



# Retail Banking Benelux

Bernstein Strategic Conference

Hans van der Noordaa  
CEO Retail Banking Benelux

London – 20 September 2012  
[www.ing.com](http://www.ing.com)

**BANKING - INVESTMENTS - LIFE INSURANCE - RETIREMENT SERVICES**



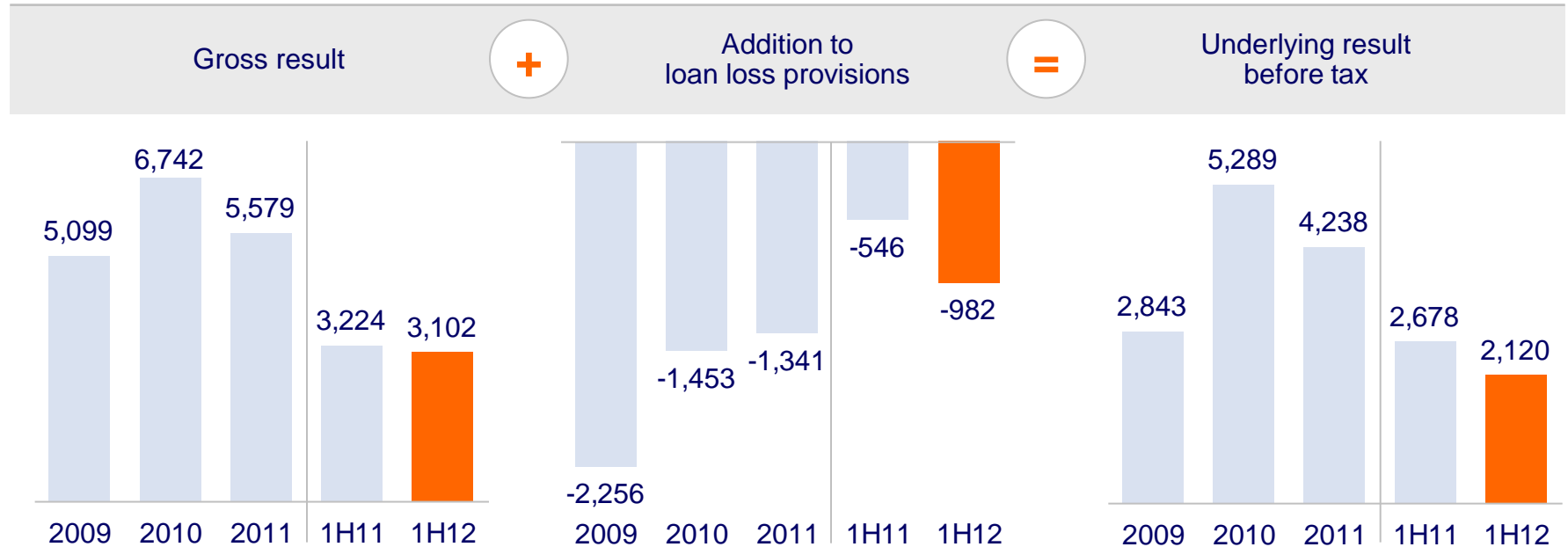
# Key points

---

- ING Bank continues to show solid results, strongly supported by Retail Benelux
- ING is a leading Retail Bank in the Benelux with an RoE of 17.9% in 1H12
- Retail Banking Benelux has contributed significantly to balance sheet optimisation
- Focus on retail deposits allows us to continue customer lending
- ING is well positioned to capture the ongoing trend (direct if possible, advice when needed) in Retail Banking with a focus on maintaining strong RoE

# ING Bank posted robust results despite higher provisioning

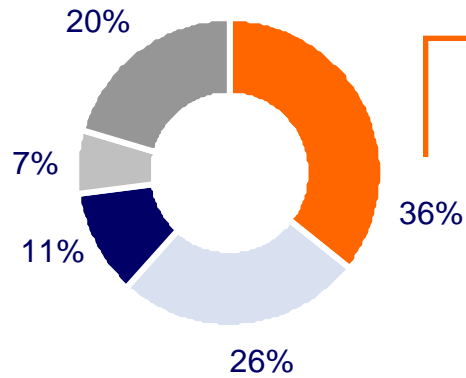
Bank results (in EUR mln)



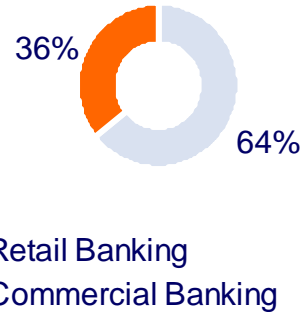
- Gross results held up well in 1H12 as lower income was partly offset by lower expenses
- Risk costs increased from 1H11, driven by higher risk costs in Commercial Banking and to a lesser extent Retail Netherlands

# Retail Benelux support total Bank result strongly

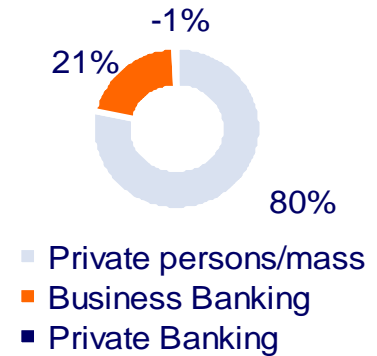
Total Bank pre-tax profit 1H12



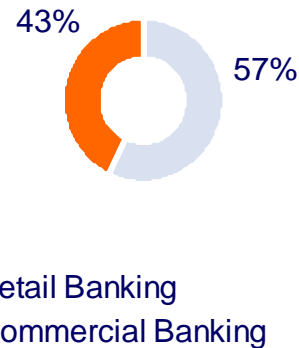
Total Bank Netherlands



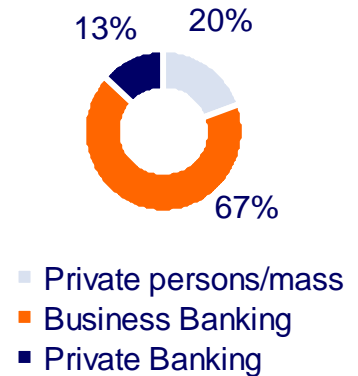
Retail Netherlands



Total Bank Belgium



Retail Belgium

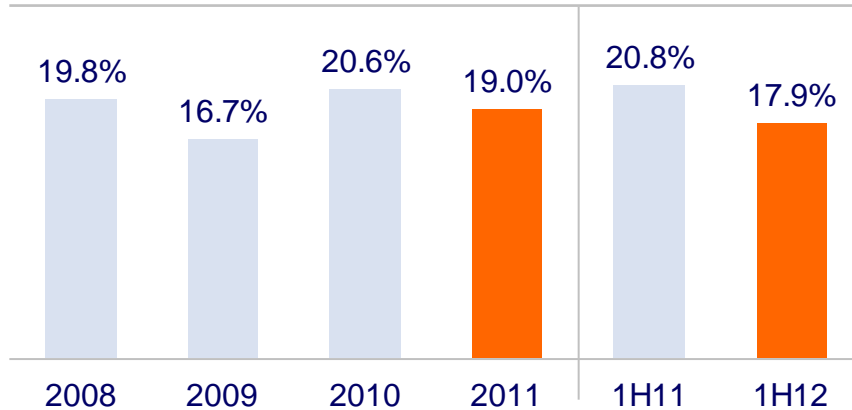


- Netherlands
- Belgium
- Germany
- Rest of Europe
- Outside Europe



# Retail Benelux RoE 17.9% in 1H12

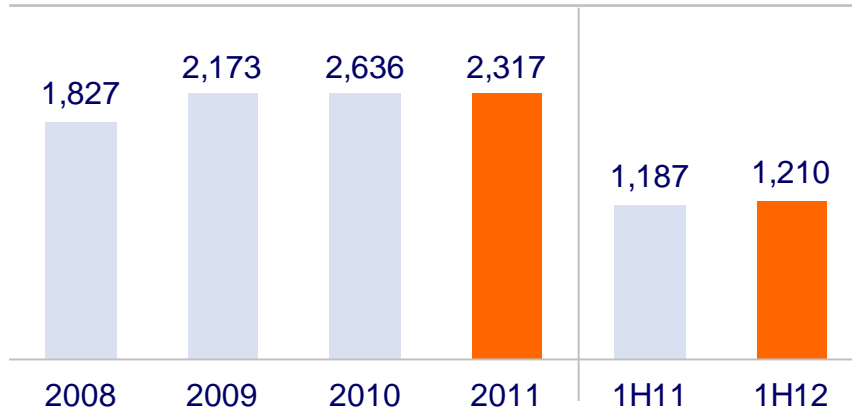
Return on Equity (based on CT-1 ratio of 10%)



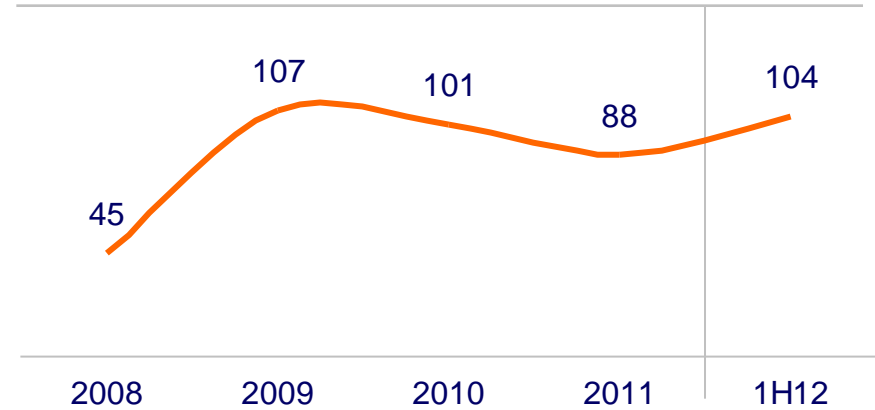
Recent trends

- RoE at 17.9% in 1H12 remains substantially above 10-13% overall Bank target (based on IFRS EU equity)
- Gross result up in 1H12 driven by lower expenses
- The increase in loan loss provisions was largely driven by business lending

Gross result (in EUR mln)



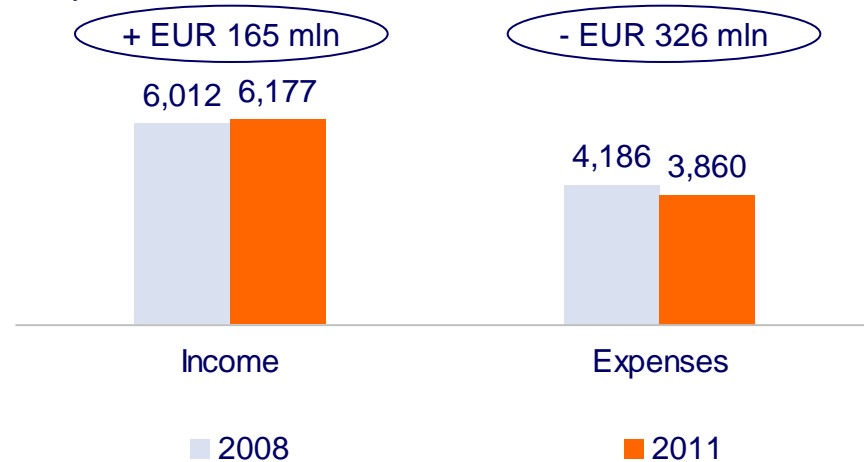
Risk costs in bps of average RWA



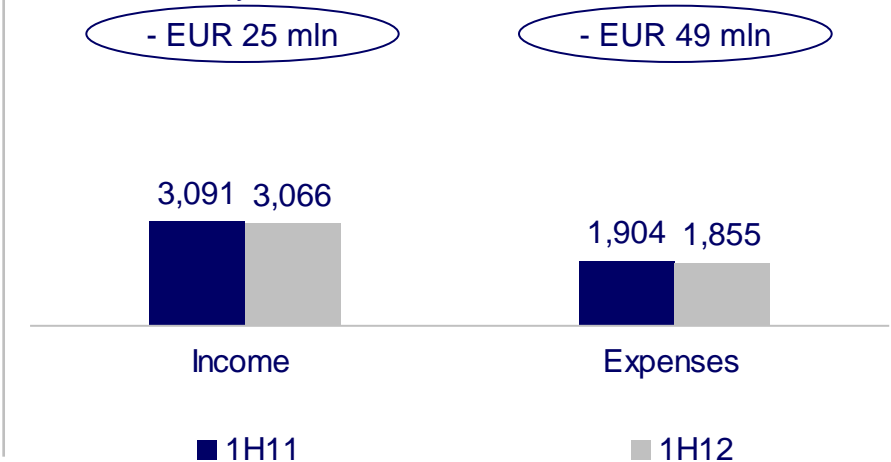
# Income stable in 1H12 while the cost base was reduced

Income and expenses Retail Benelux (in EUR mln)

Full year



First half of the year



- Income increased slightly as higher client balances offset lower savings margins
- Cost base has been significantly reduced since 2008
- Additional regulatory costs of EUR 60 million in Belgium in 2011; 1H12 includes EUR 38 million reimbursement from old Belgian deposit guarantee scheme
- Cost measures announced in November 2011 to adjust to the changing environment while facing additional regulatory costs like Dutch banking tax (in 4Q12)

# Retail Benelux has been a strong contributor to ING Bank's capital generation

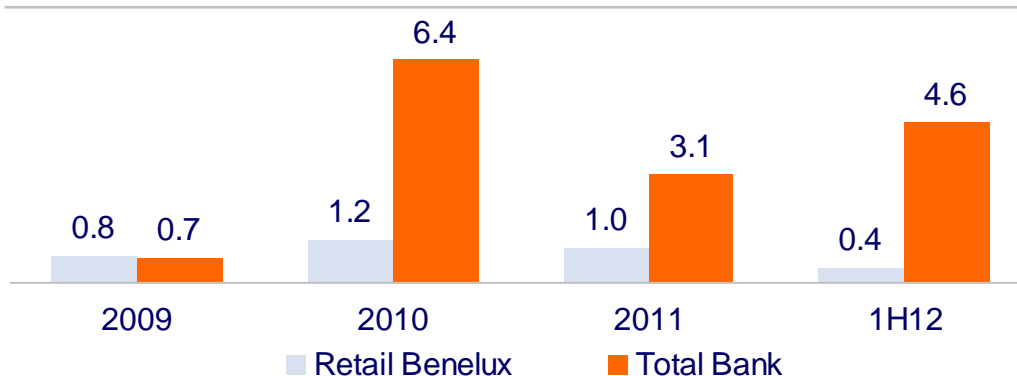
ING Bank core Tier 1 ratio



## Further strengthening of CT1 ratio

- The announced sale of ING Direct Canada and Capital One stake will lead to a pro-forma core Tier 1 ratio of 11.9%

Regulatory Capital Added (in EUR bln)



## Retail Benelux has consistently generated capital

- Since 2009, Retail Benelux has generated EUR 3.4 billion of core Tier 1 capital
- EUR 3.8 billion of net profits
- Moderate RWA increase of EUR 4.2 billion to EUR 71.0 billion



# ING is the leading retail bank in the Benelux

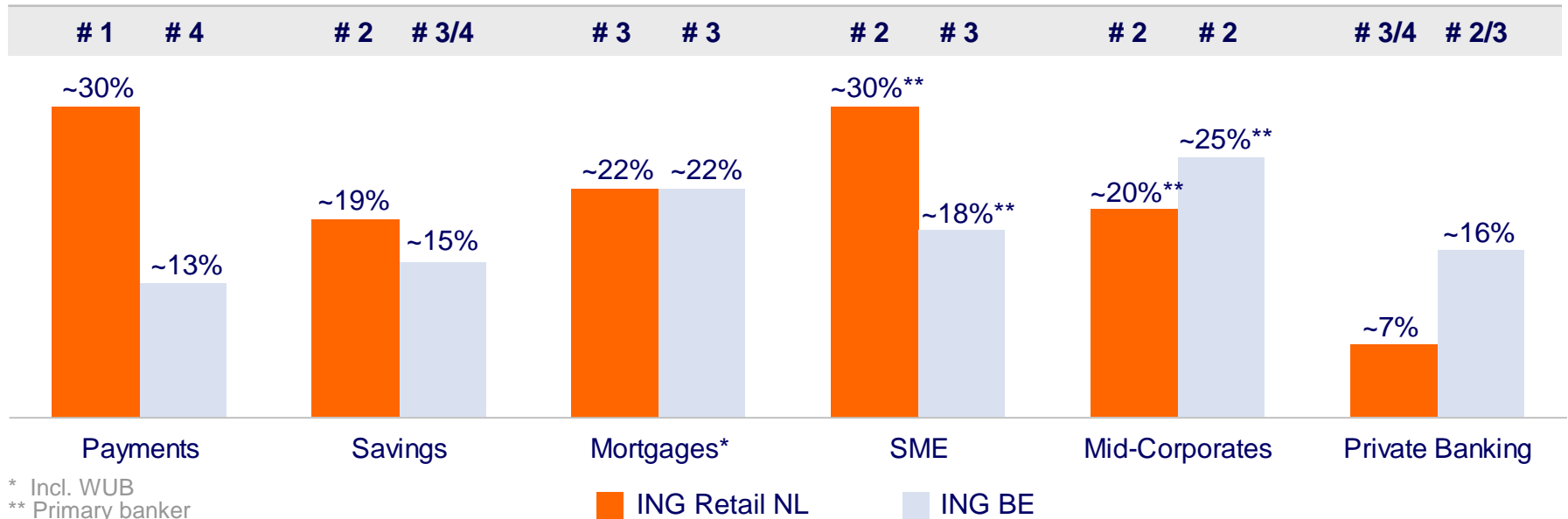
## ING Netherlands

- # 2 bank in NL
- Full universal bank with 8.9 mln customers
- 280 branches
- 14,002 employees

## ING Belgium

- # 4 bank in Belgium (including Record Bank)
- Full universal bank with 2.7 mln customers
- 779 branches
- 9,583 employees
- Full universal bank in Luxembourg

## ING Retail Netherlands and ING Retail Belgium: market share and position



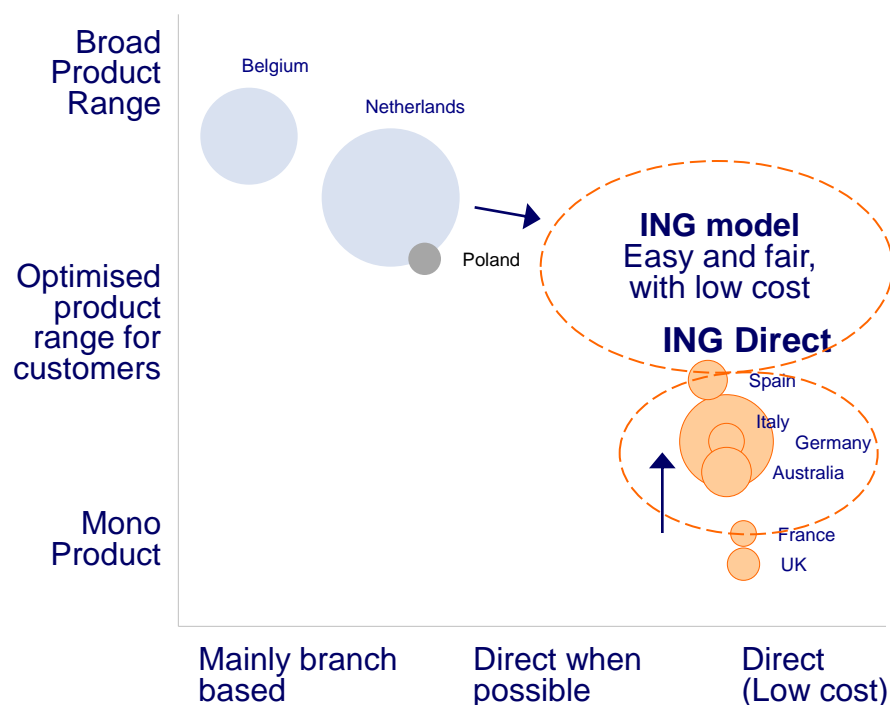
\* Incl. WUB  
 \*\* Primary banker





# ING Retail Benelux well positioned to capture future trends in Retail Banking

## Converging models



## For Customers: Easy and fair

- Customer centric culture, with care for customers
- Limited number of transparent products, serving all customer needs
- Consistent fair pricing
- Customer centric process management, with break-through simplicity
- Direct when possible, advice when needed

Underlying economics: Strong low cost model, stable business

- Superior brand, number one customer choice
- Prone to be direct, low credit risk
- Simplified product range
- Focus on direct channels
- Process excellence, low cost



# Retail Benelux delivering on balance sheet optimisation

# Managing the Bank Balance Sheet more efficiently under Basel III

## Balance Sheet stable at EUR 900 bln

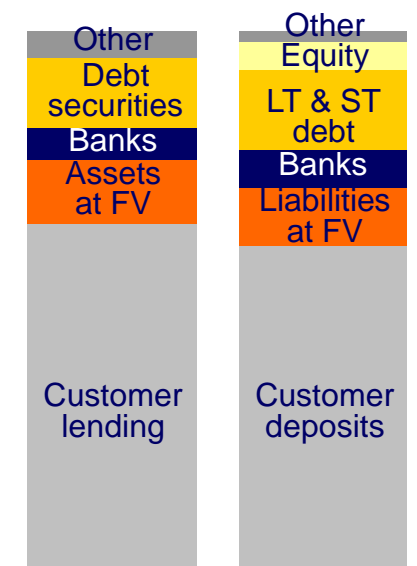
Evolve investment portfolio into liquidity portfolio and continue to de-risk

Reduce non-strategic trading assets and redesign products to mitigate CVA impact

Grow customer lending and selectively shift towards higher margin areas; re-price to reflect increasing cost of capital

### Ambition 2015

~ EUR 900 bln



Strong capital generation to grow into Basel III requirements

Extend long-term debt profile and reduce reliance on short-term professional funding

Continue to build on strong deposit gathering ability as primary source of funding

Assets                      Liabilities

CT1	≥10%
RoE*	10-13%
LCR	>> 100%
NSFR	> 100%
LtD	< 1.1
Leverage	<25

\* Based on IFRS-EU Equity

# Retail Benelux contributes strongly to ING Bank's balance sheet optimisation

## Focus on deposit growth

- In the Netherlands, ING strongly increased the retail deposit base by EUR 10 billion since year-end 2010
- In Belgium, ING launched successful new products resulting in EUR 6 billion higher balances since year-end 2010
- Targeting deposits with high liquidity value

## Adjust funding mix

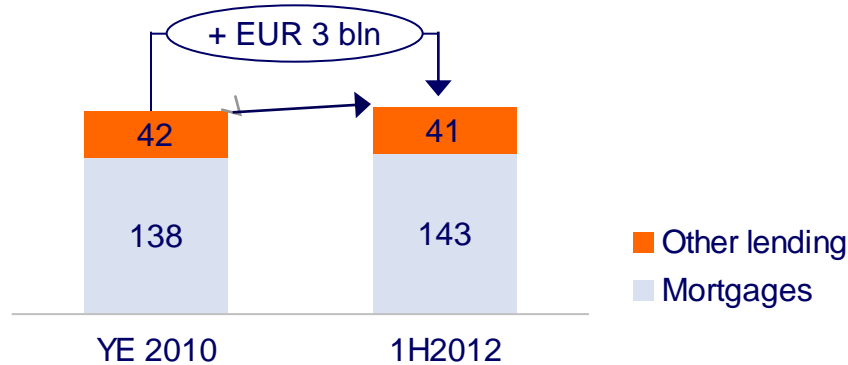
- High quality Dutch mortgages offer a solid base to issue covered bonds
- Year to date, EUR 3.75 billion public covered bonds have been issued at an average spread of mid-swap + 74 bps
- Total covered bonds outstanding EUR 27.5 billion with an average tenor of 7.5 years

## Balance sheet integration

- Eliminate cross-border inefficiencies by creating self-sustainable balance sheets which are locally funded
- Use of funding surplus in Belgium for international assets
- Re-price lending to reflect the higher cost of capital

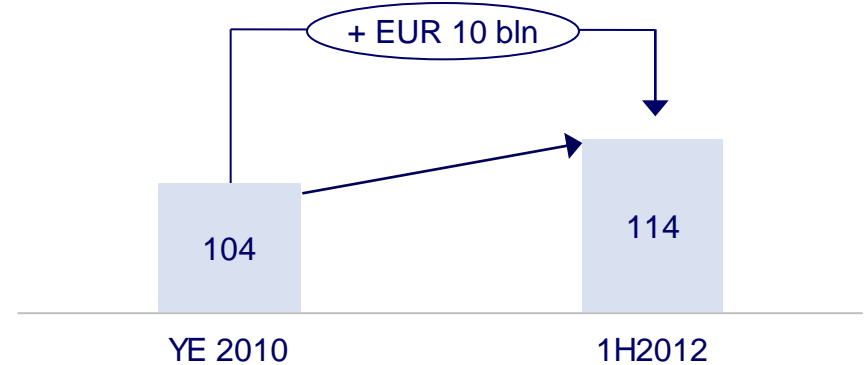
# In the Netherlands, we have selectively grown long-term lending while accelerating funds entrusted

Retail Netherlands lending (EUR bln)



- Mortgages are an anchor product for increasing cross-buy
- Focus on high quality of new production
- Demand for credit is low
- Uncertainty related to future interest deductability is limiting demand for mortgages
- Volume growth in business lending is low due to current economic environment and competition, mainly from local players

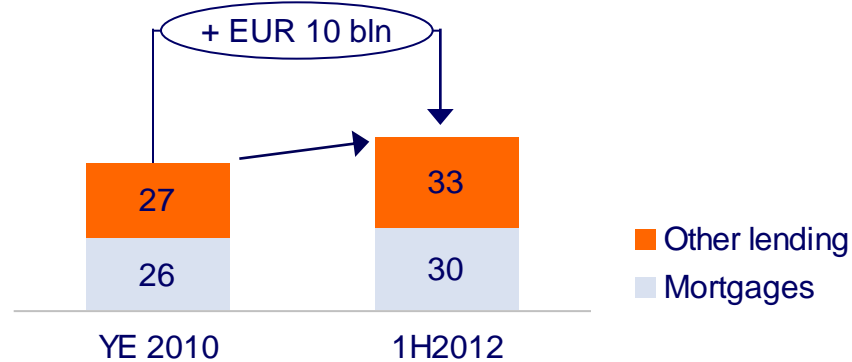
Retail Netherlands funds entrusted (EUR bln)



- ING has accelerated growth in funds entrusted
- Driven by strong inflows in fixed-term deposits and various savings campaigns
- 1 year fixed-term deposit campaign aimed at private individuals at end 2011/early 2012
- Total funds entrusted increased by EUR 7.1 billion in 1H12 of which EUR 3.0 billion in fixed-term deposits
- Interest rates on variable savings accounts have been declining since February 2012

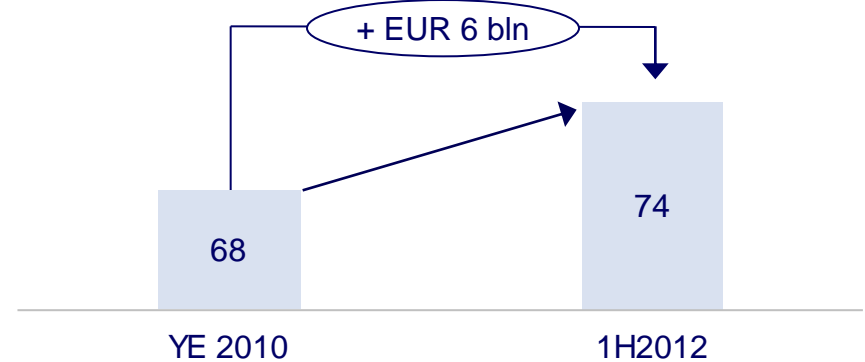
# Funding rich Belgian market allows for asset growth

Retail Belgium lending (EUR bln)



- Balanced growth in mortgages while increasing market share in business lending
- Pricing discipline maintained
- Stable demand for mortgages
- ING Belgium has good momentum in growing market share in business lending

Retail Belgium funds entrusted (EUR bln)



- Healthy increase in funding rich Belgian market
- Driven by introduction of new products
- Competition is fierce, primarily from other on-line banks

# Retail Benelux contributed EUR 14 billion to balance sheet integration

Balance Sheet integration progressing (EUR bln)



## Recent initiatives

- In 2011, EUR 11 bln of balance sheet optimisation was related to Retail Benelux
- This was largely driven by transferring securitised Dutch mortgages to other countries with excess funding
- Until July 2012, EUR 7.3 bln of balance sheet integration has been achieved of which EUR 1.9 bln of securitised Dutch mortgages and EUR 1.0 billion of Lease assets
- Pipeline remainder of 2012: EUR 3.0 bln
- Our success to date gives us comfort that we can do more

# Retail Netherlands: maintaining a high RoE



# ING Retail NL adapted to a changing environment

## Customer Centricity

- Easy and transparent product offering
- Converged to distribution model “direct where possible, advice when needed”
- Leverage new technology to improve service levels, proximity and convenience (internet, mobile)

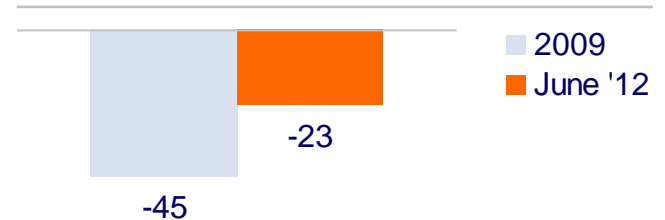
## Operational Excellence

- Cost leadership will be a key strategic advantage
- Further process and IT improvements leading to:
  - More efficiency
  - Better client services
  - Focus on workforce to increase effectiveness
- Further cost reductions announced in November 2011 (Case for Change)

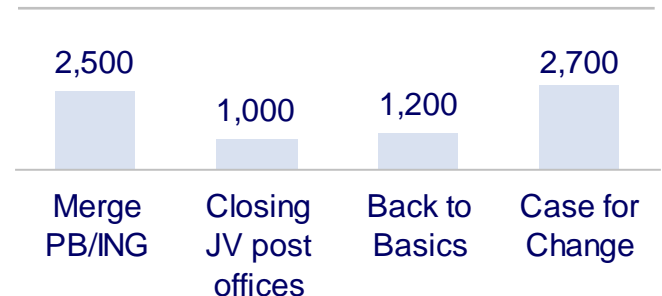
## Balance Sheet Optimisation

- Increase growth in savings and fixed deposits
- Moderate growth in mortgages, focused on core customers
- Grow in attractive SME market using a relationship model
- Use pricing differentiation to reflect higher cost of funding

## NPS



## Cost savings initiatives NL (FTE)



# Retail Netherlands: maintaining a high RoE despite headwinds

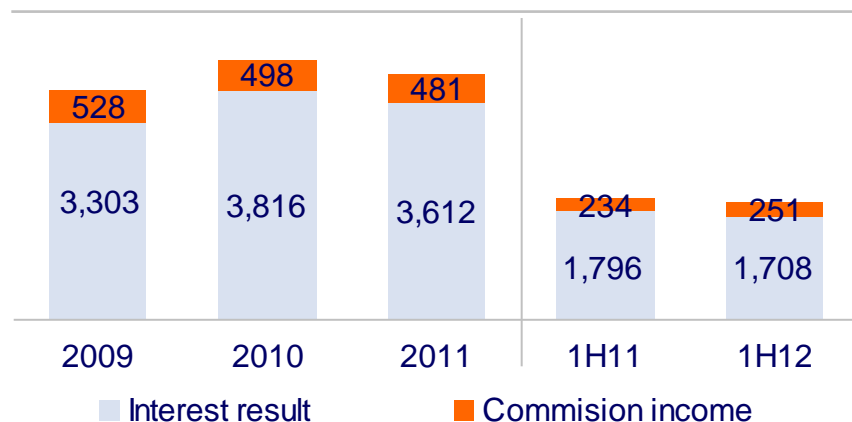
Return on Equity (based on CT-1 ratio of 10%)



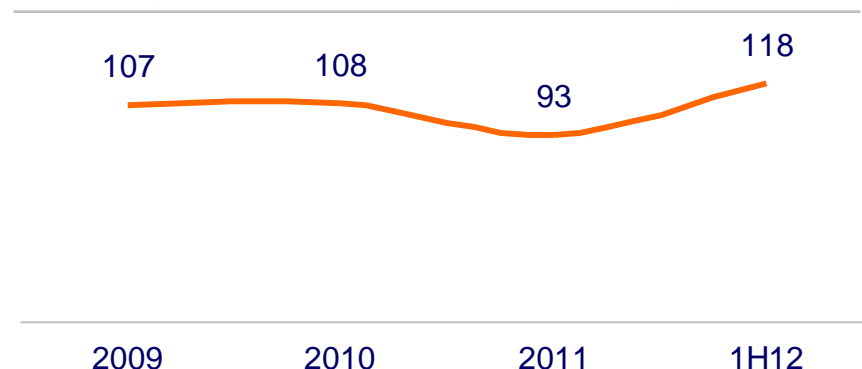
Recent trends

- Return on Equity in 1H12 was 15.6%
- Income is under pressure driven by the low interest rate environment
- Risk costs are slowly trending up, largely due to higher provisioning for business lending

Retail Netherlands income (EUR mln)



Underlying loan loss provisions in bps of average RWA

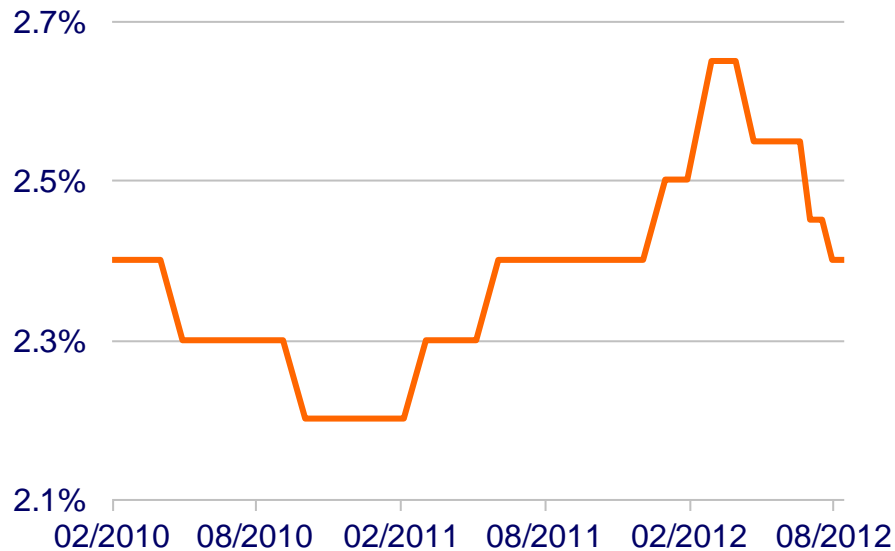


# Savings rates are coming down while margins on lending are stable despite higher funding costs

## Savings rates are coming down in the Netherlands

- Top savings rate\* in the Dutch market increased by ~60bps in 2011; a decline was initiated in February 2012
- ECB rates have decreased by 90 bps in the last 7 months putting pressure on the investment yield

## Savings rates ING Profijt-rekening

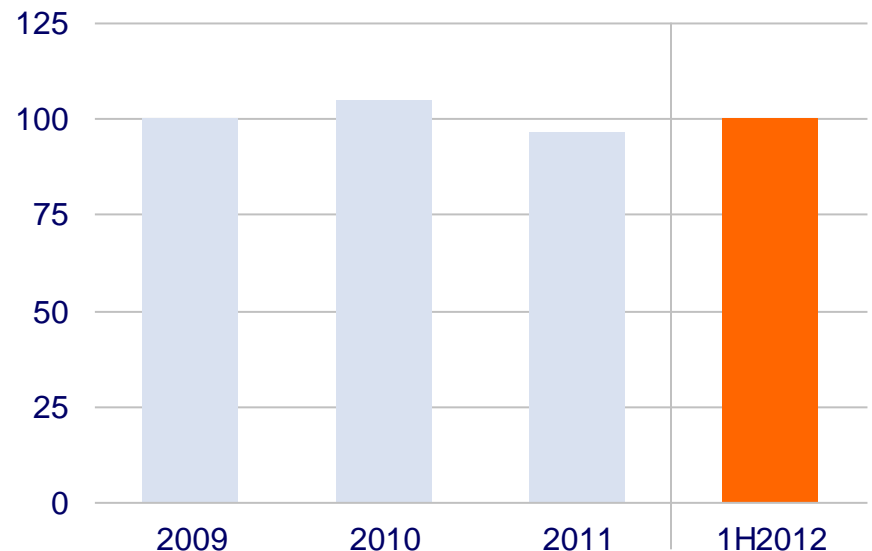


\* Average of top-3 in the market, base rates Source: Marketing pricing

## Margins on lending stable despite higher funding costs

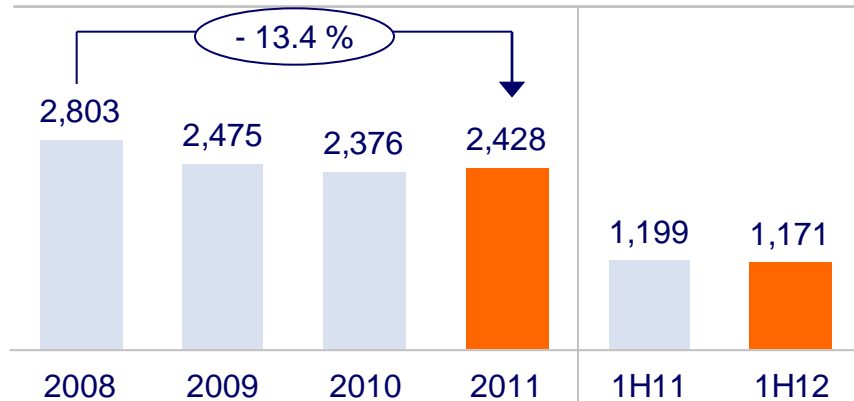
- Margins on lending reflect higher funding costs, competition for business lending and low demand for credit
- Margins in 1H12 back to a level comparable to 2009

## Lending margins indexed (2009 = 100)



# As retail cost leader in the Netherlands, ING improved its cost advantage significantly over the past years

Underlying expenses (EUR mln)



Cost base is further reduced

- Weakening economic environment, more stringent regulatory requirements and changing customer expectations are putting pressure on volumes & margins
- A cost reduction programme was announced in November 2011 with additional IT investments to offer better service to our customers in combination with a lower cost level (~2,700 FTE)
- Further process improvements by reducing complexity and streamlining workflows
- Additional IT investments to reduce costs while delivering faster and more accurate service

Cost reduction programme announced in November 2011 (EUR mln)

	2011	2012	2013	2014	2015
Cost savings	-	75	215	330	330
Non-recurring costs	235	75	105	40	
Total benefits	-235	-	110	290	330

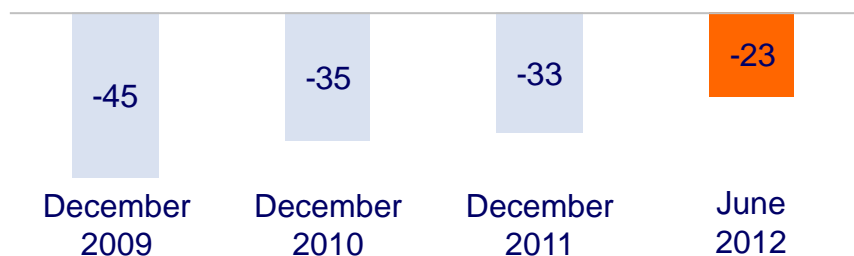
- Total annual cost savings of EUR 330 million to be realised in 2014
- This will offset the Dutch Bank tax which will be introduced in the fourth quarter of 2012
- Estimated impact Dutch Bank tax will be around EUR 220 million

# Benefits from restructuring programmes go far beyond cost reductions

## Aim is to increase customer centricity and operational excellence

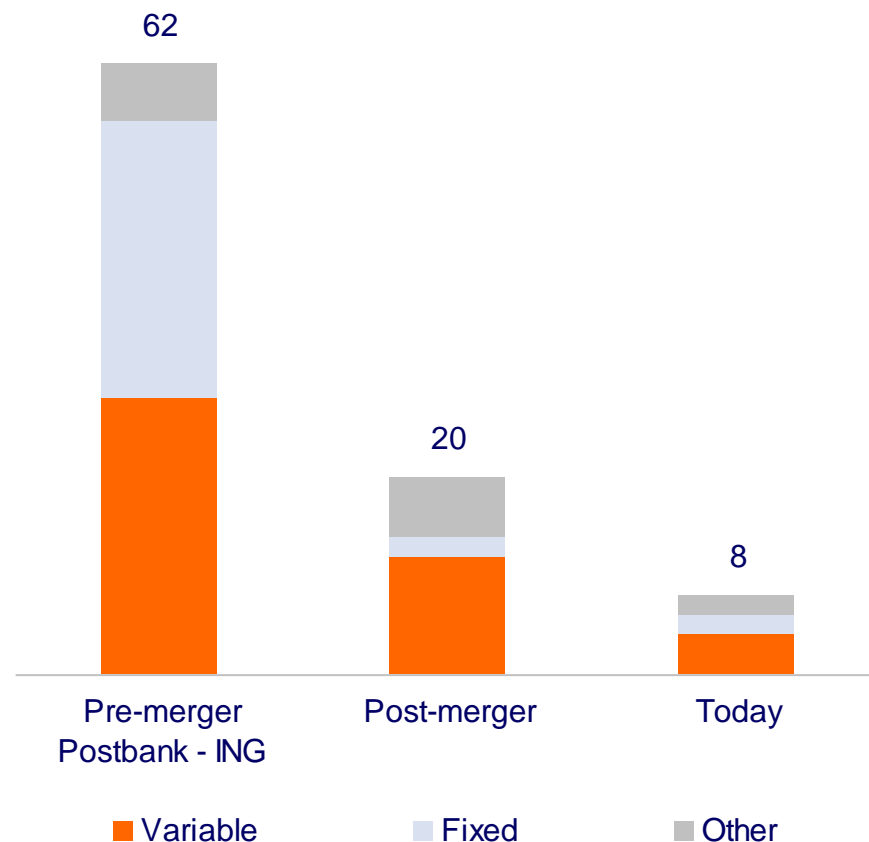
- Product offering has been simplified and made more transparent
- Simplification of products made it possible to streamline the client processes and related client channels
- Operational excellence has become visible in:
  - measurable and predictable processes
  - service-oriented back offices
  - straight-through processing
  - strong centralised customer base
  - modern channels for day-to-day services

## NPS improved strongly since the crisis



## Simplification of Product Offering

Examples # Retail savings products offered in NL



# ING is the leading internet bank in the Netherlands

## ING is the leading internet bank

- Internet is the leading channel or usage of sales, with 60% of sales via internet
- # of ING customers with an online banking account is still growing (currently ~4 mln)

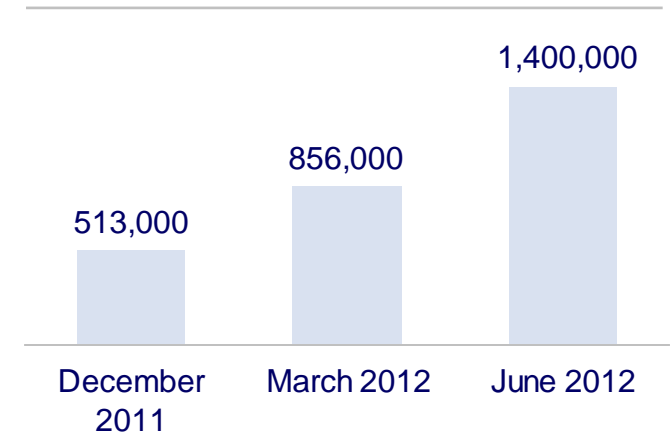
ING channel usage: growth in internet usage (in millions)



## Ambition to be the number 1 in Dutch mobile banking

- Launch of ING App in November 2011
- By December 2011 already 0.5 million downloads
- The number of downloads increased to 1.4 million in June 2012
- More than 1 million activated users

ING App downloads



# Dutch mortgage market: Despite high LTVs it is less risky than perceived

## Dutch Government policies

---

- Mortgage interest is tax deductible for a period of 30 years
- In May 2012, changes have been announced for new mortgage loans
- Guarantee system for qualifying mortgages (NHG) up to EUR 320,000
- Withdrawal of subsidies for social housing

## Regulation

---

- Maximum loan-to-value (LTV)
- Introduction of stricter Code of Conduct limits borrowers' debt/income and loan-to-value ratio as per 1 August 2011
- Law allows lenders to claim income and assets of borrowers in arrears

## Balanced price growth and shortage of houses

---

- No price boom pre-crisis
- Relatively low level of owner-occupancy
- Number of single-person households increasing

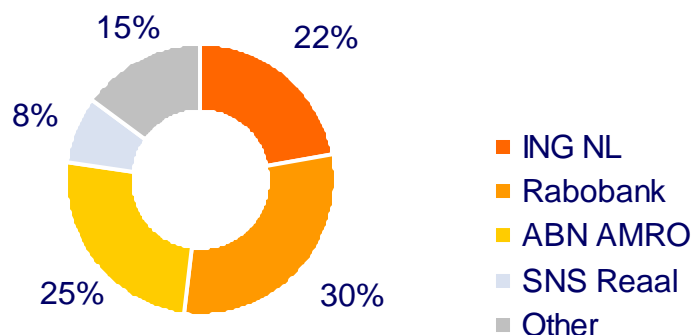
## Buffers through social security

---

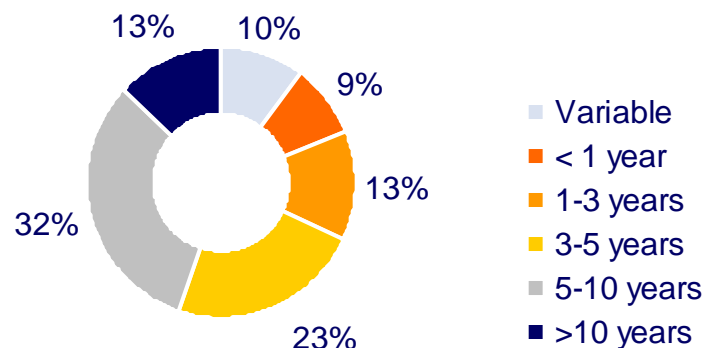
- Low unemployment rate compared to other countries
- Social security system provides unemployment benefits from 3 up to 38 months
- Financial compensation for layoffs and personal liability for mortgage taker

# Dutch mortgages: limited repricing risk while underwriting criteria are more stringent

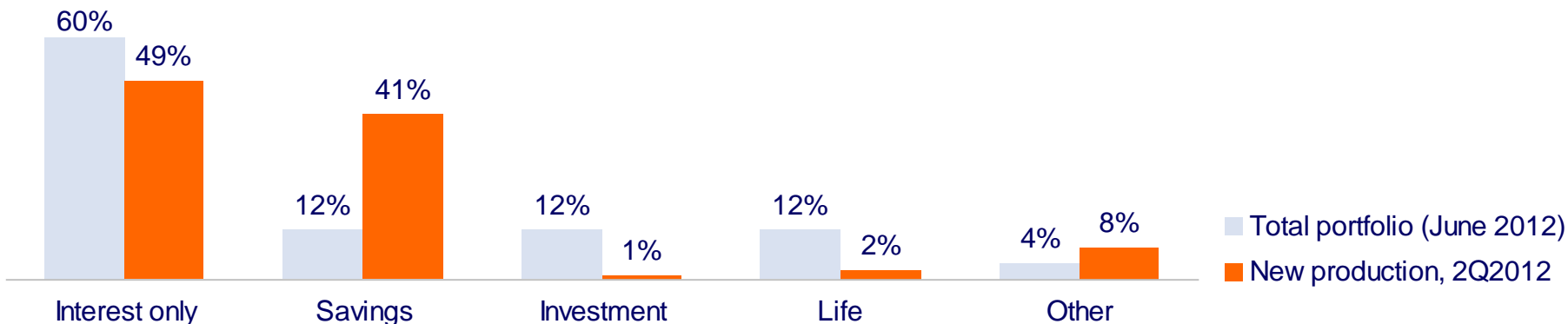
ING NL: 22% market share\* (June 2012, outstanding)



ING Domestic Bank: Remaining interest period (June 2012)



ING Domestic Bank: Mortgage type

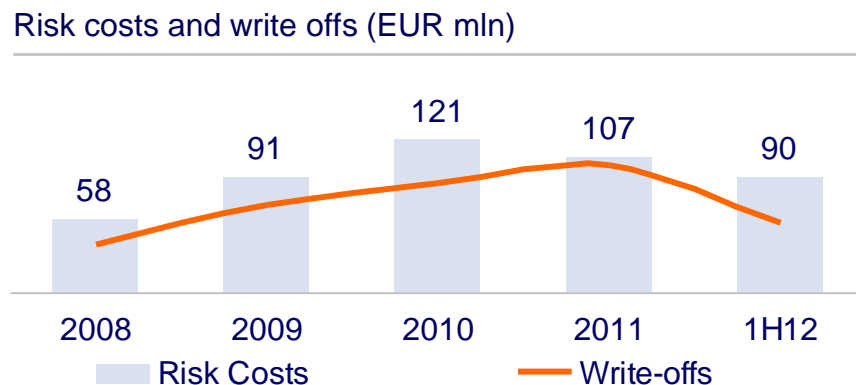
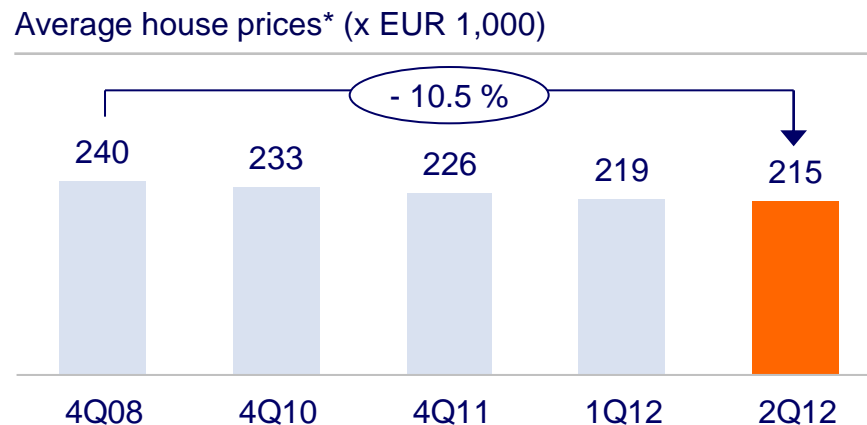
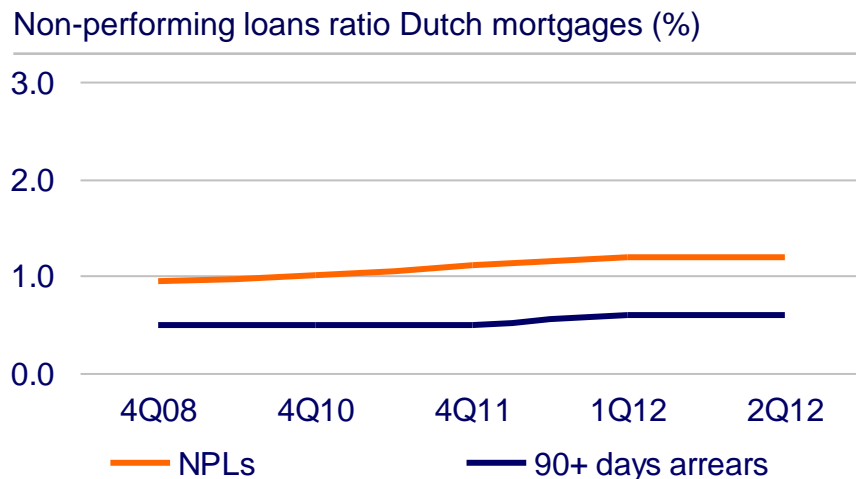


\* Including WUB





# The NPL ratio for Dutch mortgages stable despite house price declines

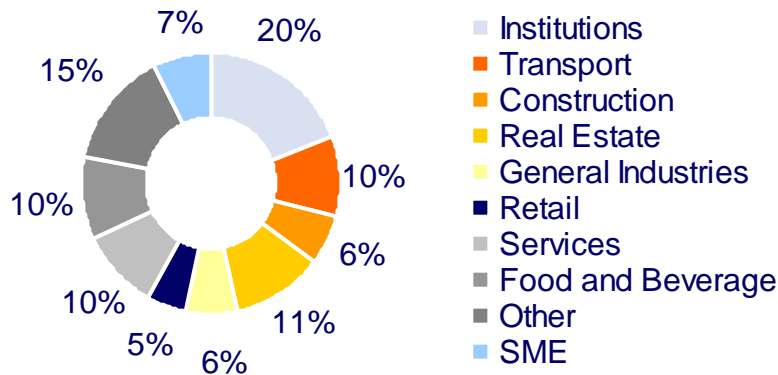


- Risk costs expected to remain elevated
- Risk costs in 1H12 were EUR 90 million
  - The higher level of provisioning was mainly driven by lower house prices
  - NPL's have remained stable through the last 5 years
  - Further decline in Dutch house prices and increase in unemployment would lead to higher risk costs on mortgages, but we do not expect a dramatic increase

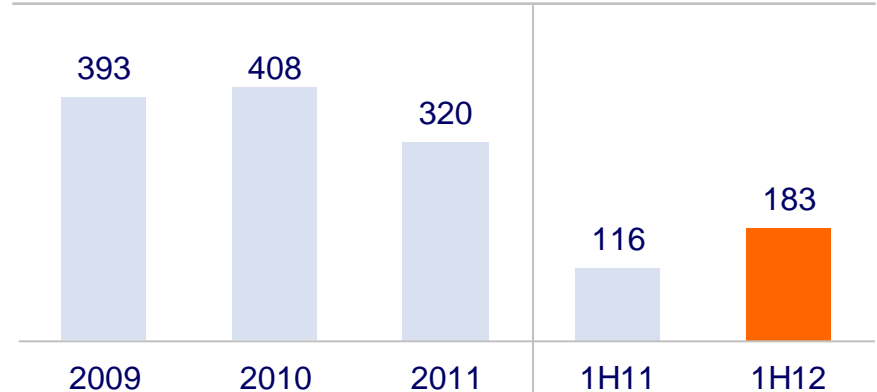
\* Source: NVM

# Higher risk costs for Business lending NL driven by more cyclical segments

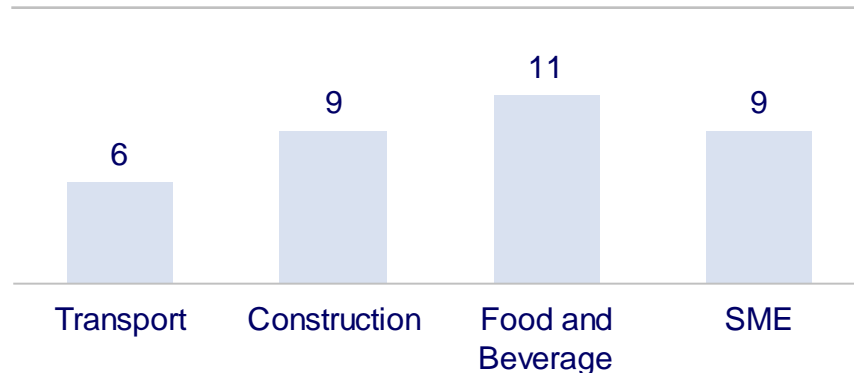
Business lending portfolio by industry\*



Risk costs business lending (in EUR mln)



Some segments more affected than others\* (NPL, %)



Risk costs up in a well diversified portfolio

- Risk costs have increased in 1H12
- Although NPL's for the total book remained relatively stable, the increase was largely driven by more cyclical segments like Transport and Construction due to the weakening in the economic environment
- High NPL's in Food and Beverage are largely driven by green house farming industry
- In addition SME showed a further weakening

\* Risk based

# Retail Belgium: high RoE business with pockets of growth

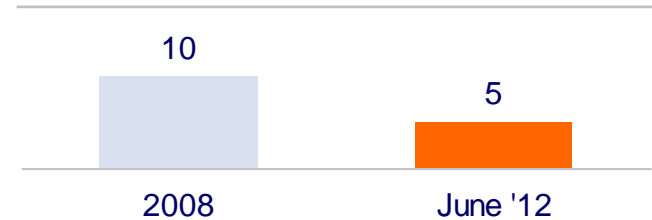
# Retail Belgium shares the same strategic direction

## Customer Centricity

---

- Improve service via modern distribution channels
- Renewed branch network
- Growing client base with high cross-sell ratios, maintaining high NPS

NPS



## Operational Excellence

---

- Cost leadership will be a key strategic advantage
- Further process and IT improvements leading to:
  - More efficiency
  - Better client services
  - Focus on workforce to increase effectiveness

## Balance Sheet Optimisation

---

- Stable RoE and capital generator
- Liquidity and funding provider to ING Bank N.V.
- Leveraging strong funding position in the liability-driven Belgian market
- Increasing pricing discipline to reflect higher cost of funding

# Retail Belgium: high RoE business with good momentum

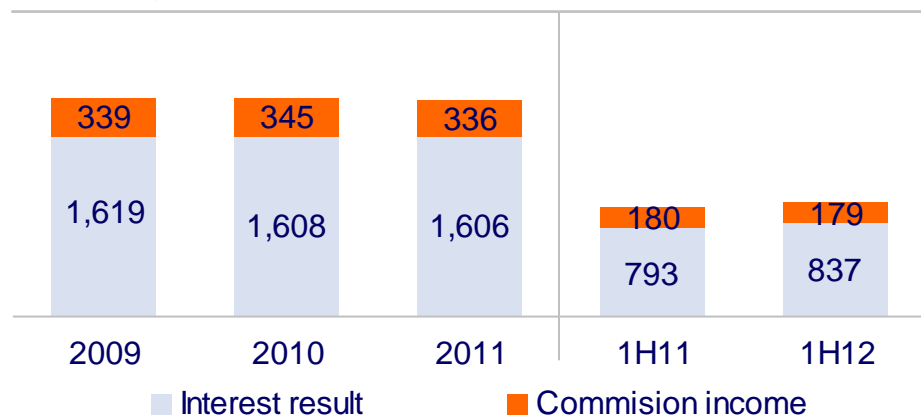
Return on Equity (based on CT-1 ratio of 10%)



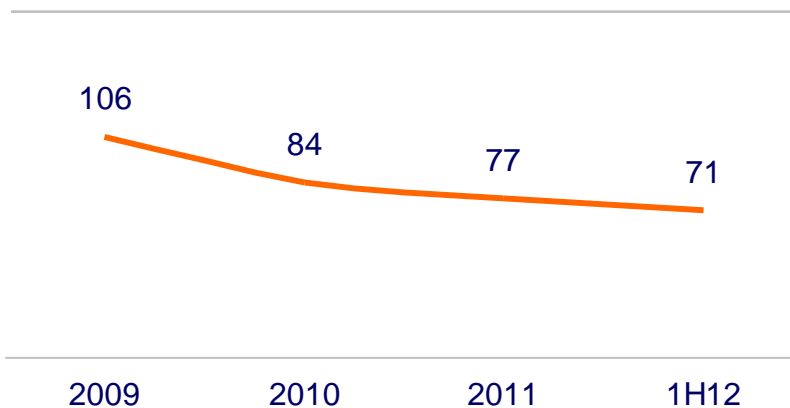
Recent trends

- Return on Equity in 1H12 was 23.4%
- In 1H12, ING Belgium has been steadily growing its income base
- Risk costs have slowly trended down

Retail Belgium income (EUR mln)



Underlying loan loss provisions in bps of average RWA



# Retail Belgium continues to grow its client base and gain market share

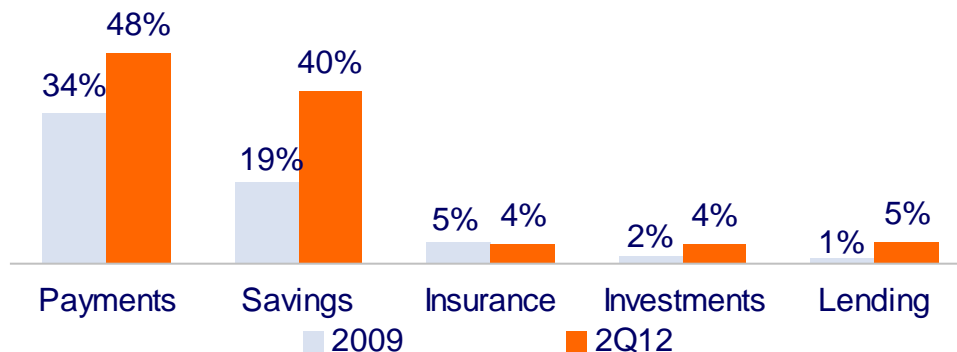
Net active clients base (x1,000)



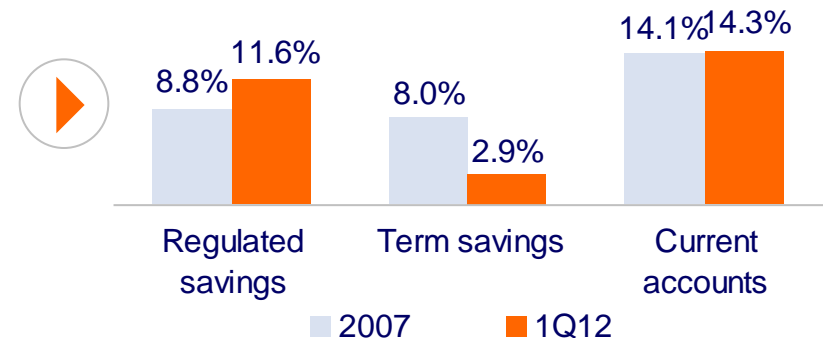
Recent trends

- ING Retail Belgium has been consistently growing its client base
- Driven by its full product range and multi-channel distribution approach
- Almost 50% of payment traffic is done on-line
- Which has resulted in higher market shares in regulated savings and current accounts

Rapid increase in sales of products online



Increasing market share in savings

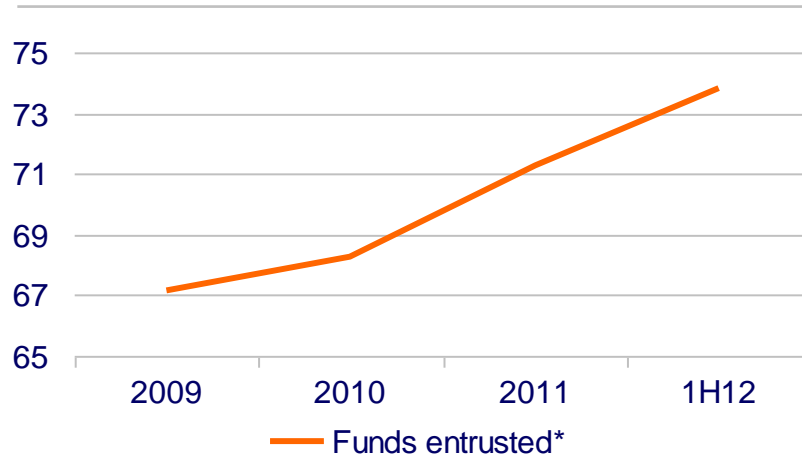


Source: ING Customer Intelligence; FOD Economie  
 Regulated Savings market equals EUR 208 bln market,  
 Term Savings market equals EUR 59 bln

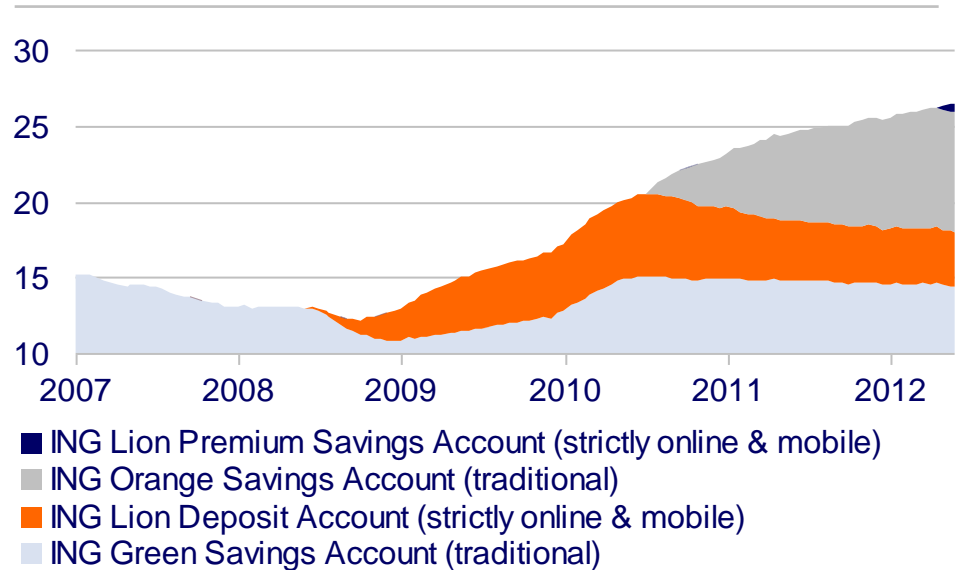


# ING Retail Belgium: consistent growth in savings

Retail Belux funds entrusted (EUR bln)



Savings ING Bank Belgium (EUR bln\*)



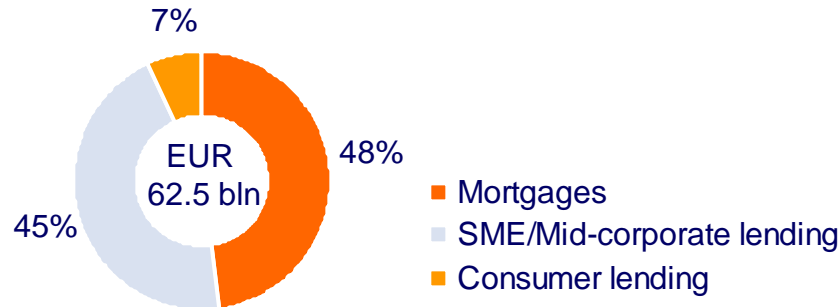
- ING Belgium is growing funds entrusted in funding rich Belgian market
- Savings volume growth from individuals over the last year was driven by Orange Savings account
- ING Belgium is the only large Belgian bank with net inflow of savings in 2011 (survey De Tijd, January 2, 2012)
- ING Lion Premium launched on April '12, is the first savings account in Belgium that customers and prospects can quickly open via their Smartphone

\* Excluding Record Bank

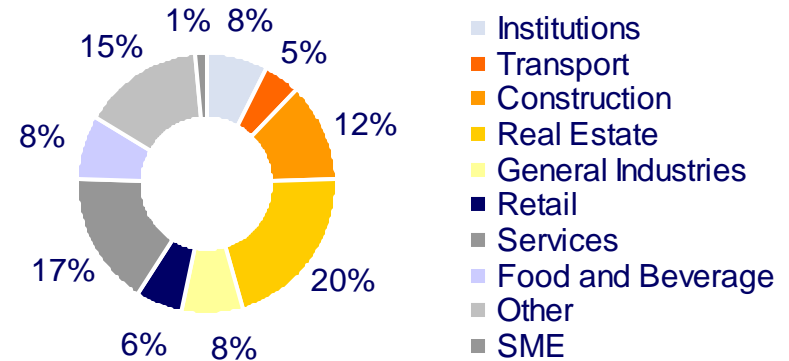


# A well diversified lending portfolio in Retail Belgium

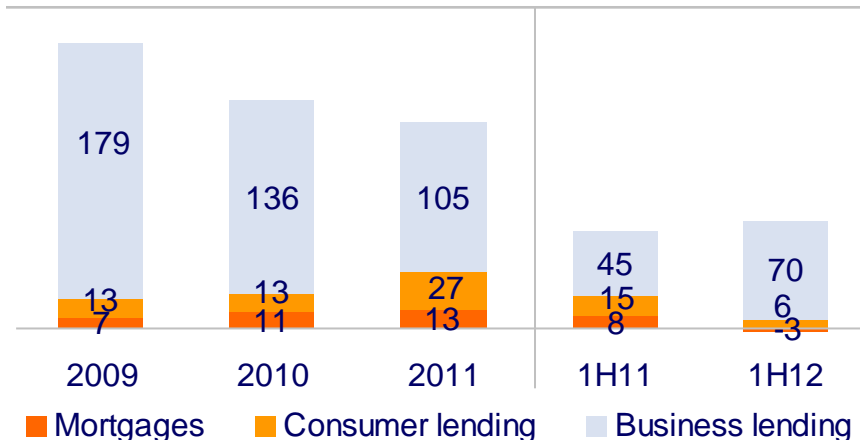
## A well diversified portfolio



## Business lending portfolio by industry\*



## Additions to loan loss provisions (in EUR mln)



## Risk costs expected to remain elevated

- NPL's for the mortgage portfolio remained stable at around 2%
- This relative high % is largely driven by a longer legal process
- NPL's for the business lending portfolio at roughly 5%
- This is largely driven by more cyclical segments like Construction, Real Estate and Food and Beverage

\* Risk based





# Key points

---

- ING Bank continues to show solid results, strongly supported by Retail Benelux
- ING is a leading Retail Bank in the Benelux with an RoE of 17.9% in 1H12
- Retail Banking Benelux has contributed significantly to balance sheet optimisation
- Focus on retail deposits allows us to continue customer lending
- ING is well positioned to capture the ongoing trend (direct if possible, advice when needed) in Retail Banking with a focus on maintaining strong RoE

# Disclaimer

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, the same accounting principles are applied as in the 2011 ING Group 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, 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) consequences of a potential (partial) break-up of the euro, (4) the implementation of ING's restructuring plan to separate banking and insurance operations, (5) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations, (14) changes in the policies of governments and/or regulatory authorities, (15) conclusions with regard to purchase accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit-ratings, (18) ING's ability to achieve projected operational synergies and (19) the other risks and uncertainties detailed in the Risk Factors section contained in the most recent annual report of ING Groep N.V. Any forward-looking statements made by or on behalf of ING speak only as of the date they are made, and, ING assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.

[www.ing.com](http://www.ing.com)

