3Q2021 Pre-earnings call

ING Investor Relations

7 October 2021, 16:00 CET

Today's comments may include forward-looking statements, such as statements regarding future developments in our business, expectations for our future financial performance and any statement not involving a historical fact. Actual results may differ materially from those projected in any forward-looking statement. A discussion of factors that may cause actual results to differ from those in any forward-looking statement is contained in our public filings, including our most recent Annual Report on Form 20-F filed with the United States Securities and Exchange Commission. Furthermore, nothing in today's comments constitutes an offer to sell, or a solicitation of an offer to buy, any securities.

Good day all,

Welcome to the 3Q2021 pre-earnings call of ING Group. I hope you are all doing well and enjoyed a good summer break.

As always, I will take you through the line items and later there will be time for clarifying questions by sell-side analysts, in case any statement was unclear.

This script will be published on ING.com.

Some general comments on market developments we see in the commercial environment:

- In Retail, the low interest rates continue to stimulate mortgage demand as customers decide to move or refinance. And with further re-opening of economies over the summer, consumer spending is gradually picking up again, while demand from businesses remains subdued.
- On the Wholesale Banking side, we continue to see low demand for working capital and investment loans.
- Note that historically business related lending has always been a bit lower during the summer period.
- We do expect loan demand to gradually return as uncertainty subsides and economies open up. With our geographical diversification we are well positioned to benefit when loan demand picks up.

NII
The low or negative interest rates have put pressure on liability income since 2016. Up to 2Q2020, we were able to offset this pressure using several levers. However, Covid-19 has had a negative impact on the effectiveness on some of these levers.

Levers:

- Core Lending growth, which may continue to be impacted by subdued demand particularly on the Wholesale and SME & Midcorp side, although we see the pipeline continuing to improve.
- Margin discipline can also help reducing the headwind on the replicating portfolio, although repricing opportunities remain limited for now.
- Our presence in non-euro countries, where rates are still positive. However, the interest rate differential with the euro-countries has decreased since the start of the Covid-19 pandemic.
- Charging negative rates. Note that the thresholds for charging negative rates in the Netherlands and Belgium were lowered as per the start of 3Q2021, which provides some relief against the drag from lower deposit margins this quarter. We are now charging above €100k in the Netherlands and above €250k on non-regulated accounts in Belgium. Keep in mind that we have a relatively limited number of clients with balances above these thresholds.
- We try to manage the size of the replicating portfolio by limiting inflow of new deposits and reducing savings-only customers. As an example, we have introduced custodian charges in several countries, no savings account-only policies and we have reduced marketing spend.
- Please note that our balance sheet still caries lockdown-induced savings at an elevated level.
- And finally, our participation in the TLTRO III programme provides some relief in NII, for which we have started to accrue the beneficial funding rate as of 1Q2021 and which runs until 2Q2022.

Some comments on the replicating portfolio and forward curves affecting NII:
- As you know, the 5-year EUR swap can be used as a rough proxy for our replicating portfolio. Although we have seen a notable increase of the rate in September, it is still significantly lower than the 5-year average resulting in continued pressure on liability income.
- Furthermore, we re-invest approximately 20% of our replicating portfolio annually, which means that any impact from changes in swap rates come in only gradually and that the pressure can vary from year to year and from quarter to quarter.
- The absolute level of the curve is important, but the steepness of the curve even more so. A steepening of the curve will have a gradual positive effect over time.

Note that as of 30 June, we decreased the core savings rate in Italy from 2 basis points to 0.1 basis point.

Net fee and commission income: the 3Q2020 fee income amounted to €734 mln and it was €855 mln in 2Q2021, supported by higher daily banking package fees and continued good results in Retail Investment Products, while the number of payment transactions remained subdued, especially international payments.
- In Retail Banking, we have increased some payment package fees in Belgium as per 1 July 2021. Furthermore the number of domestic payment transactions continued to gradually increase since most of the lock-down measures were lifted. International transactions are still expected to be at a much lower level than pre-Covid-19.
- In Wholesale Banking, we can expect that fee levels continue to be subdued reflecting the low demand.

Investment income: the 3Q2020 investment income was €103 mln. This included €95 million annual dividend of the Bank of Beijing. Investment income was €10 mln in 2Q2021.

Other income: In 3Q2020, other income was €120 mln, which was negatively impacted by a €230 mln impairment on ING's stake in TMB, partially compensated by €91 mln of positive revaluation adjustments in FM. In 2Q2021, other income was €312 mln supported by a €72 mln receivable due to a better than expected recovery of the insolvency of a financial institution in the Netherlands.

Expenses, excluding regulatory costs were just above €2.5 bln in 3Q2020 and just below €2.4 bln in 2Q2021. Note that 3Q2020 included a €140 mln impairment on capitalised software related to project Maggie. 2Q2021 included €39 mln of redundancy provisions and impairments.

Looking at the business lines:

- In Retail Market Leaders, we aim to reduce absolute costs
- As mentioned before, we are more critical in Retail Challenger & Growth Markets and only invest when there is a clear return.
- In Wholesale Banking, we aim to keep costs at least flat.
- Note that as stated previously, the ruling in the Danske case on the VAT charged for outsourcing activities is expected to have an impact on the costs as and when the ruling gets transposed into local law. We expect limited effect this quarter.

Regulatory costs were €111 mln in 3Q2020 and €172 mln in 2Q2021:

- As observed in the previous quarters, the increases in covered deposits during 2020 require higher target funds and therefore lead to higher quarterly DGS charges.
- Regulatory costs in 2Q2021 were affected by the Greensill insolvency in Germany. This resulted in approx. €10 mln higher DGS per quarter until the end of 2024. Note that Q2021 included an €20 mln DGS catch-up as well.

Risk costs

- As mentioned before, we expect risk costs for the full-year of 2021 to be below our through-the-cycle average of around 25 bps of average customer lending. On asset quality, as a result of a proven risk management framework, we have a strong and well-diversified loan book and a low stage 3 ratio.

Tax

- We expect an effective tax rate of approx. 28-30%.

CET1 ratio of the Group stood at 15.7% at the end 2Q2021. As a reminder, 48 eurocents of cash dividend per share will be paid next week. Similar to the recently announced share buyback programme, this will be done from capital reserved outside of regulatory capital and will not impact our CET1 ratio.

- We continue to reserve 50% of resilient net profit for future distribution as per our policy. This will be held outside of CET1 capital.

Corporate Line

- The Corporate Line represents certain P&L elements not allocated to the units. The Corporate Line delivers a negative result before tax of approx. €-100 mln per quarter, but can be affected by exceptional items.
- Note that 2Q2021 was supported by a €72 mln receivable due to a better than expected recovery of the insolvency of a financial institution in the Netherlands.