Third quarter 2019 results

ING posts 3Q2019 net result of €1,344 mln

Ralph Hamers, CEO ING

Amsterdam ▪ 31 October 2019

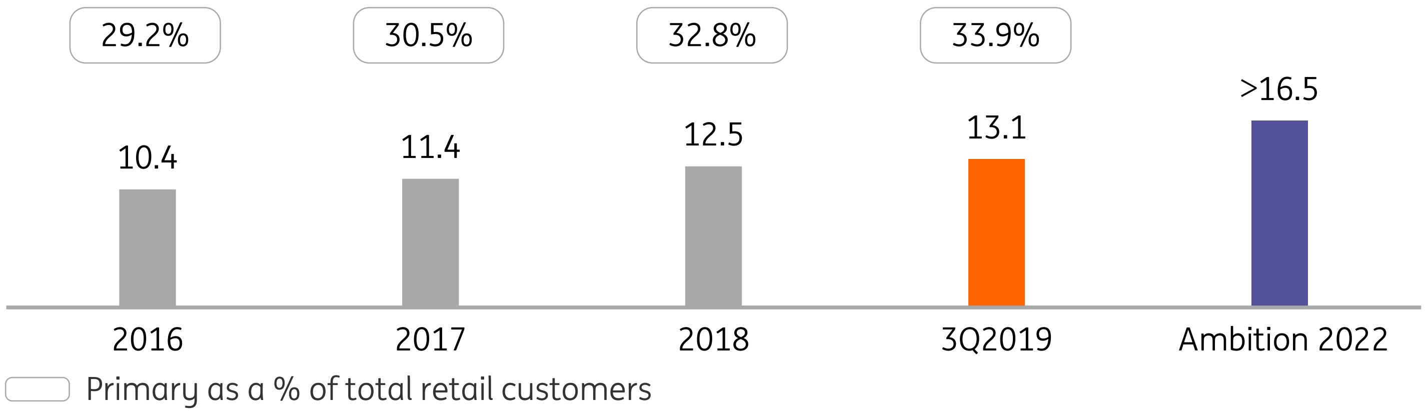
thinkforward

Key points

- ING posted 3Q2019 net profit of €1,344 mln
- Primary customers increased by 165,000 to 13.1 mln, representing more than one-third of our Retail customer base
- Net core lending growth in Retail was €3.6 bln
- In Wholesale Banking net core lending decreased by €4.6 bln, with volumes affected by the oil price and incidental large repayments
- Overall net core lending declined by €1 bln
- Results were supported by resilient lending margins, especially in mortgages, and higher fee income, which partly countered margin pressure on customer deposits and higher costs related to KYC
- On a four-quarter rolling average basis, the underlying return on equity was 10.3%
- ING Group's CET1 ratio improved to 14.6%
- We do expect to see effects on capital from banking regulation and reviews in the coming quarters
- We continue to take steps to counter financial and economic crime by strengthening our global KYC organisation, as well as by using technology and our innovation skills

Commercial momentum remained strong in Retail

Target to reach >16.5 mln primary customers* by 2022



Net promoter scores (NPS)

3Q2019

#1 in **6** out of 13 retail countries

Core lending

3Q2019 net growth

€ **+3.6** bln
Retail Banking

€ **-4.6** bln
Wholesale Banking

Customer deposits

3Q2019 net growth

€ **+4.4** bln

* Definition: active payment customers with recurring income and at least one extra active product category

Countering financial and economic crime remains our priority

Continued focus on improving Know Your Customer (KYC)

- We made further progress in strengthening our global KYC organisation and governance structure throughout ING
- In Italy, we continue to take steps to improve processes and management of KYC as required by Banca d'Italia
- Five large Dutch banks, including ING, have announced they will investigate the possibilities to cooperate on transaction monitoring. This follows the plan of action to investigate data-sharing, as presented by the Dutch ministers of Justice and Finance in June 2019

We keep developing tools to increase accuracy and effectiveness in the management of our non-financial risks

- In the Netherlands, a tool was created to improve the file enhancement process for SME customers, by **digitalising the data needed for transaction analysis**
- In Turkey, we use an API (application programme interface) to integrate our banking systems with the country's trade registry, which gives us **quicker access to more accurate data on legal entities**
- We developed SparQ, a global platform that uses AI **to automate the process of turning regulation into policy**. It gives insight into applicable regulations, identifies changes, helps analyse documents and can link regulation directly to our policies

Strong mortgage growth at improved margins in Spain

We have introduced a new mortgage relationship model…

- A new call center platform, fully dedicated to mortgages, provides every applicant with a single point of contact throughout the application process
- The new model leads to a much improved conversion ratio, less incoming calls and higher customer satisfaction

…and improved our risk acceptance process

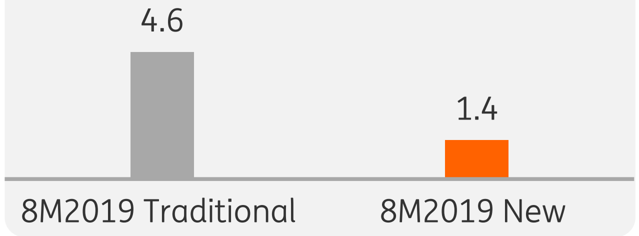
- We introduced updated scoring models, using new generation scorecards which leverage more comprehensive data and advanced methodologies

Improved customer experience and market share in 2019

Comparing traditional to new model ytd August 2019 except for market share

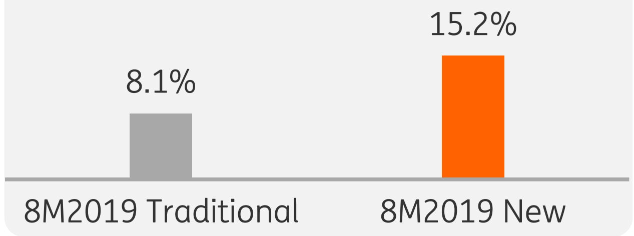
# of inbound calls*

Per customer



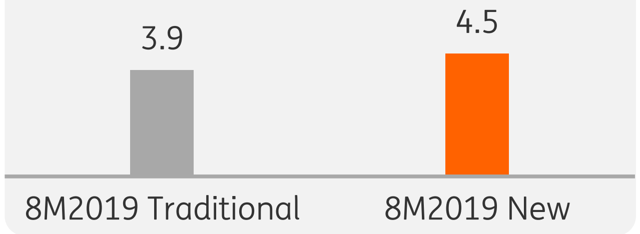
Conversion**

Disbursement within 2 months



Customer satisfaction

On a scale of 1 (low) to 5 (high)



Market share

New production

* Per customer from positive initial risk scoring to disbursement
** Conversion of 'Ready to buy' customers (property already selected) from passing initial risk scoring to disbursement of the mortgage amount (within 2 months)

We continue to take action to combat climate change

Important milestones achieved in 3Q2019

- ING signed the UN-backed Principles for Responsible Banking as a founding member – one of 131 banks representing one-third of the world's banking assets
- ING and more than 30 banks turned the Principles for Responsible Banking into action by signing the Collective Commitment to Climate Action
- ING signed the Dutch Climate Agreement, which is the Dutch government's interpretation of the Paris Agreement
- ING released the first progress report on the Terra approach, our science-based approach to steer our lending portfolio towards meeting the Paris Agreement's two-degree goal. We are the first bank to publish specific climate alignment disclosures
- ING and the European Investment Bank (EIB) are making €400 mln available for large business customers in the Netherlands, Belgium and Luxembourg to invest in sustainable projects

Strong sustainability deal activity in 3Q2019

- We also help our customers reach their sustainability goals. In 3Q2019, ING has supported 11 sustainability improvement loans, plus 5 green loans and 12 sustainable bonds, several of them structured by ING

PORSCHE	€1 bln Green Schuldschein – 1st Green Schuldschein for a car manufacturer
e.on	€1.5 bln Green bond – 1st Green bond for the company
中粮国际 COFCO INTL	$2.3 bln Sustainability Improvement Loan – 1st Sustainability Improvement Loan for the company

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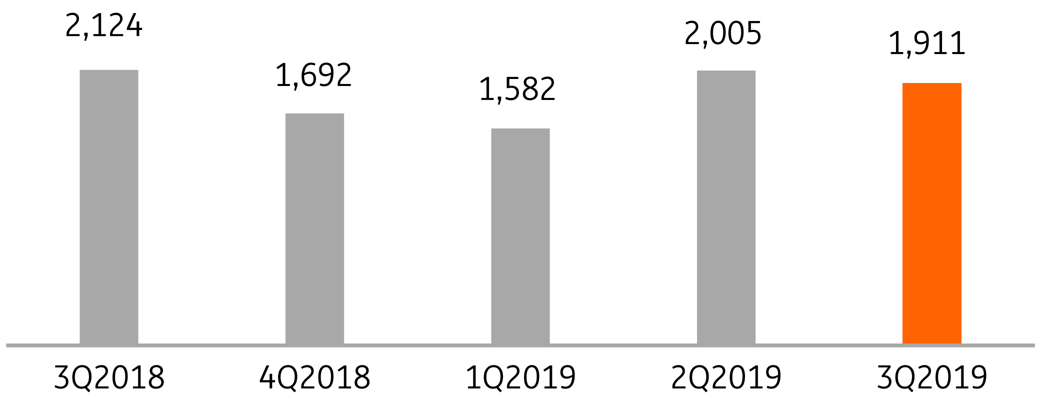
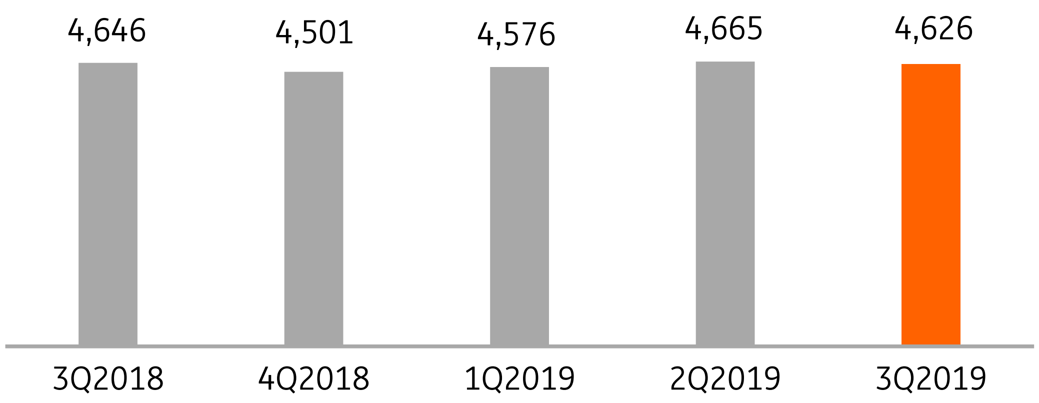
3Q2019 results

Income reflects robust lending margins and fee growth

Underlying pre-tax result (in € mln)



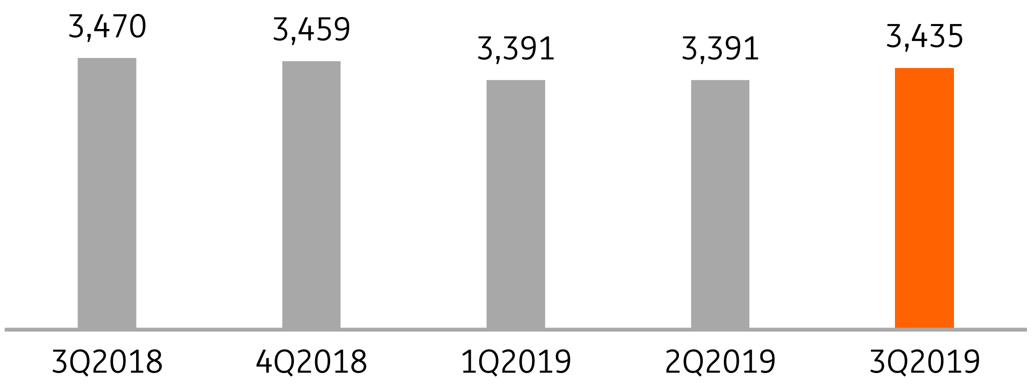
Total underlying income (in € mln)



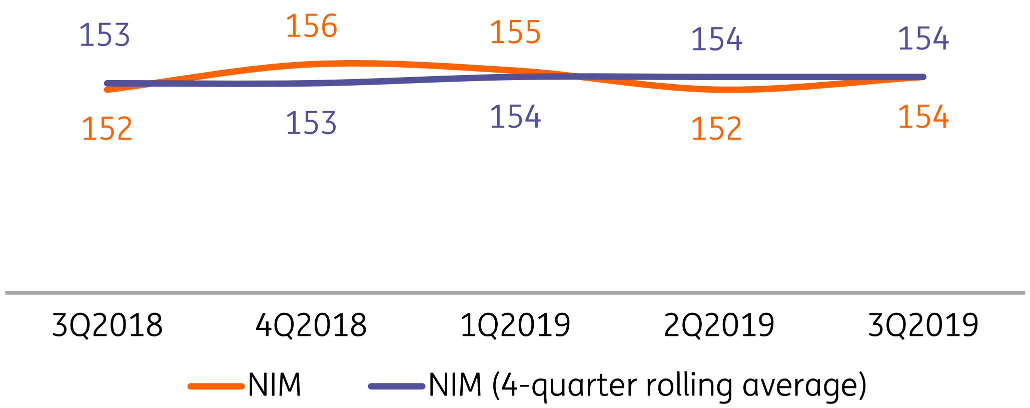
- 3Q2019 underlying result before tax was €1,911 mln, down 10.0% from a year ago, due to slightly lower income, higher expenses and higher (but still relatively low) risk costs
- Underlying income was €20 mln lower compared to 3Q2018 as improved margins on mortgages and higher fee income were offset by lower Treasury-related revenues and margin pressure on customer deposits
- Sequentially, the decrease in pre-tax result was almost fully caused by lower Treasury-related revenues and higher risk costs

NII improved quarter-on-quarter; 4-quarter rolling NIM at 154 bps

Net interest income excl. Financial Markets (FM) (in € mln)



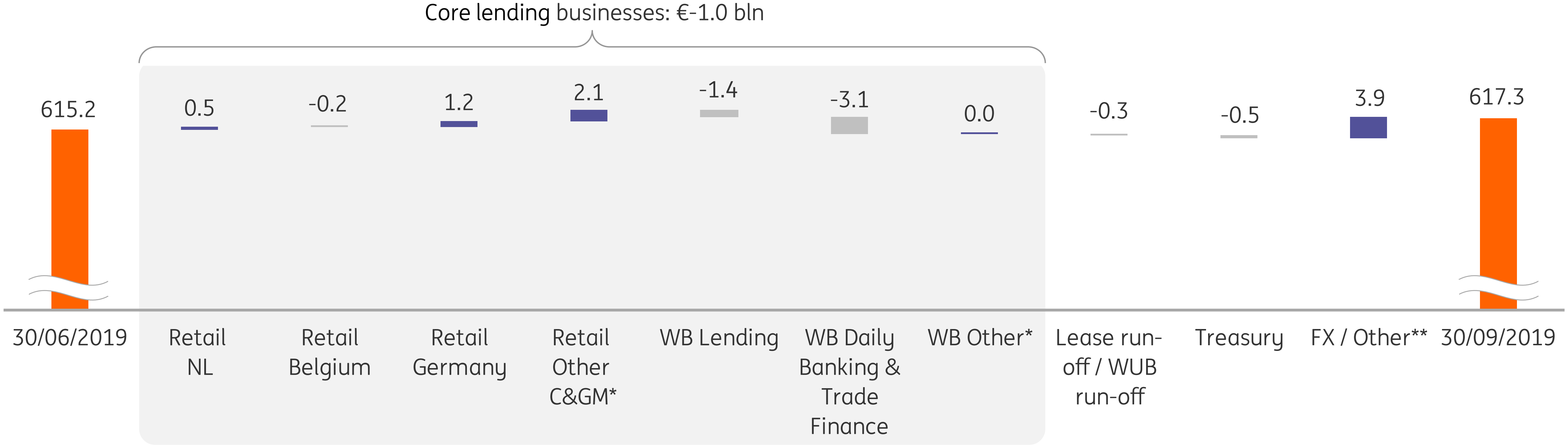
Higher NIM partially explained by FM (in bps)



- Net interest income, excluding Financial Markets, decreased 1.0% compared to 3Q2018, as higher volumes in customer lending and improved margins on mortgages were more than offset by lower interest margins on customer deposits and lower NII from Treasury-related activities
- NII increased quarter-on-quarter
- NIM was 154 bps, up two basis points on 2Q2019. This was mainly attributable to higher (volatile) interest results in Financial Markets, combined with higher interest income on Treasury and improved margins on mortgages. These factors compensated for lower interest margins on customer deposits

3Q2019 net core lending

Customer lending ING Group 3Q2019 (in € bln)

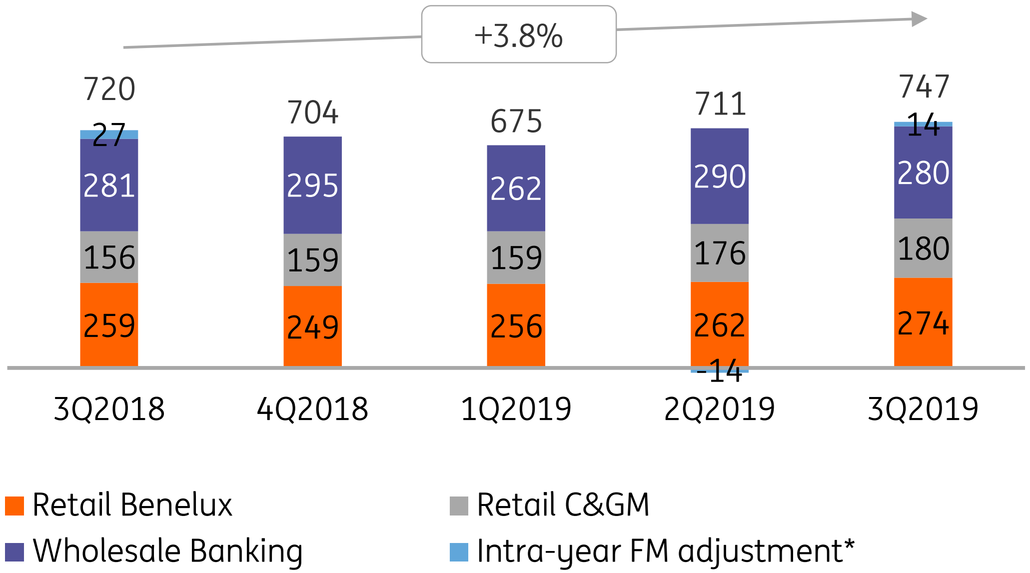


- Our net core lending declined by €1.0 bln in 3Q2019:
  - Retail Banking increased by €3.6 bln of which €3.4 bln was mortgage growth in most countries and €0.2 bln was other lending growth
  - Wholesale Banking reported a decrease of €4.6 bln, mainly in Daily Banking & Trade Finance, as the oil price impacted volumes, and in Diversified Lending due to repayments of some larger term loans

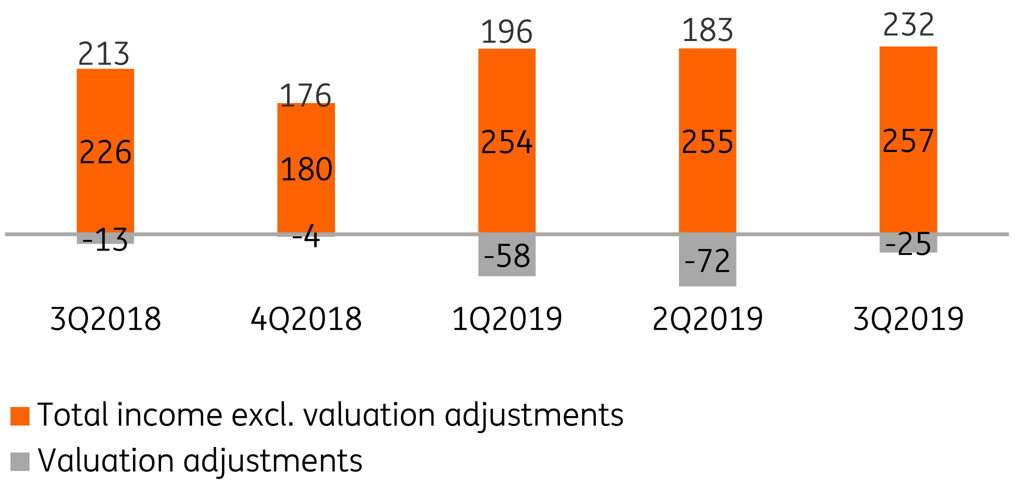
* C&GM is Challengers & Growth Markets; WB Other includes Financial Markets
** FX impact was €3.5 bln and Other €0.4 bln

Good fee income growth; higher FM with lower value adjustments

Net fee and commission income (in € mln)



Underlying income Financial Markets (in € mln)

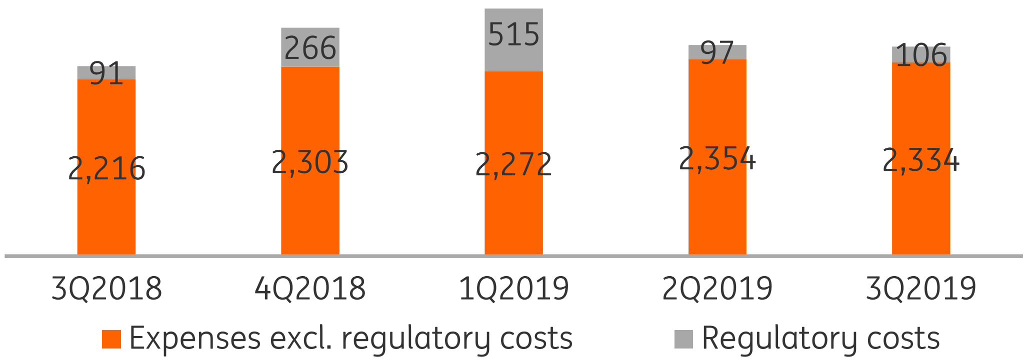


- Excluding FM adjustments, fee income rose by €40 mln YoY, or 5.8%, fully driven by higher fees in Retail Banking. Sequentially, adjusted fee income was €8 mln higher, reflecting the aforementioned growth in Retail Banking, partly offset by lower fee income in Wholesale Banking (mainly Corporate Finance and DB&TF).
- Financial Markets' total income increased by €19 mln compared to 3Q2018, primarily caused by higher income from Financing, Credit Trading and Global Capital Markets, which more than offset higher negative valuation adjustments. Sequentially, income was €49 mln higher, almost fully driven by lower negative valuation adjustments, while income in Rates increased slightly

* Increase in Wholesale Banking fees in 3Q2018 included €27 mln of income related to Global Capital Markets activities that was recorded under Other income in 1H18. In 3Q2019, an increase in fees of €14 mln in Wholesale Banking was caused by the reclassification of commissions paid in 2Q2019 to Other Income

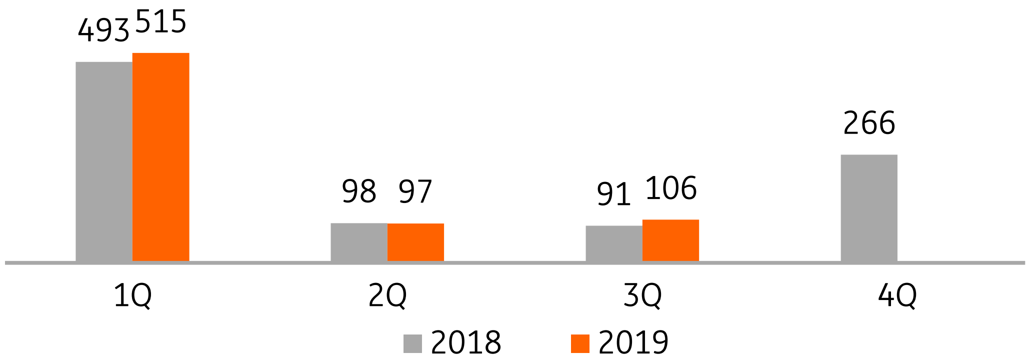
Expenses impacted by higher costs related to KYC

Underlying operating expenses (in € mln)

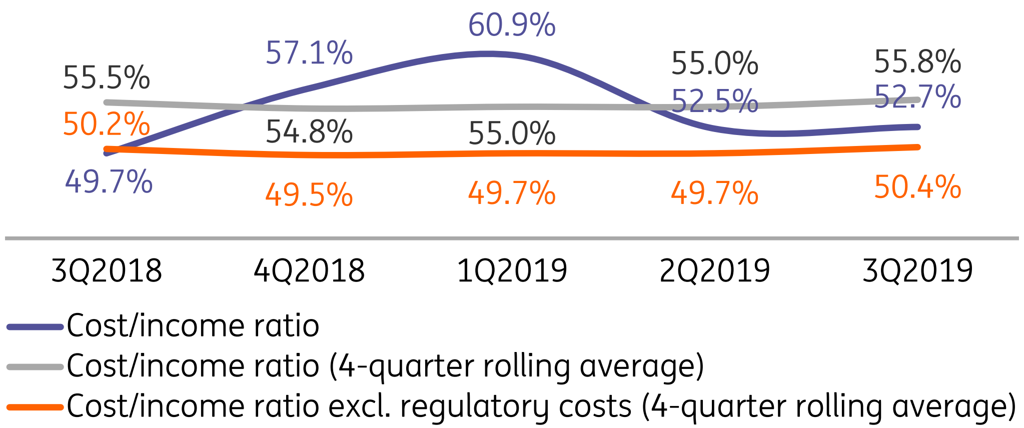


- Expenses excluding regulatory costs rose by €118 mln YoY. The increase was mainly due to approximately €50 mln of higher expenses related to KYC, €40 mln of legal provisions in C&GM, as well as higher expenses for business growth and salary increases, partly offset by a VAT refund in the Corporate Line
- Sequentially, expenses excl. regulatory costs decreased by €20 mln, as the VAT refund and 2Q2019 restructuring provision in Germany more than compensated for the legal provisions in Retail C&GM and almost €25m higher KYC-related expenses

Regulatory costs* (in € mln)



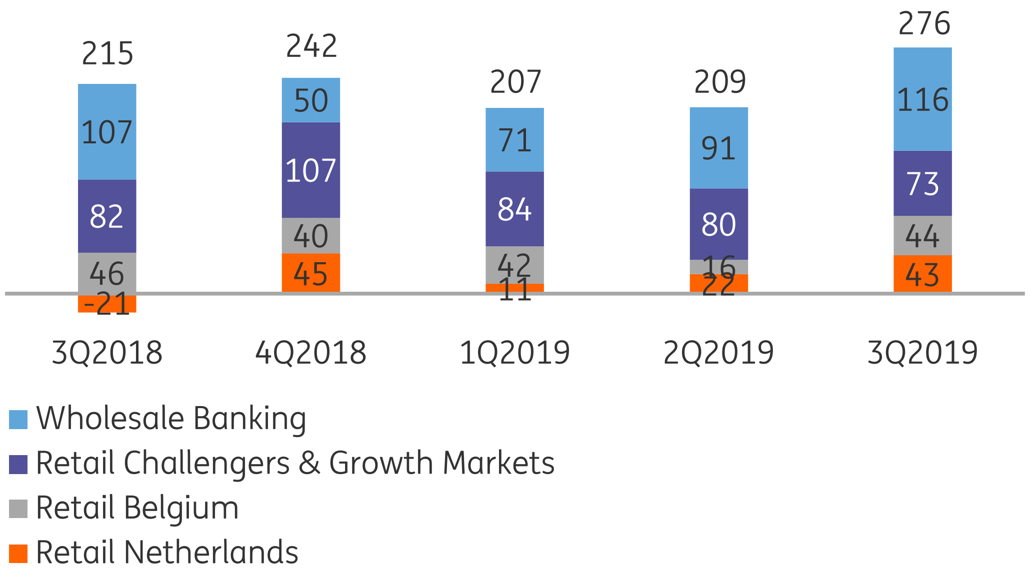
Underlying cost/income ratio



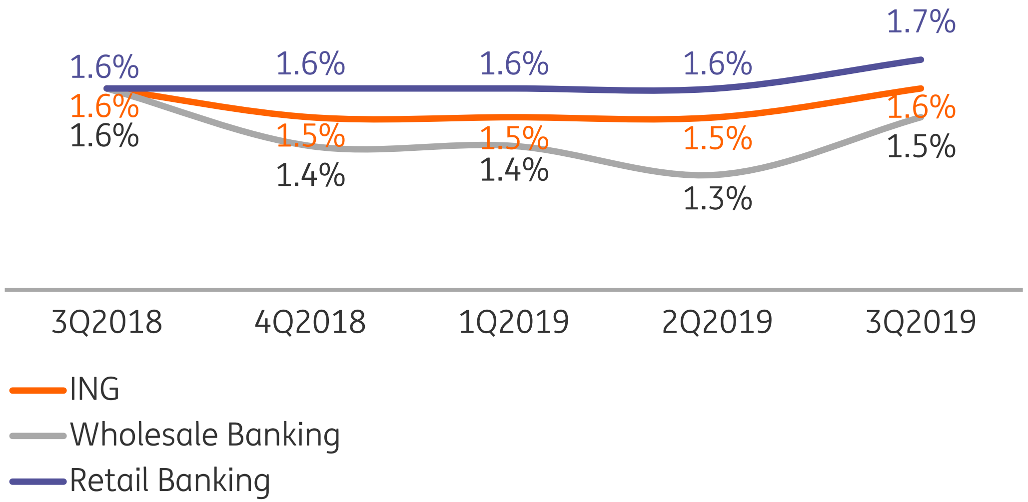
* Formal build-up phase of Deposit Guarantee Schemes (DGS) and Single Resolution Fund (SRF) should be completed by 2024

Risk costs up QoQ, asset quality remains strong

Risk costs (in € mln)



Stage 3 ratio



- 3Q2019 risk costs were €276 mln, or 18 bps of average customer lending, below the through-the-cycle average of approx. 25 bps. The bank's Stage 3 ratio increased slightly to 1.6%
- Retail Netherlands recorded higher risk costs of €43 mln, reflecting seasonality in other consumer lending and a change in house price index for Dutch mortgages. Retail Belgium risk costs higher at €44 mln, after very low risk costs on business lending in 2Q2019. Risk costs were lower in Retail C&GM at €73 mln, as the 2Q2019 net release in Germany was more than offset by lower 3Q2019 risk costs in Turkey and Poland
- WB risk costs increased to €116 mln, mainly due to some individual Stage 3 provisions in the Americas, Belgium and Poland

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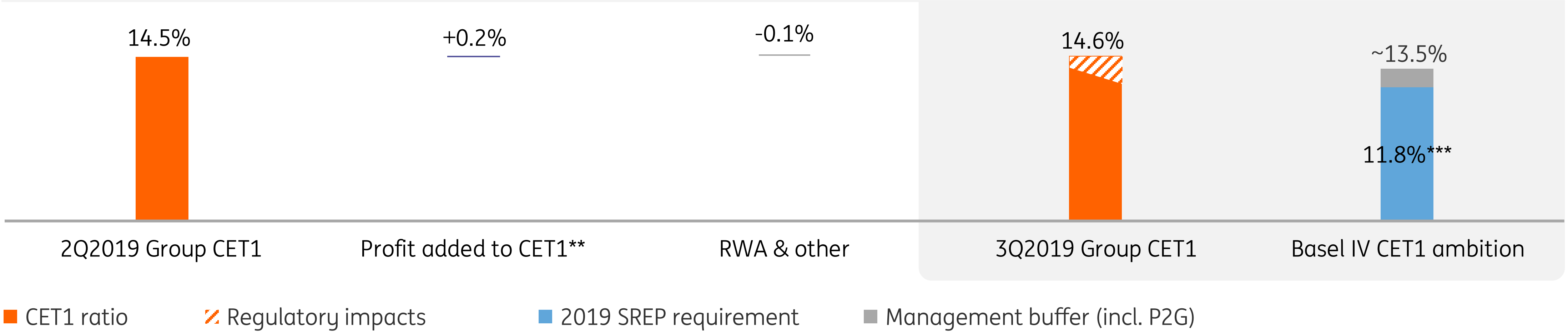
ING Group CET1 ratio improved to 14.6%

ING Group CET1 ratio development*



- 3Q2019 CET1 ratio increased to 14.6%, as the addition of quarterly net profit more than offset slightly higher RWAs. RWAs were up by €1.4 bln QoQ, mostly explained by higher Market and Credit RWAs, as model updates, customer lending growth and currency impacts were almost fully offset by positive risk migration. Operational RWA slightly decreased
- Approx. 80% of the Basel IV RWA impact is expected from revisions to internal models, effective as per January 2022
- However, we will see RWA inflation in the coming quarters coming from other regulatory developments (e.g. TRIM, DoD, other macro prudential add-ons), which may bring earlier impact on CET1, though the magnitude of RWA inflation remains uncertain
- We remain well positioned to achieve our CET1 ratio ambition of around 13.5%

* Small differences in the graph due to rounding
** €462 mln which consists of 3Q2019 Group net profit of €1,344 mln minus €882 mln set aside for future dividend payments
*** Current SREP requirement is 11.83%, but is expected to rise to 11.96% in 2020 due to phasing-in of countercyclical buffers

ING Group financial ambitions

		Actual 2018	**Actual 3Q2019**	Financial ambitions
Capital	• CET1 ratio (%)	14.5%	**14.6%**	~13.5%* (Basel IV)
	• Leverage ratio (%)	4.4%	**4.4%**	>4%
Profitability	• Underlying ROE (%)** (IFRS-EU Equity)	11.2%	**10.3%**	10-12%
	• *Underlying C/I ratio (%)***	*54.8%*	***55.8%***	*50-52%*
Dividend	• Dividend (per share)	€0.68		Progressive dividend

* Implies management buffer (incl. Pillar 2 Guidance) of ~170 bps over prevailing fully loaded CET1 requirements (currently 11.83%, but is expected to rise to 11.96% in 2020 due to phasing-in of countercyclical buffers)
** Based on 4-quarter rolling average, the ING Group ROE is calculated using IFRS-EU shareholders' equity after excluding 'interim profit not included in CET1 capital'. As at 30 September 2019, interim profit not included in CET1 capital amounts to €1,711 mln, set aside for future dividend payments

Wrap up

Wrap up

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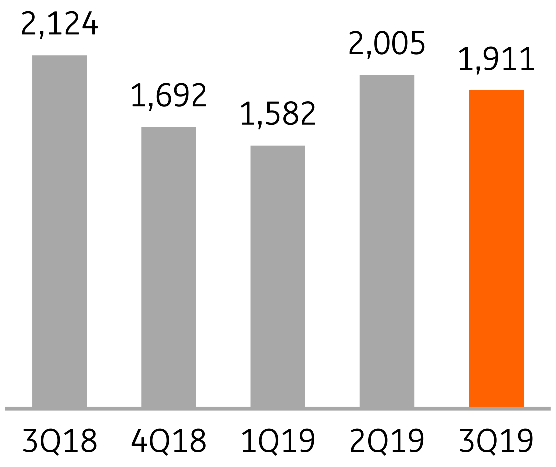
Appendix

Limited impact of volatile items on 3Q2019 pre-tax result

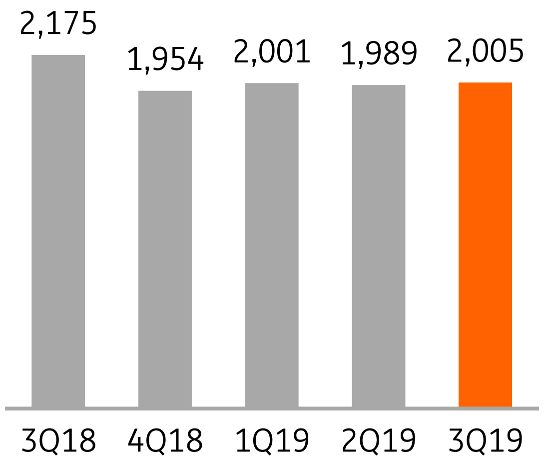
Underlying pre-tax result (in € mln)



Volatile items and regulatory costs (in € mln)

	3Q18	4Q18	1Q19	2Q19	3Q19
WB/FM – valuation adjustments	-13	-4	-58	-72	-25
Capital gains/losses	-3	-10	28	21	5
Hedge ineffectiveness	56	-10	7	85	32
Other items*		28	119	79	
Total volatile items	40	4	96	113	12
Regulatory costs	-91	-266	-515	-97	-106

Pre-tax result excl. volatile items and regulatory costs (in € mln)



- Excluding volatile items and regulatory costs, 3Q2019 pre-tax result was down 7.8% from 3Q2018, as higher income could not compensate for higher expenses and an increase in risk costs
- Quarter-on-quarter, the underlying result before tax excluding volatile items and regulatory costs was 0.8% lower, as higher income and lower expenses outpaced an increase in risk costs

Other items in 4Q2018 included a €101 mln gain on an equity-linked bond transaction in Belgium, a €50 mln higher contribution from TMB (driven by one-offs) and a €-123 mln loss on the intended sale of an Italian lease run-off portfolio; 1Q2019 concerns a €119 mln one-off gain on the release of a currency translation reserve related to sale of ING's stake in Kotak Mahindra Bank; 2Q2019 concerns the recognition of a €79 mln receivable related to the insolvency of a financial institution

Group CET1 ratio at 14.6% and underlying ROE at 10.3%

Group CET1 ratio development during 3Q2019 (amounts in € bln and %)

	Capital	RWA	Ratio	Change
Actuals 30 June 2019	**46.2**	**318.3**	**14.5%**	
Net profit included in CET1*	0.5			0.15%
Equity stakes	-0.3	-0.6		-0.07%
FX*	0.3	2.5		0.00%
RWA & Other**		-0.4		0.02%
Actuals 30 September 2019	**46.7**	**319.7**	**14.6%**	**0.09%**

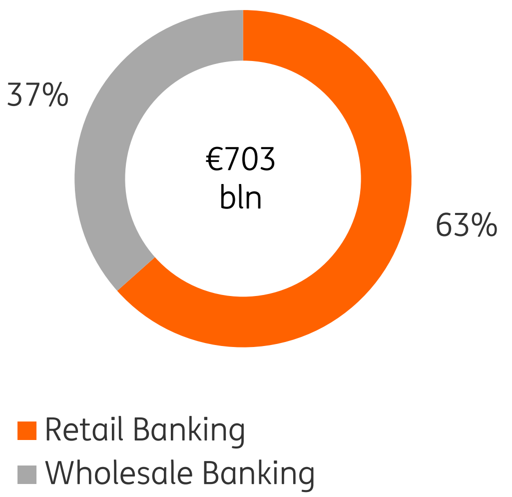
Group underlying ROE calculation in 3Q2019 (in € mln)

As of 30 September 2019	
IFRS-EU shareholders' equity	53,512
deduct: Interim profit not included in CET1 capital***	1,711
Adjusted shareholders' equity	**51,800**
Adjusted shareholders' equity (4Q-rolling average)	49,964
Underlying net result (last four quarters)	5,138
Underlying ROE (4Q-rolling average)	**10.3%**

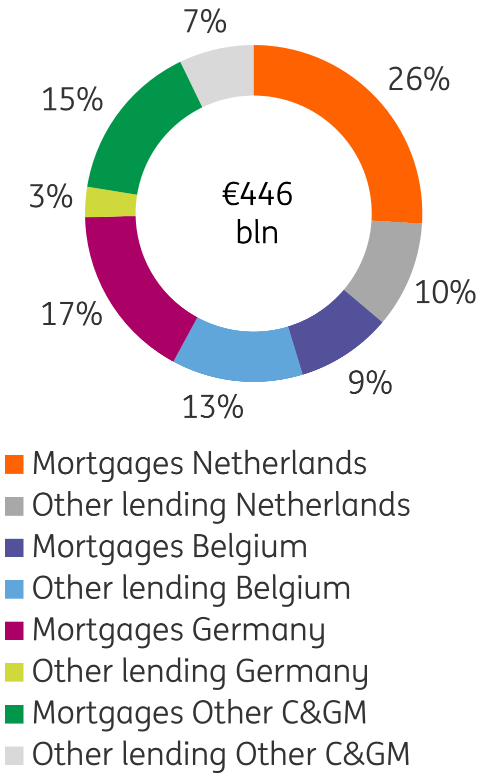
* 3Q2019 Group net profit (€1,344 mln) is partly reserved for dividends (€882 mln) and remainder is included in Group CET1 capital (€462 mln)
** RWA and Other includes the negative impact from model updates (-17 bps), Market RWA (-7 bps) and volume growth (-2 bps), which were offset by the positive impact from risk migration (+19 bps) and Operational RWA (+3 bps). and other items (+7 bps)
*** As at 30 September 2019, this comprised the 9M19 interim profits not included in CET1 capital of €1,711 mln

Well-diversified lending credit outstandings by activity

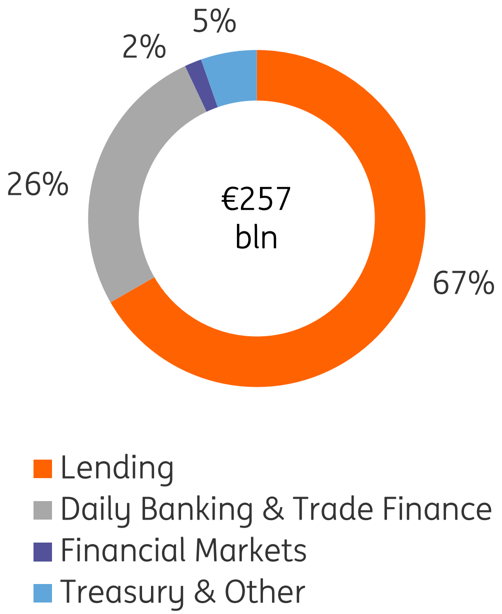
ING Group*



Retail Banking*



Wholesale Banking*



- ING has a well-diversified and well-collateralised loan book with a strong focus on own-originated mortgages; 63% of the portfolio is retail-based

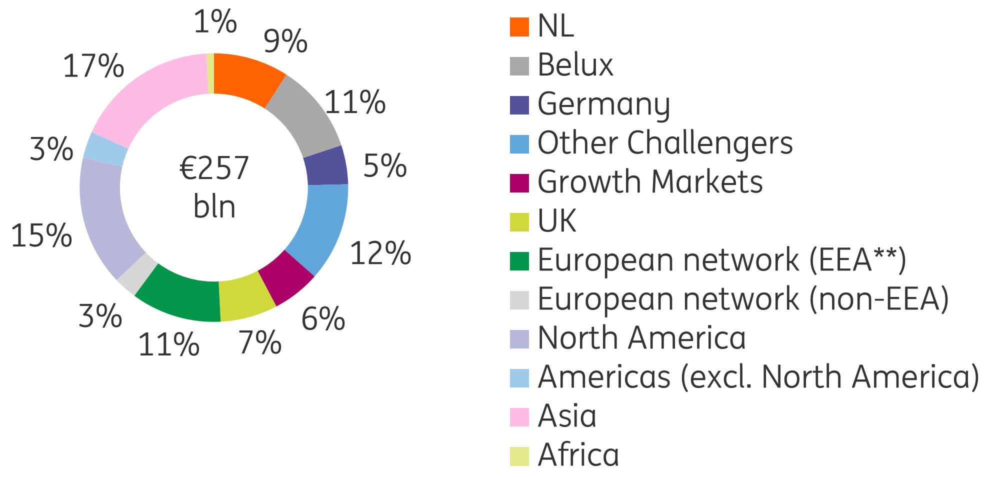
Note: percentages for Retail (Netherlands) and Wholesale Banking have changed versus 4Q2018 as Real Estate Finance portfolio related to Dutch domestic midcorporates was transferred to Retail Netherlands from Wholesale Banking as per 2Q2019

* 30 September 2019 lending and money market credit outstandings, including guarantees and letters of credit, but excluding undrawn committed exposures (off-balance sheet positions)

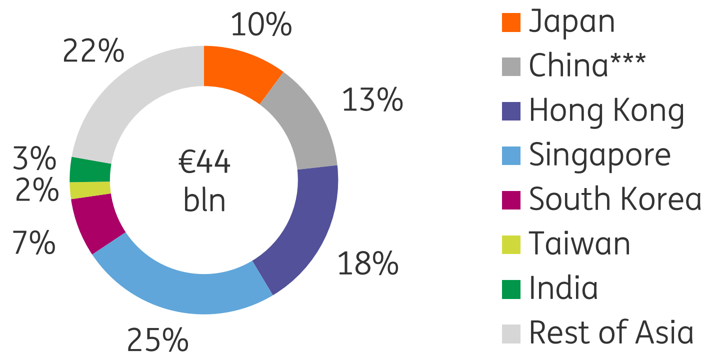
Granular Wholesale Banking lending credit outstandings by geography and sector

Loan portfolio is well diversified across geographies…

Lending Credit O/S Wholesale Banking (3Q2019)*

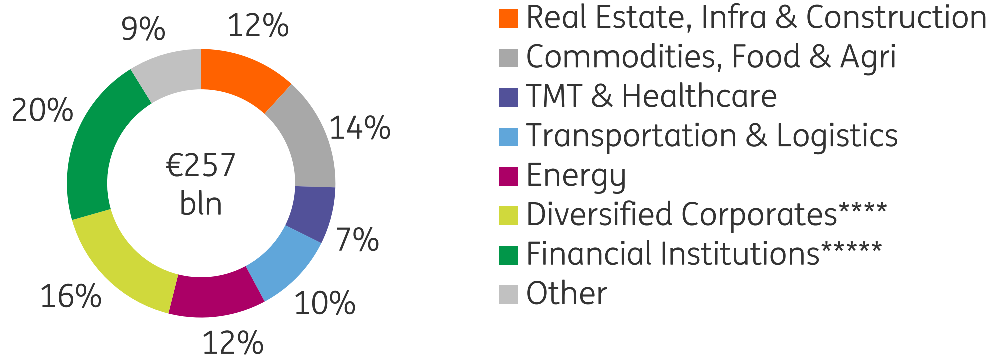


Lending Credit O/S Wholesale Banking Asia (3Q2019)*



…and sectors

Lending Credit O/S Wholesale Banking (3Q2019)*



Note: percentages for WB Netherlands are lower versus 4Q2018 as Real Estate Finance portfolio related to Dutch domestic midcorporates was transferred to Retail Netherlands from Wholesale Banking as from 2019

* Data is based on country/region of residence; Lending and money market credit O/S, including guarantees and letters of credit but excluding undrawn committed exposures (off-balance sheet positions)

** Member countries of the European Economic Area (EEA)

*** Excluding our stake in Bank of Beijing (€1.9 bln at 30 September 2019)

**** Large corporate clients active across multiple sectors

***** Including Financial sponsors

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Detailed Stage 3 disclosure on selected portfolios

Selected portfolios (in € mln)

	Lending credit O/S 3Q2019	Stage 3 ratio 3Q2019	Lending credit O/S 2Q2019	Stage 3 ratio 2Q2019	Lending credit O/S 3Q2018	Stage 3 ratio 3Q2018
Wholesale Banking	**257,082**	**1.5%**	**251,034**	**1.3%**	**252,657**	**1.6%**
Lending	171,509	1.7%	157,162	1.5%	161,652	1.8%
Daily Banking & Trade Finance	67,594	1.1%	68,375	0.4%	71,660	0.3%
Selected industries						
Real Estate Finance*	34,028	0.9%	33,824	0.9%	33,536	1.5%
Oil & Gas related**	37,845	2.3%	38,607	1.7%	41,346	2.7%
Metals & Mining	16,323	2.7%	16,903	2.3%	15,994	3.1%
Shipping & Ports***	15,272	4.2%	14,931	3.3%	14,266	5.4%
Selected countries						
Turkey****	11,291	4.1%	11,437	3.6%	15,413	2.3%
Russia	5,533	0.1%	5,576	0.1%	4,688	2.7%
Ukraine	871	18.3%	833	23.7%	763	25.4%

* Includes both WB Real Estate Finance portfolio and Dutch domestic midcorporates portfolio which was transferred from Wholesale Banking to Retail Netherlands in 2Q2019
** Of which €3.0 bln (or 8% of Oil & Gas related exposures) are reserve-based lending activities
*** Shipping & Ports includes Coastal and Inland Water Freight which is booked within Retail Netherlands. Excluding this portfolio, Stage 3 ratio is 3.7%
**** Turkey includes Retail Banking activities (€4.4 bln)

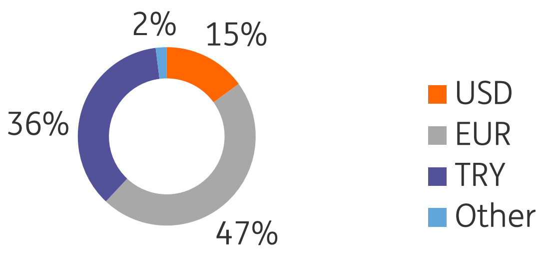
Overview Turkey exposure

Total exposure ING to Turkey* (in € mln)

	3Q2019	2Q2019	Change
Lending Credit O/S Retail Banking	**4,817**	**4,821**	**-0.1%**
Residential mortgages	537	525	+2.3%
Consumer lending	1,225	1,147	+6.8%
SME/Midcorp	3,054	3,149	-3.0%
Lending Credit O/S Wholesale Banking	**6,474**	**6,617**	**-2.2%**
Total Lending Credit O/S*	**11,291**	**11,437**	**-1.3%**

- Intra-group funding reduced from €2.5 bln at end-2Q2019 to €2.2 bln at end-3Q2019
- Outstandings reduced at a slower pace in 3Q2019 due to Turkish lira appreciation
- ING only provides FX lending to corporate customers with proven FX revenues; only limited rolling-over of FX lending facilities
- ECA-insured lending (Export Credit Agencies) is approx. €1.7 bln; approx. €0.8 bln of SME/Midcorp lending benefits from KGF cover (Turkish Credit Guarantee Fund)
- Quality of the portfolio remains relatively strong with a Stage 3 ratio of 4.1%

Lending Credit O/S by currency



Lending Credit O/S by remaining maturity

TRY**	~1 year
FX	~2 years

Stage 3 ratio and coverage ratio

	3Q2019	2Q2019
Stage 3 ratio	4.1%	3.6%
Coverage ratio	49%	53%

* Data based on country of residence. Lending credit outstandings, including guarantees and letters of credit, but excluding undrawn committed exposures (off-balance sheet positions)
** Excludes residential mortgages, which have an average remaining maturity of ~6 years

Important legal information

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, except as described otherwise, the same accounting principles are applied as in the 2018 ING Group consolidated 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 a number of factors, including, 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) potential consequences of the United Kingdom leaving the European Union or a break-up of the euro, (4) changes in the fiscal position and the future economic performance of the US including potential consequences of a downgrade of the sovereign credit rating of the US government, (5) potential consequences of a European sovereign debt crisis, (6) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, (7) changes in conditions in the credit and capital markets generally, including changes in borrower and counterparty creditworthiness, (8) changes affecting interest rate levels, (9) inflation and deflation in our principal markets, (10) changes affecting currency exchange rates, (11) changes in investor and customer behaviour, (12) changes in general competitive factors, (13) changes in or discontinuation of 'benchmark' indices, (14) changes in laws and regulations and the interpretation and application thereof, (15) changes in compliance obligations including, but not limited to, those posed by the implementation of DAC6, (16) geopolitical risks, political instabilities and policies and actions of governmental and regulatory authorities, (17) changes in standards and interpretations under International Financial Reporting Standards (IFRS) and the application thereof, (18) conclusions with regard to purchase accounting assumptions and methodologies, and other changes in accounting assumptions and methodologies including changes in valuation of issued securities and credit market exposure, (19) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (20) changes in credit ratings, (21) the outcome of current and future legal and regulatory proceedings, (22) operational risks, such as system disruptions or failures, breaches of security, cyber-attacks, human error, changes in operational practices or inadequate controls including in respect of third parties with which we do business, (23) risks and challenges related to cybercrime including the effects of cyber-attacks and changes in legislation and regulation related to cybersecurity and data privacy, (24) the inability to protect our intellectual property and infringement claims by third parties, (25) the inability to retain key personnel, (26) business, operational, regulatory, reputation and other risks in connection with climate change, (27) ING's ability to achieve its strategy, including projected operational synergies and cost-saving programmes and (28) the other risks and uncertainties detailed in this annual report of ING Groep N.V. (including the Risk Factors contained therein) and ING's more recent disclosures, including press releases, which are available on www.ING.com. (29) This document may contain inactive textual addresses to internet websites operated by us and third parties. Reference to such websites is made for information purposes only, and information found at such websites is not incorporated by reference into this document. ING does not make any representation or warranty with respect to the accuracy or completeness of, or take any responsibility for, any information found at any websites operated by third parties. ING specifically disclaims any liability with respect to any information found at websites operated by third parties. ING cannot guarantee that websites operated by third parties remain available following the publication of this document, or that any information found at such websites will not change following the filing of this document. Many of those factors are beyond ING's control.

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