

# Delivering on financial targets

ING Group Investor Day 2016

Patrick Flynn, CFO ING Group

Amsterdam • 3 October 2016

thinkforward



# Key points

- We will continue to deliver earnings growth despite the low interest rate environment
  - NII to grow on the back of continued lending growth at resilient margins
- We now announce c. EUR 800 mln to be invested in our digital transformation
  - Improved customer experience as we deliver new products more quickly and at lower cost
- Gross cost savings of c. EUR 900 mln by 2021 to achieve 50-52% C/I ratio
  - Restructuring provision of c. EUR 1.1 bln, to be booked as a special item, of which c. EUR 1.0 bln taken in 4Q16
- We have built a strong financial position: Group CET1 ratio > 13%
- 2020 Financial targets to be set at Group level – Progressive dividend confirmed

# ING is on track to deliver on our Ambition 2017

## ING Bank - Realisation of Ambition 2017 targets announced at Investor Day 2014

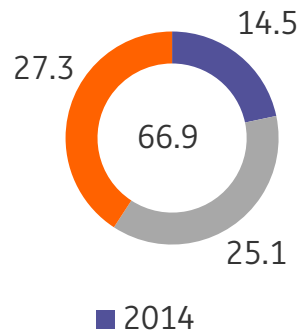
	Actual 2013	Actual 2015	Actual 1H16	Ambition 2017	
<b>Capital</b>	• CET1 ratio (%)	10.0%	11.6%	12.2%	>10%
	• Leverage ratio (%)*	3.9%	4.5%	4.5%	~4%
<b>Profitability</b>	• Underlying C/I ratio (%)	56.8%	55.9%	56.4%**	50-53%
	• Underlying ROE** (IFRS-EU Equity)	9.0%	10.8%	10.8%	10-13%
<b>Dividend</b>	• Pay-out ratio		EUR 0.65/share		>40%

\* The leverage ratio is based on the published IFRS-EU balance sheet and amounts to 4.5% for ING Bank at 30 June 2016. The leverage ratio of ING Bank based on the Delegated Act equals 4.1% at 30 June 2016

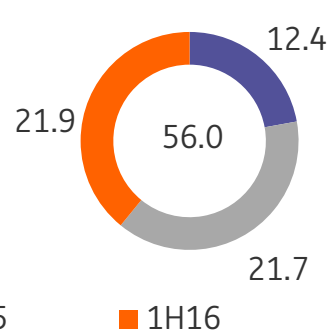
\*\* The reported C/I ratio and ROE in the first half of 2016 are significantly impacted by regulatory costs that are to a large extent booked in 1Q16

# We have delivered strong financial results

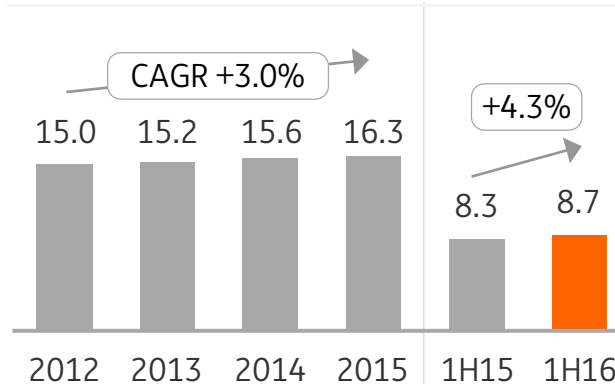
Customer deposit growth (in EUR bln)\*



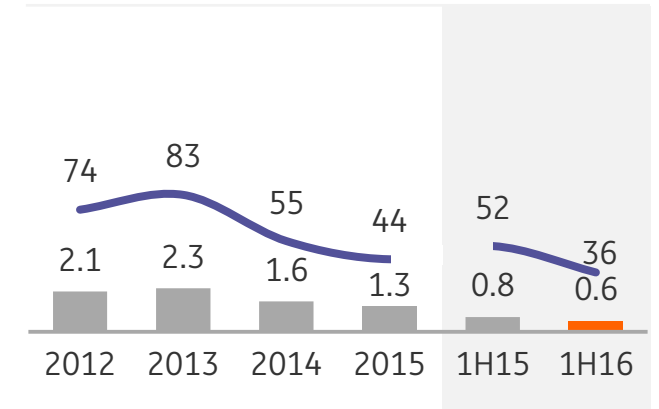
Core lending growth (in EUR bln)\*



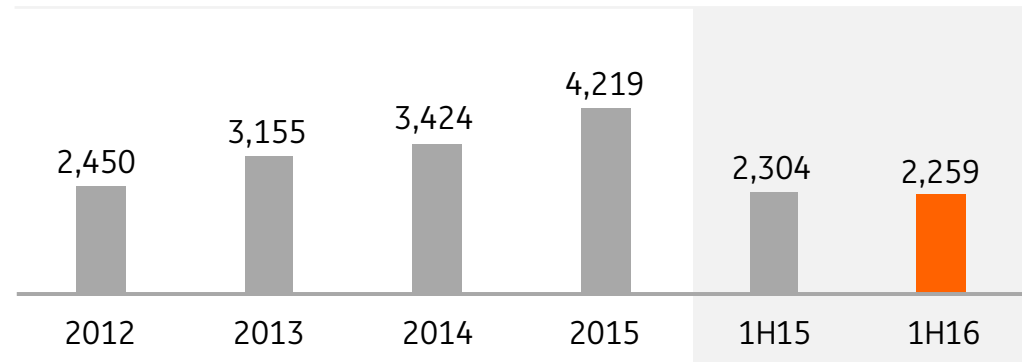
Underlying income excl. CVA/DVA (in EUR bln)



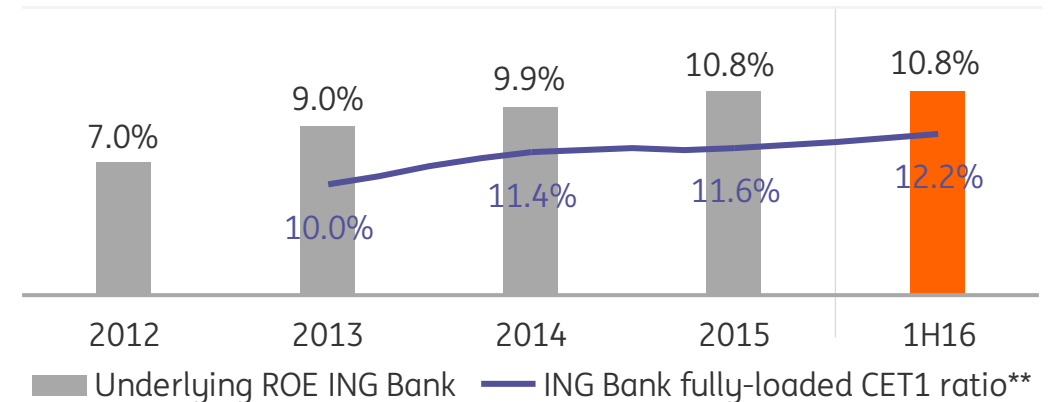
Risk costs (in EUR bln and bps of RWA)



Underlying net result ING Bank (in EUR mln)



Building capital and improving ROE (in %)

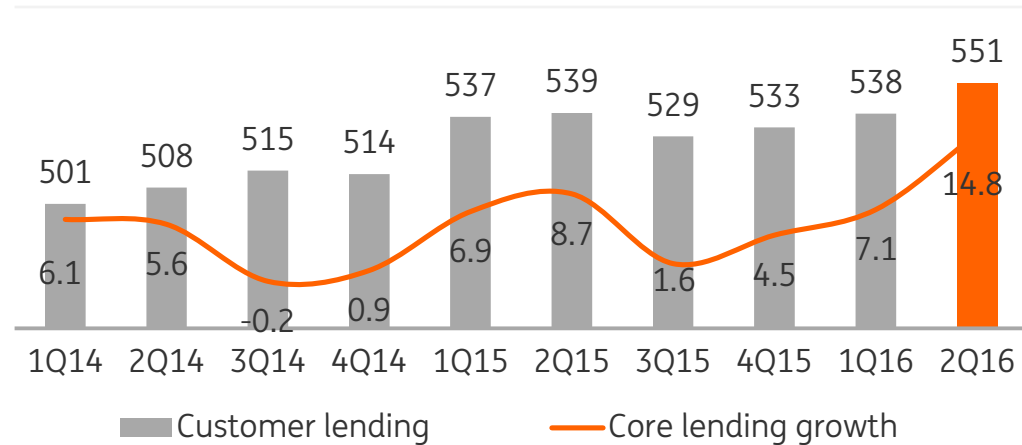


\* Net customer deposit growth and net core lending growth adjusted for FX impacts, Bank Treasury and other one-offs

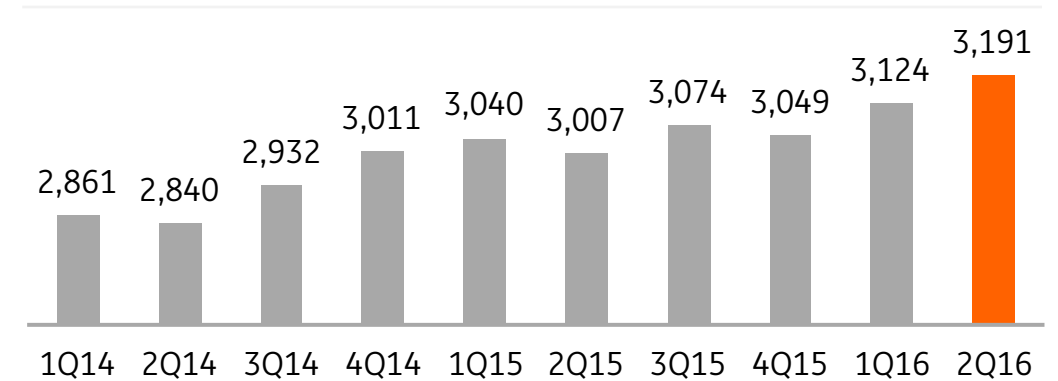
\*\* Only Core Tier 1 ratios available for 2012, which is not comparable with fully-loaded CET1 ratios

# NII growth driven by robust lending

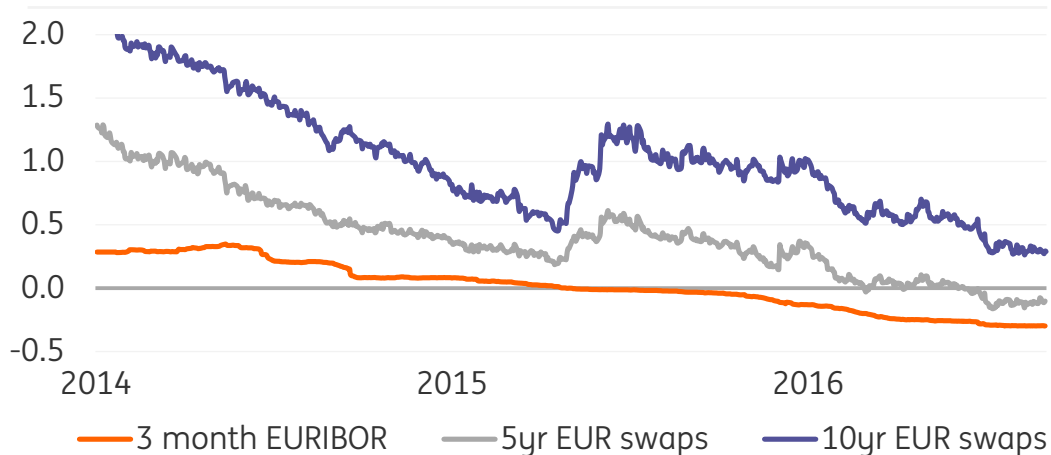
Robust customer lending since 2014 (in EUR bln)...



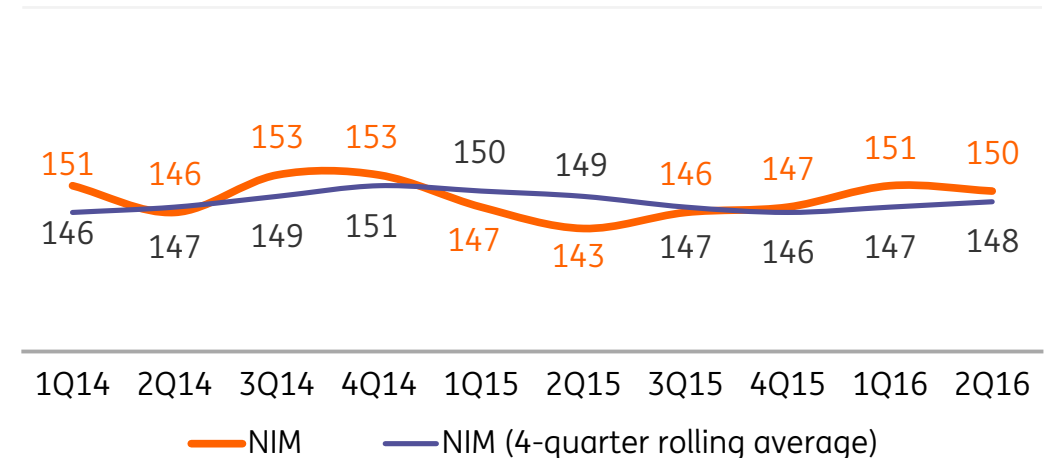
...has supported growth in NII (excl. FM, in EUR mln)...



...despite the challenging interest rate environment...

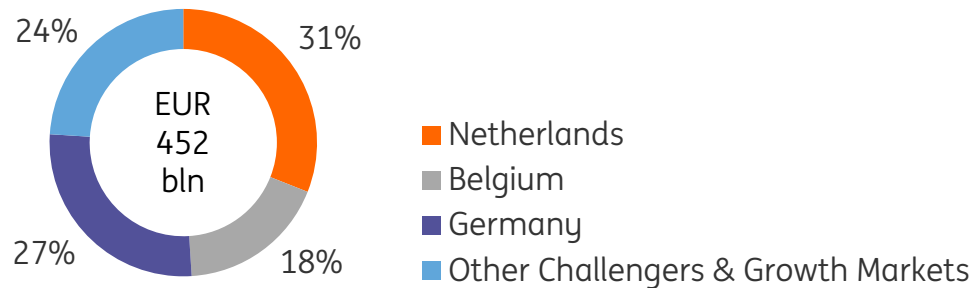


...as NIM remains stable (in bps)



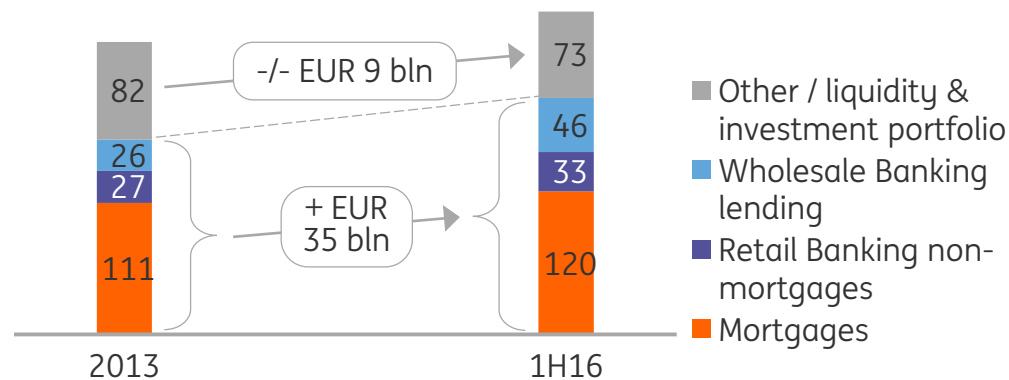
# Lower savings rates and balance sheet optimisation support NIM

## 2Q16 retail customer deposits, breakdown by segment\*



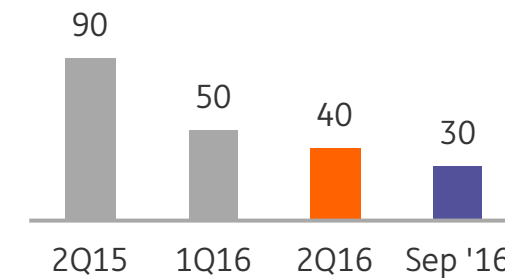
## Grow non-mortgage lending and optimise balance sheet

Challengers & Growth Markets (based on external assets, in EUR bln)

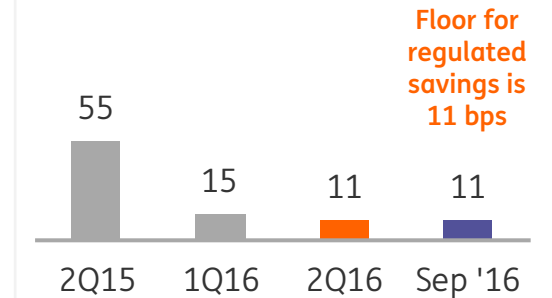


## Client savings rates decline on falling market rates (in bps)

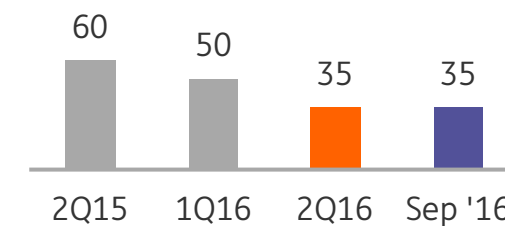
NL (Oranje Spaarrekening)\*\*



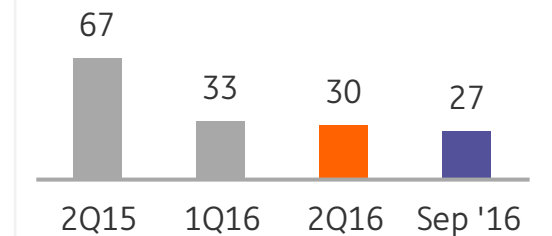
BE (Oranje boekje)



Germany (core savings rate)



Other EU Direct units\*\*\*



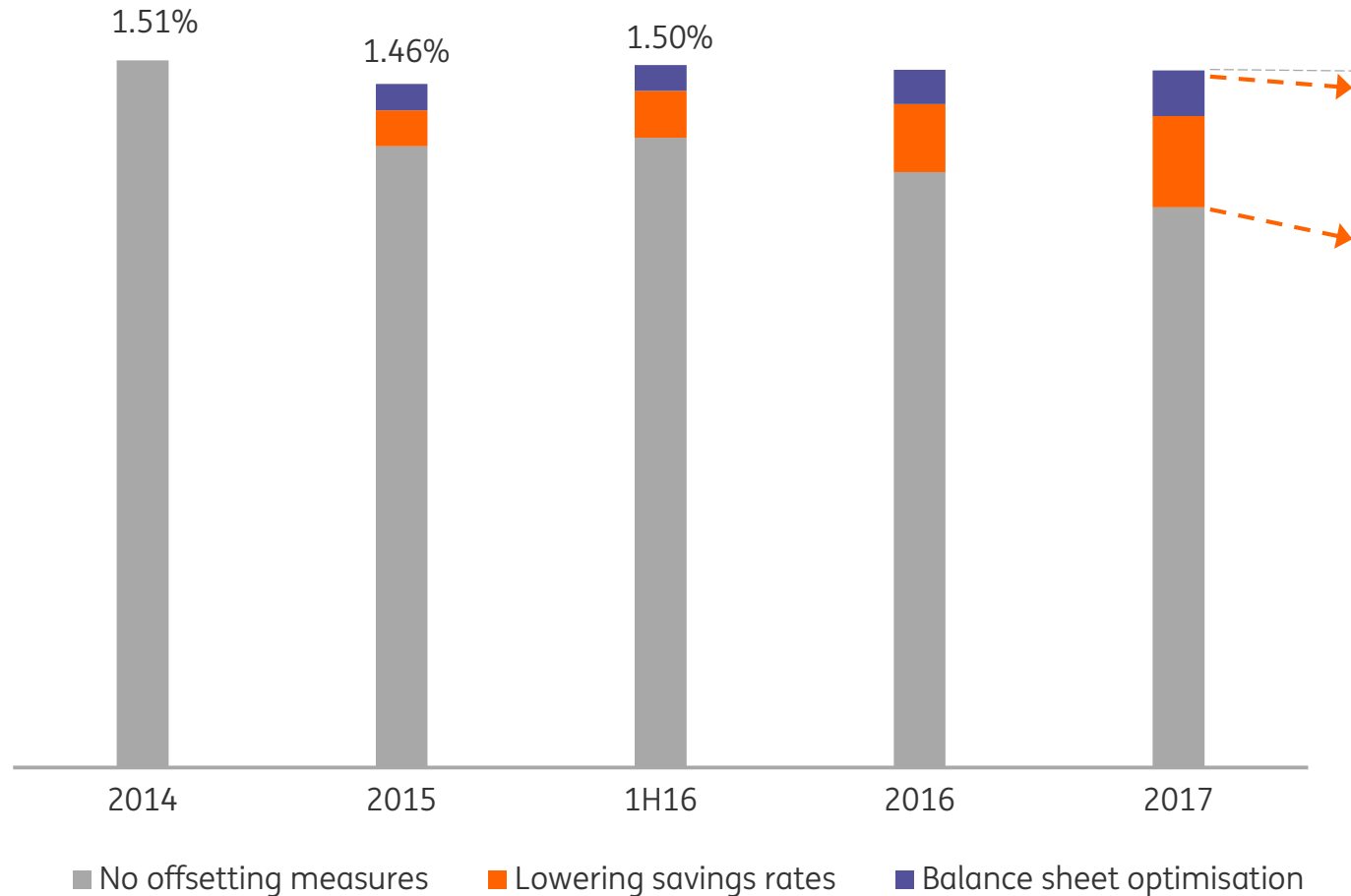
\* Around 80% are savings/deposits and around 20% are current accounts

\*\* Rate for savings up to EUR 25,000 is 30 bps, for savings between EUR 25,000-75,000 is 40 bps and for savings higher than EUR 75,000 is 50 bps

\*\*\* Unweighted average core savings rates in France, Italy and Spain

# NIM stable despite low interest rate environment

NIM stable through 2017 (in %)



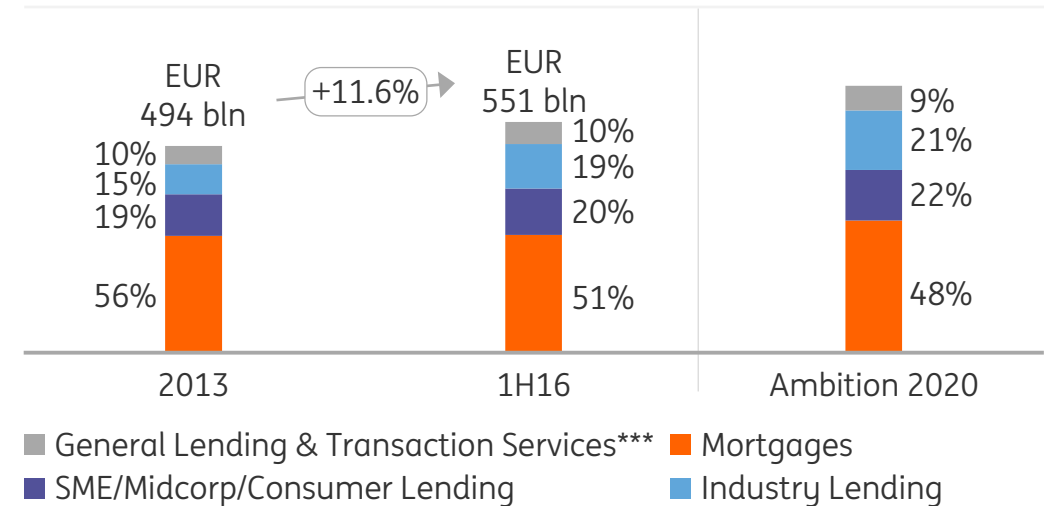
- Benefit of deposit repricing expected to end some time in 2018, but benefits of balance sheet optimisation will continue
- Asset repricing may provide support for NIM in future years
- Management focus is on controllable areas:
  - Profitable lending growth
  - Income diversification
  - Delivering on cost targets

# Higher margin lending to drive NII

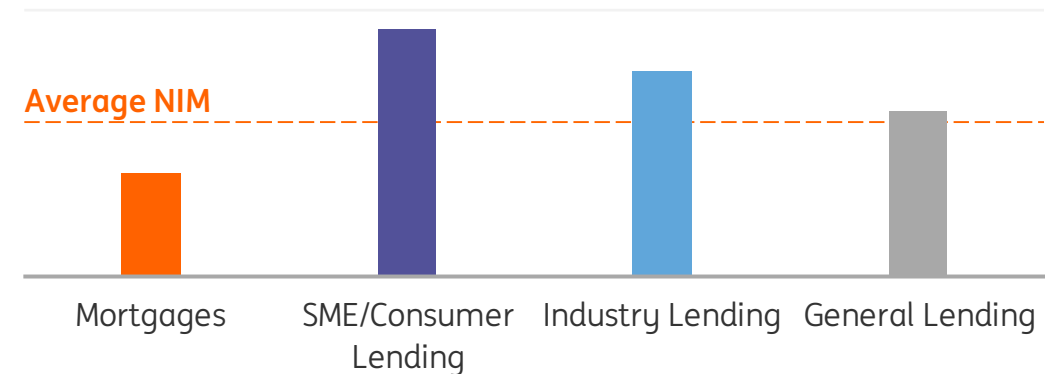
## Volume growth end 2013 vs. 1H16

		EUR bln	CAGR (%)	Growth outlook
Leverage Wholesale Banking expertise	Industry Lending	34.3	16.9%	++
	General Lending*	5.8	8.1%	+
	Consumer Lending	5.5	14.8%	++
Expand Retail Banking franchise	SME/Midcorp**	5.7	2.6%	+
	Mortgages	2.8	0.4%	+/-

## Concentration in mortgages steadily declining



## Focus on relatively higher margin products



\* CAGR end 2013-1H16 General Lending and Transaction Services amounted to 15.4%

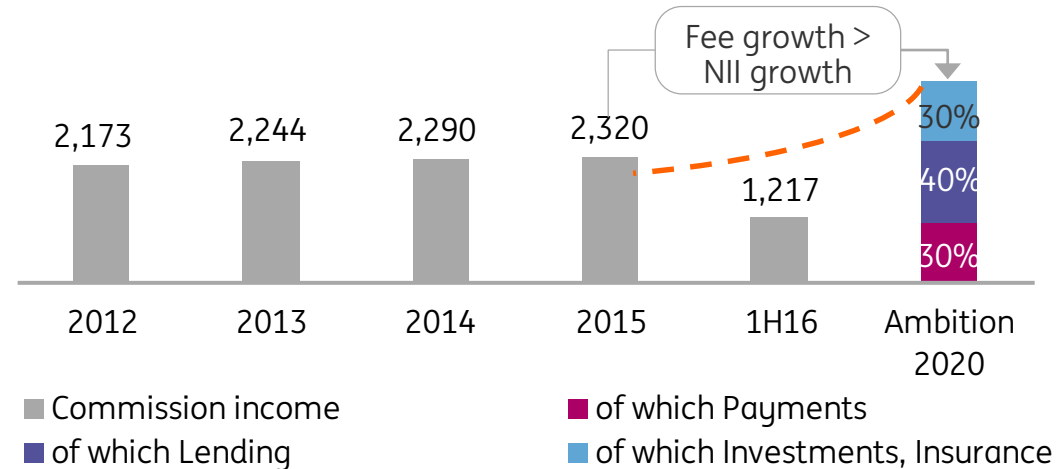
\*\* CAGR end 2013-1H16 SME/Midcorporates excl. Netherlands amounted to 5.2%

\*\*\* General Lending & Transaction Services includes Other WB lending

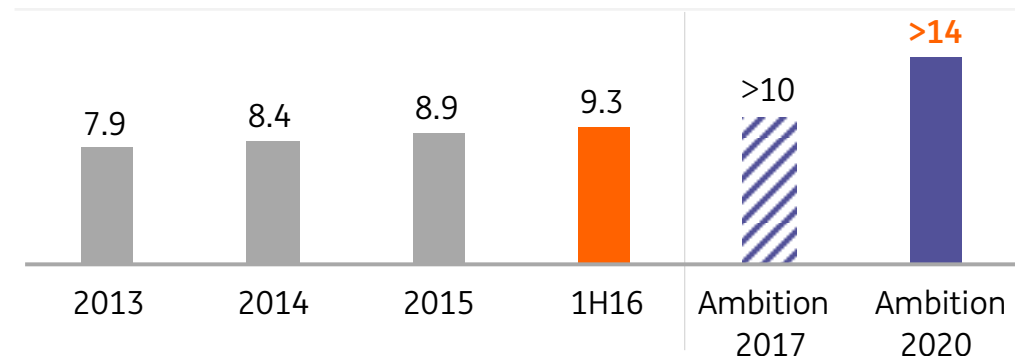


# Fee income initiatives to contribute to revenue expansion

## ING aspires to grow non-interest income faster than NII... (in EUR mln)



## ...on the back of a rising primary customer base (in mln)



\* TCF stands for Trade and Commodity Finance; PCM stands for Payment and Cash Management; OTD stands for Originate To Distribute

## Lending

- Renewed focus on fees in Wholesale Banking (arranger roles, TCF, PCM, OTD, etc.)\*

## Investments

- Reshaping product proposition for mass market
- Retail investment products, Digital Financial Advisor and Robo advice
- Strengthening private banking in selected markets

## Insurance

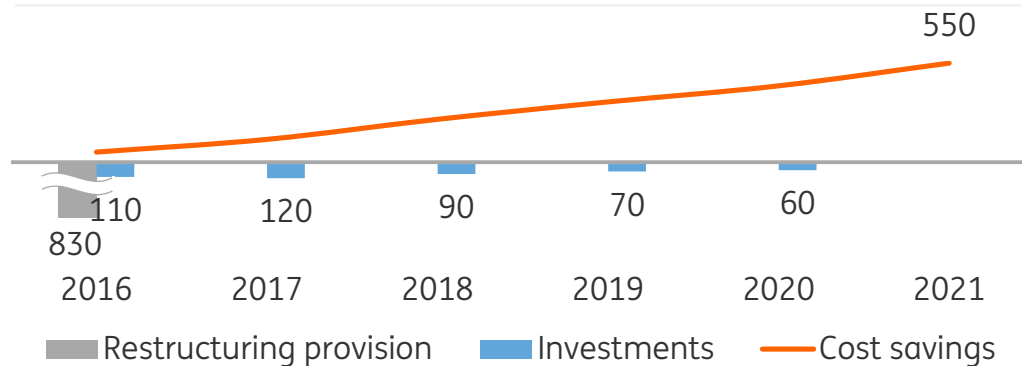
- International roll-out of insurance linked to mortgages and consumer loans
- Exploring online and mobile channels for stand-alone insurance

## Payments

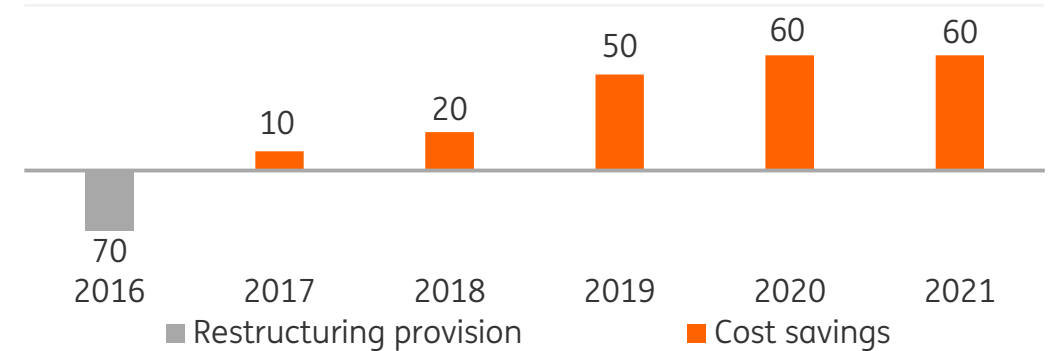
- Selective re-pricing of payment account packages in both Retail and Wholesale Banking

# Digital transformation programmes deliver cost savings...

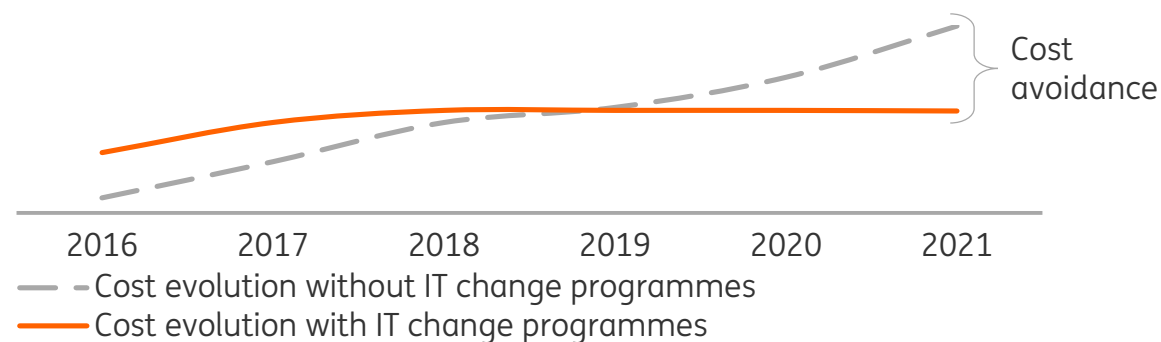
Orange Bridge - Integrated banking platform in Benelux\*  
(in EUR mln)



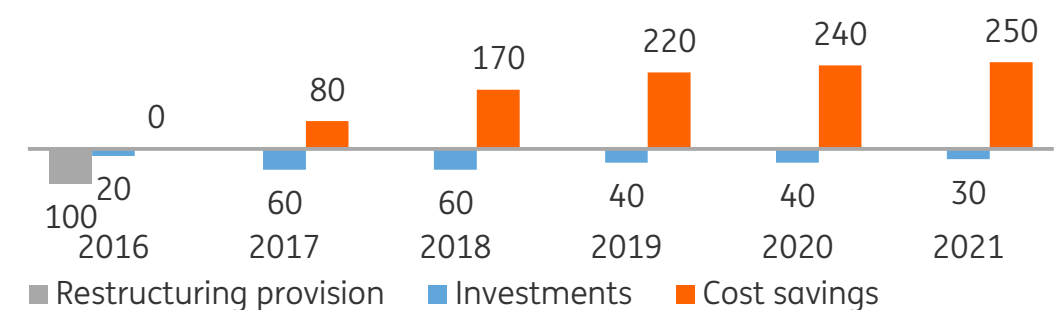
Wholesale Banking Target Operating Model (TOM)  
extension (in EUR mln)



Model Bank: leveraging scale across 5 countries; Germany  
platform enhancement



Other digital transformation initiatives improving client  
experience (in EUR mln)

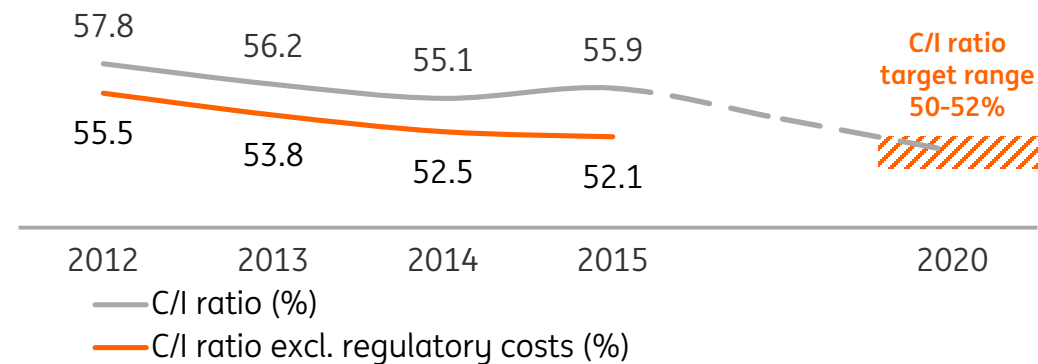


\* All projects described are proposed intentions of ING Group. No formal decisions will be taken until the information & consultation with the Work Council have been properly finalised. Subject to regulatory approval

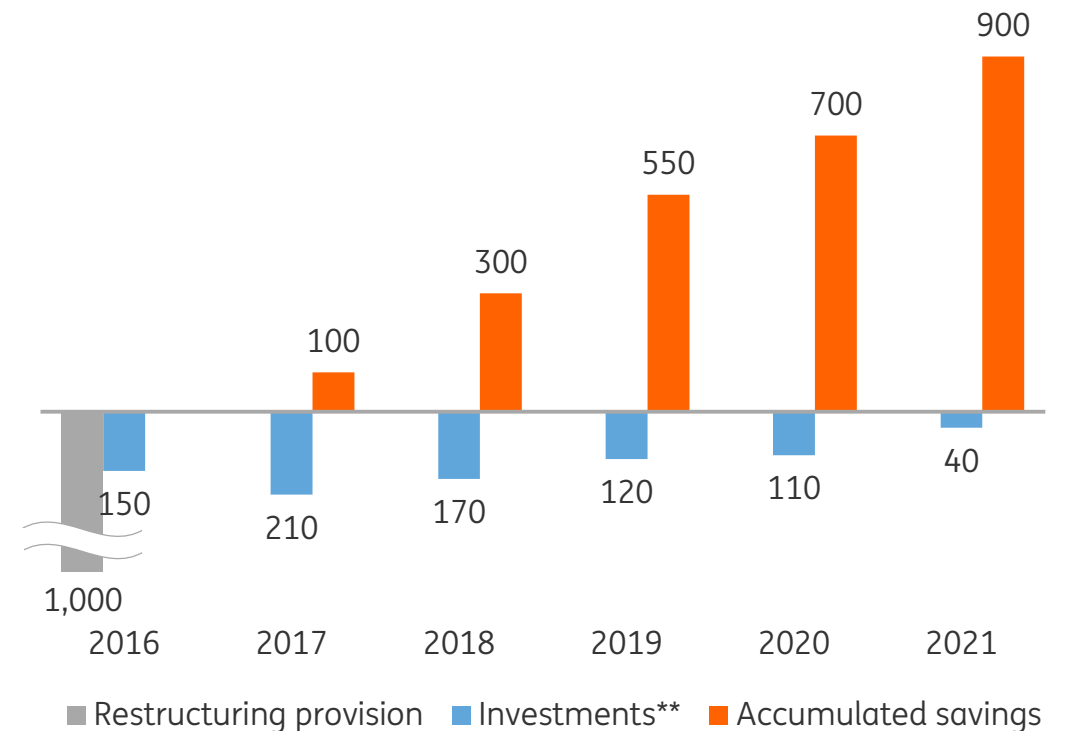
# ...which will bring us to our C/I ratio target

- We intend to invest c. EUR 800 mln in digital capabilities
- Build scalable platform to facilitate customer growth
- Enhanced customer experience as we bring new products to market more quickly and efficiently
- These investments should deliver gross cost savings of c. EUR 900 mln by 2021 to achieve a 50-52% C/I ratio
- Approx. 7,000 FTE to be impacted by 2021. Associated restructuring provision of c. EUR 1.1 bln, to be booked as a special item, of which c. EUR 1.0 bln taken in 4Q16

## C/I ratio to steadily fall towards 50-52% by 2020\*\*\*



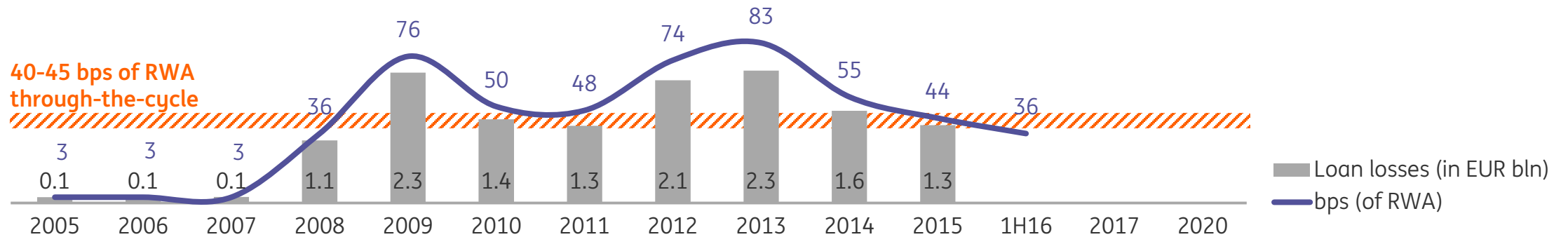
## Estimated impact of digital transformation programmes\* (in EUR mln)



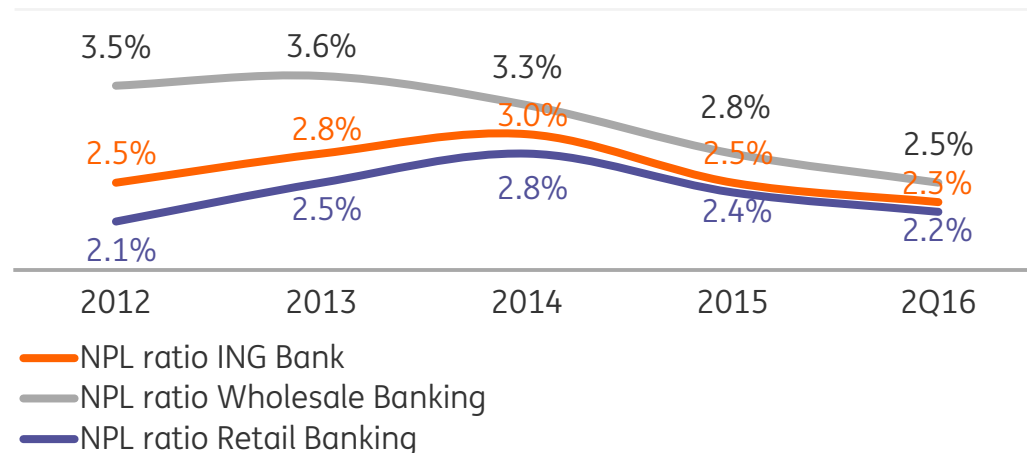
\* Figures do not match sum of programmes shown on previous slide due to rounding and small impact from Model Bank and Germany; \*\* Defined as incremental expenses from new announced programmes and includes project expenses, depreciation and amortisation of new IT assets, as well as impacts from impairments of legacy IT systems. Approx. EUR 90 mln to be taken as a special item in 2016; \*\*\* Excluding CVA/DVA (all years) and disclosed redundancy provisions in 2013, 2014 and 4Q15

# Risk costs trending down

Risk costs ING Bank (in EUR bln and bps of RWA)



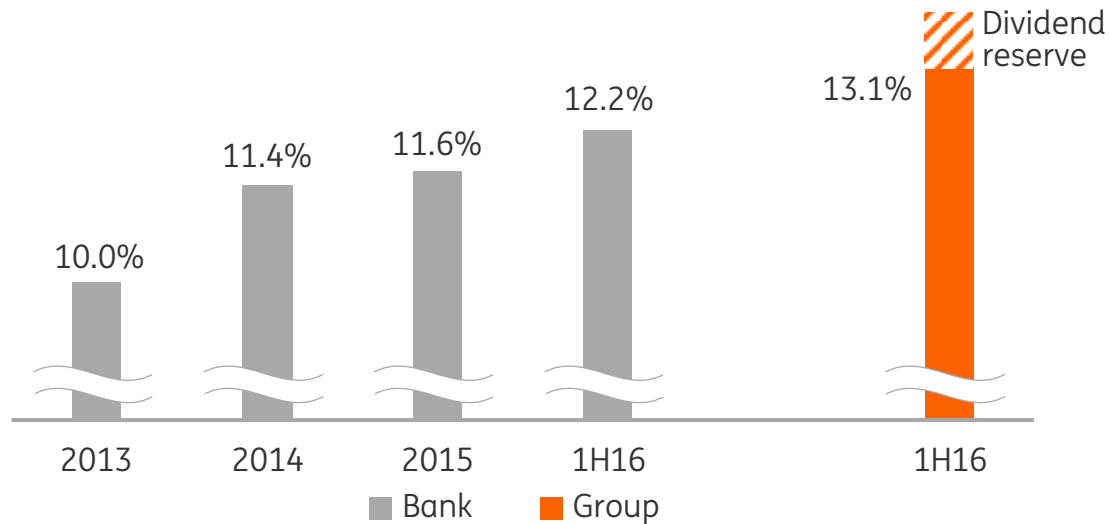
NPL ratio ING Bank (%)



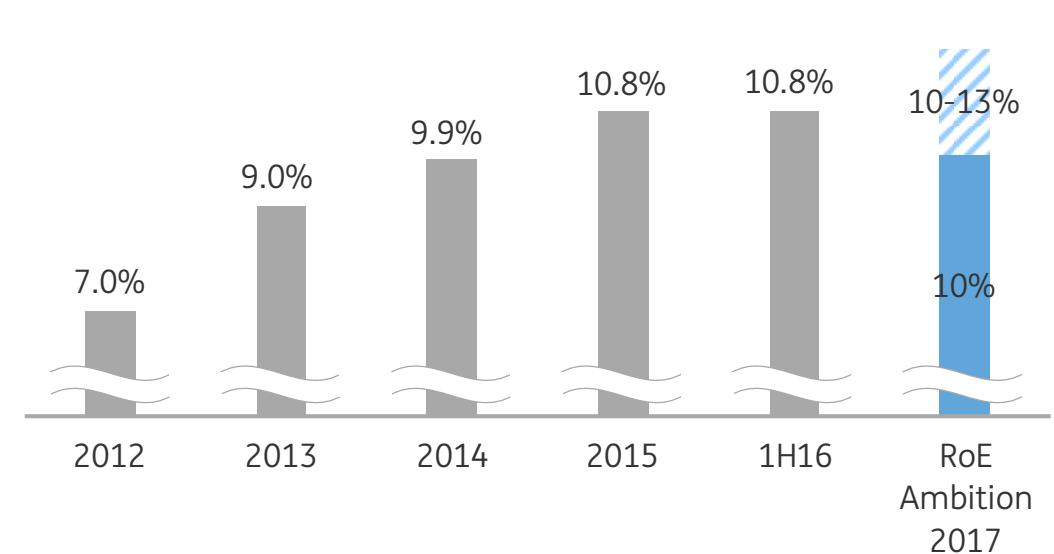
- ING Bank's additions to loan loss provisions have steadily declined since 2013
- The NPL ratio has decreased from a high of 3.0% at end 2014 to 2.3% at end 2Q16
- Risk cost guidance unchanged at c. 40-45 bps of RWA through the cycle
- IFRS 9 enters into effect on 1 January 2018. Preparations on track to ensure smooth implementation

# Robust capital position; double-digit ROE

Group capital position vs. Bank  
(fully-loaded CET1 ratio, in %)



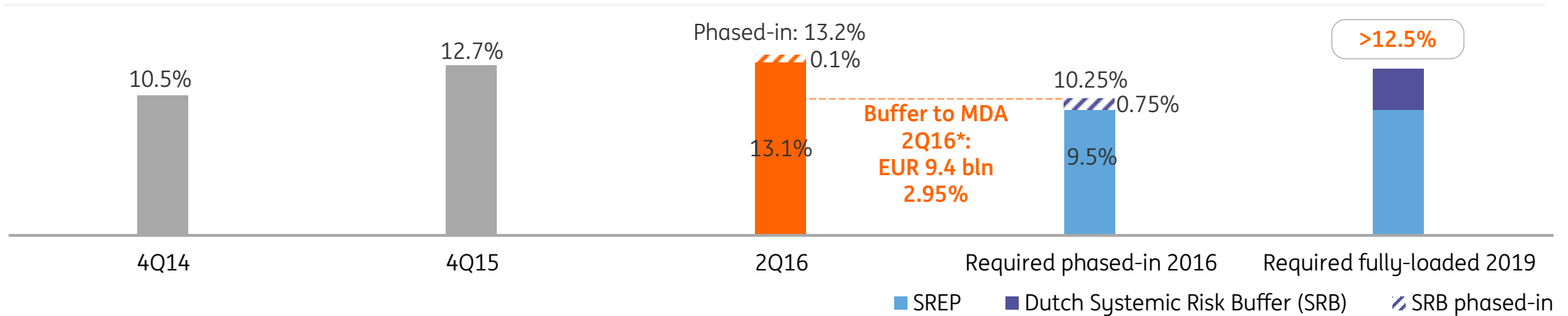
Underlying Bank ROE up in spite of higher fully loaded CET1 capital of ING Bank (in %)



- Capital generation at the Group will be used to support:
  - Profitable growth
  - Prevailing regulatory capital requirements
  - Returns to shareholders

# Group fully-loaded CET1 to remain above regulatory requirements

## ING Group fully-loaded CET1 ratio at 13.1% as per end June 2016



- ING Group's fully-loaded CET1 ratio at 13.1% per 30 June 2016 exceeds current fully-loaded requirement
- 1H16 net profit of EUR 2,552 mln not included in regulatory capital (80 bps of CET1 capital)
- Committed to maintaining a healthy Group CET1 ratio in excess of prevailing fully-loaded CET1 requirements and to returning capital to our shareholders
- We aim to pay a progressive dividend over time

## 1H16 interim profit is not included in capital (in EUR mln and EUR per share)



\* Buffer vs. 2016 CRR/CRDIV transitional rules; Buffer to MDA based on SREP 2015 requirement (applicable to year 2016)

# Ambition 2020 - Financial Targets

		Ambition 2017 - Bank	Ambition 2020 – Group*
<b>Capital</b>	• CET1 ratio (%)	> 10%	> Prevailing fully-loaded requirements**
	• Leverage ratio (%)	~ 4%	> 4%
<b>Profitability</b>	• Underlying C/I ratio (%)	50-53%	50-52%
	• Underlying ROE (%) (IFRS-EU Equity)	10-13%	Awaiting regulatory clarity
<b>Dividend</b>	• Dividend	Pay-out > 40%	Progressive dividend over time; > EUR 0.65 per share

\* Ambition 2020 financial targets based on assumption of low-for-longer interest rate environment in the Eurozone

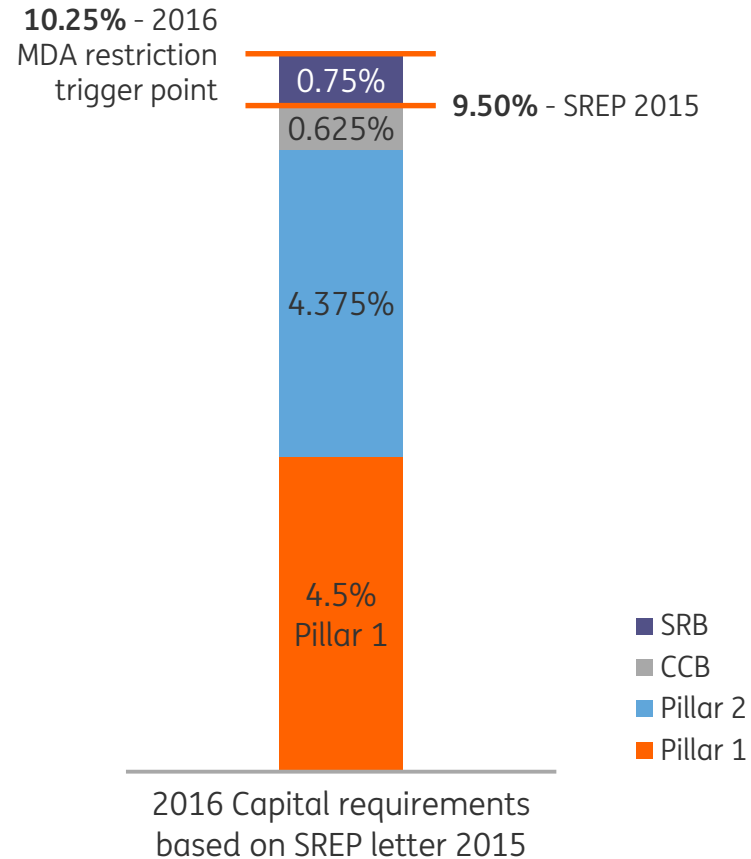
\*\* Currently 12.5%

# Appendix



# SREP and MDA framework to change

## SREP Decision 2015 (CET1 phased-in)

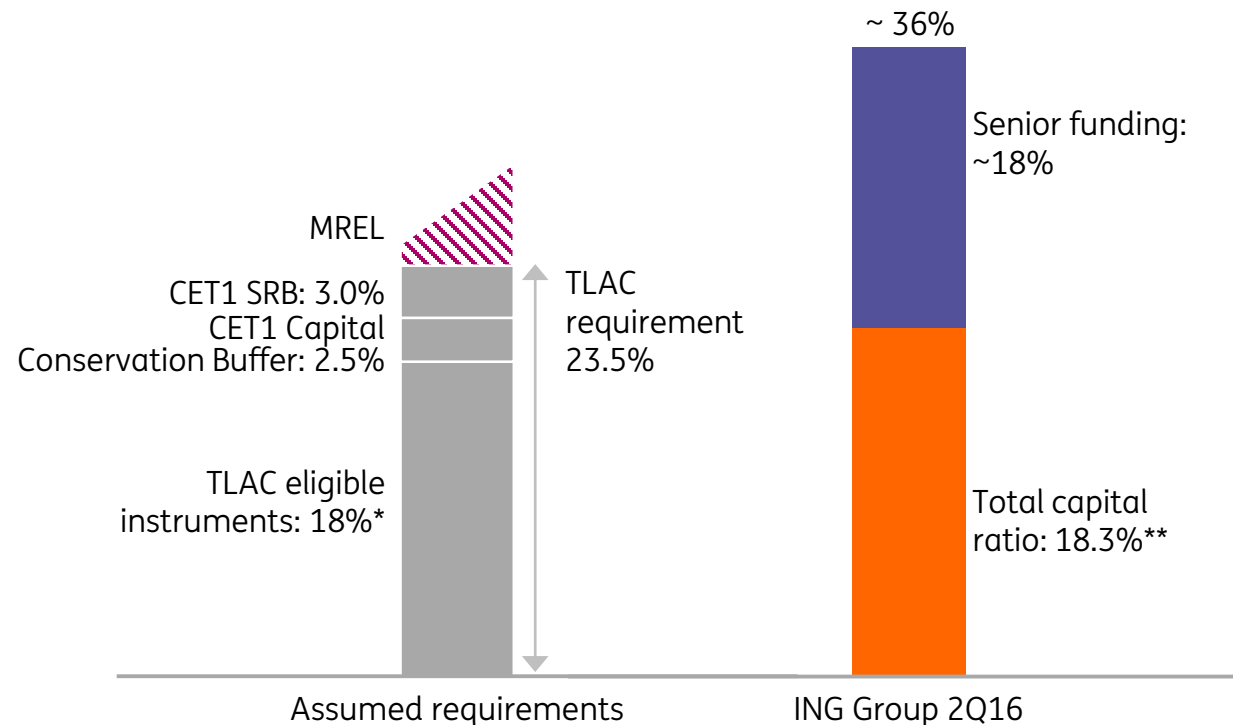


## SREP and MDA framework under development

- SREP decision of 2016 will be composed of a Pillar 2 Requirement (P2R) and a Pillar 2 Guidance (P2G)
- 2016 EBA Stress Test results will be used as input for 2016 SREP process
  - Qualitative outcome to be included in determination of P2R
  - Quantitative impact of the adverse scenario will be one input factor for determining the level of P2G
- ECB has communicated that, from the 2016 SREP decision onward, P2R will be relevant for Maximum Distributable Amount (MDA)
  - P2G will not be MDA relevant
- ECB has given guidance that, "all things being equal", the SREP capital demand can be expected to remain broadly stable over the phase-in period
- Final 2016 SREP (which will set requirements for 2017) to be confirmed by year-end 2016

# Flexibility to comply with expected TLAC and MREL requirements

## Possible TLAC/MREL requirements (fully loaded, in % of RWA)



## The Financial Stability Board's TLAC proposals

- The final TLAC proposal was published in November 2015
- Assuming TLAC requirements at 23.5% (including buffers) by 1 January 2022, ING is well-placed to meet them
- Given the sizeable amount of long-term debt maturing in the next few years, ING has ample flexibility to comply with the expected TLAC requirements
- Minimum TLAC RWA requirement is currently more constraining than minimum TLAC leverage requirement
- Since the Systemic Risk Buffer of 3% is applied to ING Group (and not to ING Bank), we took the prudent approach to calculate TLAC for ING Group
- MREL requirements, including potential subordination requirement, remain uncertain. Based on EBA Regulatory Term Sheet, MREL requirements are likely to exceed TLAC requirements

\* Minimum TLAC requirement (excluding regulatory capital buffer requirements) as per 1 January 2022  
 \*\* Including grandfathered securities

# 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 2015 ING Group consolidated annual accounts. All figures in this document are unaudited. Small differences are possible in the tables due to rounding.

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