

# ING Bank N.V. Covered Bonds

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# Executive summary

## ING Group

- High senior ratings
- Strong capital ratios
- #1 financial services company in Benelux
- Diversified funding base with significant deposit base

## Dutch mortgage market

- A very robust mortgage market
- Low pre-payment rates
- Low loss and arrears levels
- Low supply of housing supports house prices

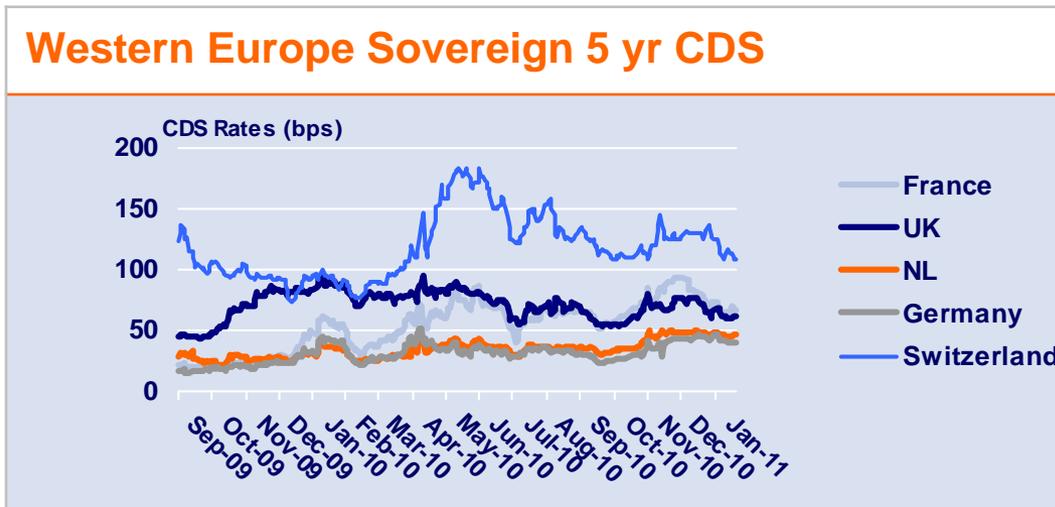
## Covered Bond Programme

- Legislative CRD compliant Covered Bond under Dutch CB Law
- Aaa/AAA/AAA ratings
- Conservative ACT assumptions

## Collateral Characteristics

- High quality cover pool
- First lien prime Dutch residential mortgages
- Owner occupied properties with low LTMV of 69.05%

# European CDS Levels



Source Bloomberg



# Dutch economy: Still in relatively good shape

## GDP and Inflation



## Unemployment

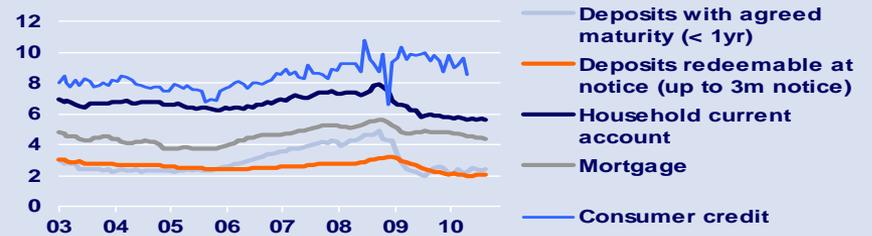


# Dutch economy: Still in relatively good shape

## Interest Rate Development



## Interest Rate Products



## Savings and Deposits



## Margin Development



# Overview of the Dutch housing market

- Traditionally, the Dutch market has been characterised by a relatively low level of owner-occupation (54% in 2003) and a very large social housing sector
- During the 1990s, the Dutch mortgage market expanded significantly driven by the following factors
  - increase in disposable income
  - low unemployment rates
  - low interest rates
  - increased affordability for two-income households
  - Dutch Government policies aimed at increasing owner occupation
    - interest tax relief
    - guarantee system for certain types of mortgages (Nationale Hypotheek Garantie)
    - withdrawal of subsidies for social housing
  - The outstanding residential mortgage debt grew rapidly in 1997-2006
    - In December 2007 approximately EUR 570bn of residential mortgage debt was outstanding (100% of GDP)
  - Due to the high and rising level of mortgage debt held by households, the increasingly high LTV ratios and flexibility of lenders in applying criteria with regards to maximum amounts to be borrowed, a new Code of Conduct was introduced in 2006 and came into force on 1st January 2007
    - the code stipulates a ceiling of 4.5 times gross annual salary on mortgage loans and is meant to ensure that lenders apply strict rules in their origination practices

# Tax system underpins Dutch Housing Market

## Tax treatment

- Tax treatment is the main driver in the Dutch Mortgage market due to the fact that mortgage interest payments are tax deductible for a period of 30 years

## Due to tax benefits, borrowers favour products that do not directly involve principal repayment

- Use of non-amortizing mortgages with long maturities
- Use of many forms of savings and investment mortgages

## The Dutch tax system is therefore the main driver for typical Dutch mortgage characteristics

- With origination relatively high LTFVs (except for Interest only <100%)
- Fixed interest rate, which is reset periodically every 5, 10, 15 years
- Typical maturity of 30 years or longer

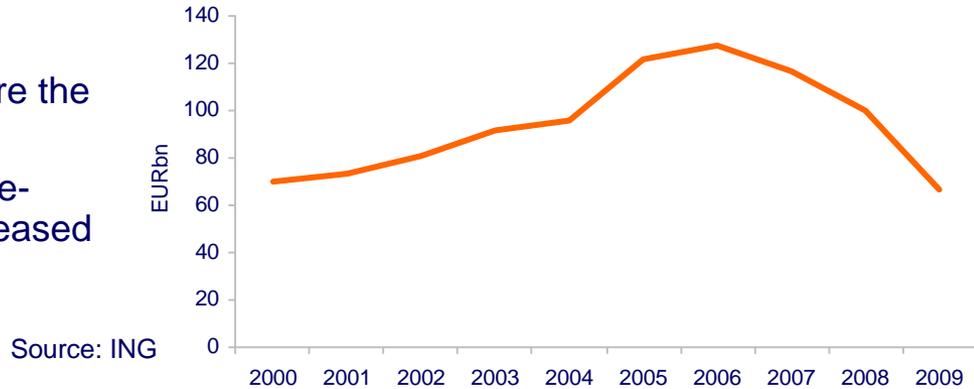
**Pre-payment rates** on Dutch mortgage loans are relatively low (due to only 10%-20% penalty free redemption in case of refinancing)

- According to Fitch research, annualised pre-payment rates typically range between 5% and 15%

# Dutch market: solid growth

## Mortgage Lending Growth

- Stable market and the main drivers are the tax incentives
- Drivers of growth 2005 / 2006 is the re-pricing of the mortgages and the increased competition

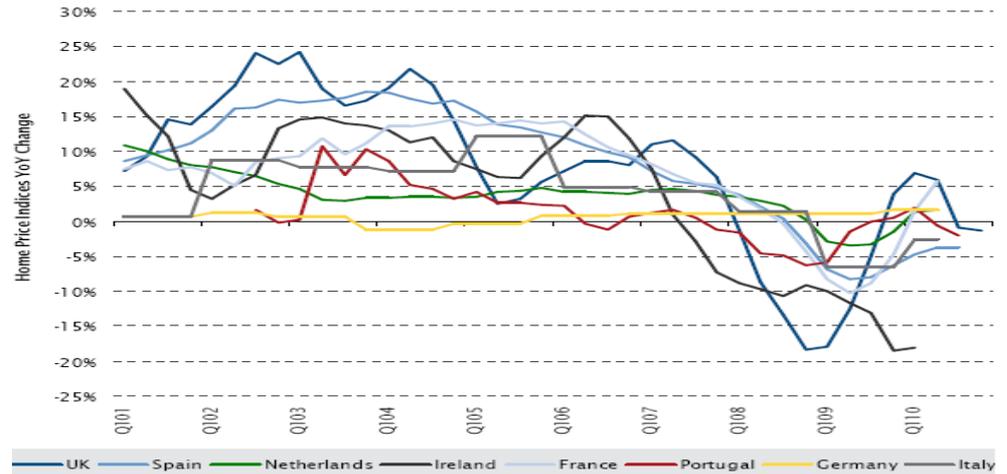


## House Price Development

- Sustainable growth of house prices of low single digit numbers over the last three years.
- Goal of the government is to increase owner-occupation rate.
- Housing limited by geographical constraints i.e. insufficient lands available to build new homes
- Average home transaction price 2009: EUR 226,100 (Source: ING)

## Trend of European house price levels, annual rate of change in %...

Sources: Moody's, Datastream, LBBW Credit Research



# Dutch mortgages: low arrears

## Low mortgage rates

Household debt remains affordable, however:

- average mortgage size has increased due to rising house prices
- debt affordability under pressure due to higher mortgage interest rates and rising home prices

## Very low default rates

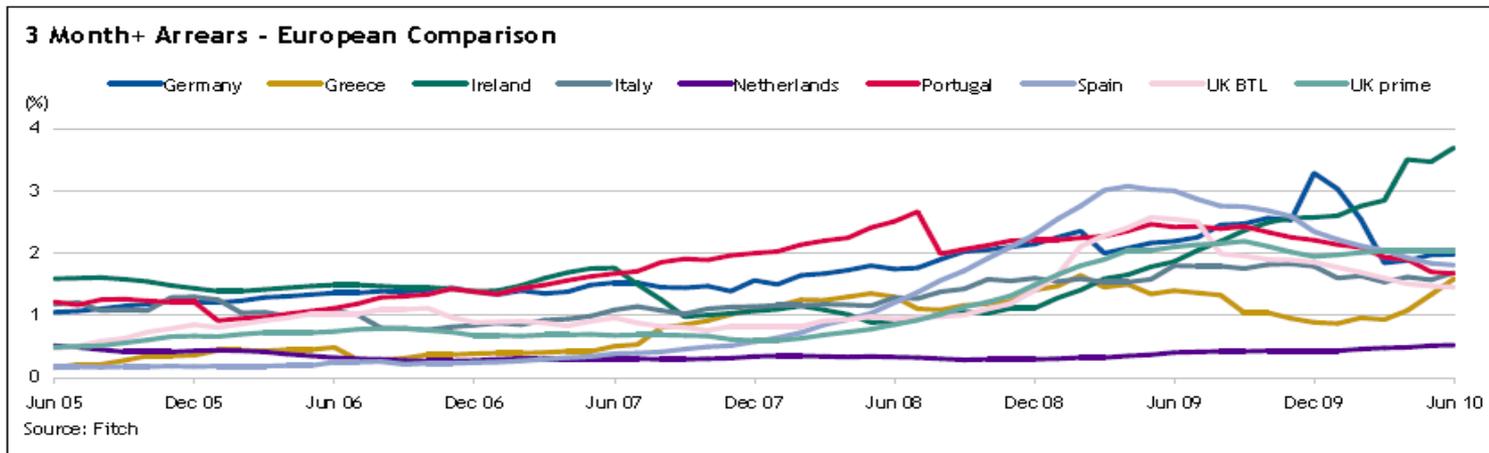
- The Dutch mortgage market shows significantly better arrears and loss performances than most European countries

## Expected losses

Expected loss in the Netherlands is among the lowest in Europe. The main reasons are:

- credit register check at BKR (Bureau Krediet Registratie)
- long term fixed interest rate mortgages
- under Dutch law, lenders are allowed by law to attach borrower's income
- tax advantage reduces sensitivity to economic situation

## Country Comparison – Arrears



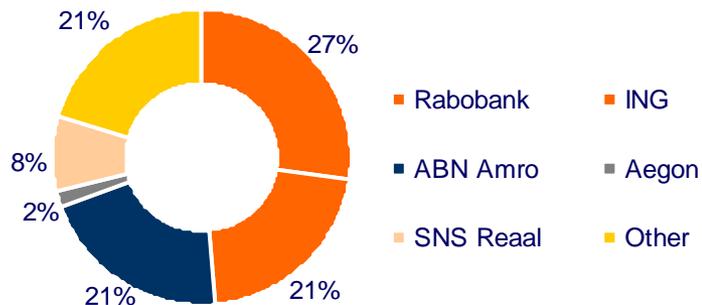
Source: Fitch EMEA  
RMBS Q210 Update



# ING: one of the leading players in Dutch mortgage market

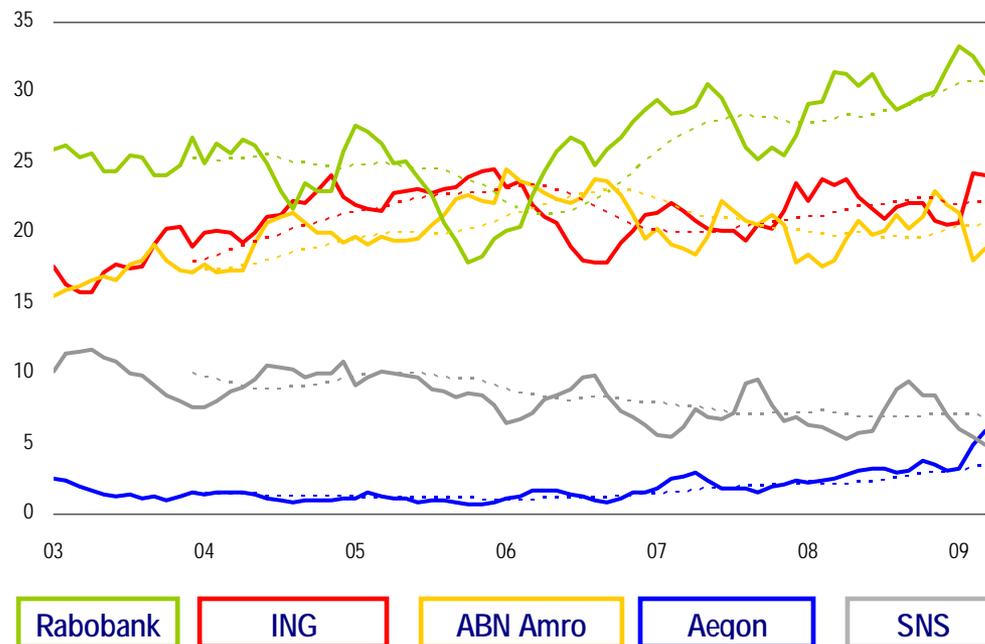
- ING brands (ING, NN, WUH, ao.) show stable and strong market share
- Increasing number of players has resulted in a mature market
  - increased competition and
  - lower but still comfortable margins
- ING responds by lower costs rather than margins => merger Postbank & IBN

## Dutch Market Share (outstanding avg 5YR)



Source: ING, June 09

## New marketshare divided to large participants in %

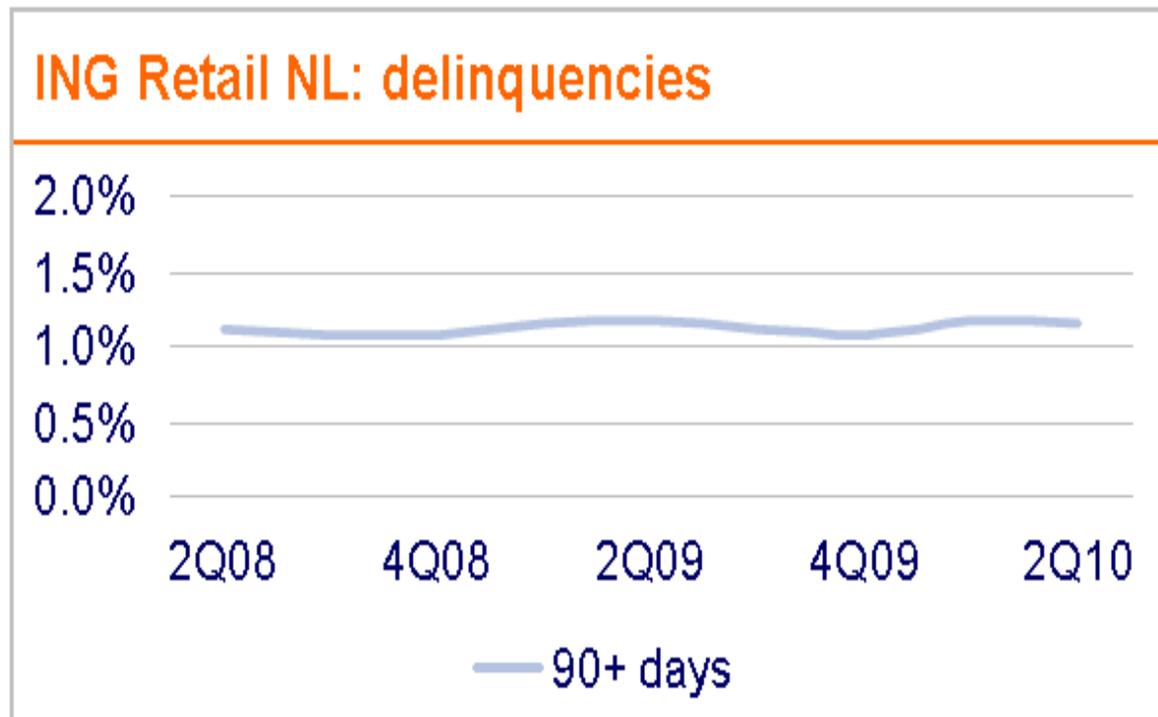


Source: ING, Nov 10



# ING Bank NL mortgage portfolio delinquencies

Our Dutch Mortgage portfolio has been showing very strong performance i.e. very low losses



Source: ING



# 4. ING Bank's Covered Bond Programme

# Programme summary (1)

Note issuer:	ING Bank NV
Programme limit:	EUR 30bn
Initial issue size:	Jumbo Benchmark Size
Format:	Legislative Covered Bond
Note ratings:	Aaa/AAA/AAA (Moody's, S&P and Fitch)
Risk weighting:	10%
Date of programme:	March 2008
Maturities:	Soft and Hard Bullet permitted
Trustee:	Orangefield Trust
Asset monitor:	Ernst & Young
Listing:	Euronext Amsterdam
LTV cap:	As required by the CRD (currently 80% LTMV)
Asset Percentage:	Programme maximum 97%, currently 77%
Governing law:	Netherlands
Asset Eligibility:	All originated by ING, currently only Dutch mortgages – new jurisdictions subject to rating agency confirmation and in accordance with Dutch CB law

# Programme summary (2)

## Major recent developments

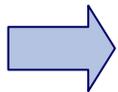
- Fitch changed their Covered Bond methodology:
  - ING was the first to update our programme in order to include the Selected Liquidity Reserve Amount (SLRA). Which equals 5% of the amount of the cover pool required under the ACT (X-factor). This update led to an D-factor of 16.2% and an asset percentage of 88%
- Revised covered bond criteria by S&P:
  - ING is one of the first to receive (in the first week of January 2010) a AAA rating confirmation on its programme due to the low ALM risk and the category 2. Currently our asset percentage is 77%, however this does not include the SLRA.
- Moody's
  - No developments, our asset percentage = 95.4%
- General ING Covered bond pool developments:
  - Change to automated market valuation by making use of the calcasa model (LTMV = 69.05%)
  - Inclusion of the former Postbank loans which leads to a lower LTMV as well.

# Dutch Covered Bond Law (1)

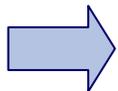
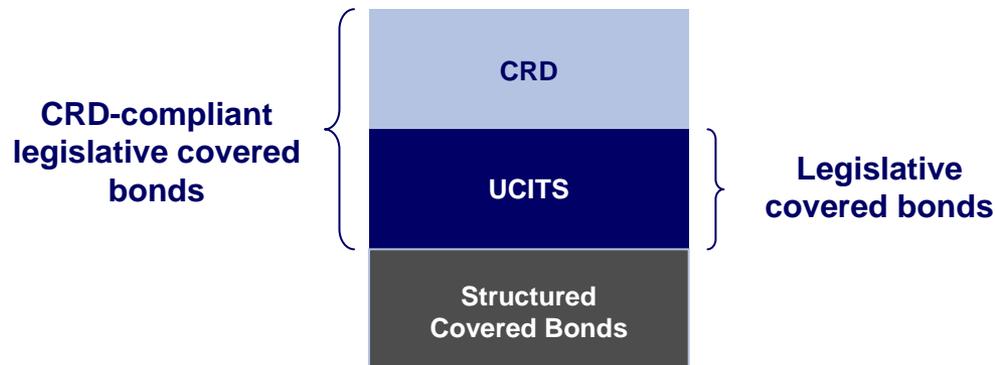
Legal framework:	Since 1st of July 2008
Issuing entity:	Banks incorporated in NL
Cover register:	Cover assets need to be registered and register sent to Dutch Central Bank (DNB)
Ordinary collateral:	No restriction
Limits on cover assets:	No limit but bonds meeting CRD requirements benefit from favourable risk weighing
LTV limits:	None
Substitute collateral:	Not defined
Geographical range:	Assets must be governed by the laws of an EU member state, the US, Canada, Japan, Korea, Hong Kong, Singapore, Australia, New Zealand or Switzerland
Derivatives:	Can be registered in the cover pool; counterparty ranking not legally fixed
Over-collateralization:	Required but no minimum level stated
Supervision:	Dutch Central Bank
Substitution requirement:	Not specified

# Dutch Covered Bond Law (2)

- Matching requirements: Nominal matching, interest payment matching and coverage of potential post bankruptcy maintenance and administration costs
- Preferential claim: Claim preferential secured by asset pool
- Bankruptcy remoteness: Yes, assets are either legally transferred to SPV or a right of pledge is created on the assets for the benefit of the secured parties, including the bondholders
- Post-bankruptcy procedure: Dual recourse to the Issuer and the cover pool



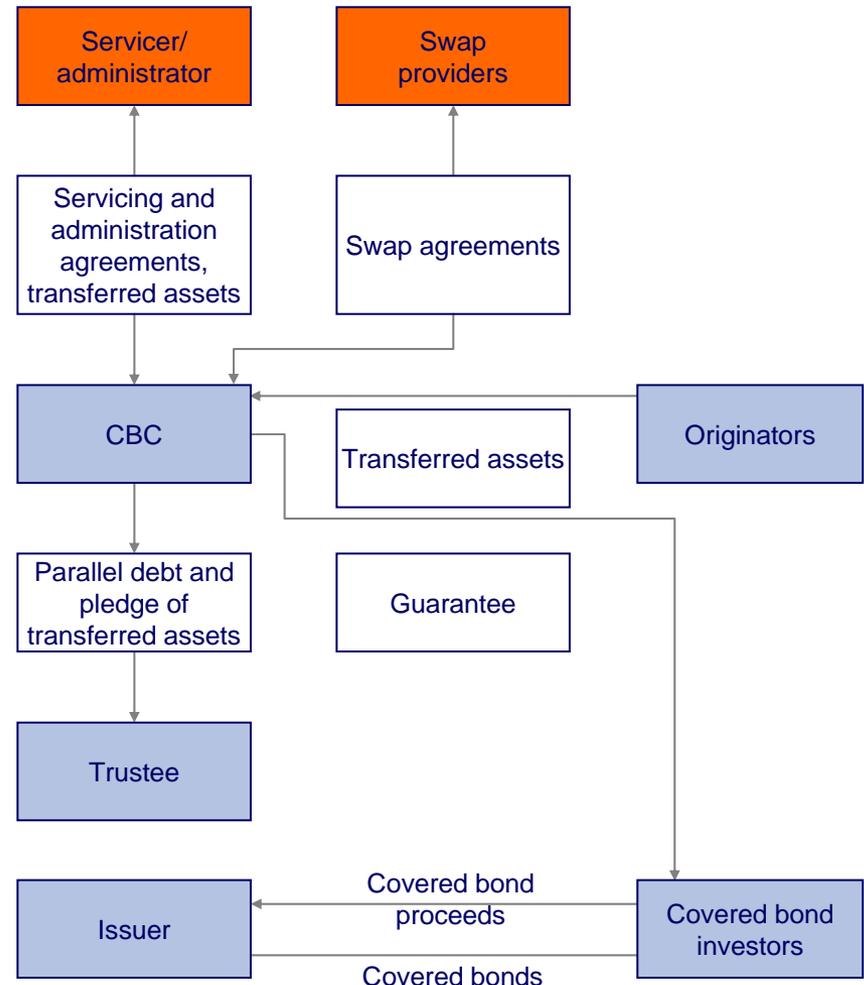
To summarise, a top-down approach:



ING's Covered Bonds have been CRD-compliant legislative bonds since September 2008.

# Structural Overview

- The program is based on contracts under Dutch law.
- The notes are guaranteed by the ING Covered Bond Company (CBC), an entity managed and owned by a trust company.
- As consideration for assuming this guarantee, ING Bank has transferred pre-selected mortgage loans (and other eligible collateral) to the CBC.
- The mortgage loans were transferred to the CBC by means of a silent assignment, which means that legal title was transferred, without notification to the borrowers. As a result, ING continues to receive all cash flows from the selected mortgage loans. ING does not have an obligation to on-pay these cash flows to the CBC prior to a notification event.
- ING remain servicer of the assets.
- Borrowers will be notified of the assignment and cash flows will run through the CBC following default by ING on its obligations under the Notes or in the case of a significant downgrade of ING's credit ratings. Such an event will not lead to acceleration of the Notes, since the CBC will pay the proceeds of the mortgage loans under the guarantee to the Noteholders, in accordance with a pre-approved priority of payments.
- The ability of the CBC to pay its obligations is strengthened by swap agreements, under which the relevant swap counterparties have to comply with rating agency requirements. ING Bank (as long as it complies with rating agencies requirements) will be providing the swaps to the CBC.



# Overview of Issued Public Covered Bonds

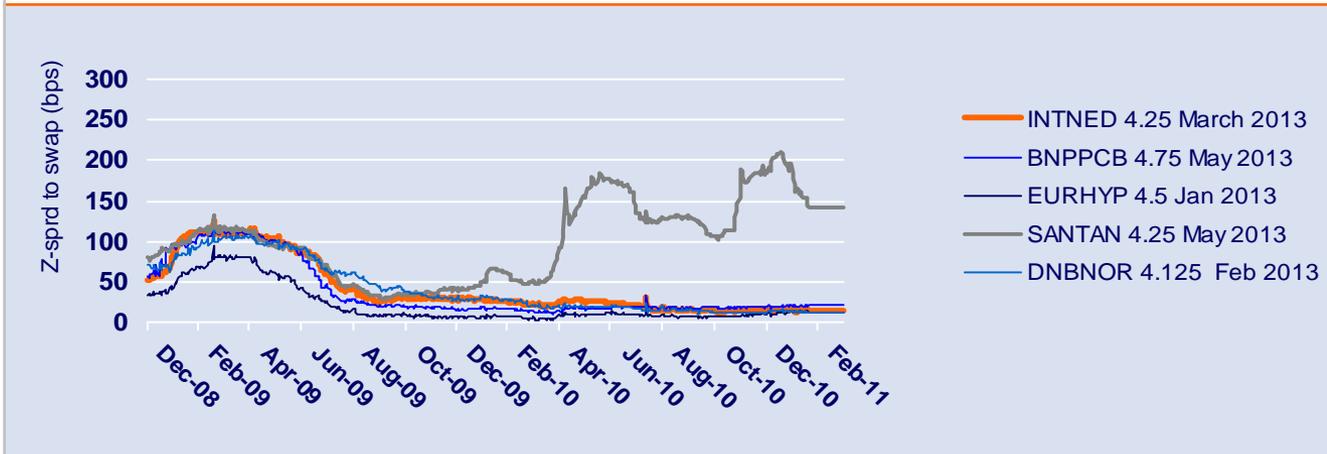
ISIN code/ CUSIP code/ Ticker	Date of issuance	Coupon	Amount	Maturity date	Listed on
<a href="#">XS0353943540</a>	13 Mar, 2008	4.25%	€1,000,000,000	19 Mar, 2013	Euronext-Amsterdam
<a href="#">XS0368232327</a>	29 May, 2008	5.25%	€2,400,000,000	5 Jun, 2018	Euronext-Amsterdam
<a href="#">XS0455122076</a>	30 Sep, 2009	3.00%	€2,000,000,000	30 Sep, 2014	Euronext-Amsterdam
<a href="#">XS0479696204</a>	12 Jan, 2010	4.00%	€1,250,000,000	17 Jan, 2020	Euronext-Amsterdam
<a href="#">XS0497141142</a>	16 Mar, 2010	3.375%	€1,500,000,000	23 Mar, 2017	Euronext-Amsterdam
<a href="#">XS0537421736</a>	23 Aug, 2010	3%	€2,000,000,000	31 Aug, 2015	Euronext-Amsterdam
<a href="#">XS0576072622</a>	4 Jan, 2011	3.375%	€1,250,000,000	11 Jan, 2018	Euronext-Amsterdam

Note: Table only shows benchmark transactions

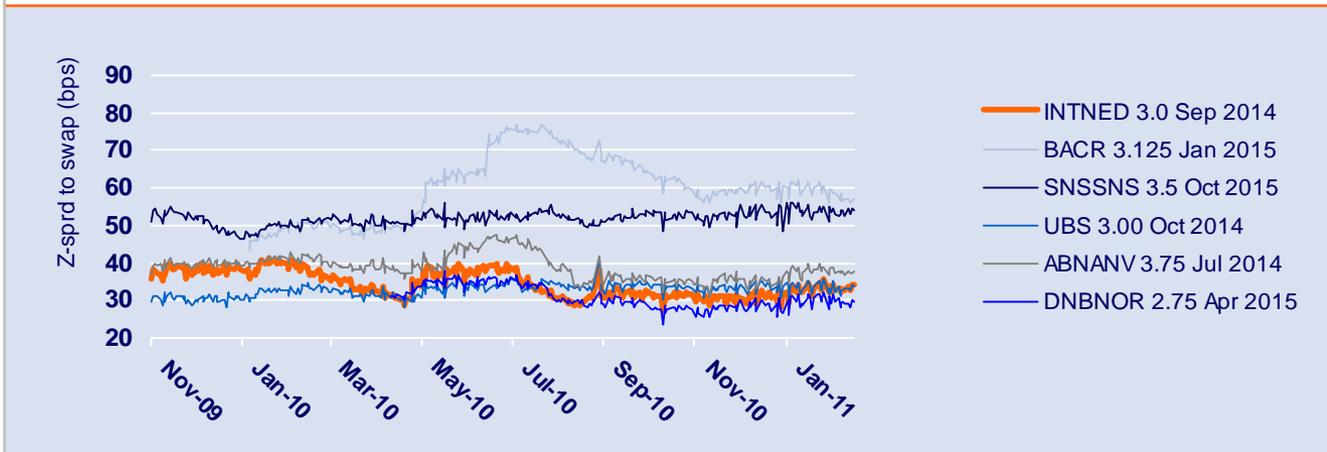
Source: ING

# ING Bank CB Outstanding Performance

## ING Bank 2013 Performance



## ING Bank 2014 Performance

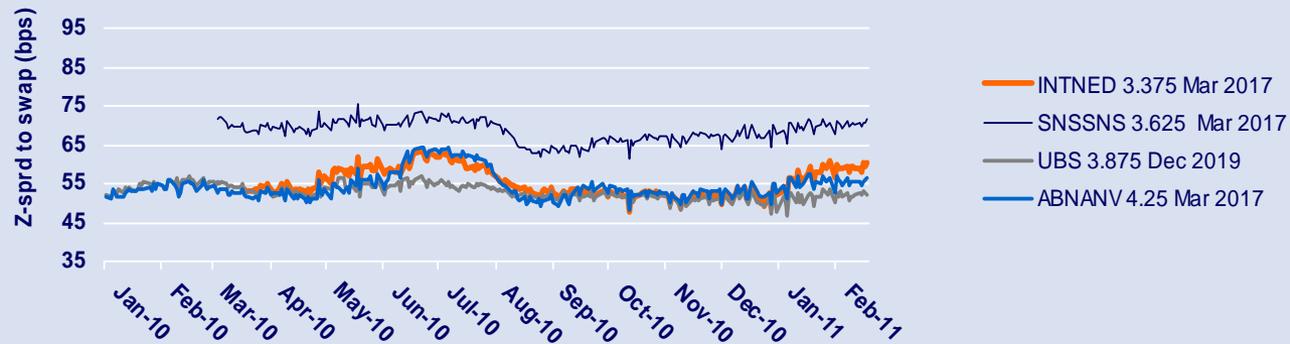


Source: Bloomberg

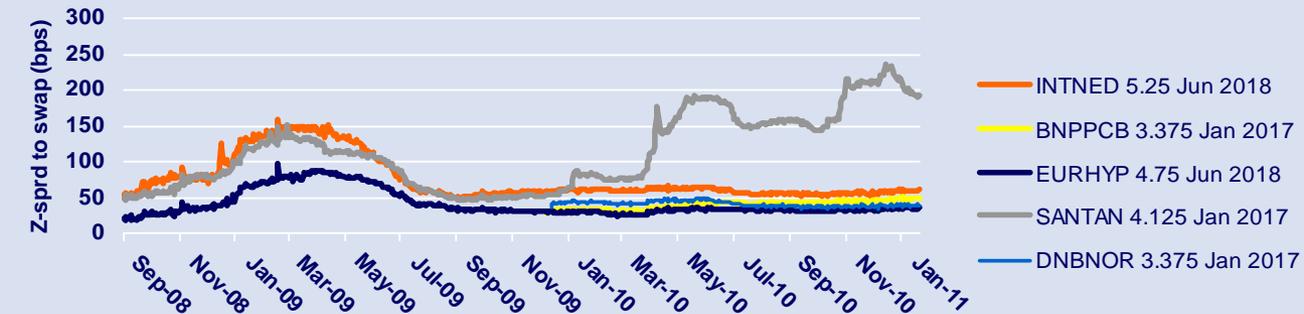


# ING Bank CB Outstanding Performance

## ING Bank 2017 Performance



## ING Bank 2018 Performance



Source: Bloomberg



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# Characteristics of the current mortgage pool (Strat tables)

Please see enclosed investor report or visit

[www.ing.com](http://www.ing.com) / [investor relations](#) / [fixed income information](#) / ING debt securities.

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