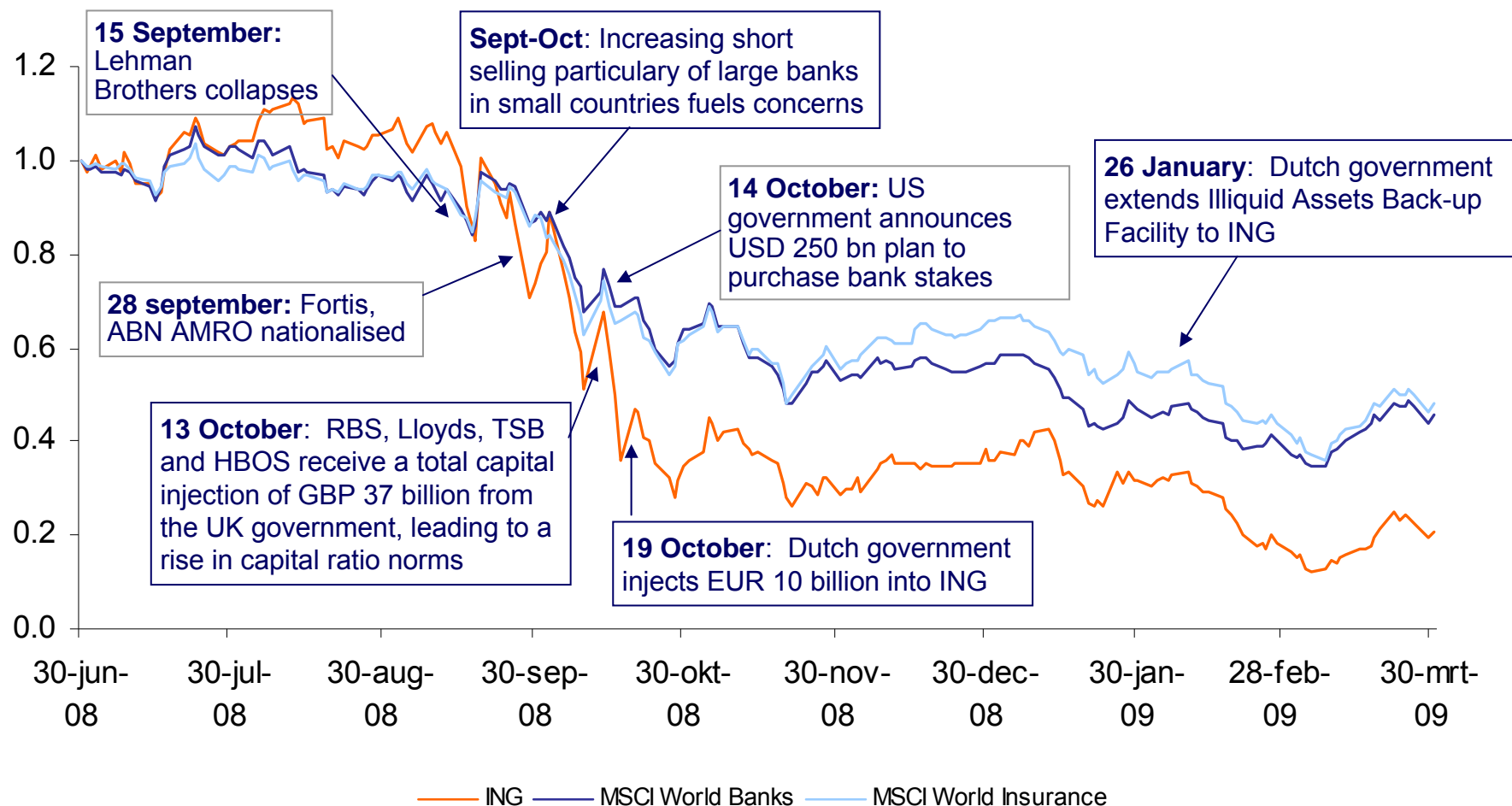
## Credit Spreads



● CDIX 5 Year  
● ITRAXX Europe

# Unprecedented crisis affected ING's share price

Relative performance 30 June 2008 – 31 March 2009



# As the crisis deepened, market expectations for capital increased

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- Expectations for capital levels changed following the massive capital injections in financial institutions worldwide
- ING had maintained a target ratio of at least 7.2% (Core Tier-1  $\geq 5.4\%$ ) in line with AA rating requirements
- In October markets began to demand Core Tier-1 ratios of 7-8% for banks
- Investors turned to basic metrics like asset leverage

# EUR 10 billion capital strengthening

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## **Characteristics of core Tier-1 securities**

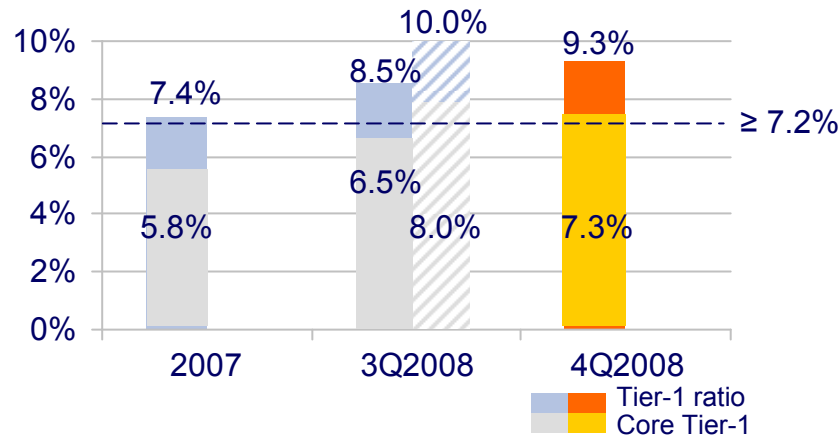
- Issue of 1 billion non-voting core Tier-1 securities at a price of EUR 10 per security to the Dutch state
- Qualifies as Core Capital for Dutch Central Bank
- Flexibility as to coupon payment and security redemption: a coupon of 8.5% is paid only if a dividend is paid to common shareholders
- EUR 10 billion remains as IFRS equity on ING's balance sheet and is mainly invested in government bonds

## **Exit options**

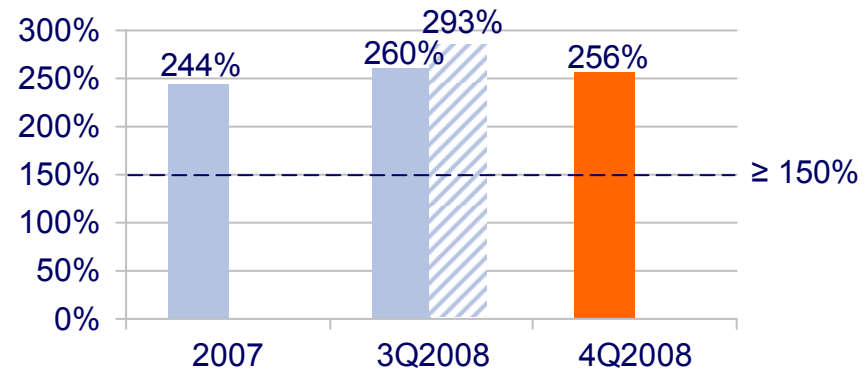
- ING has the right to buy back all or some of the securities at any time at 150% of their issue price
- ING has the option to convert at par after three years
- ING has the option to seek other sources of Tier-1 capital to replace the securities

# ING's key capital and solvency ratios then moved in line with new international norms

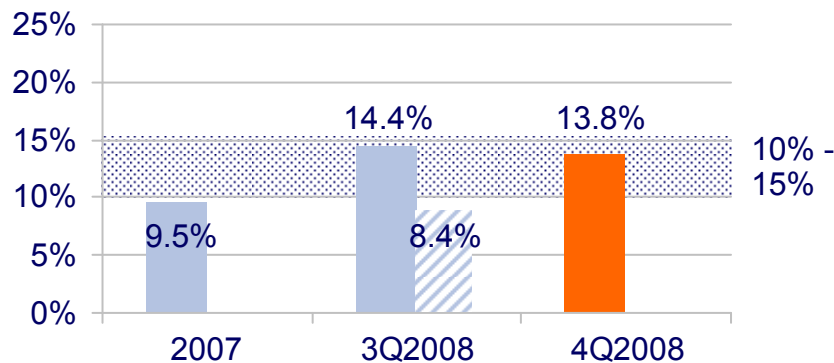
## ING Bank Tier-1 ratio



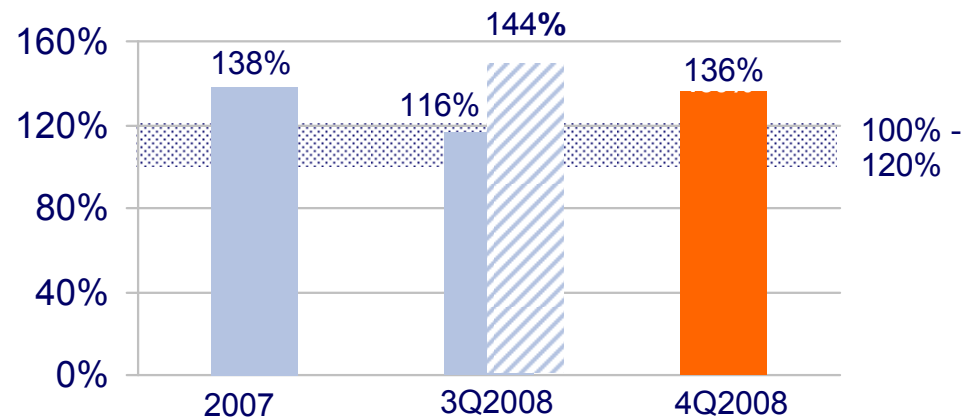
## ING Insurance capital coverage ratio



## ING Group D/E ratio



## ING AFR/EC



--- Target      pro forma including capital injection



# Steps taken to strengthen ING

De-risking actions

EUR 10 billion capital strengthening

Illiquid Asset-Back-up Facility

# Alt-A RMBS fulfilled ING Direct's desired interest rate and credit risk profile

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## Why invest in US RMBS?

- ING Direct has a Thrift license in the US and has regulatory obligation to invest at least 55% of its assets in mortgage related assets

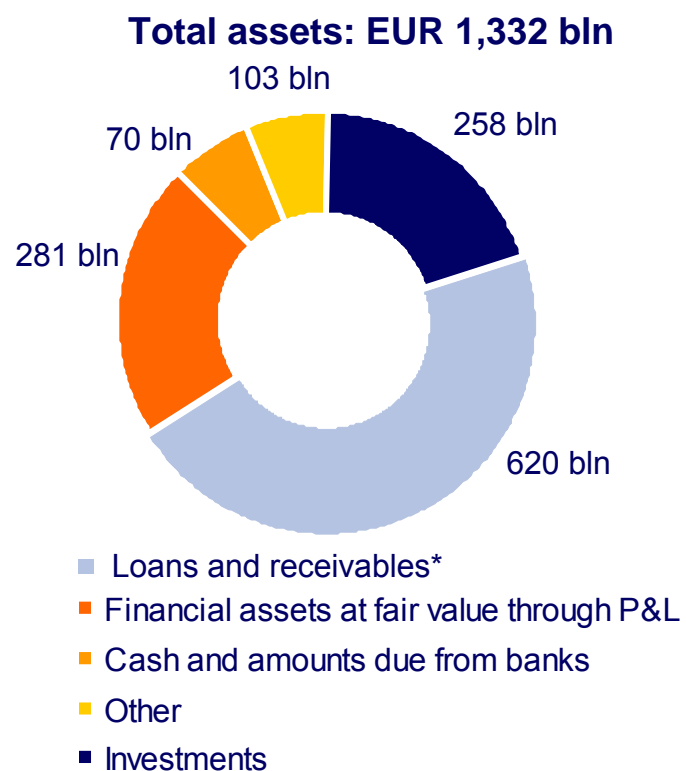
## Why invest in Alt-A RMBS?

- To prevent a concentration risk in agency paper and to manage interest rate sensitivity.
- Growth in savings exceeded our own-originated mortgages

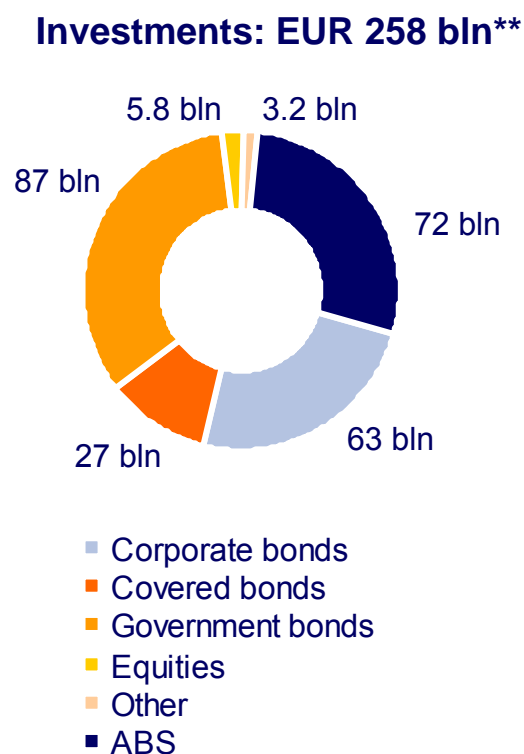
Alt-A RMBS: assets with short duration that meet internal and regulatory requirements

# Asset-backed securities are 5% of ING's assets

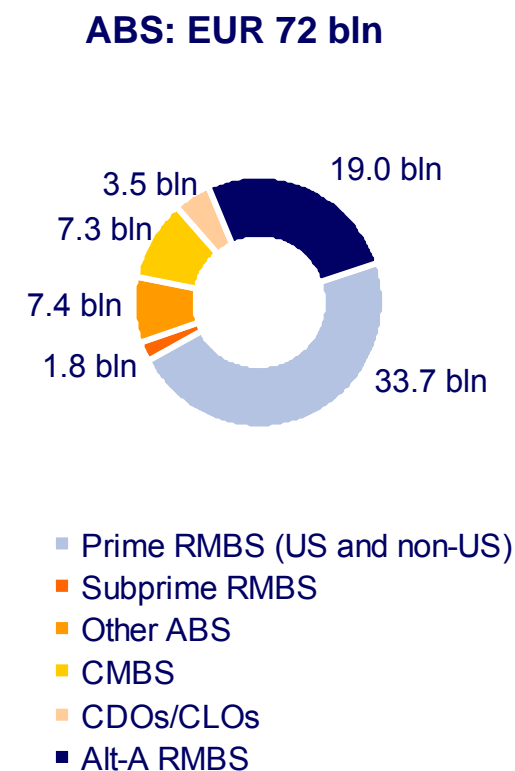
## Breakdown of ING's assets and investments



\* Loans and receivables to customers includes EUR 12 billion European asset-backed products



\*\*EUR 228 bln AFS and EUR 15 bln HtM



# In 2008 mortgage-backed securities prices declined significantly

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- US house prices sharply declined in 2008 as the US economy slowed
- This impacted prices of mortgage-backed securities, and the deterioration of prices was aggravated by a lack of liquidity
- ING has invested in the highest quality segments of US Alt-A RMBS

# IFRS accounting and Basel II exacerbate capital consumption of Alt-A RMBS

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## ING's Alt-A RMBS portfolio triggered three main issues

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- (1) Deteriorating market values reduced shareholders' equity due to accounting treatment for AFS investments
- (2) Under IFRS accounting any underlying credit loss translates into an impairment through the P&L of that security to its current market price (e.g. in 4Q EUR 303 million credit loss triggered EUR 1.8 billion pre-tax impairments)
- (3) Under Basel II the risk-weights of asset-backed securities sharply increase when ABS are downgraded by the rating agencies

# Characteristics of Alt-A facility

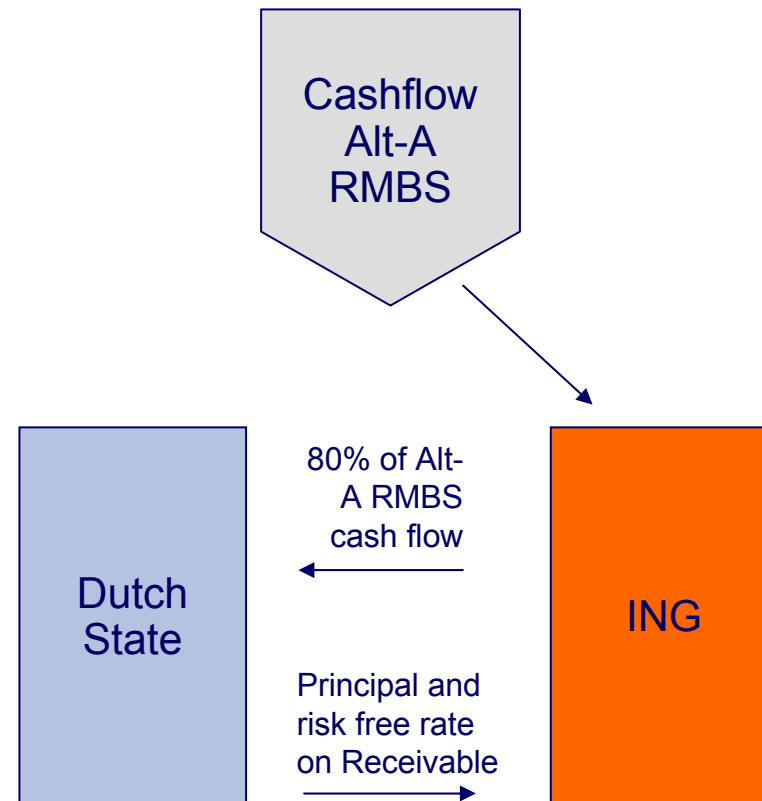
## Illiquid Assets Back-up Facility

ING transfers 80% economic ownership of Alt-A RMBS to the Dutch State at 90% of par; as a result, ING misses EUR 400 million in interest income per year

The transaction:

- Reduces ING's risk of potential future Alt-A impairments by 80%
- Reduces risk-weighted assets, increases the Bank's Tier-1 ratio by 40 bps
- Significantly reduces the uncertainty regarding the impact of revaluations, any future losses in the Alt-A portfolio, and RWA migration

## Cash Flows after Illiquid Assets Back-Up Facility



# In 2008, ING posts full-year loss; banking remains profitable

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# Looking ahead

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- In 2009, ING will operate in a difficult economic climate
- Main uncertainties:
  - Financial market developments
  - Residential and commercial real estate markets
  - Further deterioration of global economy: loan loss provisions remain at elevated levels