4Q2021 Pre-earnings call

ING Investor Relations

10 January 2022, 16:00 CET

Good day all,

Welcome to the 4Q2021 pre-earnings call of ING Group. My best wishes to you and your loved ones for the New Year and I hope you had a good holiday 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.
- On the Wholesale Banking side, we continue to see gradual improvement of demand for working capital and investment loans.
- Furthermore note that the TLTRO measurement date was on 31 December.
- Our geographical diversification ensures we are well positioned to capture growth in demand.

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 is good in mortgages and as said our geographical diversification allows us to capture demand. Business lending may continue to be impacted by Covid/Omicron uncertainties.

- Margin discipline can also help to reduce the headwind on the replicating portfolio, although repricing opportunities remain limited for now.
- Our presence in non-euro countries, where rates are still positive.
- Charging negative rates, for which we have made several steps since 2020. As of November, we are charging customers in Germany with deposits above €50 k and who have given their consent. This process of asking consent to change the conditions is ongoing and the results are expected to become visible mainly during 2022.
- 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 and no savings account-only policies.
- 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. The programme runs until 2Q2022.

Despite these levers, given the low eurozone interest rates we expect continued pressure on liability income (until also the longer maturities in our replicating portfolio have been repriced to today's rate environment).

Note that on 23 November we decreased the core savings rate in Turkey from 15% to 14%.

Net fee and commission income: the 4Q2020 fee income amounted to €771 mln and it was €882 mln in 3Q2021, supported by higher daily banking package fees and continued good results in Retail Investment Products.

- In Retail Banking, we have not implemented significant pricing increases in our Daily Banking packages during the fourth quarter. The previously announced increases of payment prices in the Netherlands will be effective as of 1 January 2022.
- In Wholesale Banking, fee income is mainly driven by lending activity.

Investment income: the 4Q2020 investment income was €6 mln. Investment income was €74 mln in 3Q2021, which included €97 mln annual dividend of the Bank of Beijing and a €-34 mln estimated loss related to the transfer of ING's retail banking operations in Austria to bank99.

Other income: In 4Q2020 other income was €48 mln. This was negatively impacted by a €58 mln decrease of the indemnity receivable from NN Group, as well as by negative revaluation adjustments in FM and negative hedge ineffectiveness. In 3Q2021 other income was €304 mln.

Expenses, excluding regulatory costs were €2,583 mln in 4Q2020 and €2,565 mln in 3Q2021. Note that 4Q2020 included €223 mln of incidental expenses mainly due to restructuring provisions and impairments, whereas 3Q2021 included €233 mln of incidental items, including a €180 mln provision for compensation to customers on certain Dutch consumer credit products.

Just as a reminder we usually observe higher expenses in the fourth quarter. Note that in 4Q2020 this was offset by a significant VAT-refund.

Furthermore note that in connection with the announced decision to leave the retail banking market in France, we will book a restructuring provision in the fourth quarter 2021 results. This restructuring provision will include impairments as well as redundancy expenses.

Regulatory costs were €331 mln in 4Q2020 and €121 mln in 3Q2021:

- Note that as previously announced, the tariff for the Dutch bank tax has been increased by 50% in 2021. It is intended to be a one-off increase by the Dutch government. And as a reminder, the

Dutch bank tax is always fully booked in the fourth quarter and amounted to €169 mln in 2020 and €177 mln in 2019.

Risk costs

- As mentioned before, we expect risk costs for the full-year of 2021 to be well 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 the effective tax rate to be between 27-29%.

CET1 ratio of the Group stood at 15.8% at the end 3Q2021.

- 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.