ING Group

Managing a profitable balance sheet in the age of austerity

Bank of America Merrill Lynch Conference

Koos Timmermans
CRO

London – 30 September 2010
www.ing.com

BANKING - INVESTMENTS - LIFE INSURANCE - RETIREMENT SERVICES

Managing a profitable balance sheet in the age of austerity

Basel III adds constraints to the banking industry

- ING Bank already fully compliant with capital and asset leverage requirements
- Strong liquidity and funding position to meet LCR and NSFR
- Basel III also a catalyst for a more compact and profitable balance sheet

Low interest rate environment is challenging for Financials

- Bank’s net interest margin resilient under various yield curve scenarios
- Insurance general account: portfolio yield comfortably exceeds guaranteed rate

ING Group has substantial capital flexibility

- Strong capital generation ING Bank, ample flexibility to repay the Dutch State

Basel III adds constraints to the banking industry in the age of austerity

Basel III constraints

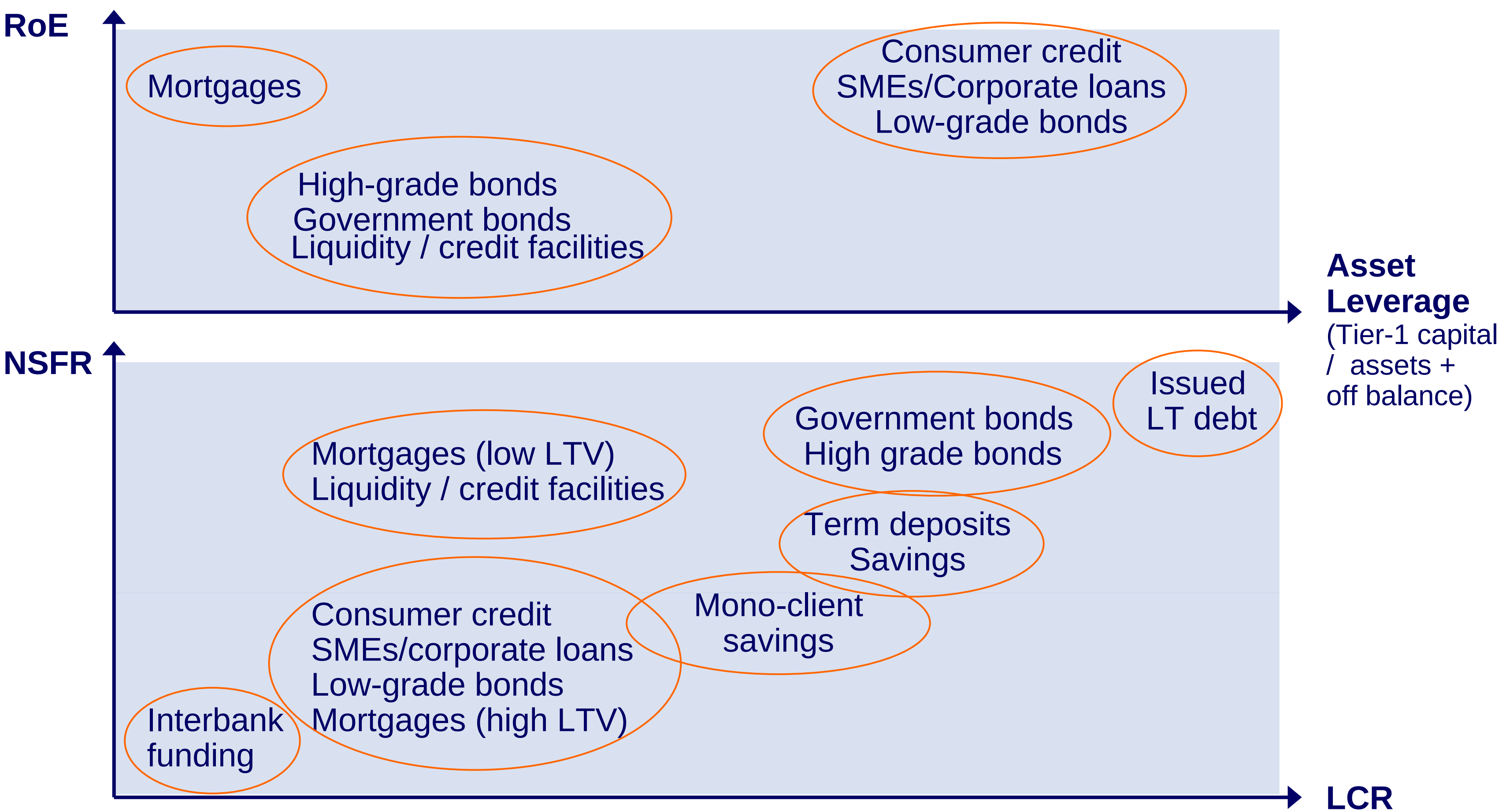
Solvency	1 **Higher core Tier-1 requirement** More stringent definition of capital, increasing asset risk-weights and introducing systemic and countercyclical buffers 2 **Introducing asset leverage** Tier-1 capital > 3% total balance sheet and off-balance sheet items
Liquidity	3 **Liquidity requirement (LCR)** Availability of sufficient buffers in the form of liquid assets to cover potential deposit outflow 4 **Funding requirement (NSFR)** Availability of stable (long-term) funding to fund assets

Industry implications

- Retain larger proportion of earnings and contain balance sheet growth
- Maximise returns under new constraints
- Improve funding and duration matching assets and liabilities

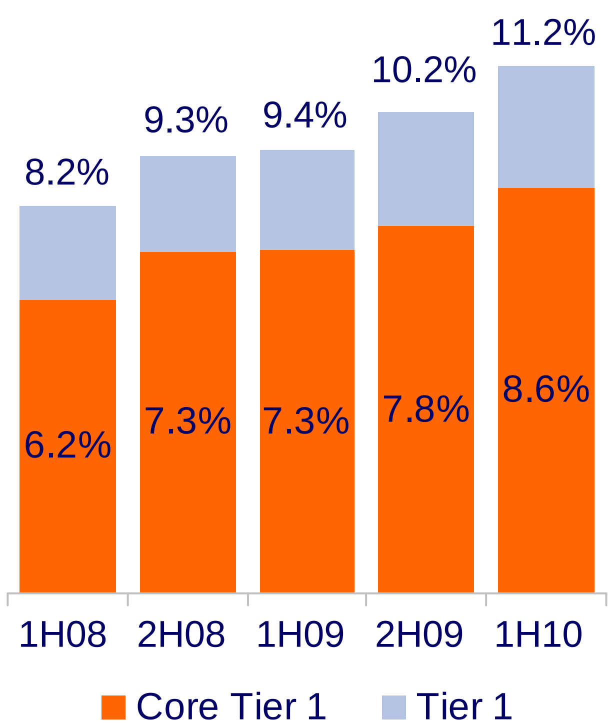
New Basel III requirements favour universal banks

Challenging to score favourable on multiple dimensions under Basel III



ING Bank is already fully compliant with 7% core Tier-1 ratio under Basel III

ING Bank's core Tier 1 ratio increased

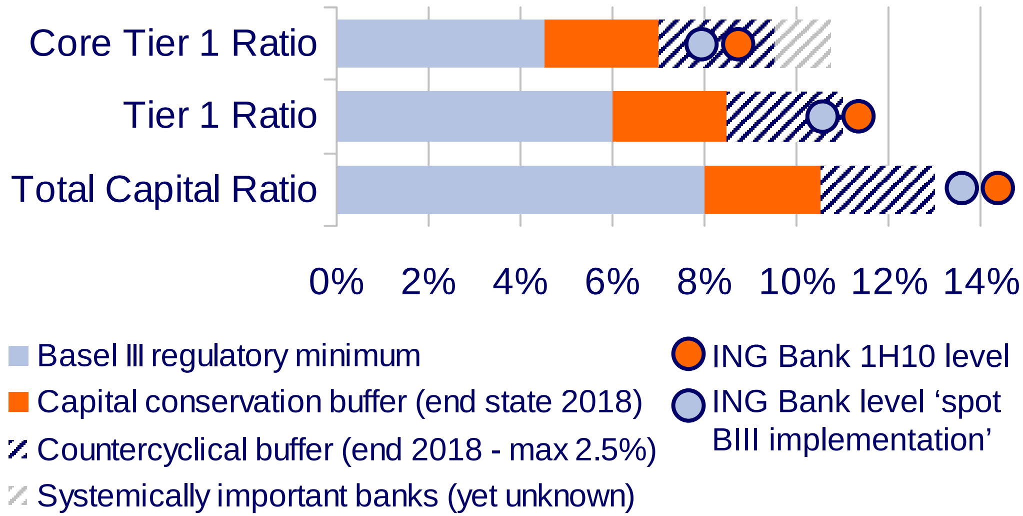


Core Tier-1 ratio 8.6% at 1H10

Full impact 'spot implementation' Basel III estimated at -75 bps core Tier-1 ratio

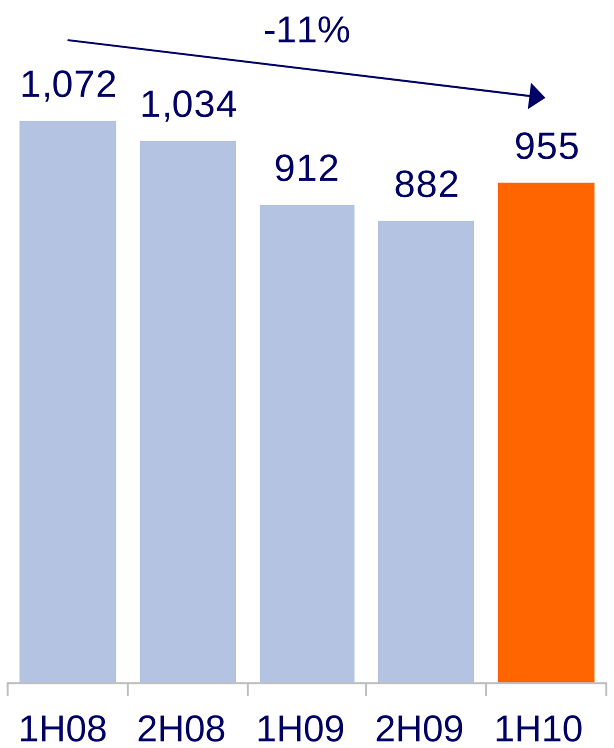
1. Deductions core Tier-1 capital of approx. EUR 1.6 billion
2. Higher RWA by approx. EUR 11 billion

ING Bank's capital ratios under Basel III



ING Bank meets Basel III asset leverage ratio after significant de-leveraging

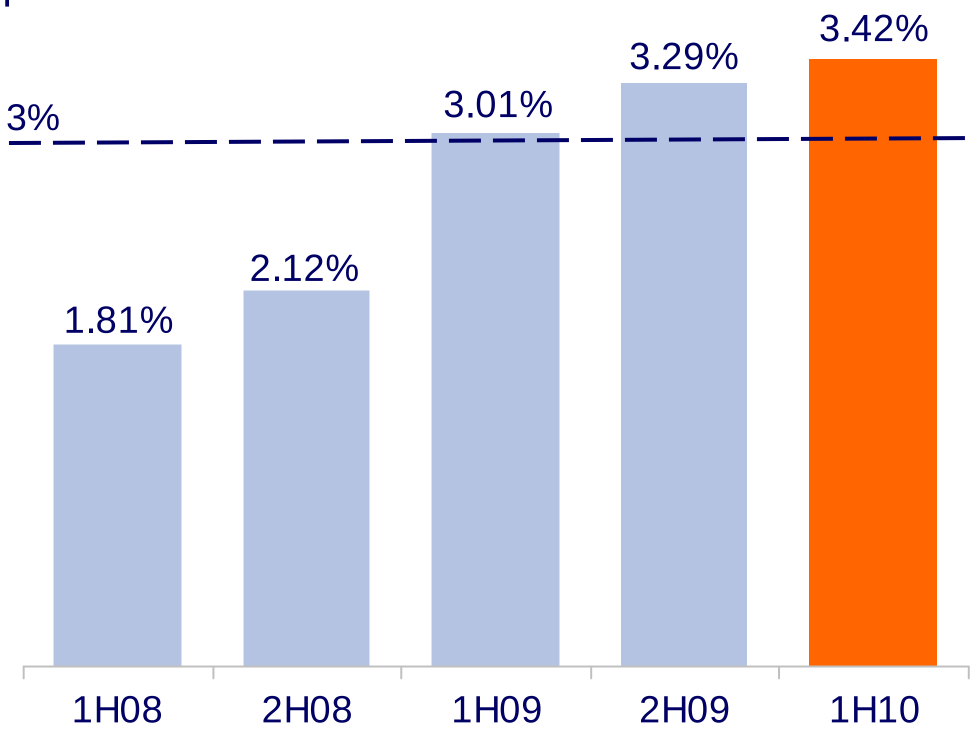
Balance sheet size is reduced (in EUR billion)



1H10 increase mainly due to FX

Asset leverage ratio improved in 2008-10

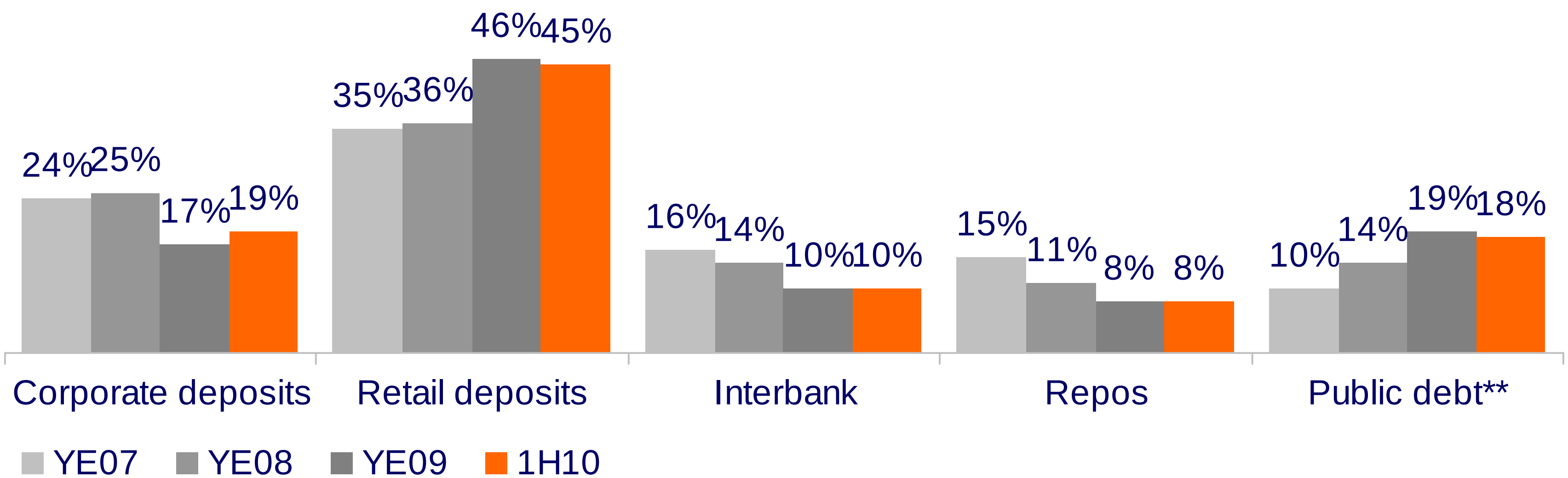
Basel III asset leverage = Tier-1 capital / total assets plus off-balance sheet*



* Basel III allows for partial netting of derivatives and adds off balance sheet commitments using stringent conversion factors

Funding mix dominated by client deposits, weight long-term public debt is increasing

ING Bank's funding mix 2007-10*



* Liabilities excluding IFRS equity, trading and other **Including subordinated long-term debt (3%) and CP/CD (5%)

- Client deposits dominate the funding base, with 45% retail deposits. The decline in corporate deposits in 2009 was due to netting of current account balances
- Public debt contribution increased to 18% while interbank and repo funding declined
- Basel III NSFR > 90% at 2Q10

Professional markets acknowledge ING Bank's prudent funding and liquidity profile

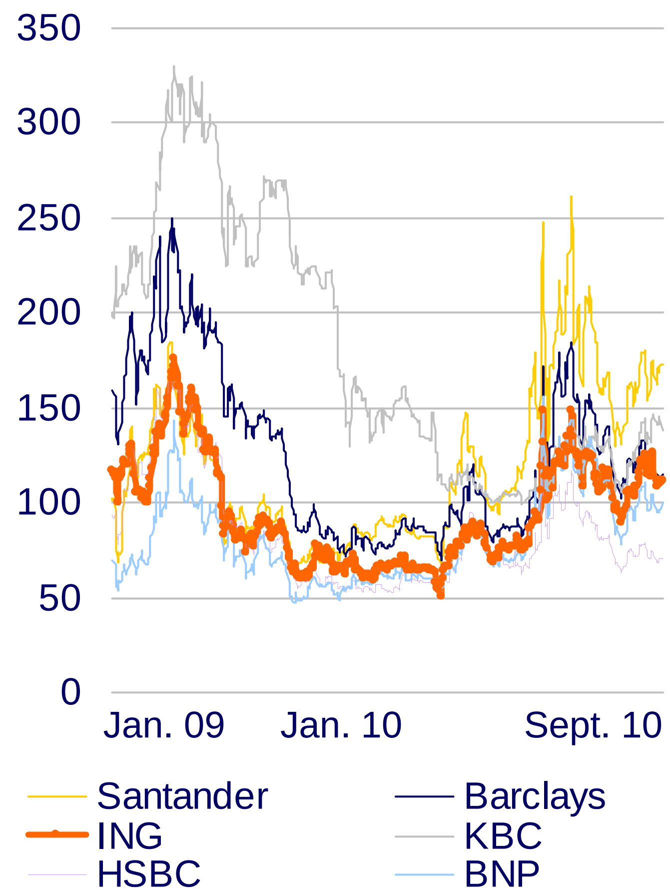
Prudent liquidity risk management

- Dutch Central Bank has applied LCR approach for 10 years, based on ECB eligible asset list on which basis ING Bank's LCR >100%
- Basel III LCR > 90% in 2Q10
- ING Bank increased eligible assets from EUR 113 bln in 3Q08 to EUR 183 bln in 2Q10, available as contingency liquidity buffer

Profitable access to professional funding

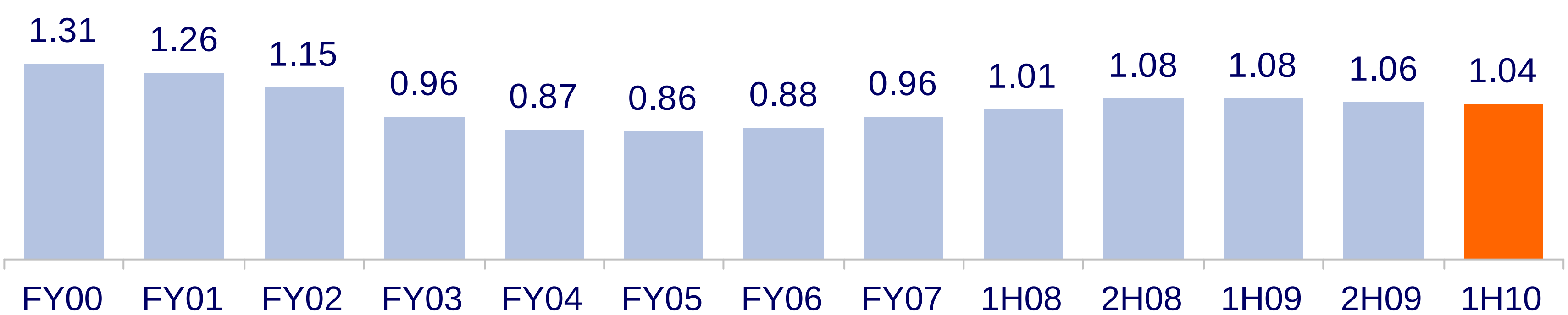
- Rates paid in money markets structurally below benchmark (Euribor, Libor)
- CDS spreads have been relatively modest
- Refinancing needs 2010 and 2011 largely met: EUR 15 billion raised year to-date versus EUR 10 billion maturing in both 2010 and 2011

CDS spreads in bps



ING Bank's loan-to-deposit ratio improved to 1.0

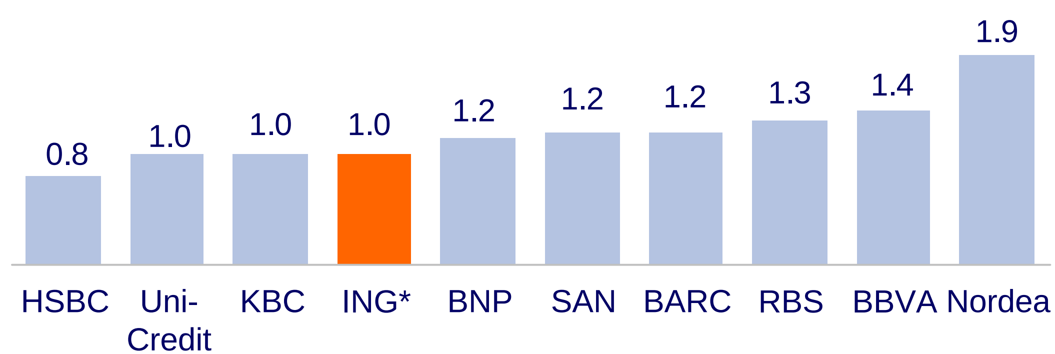
Loan-to-deposit ratio ING Bank* (in EUR billion)



* Excluding securities (and IABF) classified as loans and advances since 2007

- ING Bank's loan-to-deposit ratio improved from 1.31 in 2000 to 1.04 in 1H10
- ING Direct's deposit gathering capabilities main driver

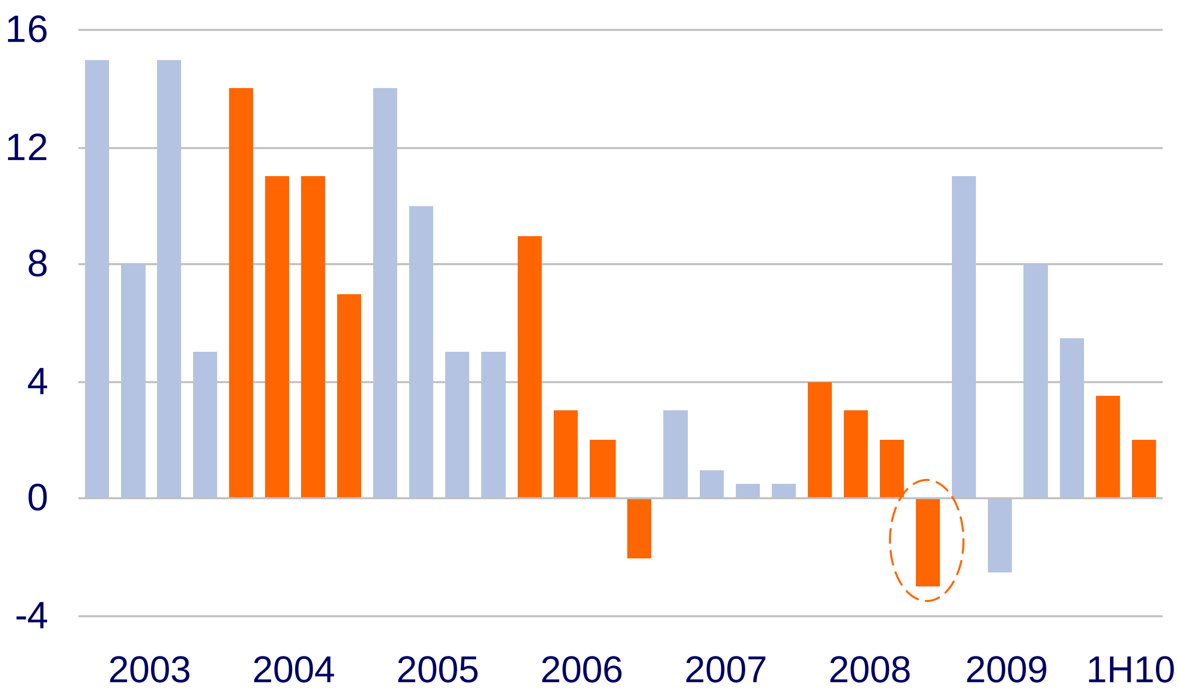
Loan-to-deposit ratio (30 June 2010)



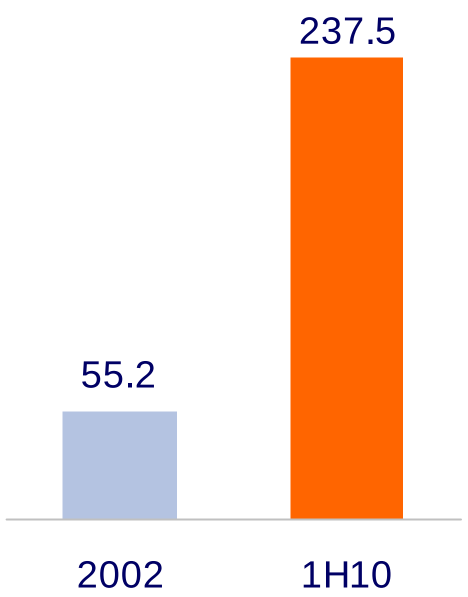
* Loans excluding securities and IABF

ING Direct's deposit base has been sticky and growing steadily

ING Direct's net inflow in funds entrusted (in EUR billion)



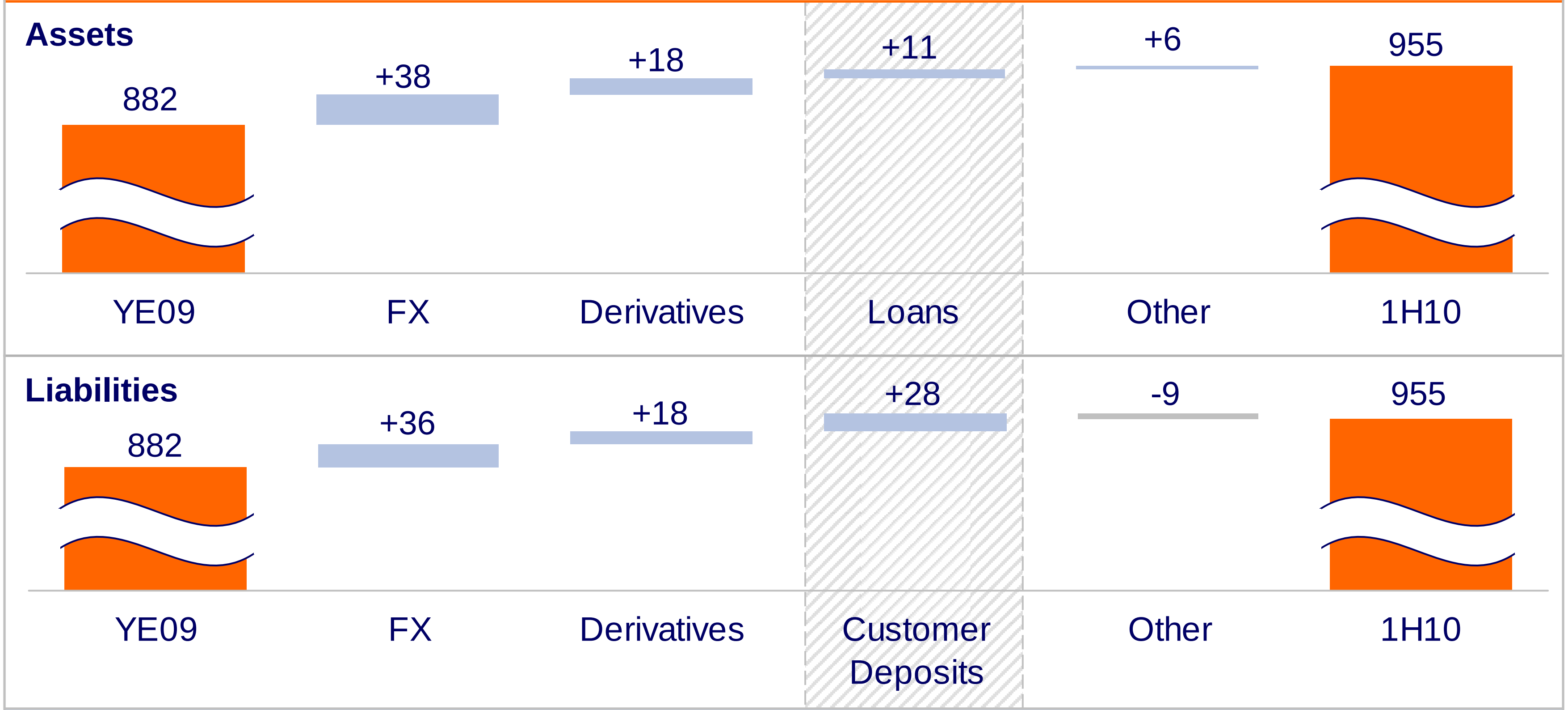
Funds entrusted (in EUR billion)



- Net inflow of EUR 5.7 billion on average per quarter since 2003
- Biggest net outflow limited to 1.6% funds entrusted (EUR 3.2 billion) in 4Q08

Balance sheet is growing in the right direction as customer deposits are funding loan growth

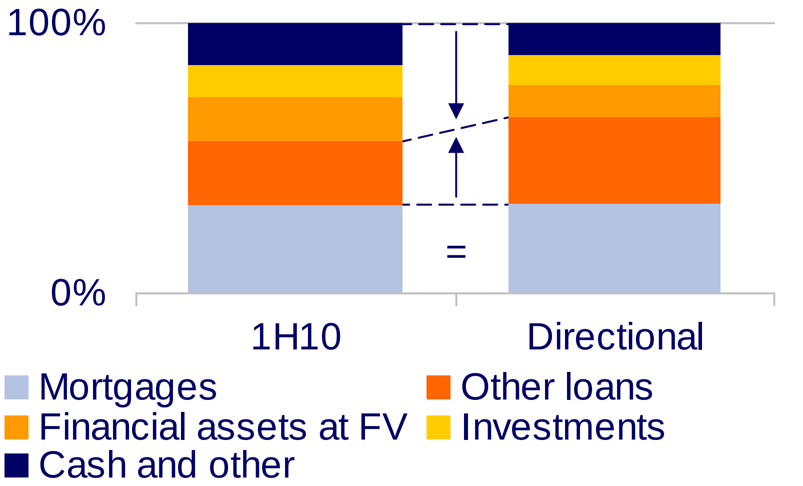
Bank balance sheet development in 1H10 (in EUR bln)



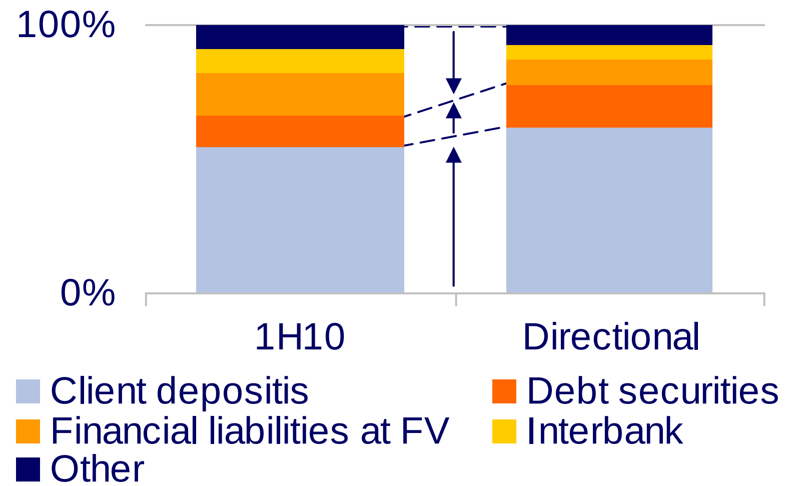
- Balance sheet increase driven by FX and higher derivatives values
- Strong net inflow of client deposits, loan production gradually picking up

Towards a more compact and profitable Bank balance sheet

Total assets (EUR bln)



Total liabilities (EUR bln)



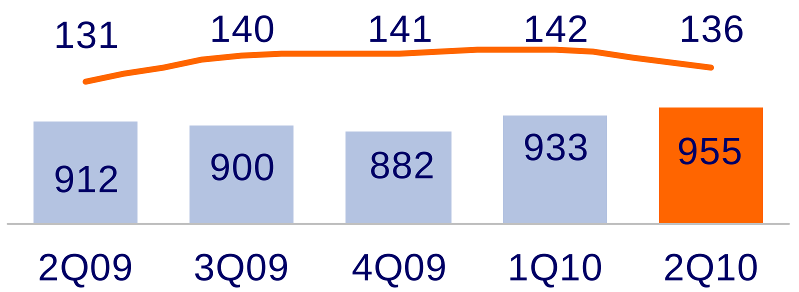
Directional balance sheet yields higher returns

- Disciplined balance sheet growth by shifting from Investments to Loans, with an increased weight of non-mortgage loans within Loans
- Balance sheet integration started: ING Direct is buying ING Bank originated assets
- Ongoing customer deposit growth, increase long-term funding in main markets

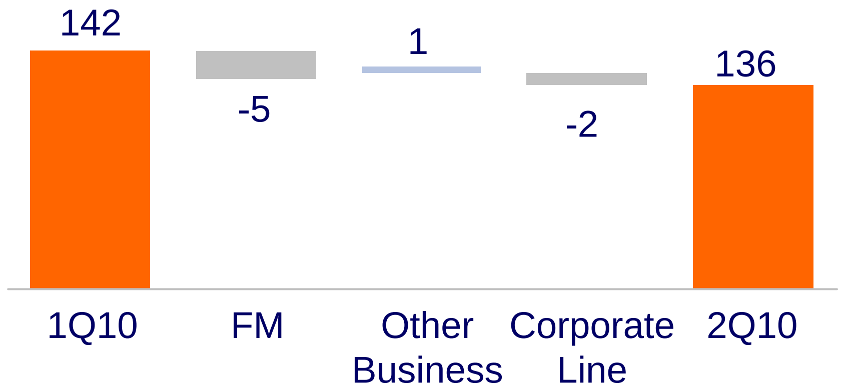
Impact of low interest rates on Banking and Insurance

ING Bank's net interest margin held up well

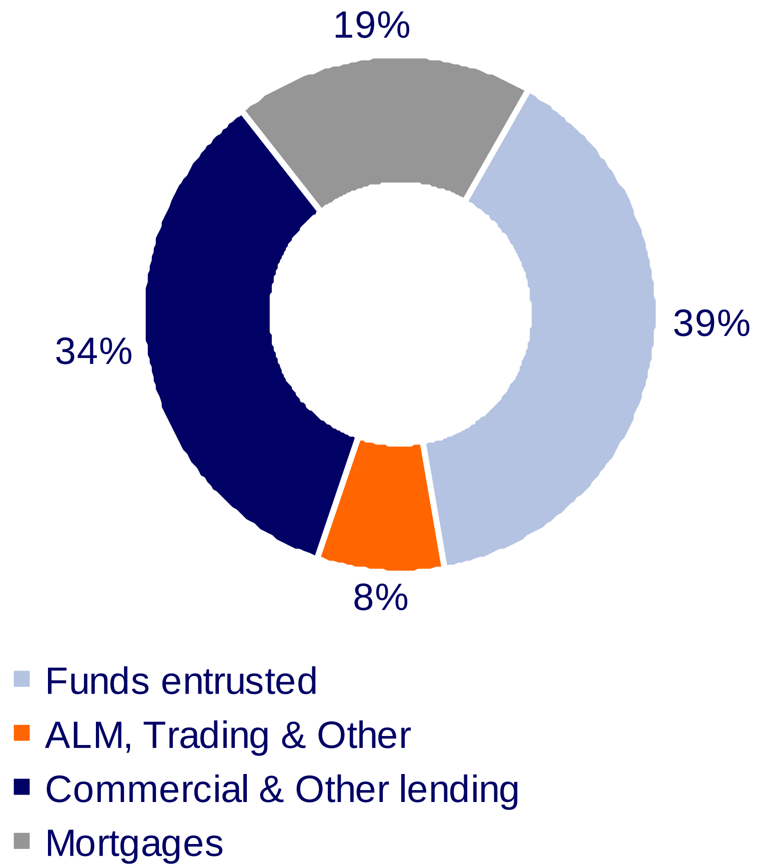
Interest margin by quarter* (in bps) and B/S total (end of quarter, in EUR bln)



Interest margin, changes (in bps)



Well diversified sources of NIM (1H10)



* Interest margin defined as total interest result bank divided by average total assets bank

NIM resilient under various yield curve scenarios

NIM sensitivity for yield curve (1-yr horizon)		
Scenario	**Yield curve**	**NIM impact**
1. Upward shift	+200 bps parallel shift (gradual)	-4 bps
2. Upward shock	+100 bps parallel shift (very rapid)	-2 bps
3. Flattening	+200 bps overnight short-term rates	-7 bps

- When short-term rates go up, client saving rates go up quicker than interest maturing assets re-price. This would lead to a lower NIM
- Sensitivity shows that the NIM remains relatively insensitive to adverse movements of yield curve
- However, changes in credit spreads also affect the NIM

ING Insurance's main general account products have modest interest rate guarantees

Main general account products with explicit interest rate guarantees

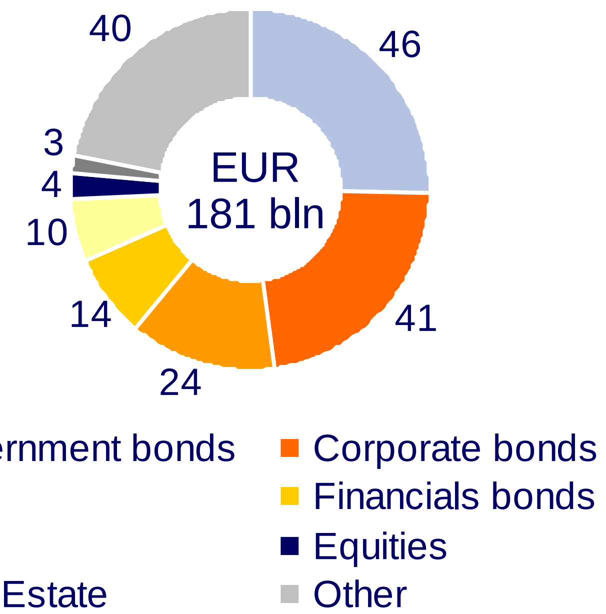
	Reserves (EUR bln)	In-force			New business	
		Portfolio yield*	Average credited rate	Average guaranteed rate**	New money rate	Guaranteed rate
US Retirement & Fixed Annuity	37	5.2%	3.7%	2.9%	3.8%	1-3%
NL Group Life	14	4.9%	4.0%	3.6%	3.1%	3.0%
Korea	7	5.4%	5.1%	4.0%	5.0%	2-4%
Japan COLI	7	1.9%	2.3%	2.3%	1.2%	1.5%

* yield of the portfolio with assets at amortised costs
** reflects the long-term contractual guarantee. Current interest rate guarantees can be in excess of current minimum guarantees

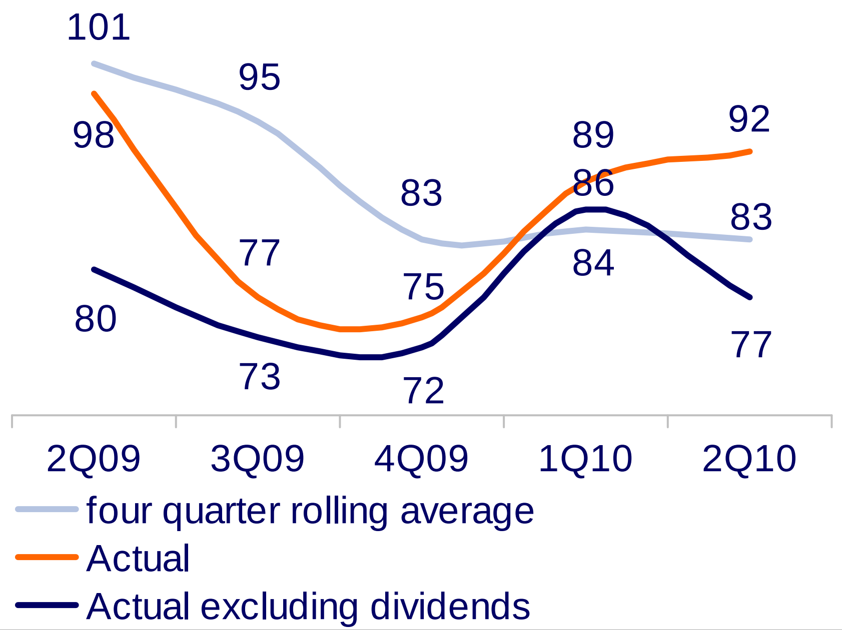
- Investment margin general account is mainly driven by portfolio yield minus average credited rate (ultimately the guaranteed interest rate)
- Portfolio yields comfortably exceed guarantees in the US, the Netherlands and Korea. Negative spread on COLI compensated via margins in premiums and on mortality
- 100 bps yield curve decline has EUR 0.3 billion *positive* P&L impact on ING Insurance, reflecting IFRS asymmetry under which interest rate hedges are carried at fair value

Investment margin Insurance general account assets affected by low interest rates

General account (in EUR billion)



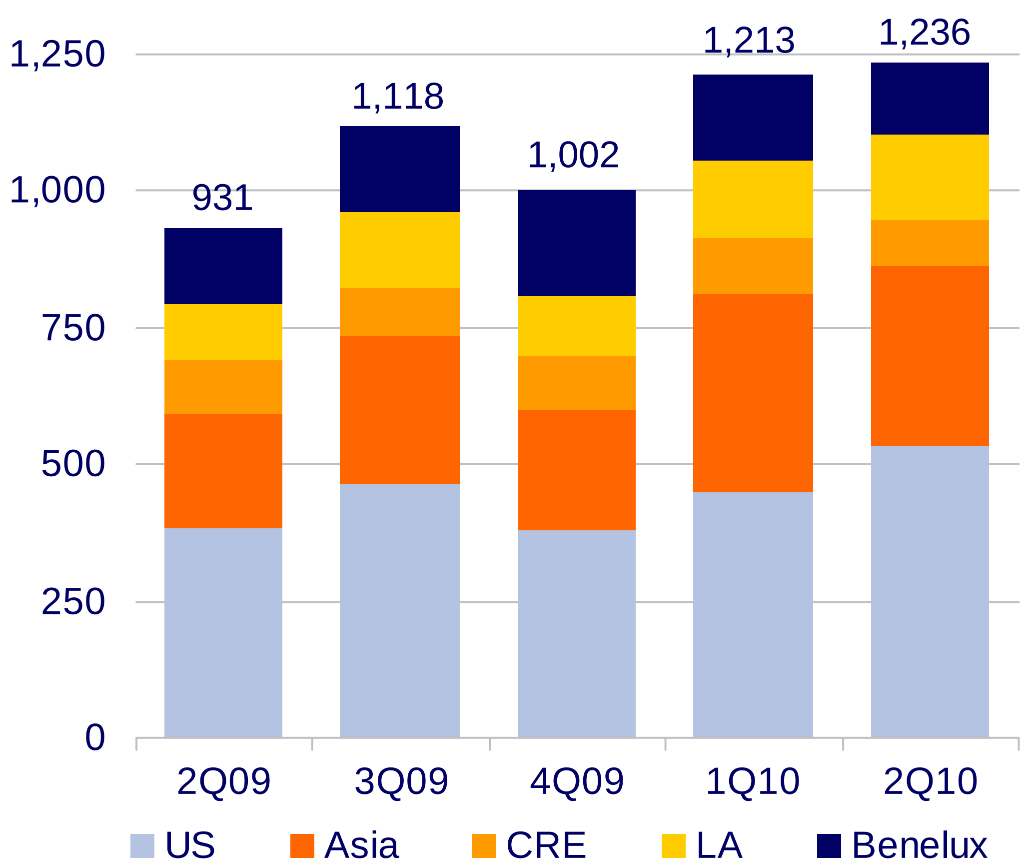
Investment margins (in bps) Life GA



- Investment margin declined as credit spreads tightened and interest rates dropped
- Life general account investment margin is 83 bps on a four quarter rolling average, but the *actual* investment margin is already improving after re-investing in long-dated government bonds (4Q09) and high grade corporate credit (1H10)

Value creation hurdle rates maintained in new Insurance sales

Strong new sales (APE, in EUR million*)



* Excluding the US closed block and the Japan SPVA closed block

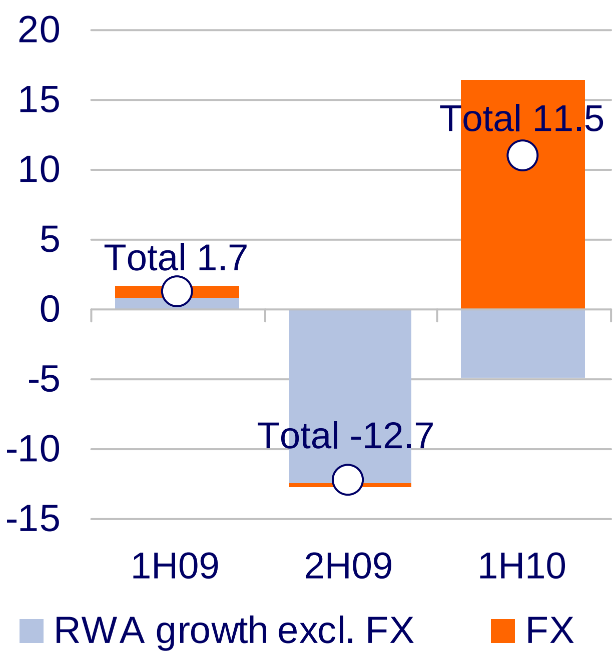
- In 2Q10 new sales up 22% from 2Q09 (excluding FX and closed blocks US, Japan)
- Substantial VNB generated on market consistent basis, with significant increase MCVNB as percentage PV premiums vs 2009
- Strong sales driven by Asia/Pacific (+37%), US (+30%) and Latin America (+32%, all year-on-year)

Capital generation creates flexibility

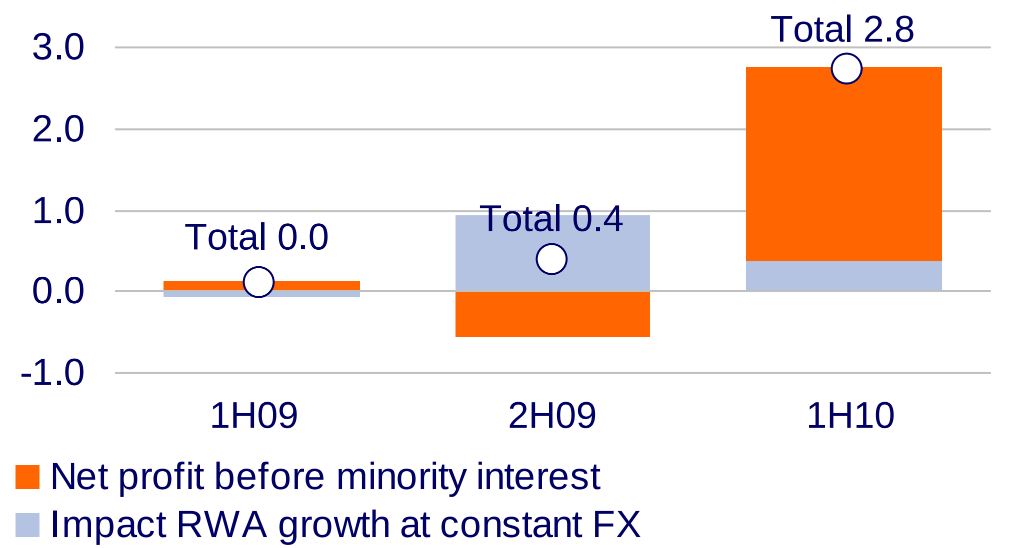
ING Bank's strong core Tier-1 capital generation provides important flexibility

- EUR 2.8 billion core Tier-1 capital generated at constant FX in 1H10
- RWA growth under control, FX has no significant impact on core Tier-1 ratio

RWA growth driven by FX (in EUR billion)



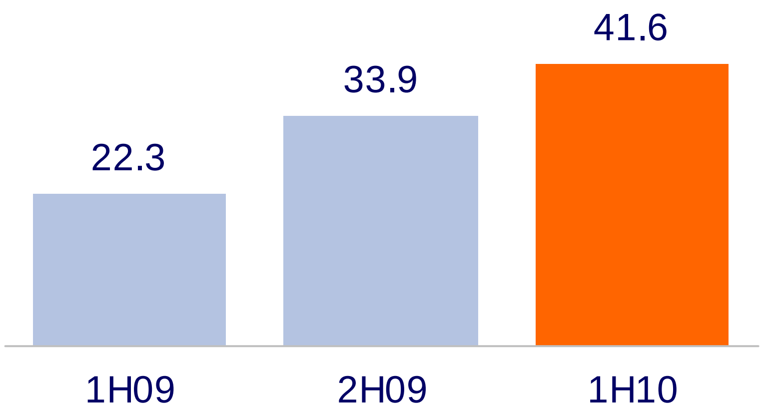
Core Tier-1 capital generation at constant FX (in EUR billion)



(1) core Tier-1 capital generated: net result before minority interest – 7.5% *RWA growth
(2) 4Q09 profit affected by EUR 0.8 billion accrual of additional future IABF payments as part of the EC agreement

ING has ample flexibility to repay the Dutch State

ING Group shareholders' equity (in EUR billion)



ING Group 30 June 2010 (in EUR billion)

ING Bank	33	Shareholders equity	42
Insurance	21	CT1 securities	5
Hybrids[B]	9	Core debt	7
Hybrids[I]	4	Hybrids	13
	67		67

- Organically generated capital significantly increases flexibility on repaying the Dutch State and divesting ING Insurance, including a partial spin-off
- Final divestment scenario will depend on retained earnings, capital requirements under Basel III and Solvency II and market circumstances

Managing a profitable balance sheet in the age of austerity

Basel III adds constraints to the banking industry

- ING Bank already fully compliant with capital and asset leverage requirements
- Strong liquidity and funding position to meet LCR and NSFR
- Basel III also a catalyst for a more compact and profitable balance sheet

Low interest rate environment is challenging for Financials

- Bank's net interest margin resilient under various yield curve scenarios
- Insurance general account: portfolio yield comfortably exceeds guaranteed rate

ING Group has substantial capital flexibility

- Strong capital generation ING Bank, ample flexibility to repay the Dutch State

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 2009 ING Group Annual Accounts. All figures in this document are unaudited. Small differences are possible in the tables due to rounding.

Certain of the statements contained herein are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in ING's core markets, (2) changes in performance of financial markets, including developing markets, (3) the implementation of ING's restructuring plan to separate banking and insurance operations, (4) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness, (5) the frequency and severity of insured loss events, (6) changes affecting mortality and morbidity levels and trends, (7) changes affecting persistency levels, (8) changes affecting interest rate levels, (9) changes affecting currency exchange rates, (10) changes in general competitive factors, (11) changes in laws and regulations, (12) changes in the policies of governments and/or regulatory authorities, (13) conclusions with regard to purchase accounting assumptions and methodologies, (14) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, and (15) ING's ability to achieve projected operational synergies. ING assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

www.ing.com