Dutch mortgages: Pro-actively managing risk

ING Investor Day

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Rotterdam – 9 April 2009
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Dutch Mortgages: Key Points

- Dutch mortgage market: Less risky than perceived as four factors provide structural support
  - Fiscal system: tax-deductible interest payments
  - Supply constraint: structural shortage land and houses
  - Regulation: drives prudent underwriting and fixed-rate products
  - Social security system: buffers to absorb income loss
- Relatively high LTVs do not translate into high LGDs: EUR 100 bln mortgage portfolio had EUR 53 mln risk costs in 2008 with LGD 2%
- Stress tests show peak risk costs of up to EUR 330 mln in 2010
- Risk strategy concentrates on risk reduction in the portfolio, helping customers to meet mortgages payments

Dutch mortgage market: Less risky than perceived - four factors provide structural support

Beneficial fiscal system	Relatively high LTVs driven by fiscal system: tax deductible interest payments
Shortage of houses	Balanced price growth and structural shortage of available housing and land
Regulation	Regulation prescribes prudent underwriting criteria, drives fixed rate products and allows broad claims on borrowers after foreclosure
Buffers through social security	Low unemployment, social security and financial assets provide buffers in case of loss of income

Fiscal system drives high LTVs, which does not translate into high LGDs

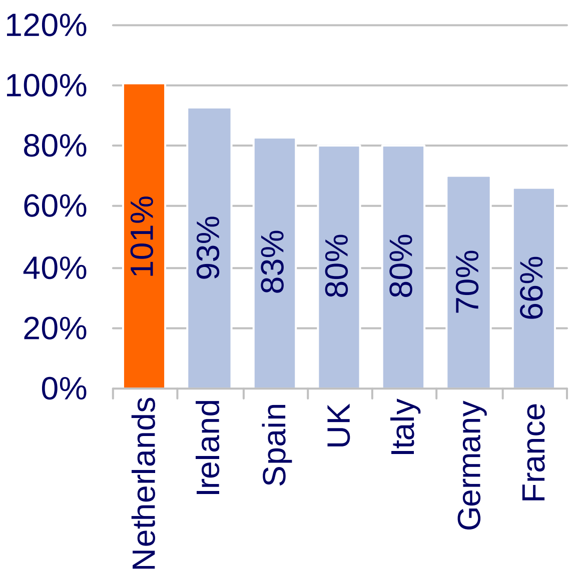
Beneficial fiscal treatment main driver high LTVs

- Mortgage application cost and interest payments are deductible from the taxable income for 30 years
- Tax benefit: 34% - 52% of interest payments
- System favours products that do not directly involve principal repayment: Use of non-amortising mortgages in combination with savings and investment plans or life insurance to repay loan at maturity

High LTVs do not translate into high LGDs

- High LTVs are partially compensated by secondary covers from savings/investment plans and life insurance policies.
- LGD in 2008 on average 2%

Average LTV at production



ING Retail NL (2008): average LTV new production 87%, average LTV in portfolio 72%*

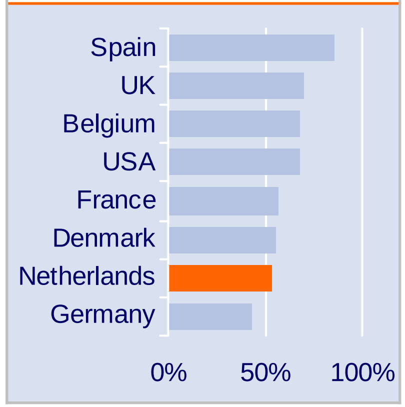
Source: ECB, McKinsey, adapted by ING
* excluding mortgages guaranteed by NHG

Dutch housing market: balanced price growth and shortage of available housing

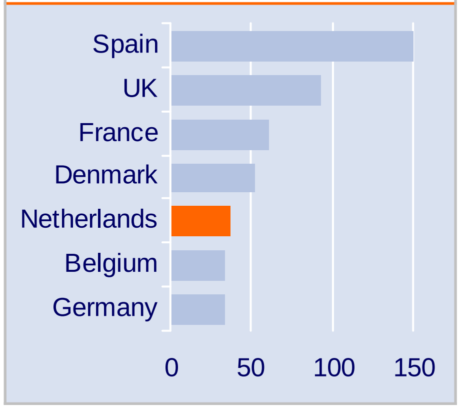
Supply of houses structurally below demand

- Home ownership is relatively low
- Number of one-person households increasing
- Housing limited by geographical constraints and building regulations
- No excess supply which could negatively impact house prices

Home ownership, 2008



New properties per 1000 inhabitants, 2003-2007

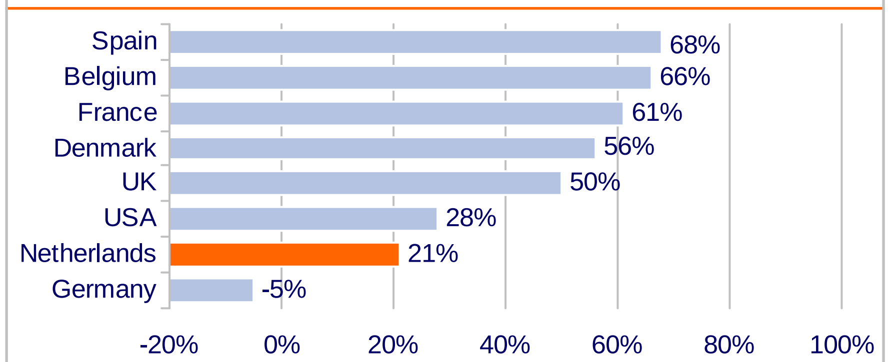


Source: EMF

Balanced price developments

- No price boom in the last five years
- Annual price growth not much higher than inflation and household income growth
- Buy-to-let mortgages are exception as interest-rate deductibility only applies to primary residence

Increase in nominal property prices, 2003-2007



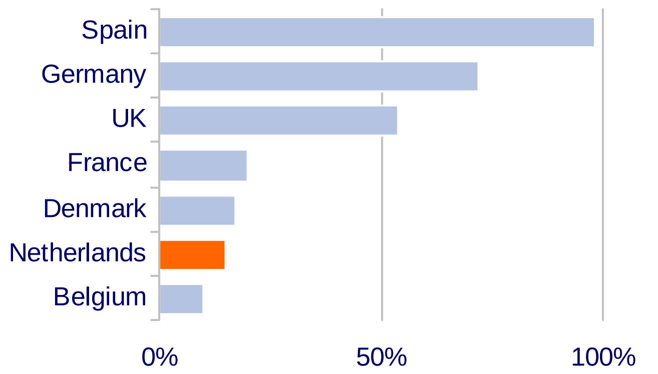
Source: EMF

Regulation drives prudent underwriting and fixed rate products

Prudent underwriting criteria

- No subprime market: Code of Conduct limits borrowers' debt/income ratio
- National credit register check (Bureau Krediet Registratie)
- Law allows lenders to claim income and assets of borrowers in arrears
- Government can guarantee mortgages up to € 265,000 (National Mortgage Guarantee)
- Lenders retain loss claim on borrower after foreclosure

Mortgages with variable interest rate, 2008



Source: McKinsey

Dutch mortgage market is less sensitive to interest rate increases

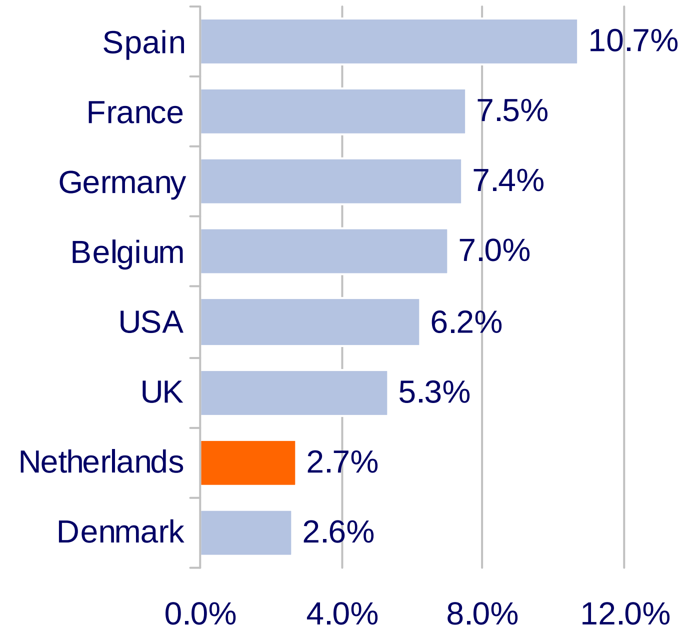
- Code of Conduct forces to calculate the maximum debt capacity of a borrower based on a 10-yr fixed rate mortgage to limit interest sensitivity
- Coupled with interest rate deductibility, this leads to fixed-rate mortgages as prevailing product
- ING Retail NL mortgage book has average remaining fixed-rate period of 7 year

Social security and personal savings provide buffers in case of loss of income

Unemployment does not necessarily imply loss of ability to pay the mortgage

- Relatively low unemployment rate compared to other countries
- Social security system providing unemployment benefits for 3 to 36 months
- Financial compensations for lay-offs
- Relatively high % of savings compared to disposable income (85% vs. 78% EU)
- Cases show that the average borrower has some resilience to pay their mortgage after loss of job
- However these buffers offer less protection for self-employed

Unemployment in 2008



Source: OECD, McKinsey. Graph provides unemployment figures based on standardised European definition

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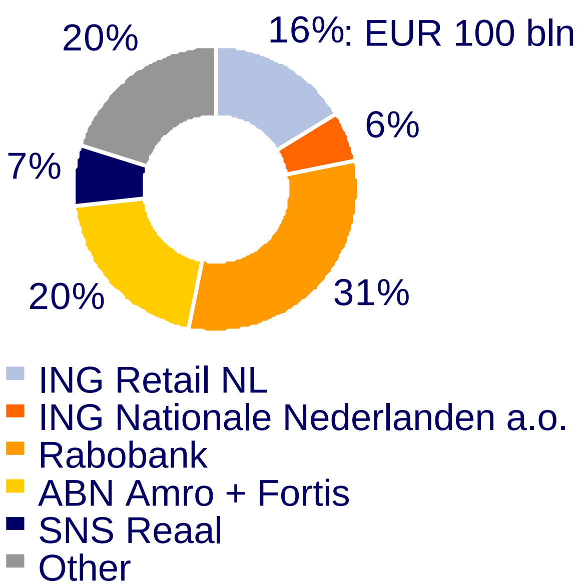
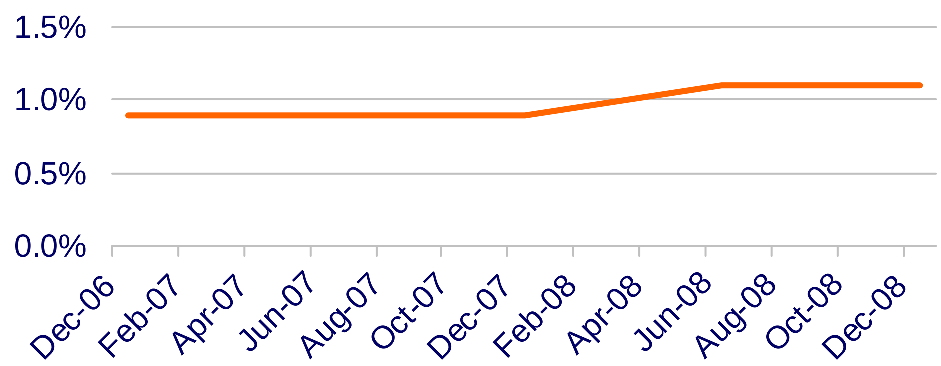
Stable delinquency rates in ING Retail portfolio: Actual losses still below expected losses

ING Group: 22% market share in Dutch mortgages (outstanding)

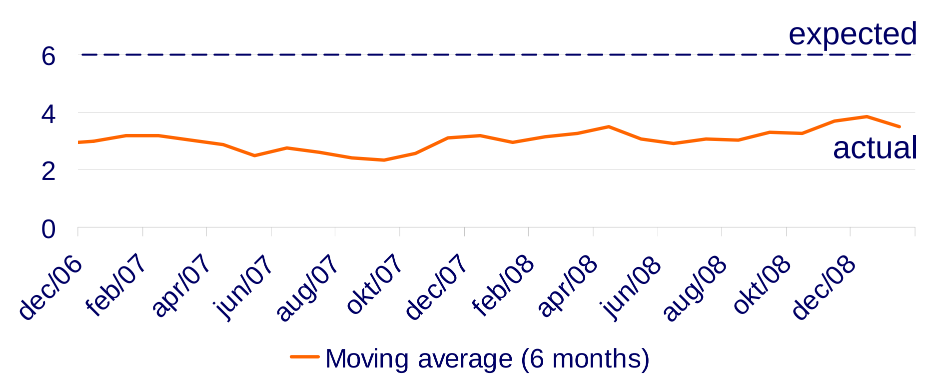


This presentation covers ING Retail NL's mortgage portfolio.The quality of mortgages originated by other ING brands is similar: NPLs ING Retail are at 1.1%, at other ING brands NPLs are just below 1%

ING Retail NL: 90 day+ delinquencies



ING Retail NL: Losses in bps total assets



Negative economic outlook challenges ING's mortgage business

Base case scenario

GDP	
2008	+2.1%
2009	-3.3%
2010	+0.0%

Unemployment	
2008	3.9%
2009	6.6%
2010	8.5%

House prices	
2008	+2.8%
2009	-5.0%
2010	-0.5%

Interest rates (3 month)	
2008	2.9%
2009	1.3%
2010	1.9%

Interest rates (10 year)	
2008	3.5%
2009	3.2%
2010	3.9%

Source: ING Economic Bureau

Risk costs will increase

- Part of the expected higher risk has been taken into account in pricing and the increase of loan loss provisioning in 2008
- ING uses two scenarios going forward: a base case and a severe crisis
- The annual risk costs could increase from EUR 53 mln in 2008 to EUR 170 mln (base case) or even EUR 330 mln (severe stress) in 2010. Compared to mortgage profits (EUR 300 mln) and portfolio size (EUR 100 bln) this is manageable
- To minimise risk costs increases ING NL has strengthened its risk management practices further in risk identification, underwriting and mortgage portfolio management

Risk strategy concentrates on risk reduction in the portfolio and helping clients to meet mortgage payments

Risk strategy

1. Primarily concentrate on risk reduction in the portfolio, rather than exclusively focussing on reducing risk of new production
2. Help customers to pay their mortgage, avoiding losses to both parties

Risk modelling	• Monitor economic developments • Identify customers with higher risk profile • Stress test the portfolio
Underwriting practices	• Reduce inflow of high risk customers… • ...while protecting production volume
Portfolio management	• Update information of customers • Develop measures to assist customers in paying their bills • Ramp up plan developed
Collections and arrears	• Help customer to pay on time • Develop measures to assist customers to get out of arrears • Ramp up plan developed

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Risk modelling enables early identification of customers with higher risk profile

- Primary risk is the customer defaulting (PD or subject risk); subsequent risk is that the property is not worth what it was valued at (LGD or object risk)
- Customers with higher risk profile are defined as customers that combine high subject risk with high object risk:
  - capacity utilization rate > 80%
  - LTV > 90%

Portfolio segmentation

		LTV	
		< 90%	> 90%
Capacity Utilization Rate	< 80%	€ 58 bln	€ 22 bln
	> 80%	€ 12 bln	€ 8 bln

Resulting in a higher risk segment of 8%

Explanation CUR:

- for each income bracket, the maximum percentage of gross income the household can bear as housing costs is determined by Dutch Budget Institute (NIBUD)
- the actual percentage of gross income spent on the mortgage in relation to the maximum percentage is defined by ING Retail as the CUR ("Capacity Utilization Rate")
- The CUR indicates the buffer in the household budget to build financial reserves and compensate for increased costs of living, for example in the case of interest rate increases or unemployment

Stress testing the portfolio indicates risks are manageable

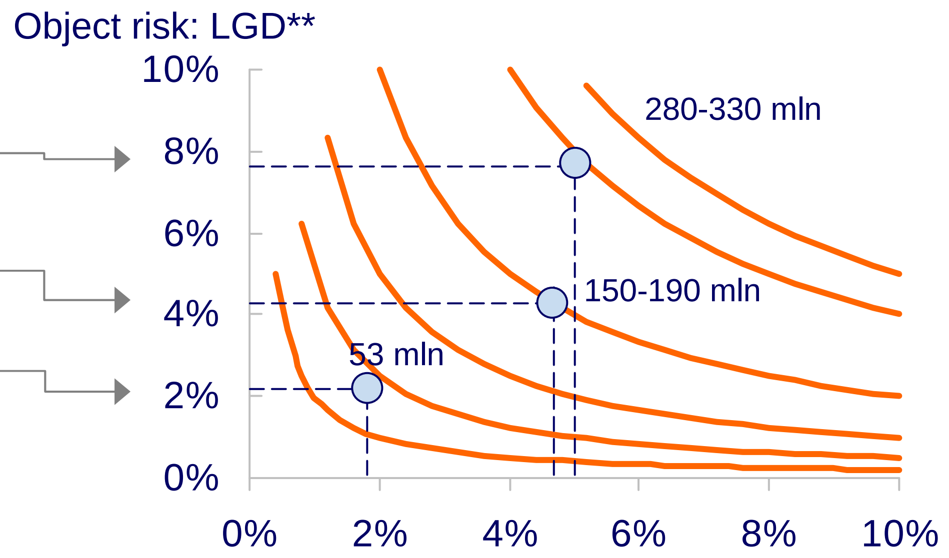
Stress testing ING Bank's mortgages: risk costs (in EUR mln)*

House prices

2009: -15.5%
2010: - 2.4%

2009: - 5.0%
2010: - 0.5%

2008: + 2.8%



Severe crisis 2010
PD: 5.4% LGD: 7.8%
Unemployment 10.0%,
House Prices -17.9%

Base scenario 2010
PD: 4.9%, LGD: 4.4%
Unemployment 8.5%,
House Prices -5.5%

Risk costs 2008:
PD: 1.6% LGD: 2.0%

Unemployment

2008: 3.9%	2010 Mild 8.5%	2010 Severe 10.0%

* Calculations refer to ING Retail, with EUR 100 bln outstanding mortgage loans
** Loss given default; expressed as part of loan outstanding
*** Probability of default

ING Retail is proactively managing risk

Reducing inflow customers with higher risk profile

- ING Retail has managed to limit the share of customers with a higher risk profile in new mortgage production…
- …while it is mindful of the impact that overly strict requirements would have on the Dutch housing market:
  - Could induce a strong limitation of demand in houses, causing in itself a pressure on property prices and worsening risk in the portfolio
  - Lending will therefore continue, but is subject to tighter conditions for specific segments
  - In the process, ING will closely observe its competitor policies in order to prevent intake of relatively higher share of risk

Integrated program to improve portfolio management results in:

- Updated information of customers in portfolio:
  - Contact information
  - Income
  - Object value
- Differentiated set of measures to pre- and post-arrears customers to minimize probability and severity of arrears case
- Ready for volume ramp-up in case volume or severity of arrears may increase

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Helping customers to meet mortgage payments

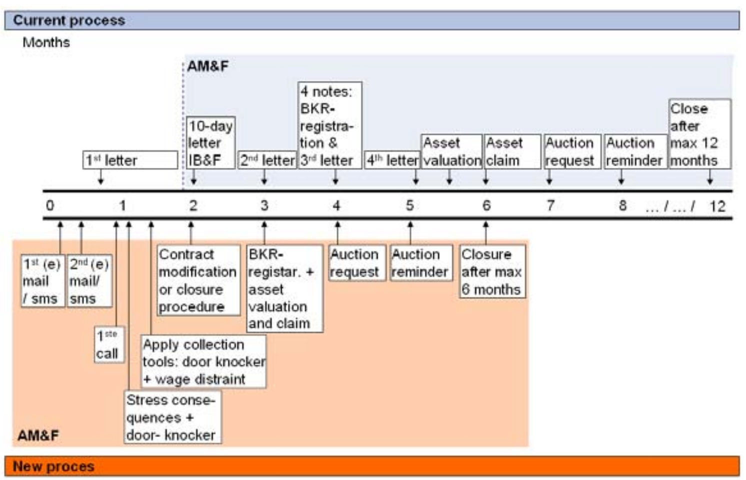
to retain customers and avoid losses

ING Retail helps customers to pay on time

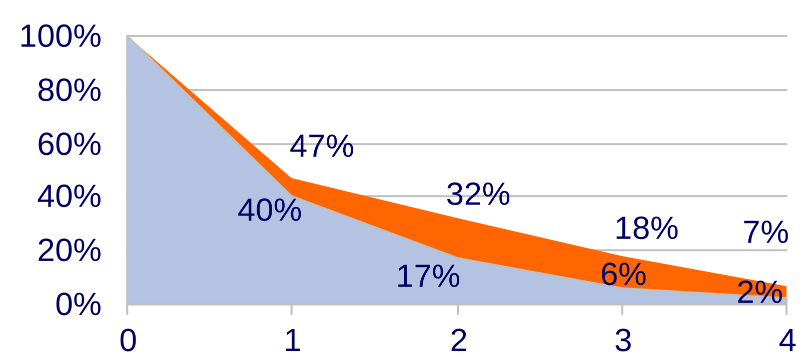
- Swift and gradually stronger signals to customer if payment is not on time
- Communication with customer is adapted to personal risk profile and direct, tone of voice is 'helping further'

Segmented approach to delinquencies

- For clients with significant debt-servicing capacity: Measures to retain customers in their houses paying their mortgage, to avoid losses to both parties. E.g. temporarily adapt payment schedule, interest pause, budget counselling
- For clients with (too) limited debt servicing capacity: ING has the legal right and has installed the process to accelerate foreclosure and claim the remaining debt from the customer



Speeding up collection during first 4 weeks



Source: ING

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