Reinventing Retail in the Netherlands

ING Investor Day

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CEO ING Retail the Netherlands

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www.ing.com
Key Messages

• A consistently solid performance
• ING Retail NL reinvented
  • Maximise share of wallet
  • Lean and flexible cost structure
• Integration is ahead of schedule
• Current market developments and future performance
Consistent solid financial performance

Revenue ING Retail NL '02-'08 * (EUR mln)

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>3,694</td>
<td>3,841</td>
<td>3,953</td>
<td>4,388</td>
<td>4,567</td>
<td>4,705</td>
<td>4,346</td>
</tr>
</tbody>
</table>

CAGR: 2.8%

Cost ING Retail NL '02-'08 * (EUR mln)

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>2,513</td>
<td>2,624</td>
<td>2,561</td>
<td>2,660</td>
<td>2,781</td>
<td>2,820</td>
<td>2,826</td>
</tr>
</tbody>
</table>

CAGR: 2.0%

Profit ING Retail NL '02-'08 * (EUR mln)

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1,086</td>
<td>1,061</td>
<td>1,262</td>
<td>1,563</td>
<td>1,638</td>
<td>1,700</td>
<td>1,269</td>
</tr>
</tbody>
</table>

CAGR: 2.6%

Cost/Income ratio ING Retail NL '02-'08 *

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>68.0%</td>
<td>68.3%</td>
<td>64.8%</td>
<td>60.6%</td>
<td>60.9%</td>
<td>59.9%</td>
<td>65.0%</td>
</tr>
</tbody>
</table>

* Figures 2002/2005 made comparable by including estimated results of mid-corporates and 50% of Postkantoren B.V.
Case for change - new model to capture revenue and cost opportunities

- End of 2006 Postbank and ING Bank Netherlands (IBN) were successful, but competitors were also making progress
- ING Bank Netherlands was subscale with limited further growth potential
- Postbank model unable to continue high profit growth
- Postbank and IBN faced large IT investments to update complex and aged systems (EUR 300 mln)

Two key objectives: capture additional revenues and cost improvement opportunities
## New business model structured to maximise share of wallet

**Postbank**
- Huge customer database
- Central steering
- High customer contact frequency (Direct)
- Process orientation

**ING Bank**
- An advice brand
- Physical outlets for sale
- Specialised sales forces (NEW)

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New business model: lean and flexible cost structure

Postbank

- Post Offices
- Centralised product administration
- Staff

ING Bank

- ING Bank Branches
- Decentralised product administration
- Staff

Centralised business model
Efficient multi channel distribution mix with low fixed cost
Integrating ING Bank and Postbank ahead of plan

Positive Customer Reactions to New ING:
- 85% of customers is positive or neutral towards merger
- Increased customer base from 8.6 to 8.9 million
- No increase in call/complaint volume

Annual financial impact of integration programme

<table>
<thead>
<tr>
<th>Plan</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost savings</td>
<td>0</td>
<td>30</td>
<td>140</td>
<td>160</td>
<td>280</td>
</tr>
<tr>
<td>Additional revenues</td>
<td>0</td>
<td>40</td>
<td>70</td>
<td>120</td>
<td>160</td>
</tr>
<tr>
<td>Non-recurring costs</td>
<td>-300</td>
<td>-110</td>
<td>-190</td>
<td>-120</td>
<td>-170</td>
</tr>
<tr>
<td>Profit impact</td>
<td>-300</td>
<td>-40</td>
<td>20</td>
<td>160</td>
<td>270</td>
</tr>
</tbody>
</table>

Update on integration programme
- Cost savings ahead of schedule; EUR 92 million realised in 2009
- Expected cost savings on top of integration programme of EUR 220 mln by 2012
- Resulting in total cost savings of EUR 500 mln in 2012

We will deliver on our promise, with more emphasis on costs
Current market impact on revenues

Current developments
• Rates came down for term deposits and variable rates (only small players maintain high rates on 1-year deposits)
• Yield curve declined even more resulting in a spread reduction of more than 50% early 2009
• Rates on deposits and savings are expected to decline further resulting in healthier margins by the end of the year
• Critical profit generator for every bank

New mortgage production (EUR bln)
• New mortgage production declined 17% in 2008
• Margin of new production decreased under competitive pressure

Positive developments
• Small aggressive entrants have left the market
• Lower competitive pressure
• Margins improving towards 80 bps in early 2009
Mature, but dynamic market with opportunities for growth

A mature market ..... but dynamic, with significant flows to capture

**Consumer Banking: revenue pools (EUR bln)**

- Savings
- Mortgages
- Payments
- General insurance
- Life insurance
- Consumer loans

**Business Banking: revenue pools (EUR bln)**

- Savings
- Payments
- Business lending
- General insurance

- With flow stock ratio’s from 10-120 % in the Dutch consumer market there is significant room for ING to grow

- Savings
- Mortgages
- Payments
- Investments
- General insurance
- Life insurance
- Consumer loans

Opportunity for ING to leverage customer base of 8.9 million by increasing share of wallet

1 Average of 2006-2008. Source: ING Economic Affairs; CBS; DNB
Note: Stock defined as total market volume; Flow defined as volume that is (re)contracted to banks/insurance companies

Source: ING Economic Affairs; CBS; DNB; ING estimates
Competitive advantage: costs in 2009 moving towards level of 2002

Cost development ING Retail NL* (in EUR mln)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost (EUR mln)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>2.400</td>
</tr>
<tr>
<td>2003</td>
<td>2.600</td>
</tr>
<tr>
<td>2004</td>
<td>2.800</td>
</tr>
<tr>
<td>2005</td>
<td>3.000</td>
</tr>
<tr>
<td>2006</td>
<td>3.200</td>
</tr>
<tr>
<td>2007</td>
<td>3.400</td>
</tr>
<tr>
<td>2008</td>
<td>3.600</td>
</tr>
<tr>
<td>2009</td>
<td>3.800</td>
</tr>
</tbody>
</table>

* 2007 and 2008 including mid-corporates, 2002-2006 including mid-corporates in proportion of 2007

Strong Cost Leadership

- Cost level 2009 will be comparable to 2002, despite inflation, salary increases and higher volumes
- Combining ING Bank and Postbank will significantly reduce costs
- Additional efficiencies identified on top of integration
- Programme for additional cost containment is implemented
Mortgages: Risk costs will increase but remain manageable

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

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>16%</td>
<td>EUR 100 bln</td>
</tr>
<tr>
<td>20%</td>
<td>ABN Amro + Fortis</td>
</tr>
<tr>
<td>20%</td>
<td>Rabobank</td>
</tr>
<tr>
<td>6%</td>
<td>ING Nationale Nederlanden a.o.</td>
</tr>
<tr>
<td>7%</td>
<td>ING Retail</td>
</tr>
<tr>
<td>31%</td>
<td>Other</td>
</tr>
</tbody>
</table>

**Dutch mortgage market: Less risky than perceived**

Four main features 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

**ING Retail’s mortgage portfolio: manageable risk costs**

- 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 portfolio, helping clients to meet payments

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Closing Remarks

- Timing of decision to integrate just right and business model offers opportunities for the future
- Accelerated cost savings cover impact of liquidity crisis on income
- Risk cost will increase but under control
- Current business model provides us with an excellent structure in changing circumstances to reach our objective, **long term profitability**:
  - We have just started to exploit the key capabilities of our new model to increase profitability in the Dutch market
  - We will further benefit from our sustainable cost advantage
  - Each building block of the new ING Retail is based on a former best practice
  - Execution clearly ahead of plan: we delivered on our promise, keeping clients a priority
Detailed information will be delivered during the break outs

<table>
<thead>
<tr>
<th>Value drivers for long-term profitability</th>
<th>Key objective</th>
<th>Our priorities in challenging 2009</th>
<th>Break-out session</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>• Revenue Improvement</td>
<td>• <strong>Clients</strong>: improved service levels for clients based on improved processes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• <strong>Savings</strong>: inflow and income on Savings portfolio</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• <strong>Primary clients and market share</strong>: increase number of primary clients and maintain market shares of all product groups stable</td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>• Cost Improvement</td>
<td>• <strong>Costs</strong>: cost containment committee to actively monitor cost development</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• <strong>Integration</strong>: keep on delivering on promises; migration IBN clients to target system, Business Banking, further FTE reduction</td>
<td></td>
</tr>
<tr>
<td>Risk</td>
<td>• Pro-actively managing the Risk</td>
<td>• <strong>Risks</strong>: install program to de-risk the loan/mortgage portfolios</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>• Accelerate transformation to “Direct where possible, advice when needed”.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Product Innovation to capture market share</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Stringent cost management and proactive client approach to de-risk portfolio</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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