

# Commercial Banking: Robust business model providing attractive returns

ING Investor Day

William Connelly  
CEO Commercial Banking

Amsterdam – 13 January 2012



# ING Commercial Banking: Robust business model providing attractive returns

- 1 Commercial Banking showed strong performance through the crisis by allocating capital to core markets and high-return businesses**  
Annerie Vreugdenhil – Case study Corporate Clients Netherlands
- 2 External and regulatory challenges will lead to some strategic adaptations, particularly in Financial Markets**  
Percy Rueber - Case study Financial Markets
- 3 As part of the balance sheet integration initiatives, Structured Finance will grow its high yielding assets**  
Christopher Steane - Case study Structured Finance
- 4 Overall Commercial Banking strategy stable, building upon our unique strengths**

# Commercial Banking has performed strongly throughout the crisis and continues to perform well

## Underlying income\* (EUR mln)



/// Impairments on Greek government bonds

## Underlying result before tax\* (EUR mln)

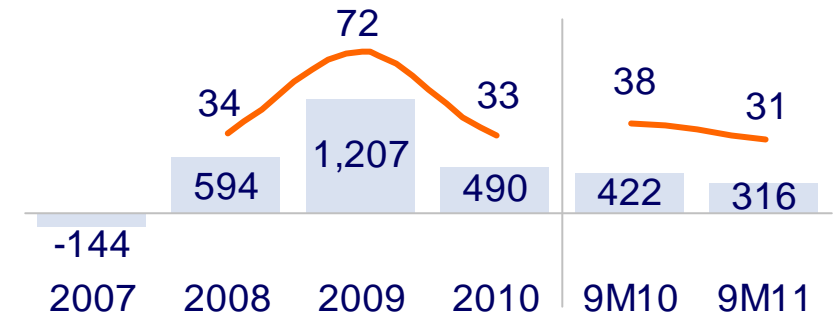


/// Impairments on Greek government bonds

\*Adjusted for sale of Car Lease and REIM

\*\*As percentage of average RWA

## Risk costs\*



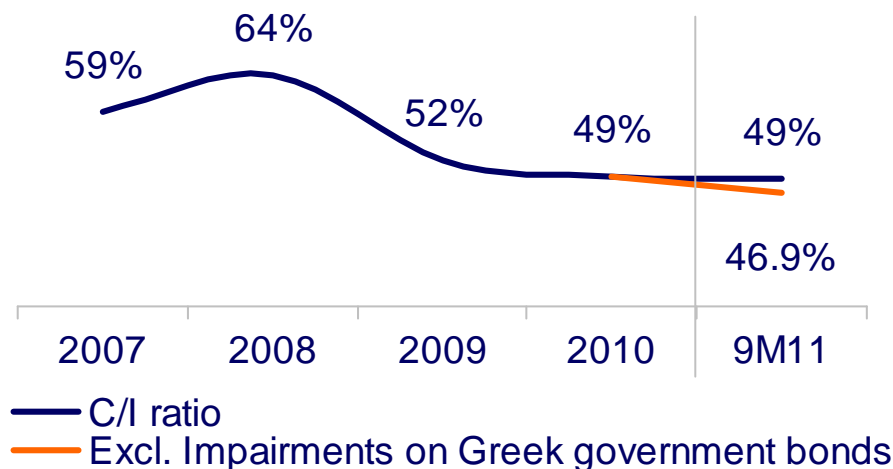
■ Risk costs (EUR mln) — Risk costs (bps\*\*)

- Commercial Banking has performed strongly throughout the crisis and continues to perform well
- Risk costs remained under control
- The result in 2008/2009 was negatively impacted by FV changes and impairments on Real Estate investments and development projects but real estate exposure has since been reduced sharply

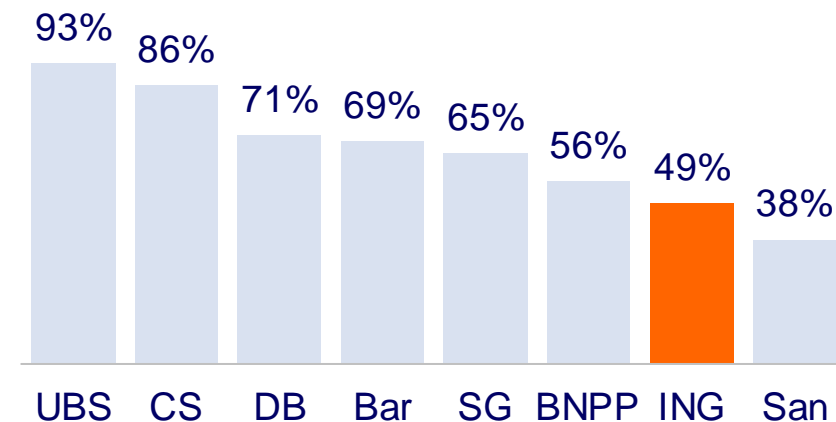


# Strict cost discipline resulted in efficiency which is among the best in the industry

## Cost / Income ratio\*



## Cost / Income ratio CIB activities\*,\*\* (9M11)



- Headcount has been reduced by 10% since 2008\*
- Limited and targeted new hires to re-balance capabilities
- Cost/income ratio first nine months of 2011 impacted by impairments on Greek government bonds

\* Adjusted for divestments (sale of Car Lease and REIM)

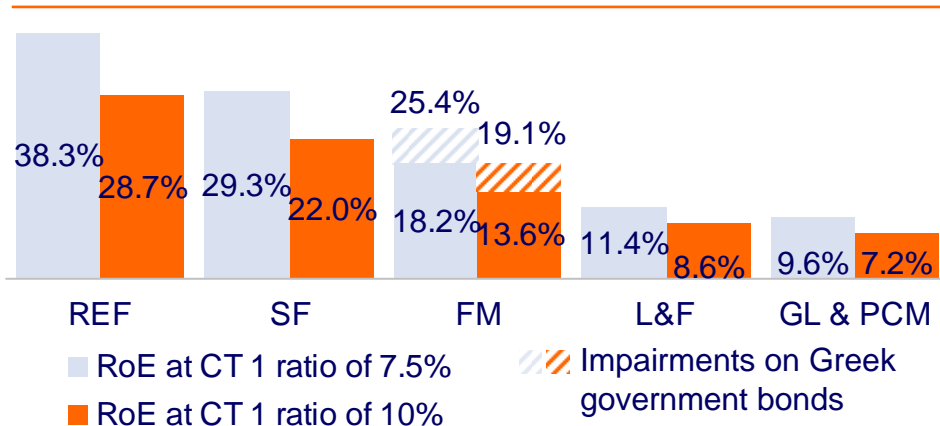
\*\* CIB activities refers to Investment Banking (UBS, CS), Corporate & Investment Banking (DB, Barclays, SocGen, BNPP), Commercial Banking (ING) and Global Wholesale Banking (Santander)

# Capital has been allocated to higher return businesses, SF in particular, and ROE has increased

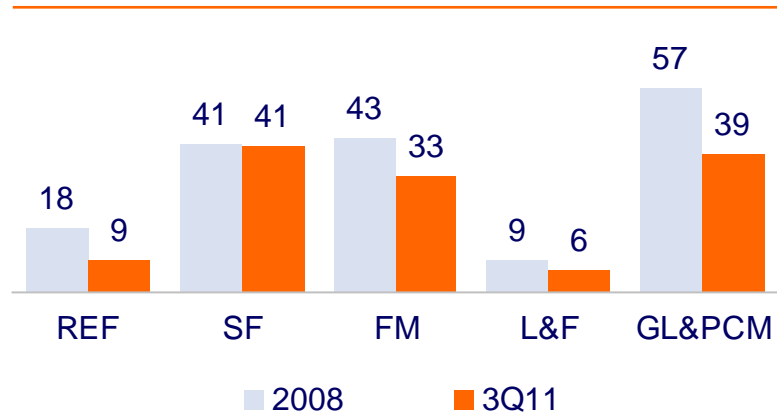
## RWA (EUR bln)



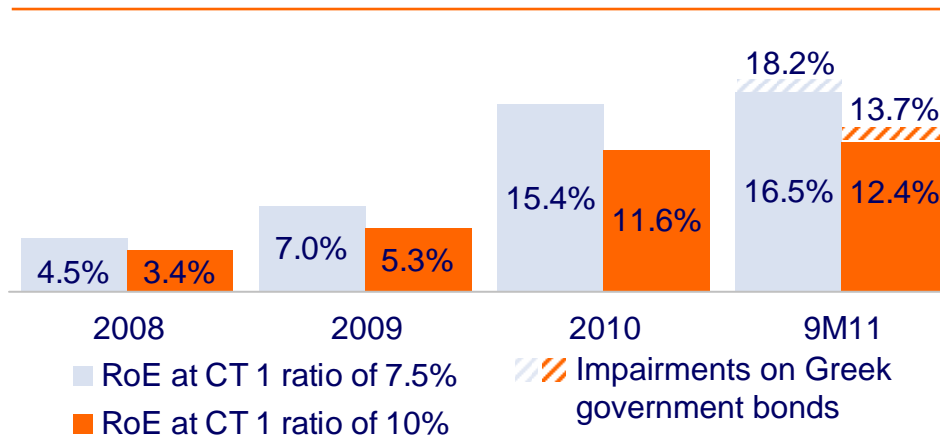
## RoE\* 9M 2011 by product (%)



## RWA per product (EUR bln)



## RoE\* (%)



\* Return on Equity = Underlying after-tax return divided by equity based on average 7.5% core Tier 1 ratio (annualised)



# Commercial Banking has strong regional positions and world-class franchises

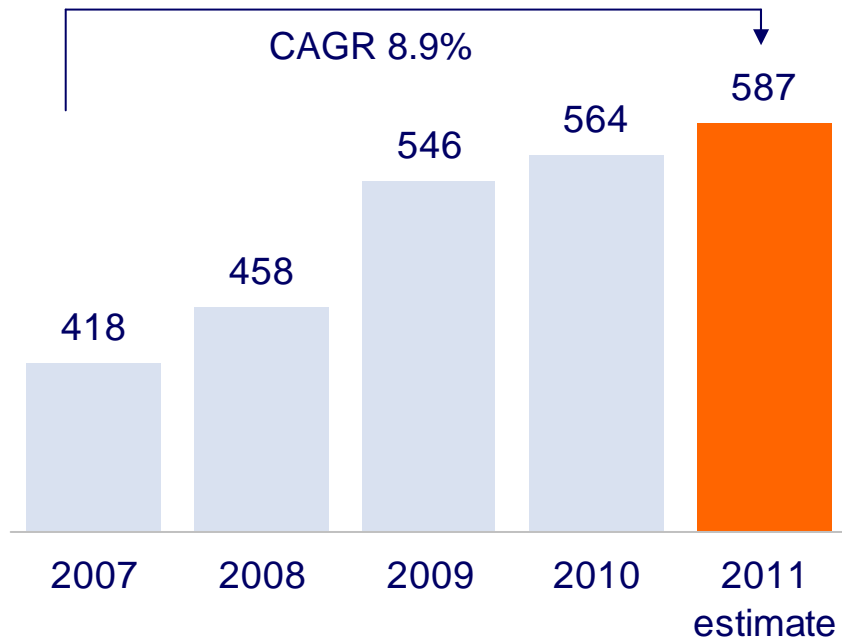
- **ING is the leading Commercial Bank in the Benelux**
  - Voted “Best Bank in the Netherlands” (The Banker, 2011)
  - Voted “Best M&A Financial Advisor in the Benelux” (FT Merger Market, 2011)
  - Recognised as preferred advisor by clients (Greenwich Survey, 2011)
- **Extensive and unique regional network in Europe, especially in CEE**
  - Superior global network, especially in CEE, supporting our Benelux client base. Recognised as most preferred bank for business in CEE by our clients (Greenwich / Client surveys)
  - Superior network, supporting our global product franchise
  - Facilitating an attractive franchise servicing multinationals (esp. from US and Western Europe, and particularly their operations in Benelux/CEE)
- **ING has strong global franchises in Specialised Finance and Financial Markets**
  - Leading Specialised Finance franchise (#10 MLA, Thomson Reuters/Dealogic, 2007-2011)
  - Best global commodity finance bank (Global Trade Review, 2011)
  - Strengthening foothold in European DCM, reflected by #8 position in Euro Investment Grade Corporate Bonds (Thomson Reuters, 3Q11)
  - Top 3 position in FM in the Benelux corporate market and Top 5 positions in chosen global emerging market niches

# Case study: Corporate Clients Netherlands

Annerie Vreugdenhil, Head of Commercial Banking NL

# Full-service Commercial Banking in the Netherlands, supporting client needs from payments through to strategic advice

## Income Commercial Banking CC NL (EUR mln)\*,\*\*



Commercial Banking CC NL has a ROE of 20% in 9M11\*\*\*

\*CC NL is Corporate Clients Netherlands; \*\* Excl. capital gains and impairments; \*\*\*ROE based on 7.5% core Tier 1 ratio (annualised, RoE based on core Tier 1 ratio of 10% is 15%)

## Number 1 Commercial Bank in the Netherlands

- Full-service Commercial Banking in the Netherlands
- ING has improved its market position in the Netherlands and is now the leading financial institution
- Leading position has resulted in improved results without allocating more capital
- We are well positioned for further growth through increasing cross-selling and improving capabilities and market share in certain products
- Our successes in the Dutch LargeCorp market can be translated to the MidCorp market and other countries



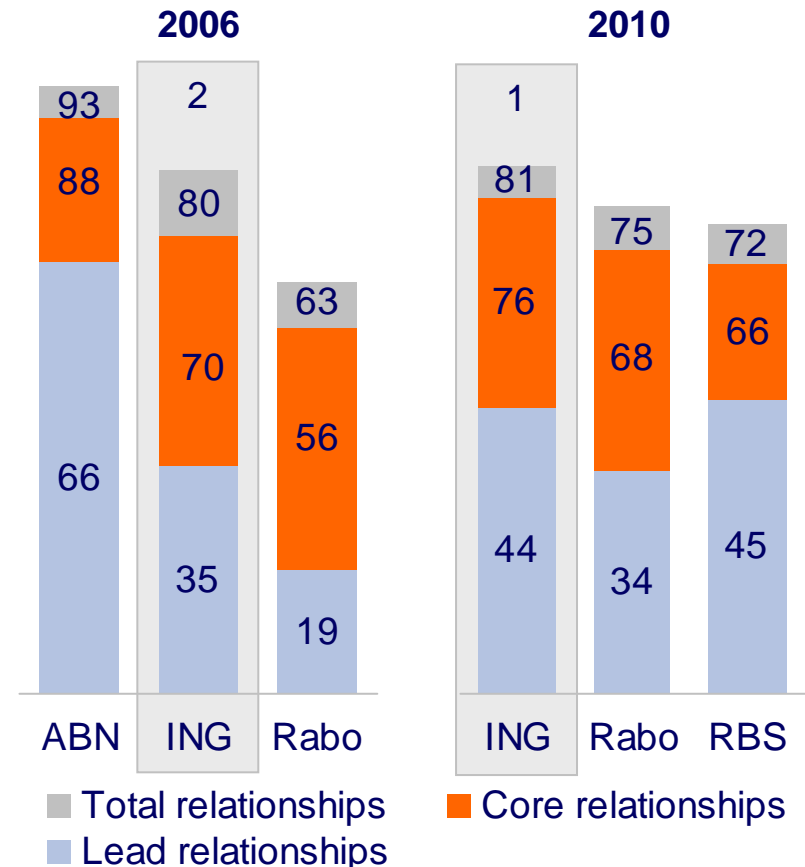


# ING has improved its market position in the Netherlands and is now the leading Commercial Bank

## ING is the leading Commercial Bank in the Netherlands

- The change of competitive landscape in the Netherlands in 2007/2009 led to a window of opportunity
- ING took the opportunity to 'step up' and take leadership. We continued to focus on our service offering and have selectively invested in our product capabilities, particularly ECM, DCM and M&A. This established the basis for our current success
- We remain well positioned for further growth as we continue to selectively invest in certain products, PCM in particular, and our network offering
- Preliminary 2011 numbers from Greenwich indicates that ING is the leading Commercial Bank in the Netherlands for the 3rd consecutive year

## ING is the number 1 Commercial Bank in the Netherlands



Source: Greenwich Survey



# The strengths of our Commercial Bank in the Netherlands are also reflected in strong product capabilities

## Leadership position in the Netherlands also reflected in high league table rankings for our core products

- MLA Syndicated Loans - from # 2 in 2007 to # 1 in 2011 (value and amount of transactions)\*
- Market Penetration Cash Management – from # 3 in 2007 to # 2 in 2010\*\*
- M&A – from # 17 in 2007 to # 1 in 2011 (value of transactions)\*
- DCM corp – from # 13 in 2007 to # 4 in 2011 (value of transactions)\*
- ECM - from # 9 in 2007 to # 1 in 2010 (amount of transactions)\*

\* Thomson Reuters

\*\* Greenwich

## Awards showing our leadership position

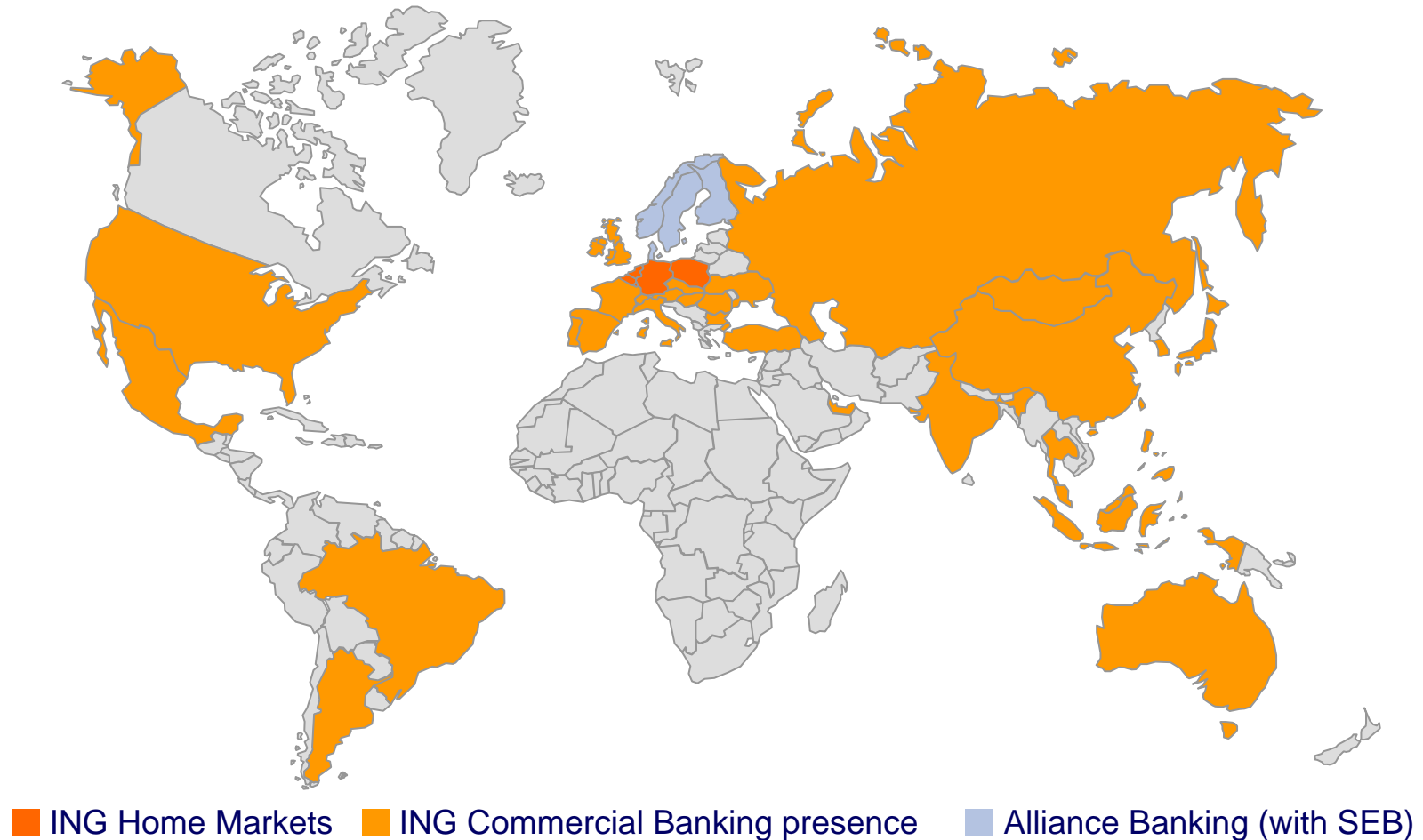
ING voted “Best M&A Advisor in the Benelux” (FT Merger Market, 2011)



ING wins Best Trade Finance Bank award (Global Finance magazine)



ING Commercial Banking is the only Dutch bank with a large international network, spanning 40 countries

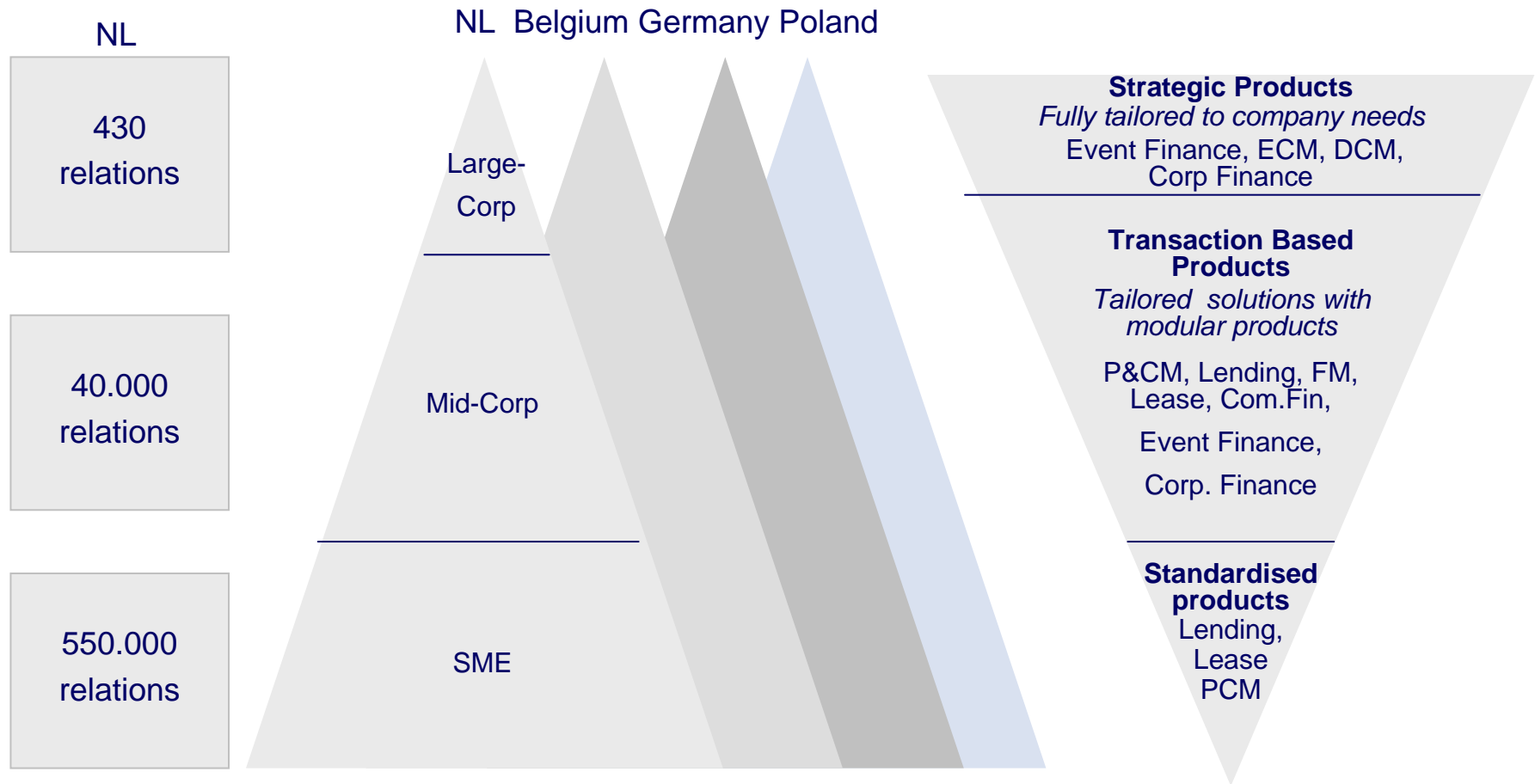


- ING will further leverage its network for increased international flows

# Strategy CC NL going forward is aimed at further strengthening of leadership positions and attractive returns

<b>Further strengthen leadership position</b>	<ul style="list-style-type: none"><li>• Further strengthening of leadership position as foreign players retrench</li><li>• Continue to invest and grow market share in product capabilities, particularly in:<ul style="list-style-type: none"><li>• Payments and Cash Management</li><li>• Supply Chain Finance / Working Capital Solutions</li><li>• Trade Finance</li></ul></li><li>• Selective hiring to further improve client relationship management</li></ul>
<b>Improve returns without allocating more capital</b>	<ul style="list-style-type: none"><li>• Exploit leadership position, further increasing cross- and deep-sell</li><li>• Leverage network for increased international flows</li><li>• Continuously improve efficiency of capital allocation by prioritisation of clients</li><li>• Re-price to absorb higher funding costs and optimise portfolio</li></ul>
<b>Increase funding</b>	<ul style="list-style-type: none"><li>• Targeted campaigning to increase customer deposits</li><li>• Strong focus on increasing market share in PCM</li></ul>

# Our successes in the Dutch Large-Corp market can be translated in the Mid-Corp market and other countries



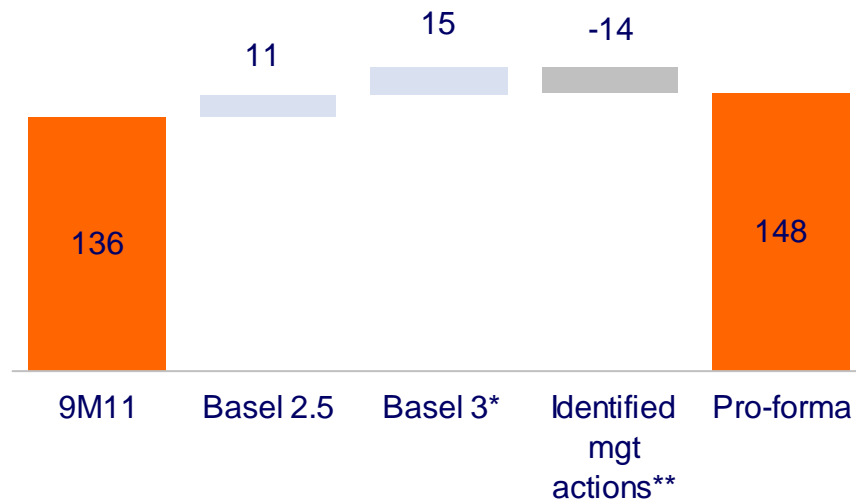
- Our successes in the Dutch Large-Corp market can be copied to other home markets.
- Translate our successes in the Large-Corp market to the Mid-Corp and SME markets

# Impact of new regulation and strategic adaptations

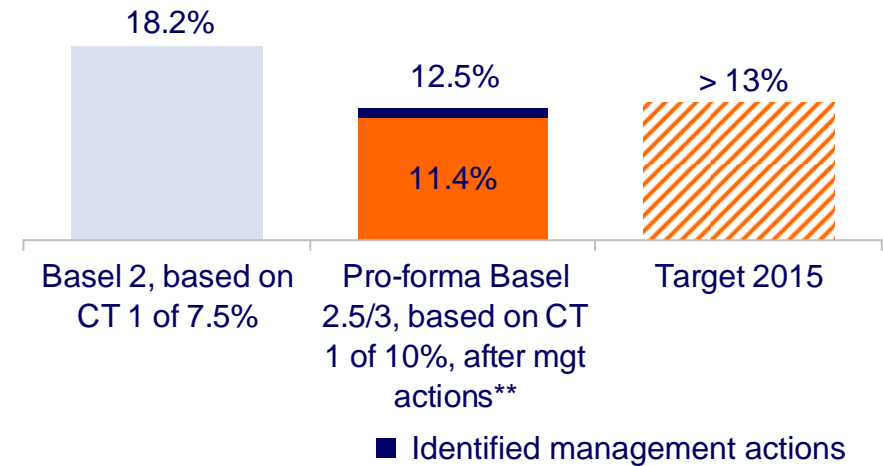
William Connelly, CEO Commercial Banking

# Regulatory changes will put pressure on returns, particularly in the Financial Markets business

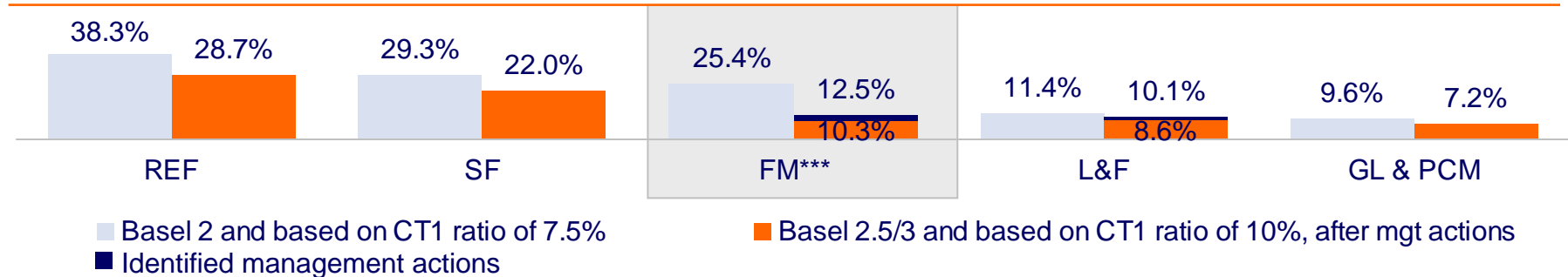
## RWA Commercial Banking (EUR bln)



## RoE and pro-forma RoE Basel 3, after identified management actions, 9M11\*\*\*



## RoE\* and pro-forma RoE Basel 3 by product, after identified management actions, 9M11\*



\* Basel 3 impact is initial, indicative estimate that is still subject to change

\*\* RWA impact of management actions refer to FM (EUR -10 bln), RED / RE Investments (EUR -3 bln) and General Lease (EUR -1 bln)

\*\*\* RoE adjusted for impairments on Greek government bonds



# ING has been responding by (re-)positioning its product offering

<b>Lease</b>	<ul style="list-style-type: none"><li>• Lease activities in non-core markets are under review (EUR 5 bln of RWA)</li><li>• Several countries placed in run-off leading to a net RWA reduction of at least EUR 1 bln</li></ul>
<b>Real Estate Investments &amp; Development</b>	<ul style="list-style-type: none"><li>• Reduce exposure to Real Estate Investments and Real Estate Development projects (EUR 3 bln RWA)</li><li>• Eventual exit in 2015</li></ul>
<b>Lending</b>	<ul style="list-style-type: none"><li>• Accelerating balance sheet optimisation initiatives across regions</li><li>• Re-allocating resources towards core franchises and clients</li><li>• Maintaining strict pricing discipline and maximising cross sell – managing for returns</li></ul>
<b>PCM</b>	<ul style="list-style-type: none"><li>• Investments in trade and flow products (fee generating, low capital intensity)</li><li>• Supporting core Benelux franchise and network capabilities</li><li>• Supporting deposit gathering abilities</li><li>• Investing circa EUR 80 mln over next 4 years</li></ul>

**But most significant impact of new regulations is on our Financial Markets platform...**

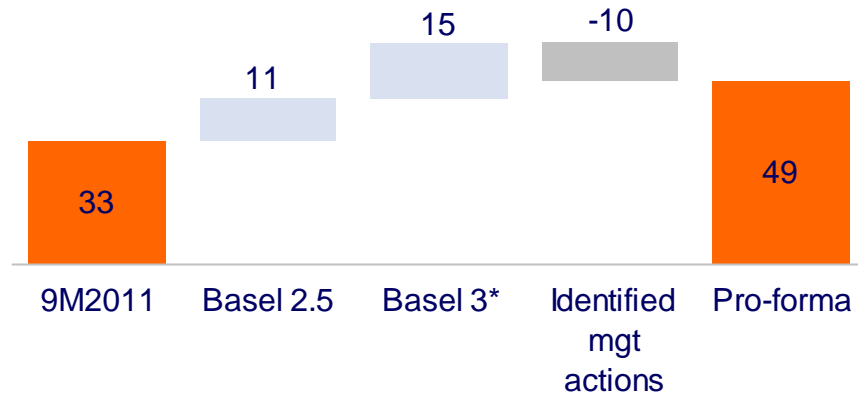


# Case study: Financial Markets

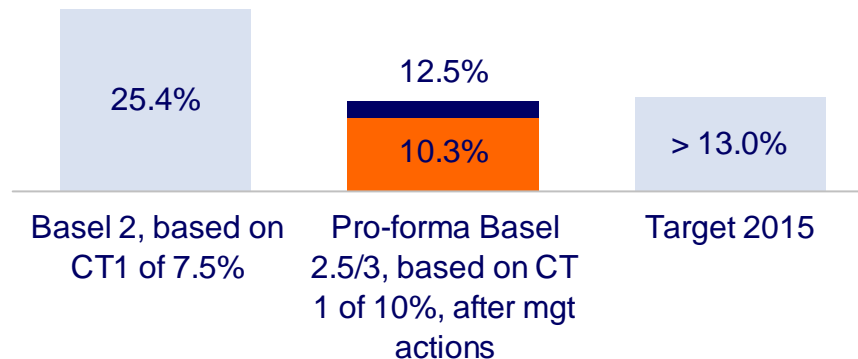
Percy Rueber, Global Co-Head Financial Markets

# Impact of Basel 2.5 and 3 will be partly offset by management actions

## RWA Financial Markets (EUR bln)

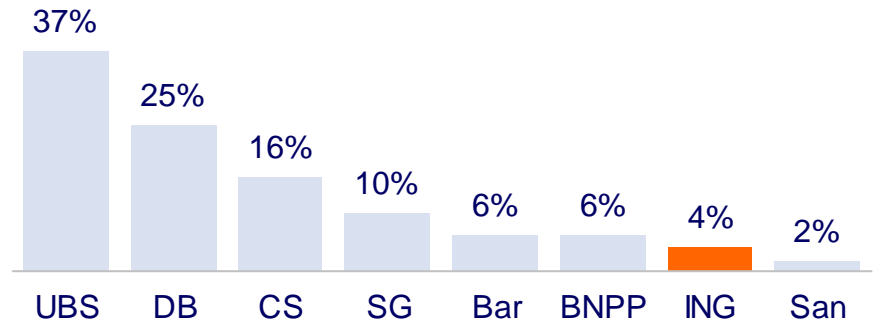


## RoE Financial Markets, 9M11\*\*



■ Identified management actions

## Basel 2.5 impact RWA ING and Peers\*\*\*



- The 2011 year-end implementation of market risk model updates, including the impact of Basel 2.5, is estimated at around EUR 11 bln
- Indicative, initial RWA impact of Basel 3 is EUR 15 bln
- Currently identified management actions will lead to a RWA reduction of EUR 10 bln
- Additional management actions will lead to a further mitigation

\* Basel 3 is initial, indicative estimate that is still subject to change

\*\* Adjusted for impact of Greek government bonds

\*\*\* Basel 2.5 RWA divided by Group RWA



# Identified management actions leading to a EUR 10 bln reduction in RWA

## Adaptation of Financial Markets platform and de-risking

- Restructuring New York platform
- De-risking of Emerging Markets Credit Trading activities
- Alignment equities capabilities (secondary, primary, derivatives, financing) in a single Platform
- Optimise client facilitation model, reduce trade inventories
- Restructuring Mexico branch

## Other measures

- Increase collateralised business with corporates and central counterparty clearing
- Central counterparty exposure management
- Hedging/portfolio optimisation

# Financial Markets: Key activities

## Key activities

- Hedging solutions to mitigate financial risks for “Corporates”, companies listed on the stock exchange as well as “Institutional” clients and “Mid-sized corporates”
  - Investment solutions to “Institutional” clients such as pension funds and insurance companies
  - Financing solutions for both “Institutional” and “Corporate” clients through the DCM platform
- 
- Managing the ING Bank balance sheet through the “ALCO” and “Treasury” department, in close cooperation with Capital Management.
  - Identifying Strategic Trading positions through the Strategic Trading Platform

## FM business line

**Clients & Products**

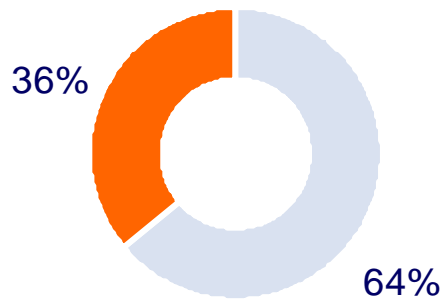
**ALCO & STP**

- Single Bank treasury to be created over the course of 2012
- ALCO/Treasury will be carved out of Financial Markets and reported under 'Commercial Bank Other' from 1Q2012

**One Bank Treasury**

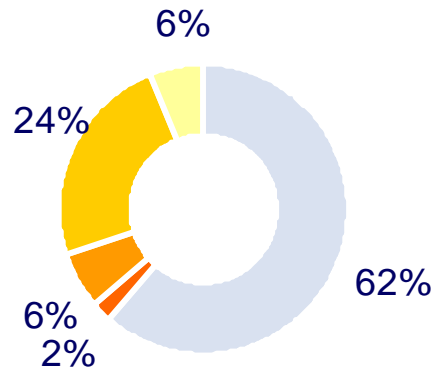
# Financial Markets: Diversified portfolio

FM – Income by Geography, 9M11\*



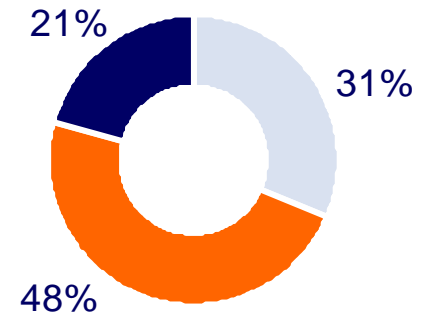
- Developed markets
- Emerging markets

FM – Income by product, 9M11\*



- Rates & FX
- Credit Trading
- DCM
- Global equity Products
- Corporate Finance

FM – Income by Client Segment, 9M11\*



- Corporate Clients
- Financial Institutions
- Product Clients

- FM is a well diversified business, exposed to developed markets and faster growing economies
- FM is skewed to rates and FX, rather than credit

\* Based on new reporting structure (as of 1Q12)

# Strategy of Financial Markets going forward in a Basel 3 world

## Further strengthen leadership position

- Continue to invest and grow market share in areas of strength such as Debt Capital Markets and Interest Rates in the "Home Markets"
- Capitalise on leadership position in the "International Markets" in strategic locations such as CEE and Asia
- Align other locations to strategic priorities including risk reduction in the Mexico branch and streamlining product portfolio and the shift to client facilitation in the NY office
- Enhance product portfolio by introducing an integrated Equities product that aligns our primary, secondary, derivatives and financing capabilities into one client platform

## Improve returns

- Making client-driven business the focus of all products and reducing trading inventories and risk positions accordingly
- Placing wherever possible the emphasis on collateralised and centrally cleared products
- Repricing products in line with the markets
- Prioritise clients and focus on cross-sell in line with Commercial Bank objectives

## Other

- Continue upgrades in operational platforms - completing the FM TOM\* and integrating the Equities businesses

\* Target Operating Model (TOM)



# Commercial Banking and balance sheet optimisation

William Connelly, CEO Commercial Banking

# Commercial Banking is making a strong contribution to ING Bank's balance sheet optimisation

## Continue strong deposit growth

- Commercial Banking will focus on gathering liabilities to support the funding and liquidity restrictions in the Dutch NV
- Clear targets for commercial sales force
- Targeting deposits with high liquidity value

## Replace low-yielding assets with customer lending

- Sell/reduce non-core assets
- Reduce non-strategic trading assets in Financial Markets to make room for growth in customer lending
- Evolve customer loan book towards higher-return businesses such as Structured Finance while maintaining a prudent risk/return profile
- Re-price lending to reflect the higher cost of capital

## Balance sheet integration

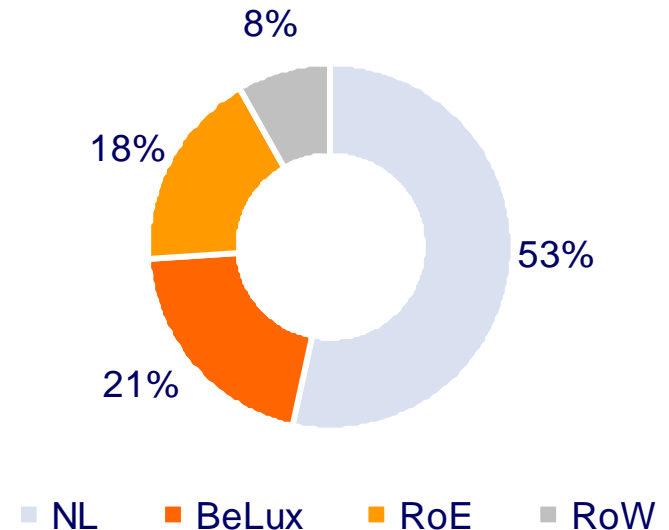
- Structured Finance will grow its lending assets in the funding rich entities (Direct and Belgium) as a result of balance sheet integration initiatives to provide them high-yielding assets



# Increased focus on deposits growth

- Increased focus on deposits growth will result in a strong growth of funds entrusted
- Individual targets have been set throughout the organisation and development of funds entrusted is monitored on a weekly basis
- Initiatives are underway to focus on liquid clients such as non-bank FIs (pension funds etc.) in particular
- Clients to which we commit our balance sheet and with which we have significant relationships are encouraged to put deposits for longer periods with ING
- Investments in Payments and Cash Management capabilities will in the medium term further enhance its competitive position in attracting funds
- Evidence of clients recognising of our improved transaction services is the recently won PCM mandate with the Flemish government

## Funds Entrusted 2011 - EUR 64 bln



# In the One Bank organisation, ING is matching high-quality and high-return asset origination with liability-generating capabilities

## ING Bank's funding position

- Funding gap in the Netherlands can be reduced through more efficient balance sheet management
- ING Belgium and ING Direct are funding rich

## 1st wave: internal securitisations

- Units with excess funding invest in internally ring-fenced and packaged mortgages

## 2nd wave: mortgages

- Transfer own-originated mortgages directly to funding-rich units

## 3rd wave: CB assets

- Transfer selected Commercial Banking assets to funding-rich units

## 4th wave: domestic banks

- In selected ING Direct countries, merge ING and CB activities into one legal entity

- Transactions completed so far (SF/REF) totalling EUR 3 bln
- Transactions identified for 2012 (subject to regulatory approval) amount to EUR 5 bln
- Germany as most advanced example, full merger into one legal entity
- Structured Finance to establish front office teams in Germany and Belgium to take participations in new and existing SF transactions

# Case study: Structured Finance

Christopher Steane, Global Head of Lending Services

# Structured Finance

## Structured Finance business lines

- Energy, Transport and Infrastructure Group:
  - Natural Resources
  - Utilities-Power
  - Infrastructure
  - Asset-Based Finance
  - Structured Metals & Energy Finance
- Specialised Financing Group:
  - Telecom and Media Finance
  - Structured Acquisition Finance
  - Structured Securitised Finance / Structured Solutions Group
  - Local Structured Finance (Americas, Asia, UK, CEE, CWE, NL)
- International Trade and Export Finance:
  - Trade and Commodity Finance
  - Structured Export Finance
  - Trade Finance Services

## Natural Resources – Offshore

Pos.	2010 Bookrunner	Pos.	2009 Bookrunner
1	<b>ING</b>	1	<b>ING</b>
2	Nordea Bank AB	2	BNP Paribas
3	DnB NOR Bank ASA	3	Mitsubishi UFJ Financial Group
4	Mitsubishi UFJ Financial Group	4	DnB NOR Bank ASA
5	Citi	5	Sumitomo Mitsui Financial Group
6	Wells Fargo Securities	6	NIBC Bank
7	ABN AMRO Bank	7	Credit Agricole CIB
8	NIBC Bank	8	UOB
9	Credit Agricole CIB	8	Standard Chartered Bank
10	Lloyds Banking Group	8	DBS

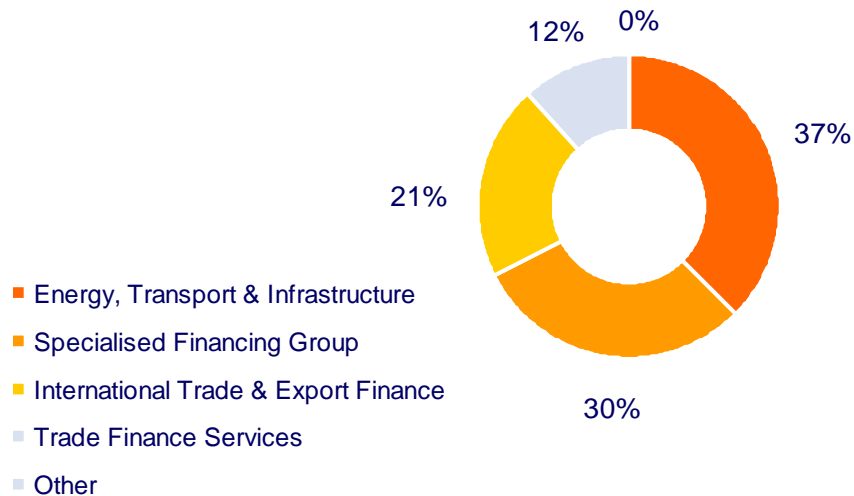
## FI-metrix Commodity Client Survey

Pos.	2011	Pos.	2007
1	<b>ING</b>	1	ABN AMRO
2	ABN AMRO	2	CA
3	BNP	3	SocGen
4	Rabo Bank	<b>4</b>	<b>ING</b>
5	CS	5	BNP
6	SocGen	6	CS
7	CA		

# Structured Finance portfolio is well diversified both geographically and by sector

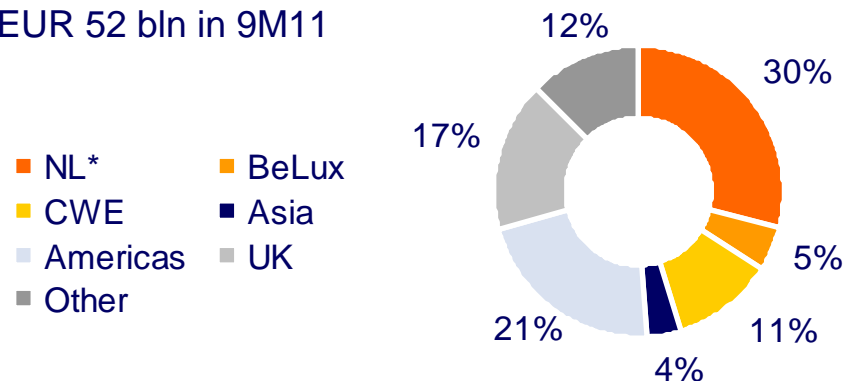
## SF lending by sector

EUR 52 bln in 9M11



## SF lending by region of booking

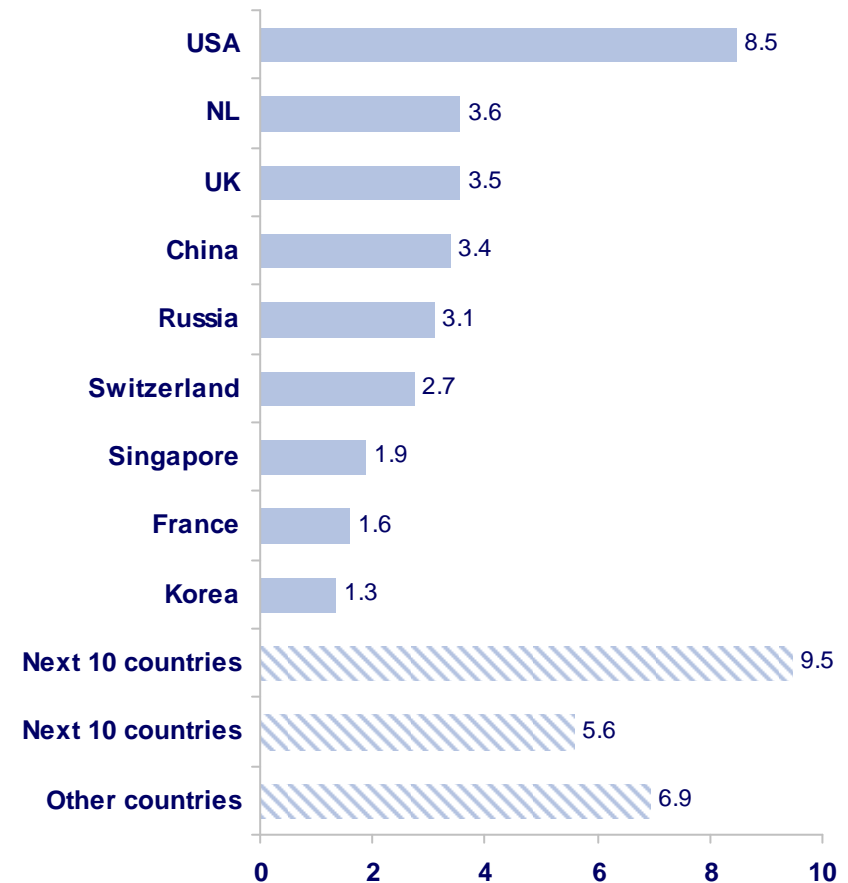
EUR 52 bln in 9M11



\* Including non-Dutch CB activities booked in the Netherlands

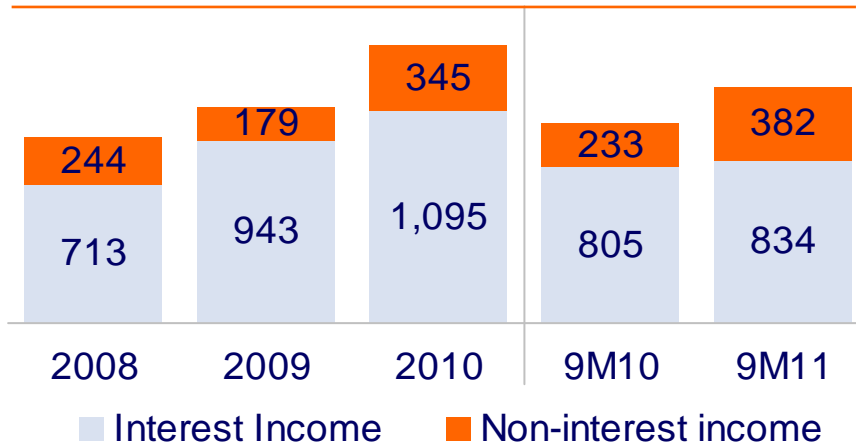
## SF lending by country of risk

EUR 52 bln in 9M11

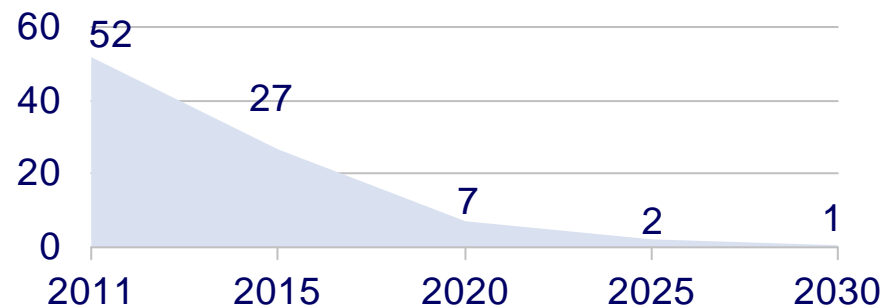


# Structured Finance benefitted from repricing of the portfolio and higher deal flow

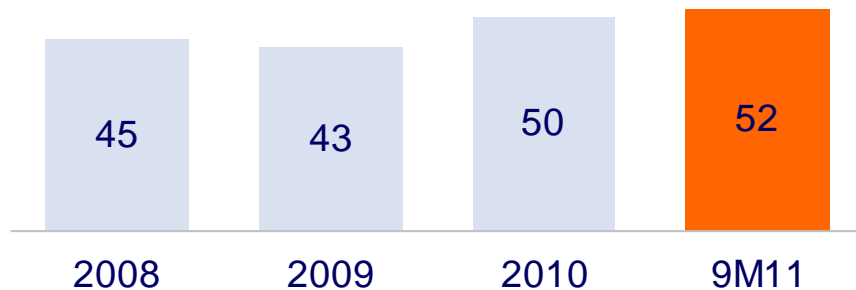
Structured Finance income (EUR mln)



Structured Finance – run-off (net) lending assets (EUR bln)



Structured Finance- (net) lending assets (EUR bln)

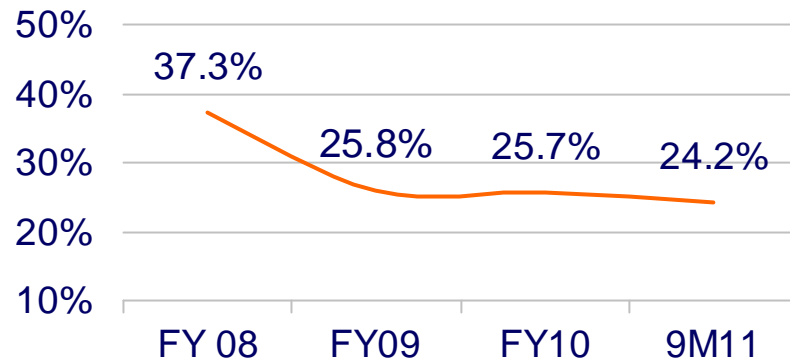


Mix of:

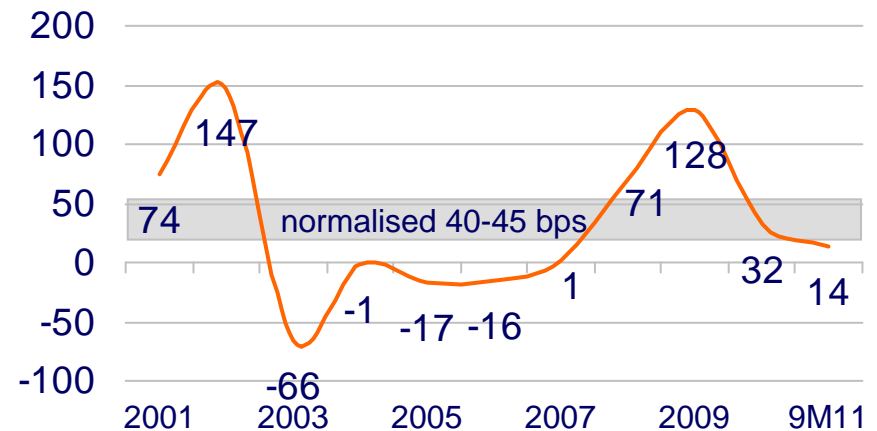
- Short-term (Commodity Finance, Trade Finance)
- Medium term (Telecom, Offshore)
- Longer-term (Infrastructure)
- When future lending assets run-off, it will create further repricing opportunities

# Structured Finance is an efficient business with well controlled risk costs and a high ROE

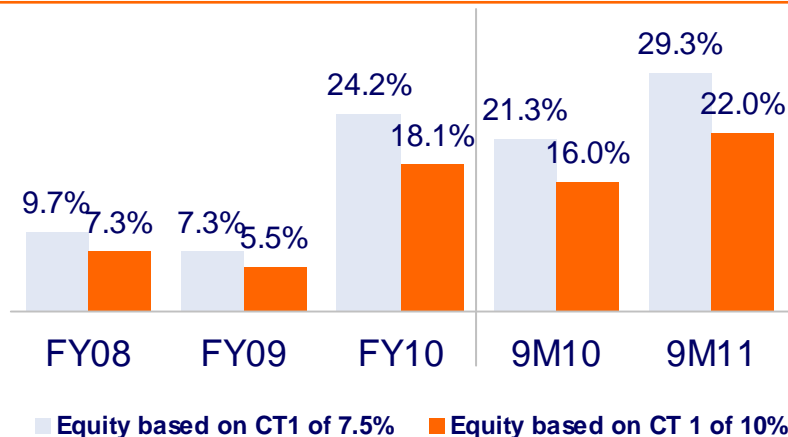
## Underlying cost/income ratio (%)



## Underlying risk costs in bps of average RWA



## RoE (YTD, %)



# Repricing yet to be fully realised but accelerating

Since the summer loan pricing has begun moving upwards as Banks seek to address capital and funding costs...

## Illustrative return (bps)

	Mid 2010	Mid 2011	End 2011
A-rated Investment Grade Corporate Facilities Drawn Margin	90	70	90
Project Finance	120	175	190
LBO (TLA/RCF)	415	400	435
Offshore	250	230	285
REF 65% LTV on Prime Property	225	225	260

On corporate deals:

- Utilisation fees on first drawing (i.e. >zero) are emerging as opposed to the traditional >33%
- Utilisation fees have risen from 15/30 bps to 30/50 bps
- Premiums up to 50bps for US\$ facilities have emerged together with restrictions on US\$ drawings
- Tenors did not go beyond 5+1+1 in the recent past and this has now been pulled back to 5 years

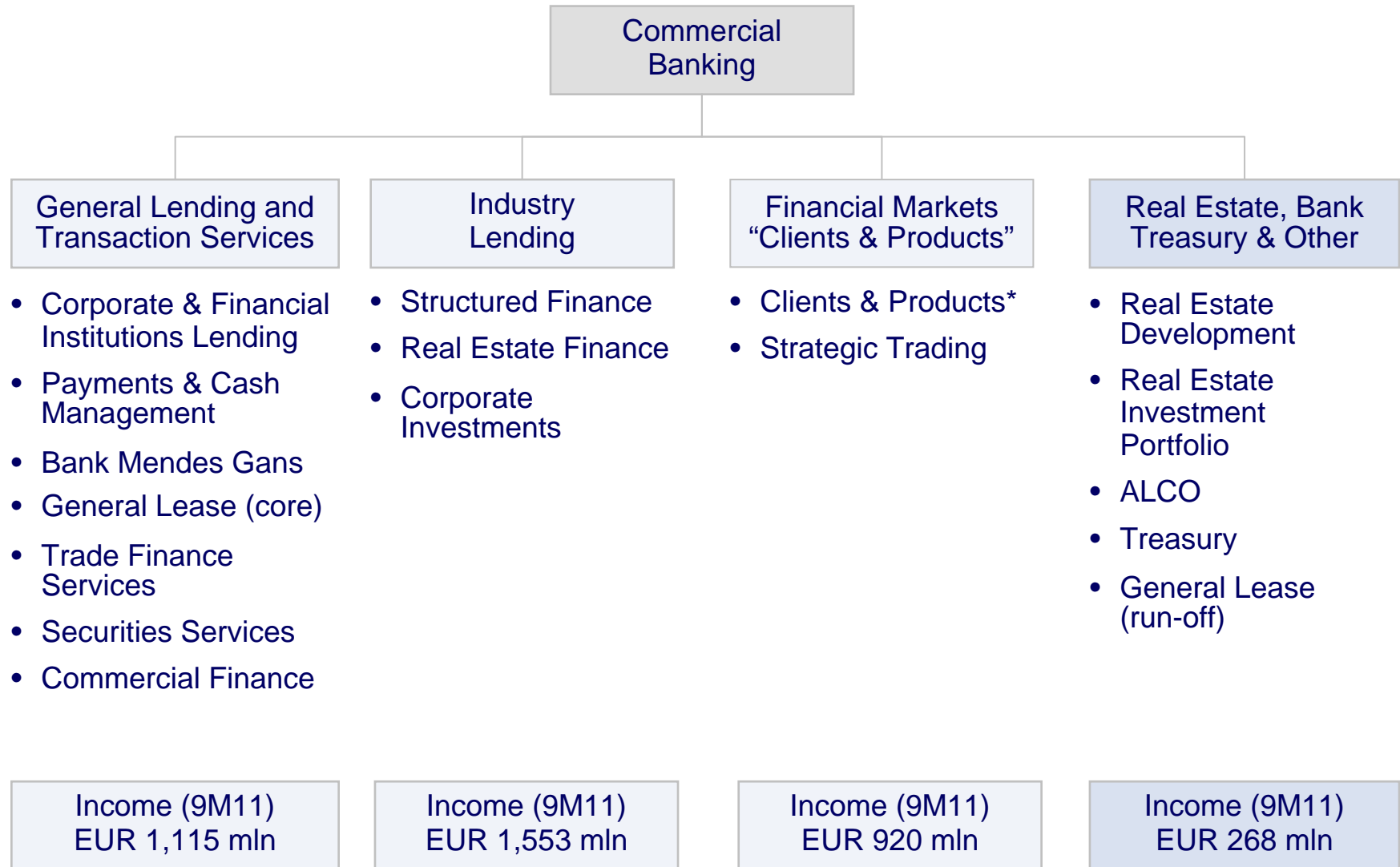
- Loan margins fell from June 2010 to June 2011
- High level of refinancing activity in H1 2011
- Since June 2011, Syndicated Loan markets have shrunk and pricing has begun to rise
- We think this will continue: currently very cautious approach to underwriting
- As European banks shrink they will exit some international activities
- Supply / demand balance will change as continued BRIC growth needs finance



# Commercial Banking strategy going forward

William Connelly, CEO Commercial Banking

# Change in external Commercial Banking reporting structure as of the first quarter 2012

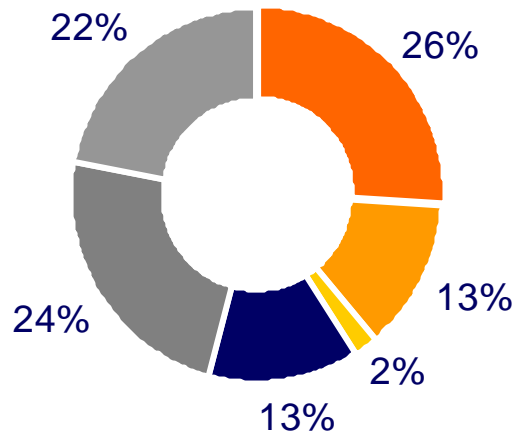


\* Including Global Equity Products & Corporate Finance



# Overall strategy of ING Commercial Banking will remain stable, building upon our strengths

## Income Commercial Banking, 9M11\*



- NL \*\*
- Belgium/ Luxembourg
- Germany
- CEE
- Rest of Europe
- Outside Europe

\* Income adjusted for Greek impairments booked in Belgium

\*\* Including non-Dutch CB activities booked in the Netherlands

## Going forward, we will:

- Maintain leadership positions in core markets
  - Benelux & CEE
  - Germany – opportunity to develop as core market franchise
- Maintain leadership in core products
  - Top 10 player in Structured Finance globally
  - Top 3 FM player in the Benelux corporate market
- Increase focus on cross-selling
- Capital will continue to be managed prudently and be allocated to core markets and high return businesses with attractive risk / reward characteristics
- Continue to optimise our cost structure



- Leading to a sustainable ROE for the Commercial Bank of at least 13%

# 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 3Q2011 ING Group Interim 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) the implementation of ING's restructuring plan to separate banking and insurance operations, (4) 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, (5) the frequency and severity of insured loss events, (6) changes affecting mortality and morbidity levels and trends, (7) changes affecting persistency levels, (8) changes affecting interest rate levels, (9) changes affecting currency exchange rates, (10) changes in general competitive factors, (11) changes in laws and regulations, (12) changes in the policies of governments and/or regulatory authorities, (13) conclusions with regard to purchase accounting assumptions and methodologies, (14) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, and (15) ING's ability to achieve projected operational synergies. 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, and any other document or presentation to which it refers, do not constitute an offer to sell, or a solicitation of an offer to buy, any securities.

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