



## Q4/2021 Credit Update Call Transcript

03 February 2022

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ING Investor Relations  
3 February 2022



**Operator:** Good afternoon, this is Rahila welcoming you to ING's 4Q & FY2021 conference call. Before handing this conference call over to Mark Milders, Head of Investor Relations and Geert Wijnhoven, Group Treasurer, let me first say that 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

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report on Form 20-F filed with the United States Securities and Exchange Commission and our earnings press release as posted on our website today. Furthermore, nothing in today's comments constitutes an offer to sell or solicitation for an offer to buy any securities.

Good afternoon Mark and Geert, over to you.

**Geert Wijnhoven – Group Treasurer:** Thank you, operator, and welcome all on the call. Thanks for joining us today on this semi-annual credit update call. My name is Geert Wijnhoven and I am here with Mark Milders, who you well know.

As you know, the ECB press conference starts in 30 minutes, so we will try to keep this brief and make sure that you can also follow that important press conference on time. Right now we will take you through the highlights of the Q4 results, our capital position and issuance plan for the running year and then we have time for Q&A. You can clearly see our credit update slides that are available via download from our website.

With that, I hand over to Mark.

**Mark Milders – Head of Investor Relations:** Thanks Geert and hi, everyone. I will keep it very brief. For those of you who have not followed our results presentation this morning, just the highlights.

We are quite pleased that through our income diversification we kept NII stable and strong, absorbing actually the negative rate drag that we have experienced for quite some years now.

Fees were very good. We are nearing EUR 1 billion in fees per quarter. We had EUR 925 million for the fourth quarter with several things still in the pipeline, such as packages in



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the Netherlands, but also if you look at some of the fees that are still a bit depressed because of the Corona virus situation, namely international travels or international payment transaction fees, as well as Wholesale banking, syndicated loan transactions are still at subdued levels, so we expect that to recover.

A good outlook for growth for 2022. We already saw strong growth in 2021, which of course did include some TLTRO induced growth, perhaps some growth was pulled forward on that. As you could see also from the ECB data that were published in the eurozone in Q1 and Q4 you see a clear spike. As said, fees very strong.

Expenses were flat for the year. In the fourth quarter there was some increase driven by, amongst others, a catch-up accrual for performance-related pay. And if you look quarter on quarter, so 4Q2020 to 4Q2021, there was a sizeable VAT-return in the fourth quarter of 2020.

Risk costs for the full year were low at 8 bps of average customer lending. We had a strong quality of the book of 1.5% Stage 3 ratio and our Stage 2 ratio actually improved.

We did take risk cost in the third quarter of EUR 346 million, which are predominantly adjustments to existing Stage 3 files. There are two components there, one predominantly in the Wholesale bank where we have taken a different view on recovery and recovery valuations. That basically means that in certain asset classes we have adjusted the expectation of recovery of the collateral in that Stage 3 situation. Also, we took a EUR 124 million overlay for mortgages in Holland, Belgium, Germany, and Australia. In those countries LTVs have dropped faster. To put it differently, house prices have increased the quickest and with the current inflationary and interest rate movements we do expect that for only the Stage 3, so the weaker part of the portfolio, we could expect an increase in the 'unable-to-pay'-category. That is why we took EUR 124 million overlay, which on a EUR 317 billion portfolio is modest. But

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there was also a EUR 124 million release related to payment holidays and some sectors that were deemed to be a little bit more critical because of Covid, but there we actually see that the performance does not warrant to have an overlay. So that was a release. So, some movements there but overall, over the full year, again 8 bps, which is probably one of the lowest in Europe.

Capital was strong, at 15.9%; it actually grew from 15.8%. We announced EUR 0.41 per share dividend that we propose to the AGM for approval, which brings the total dividend over 2021 to EUR 0.62 per share. As you know, we have a buyback underway, which is nearing completion. We will announce the latest at the first quarter of 2022 any follow-up steps, and are in constructive discussions with the ECB on that.

I will leave it at that. Over to you, Geert.

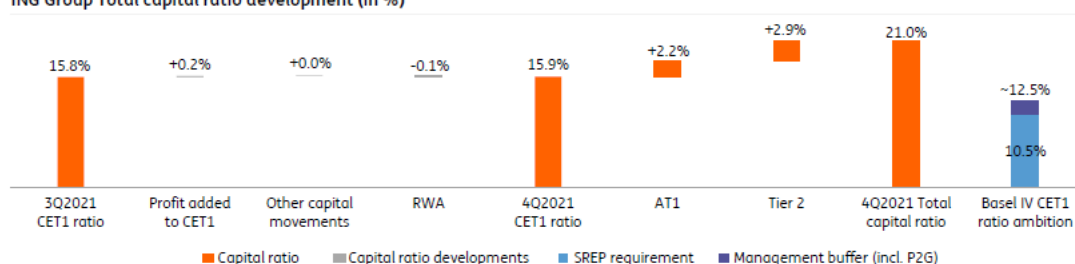
**Geert Wijnhoven – Group Treasurer:** Thank you, Mark. I would like you to turn to slide 22.

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### Strong ING Group CET1 ratio at 15.9%, excluding €1,568 mln profit reserved for distribution

ING Group Total capital ratio development (in %)



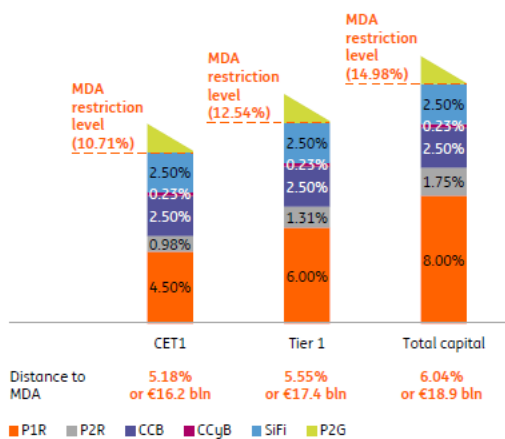
- The 4Q2021 CET1 ratio increased to 15.9%, driven by higher CET1 capital
- CET1 capital was €0.6 bln higher, mainly reflecting the addition of 50% of the 4Q2021 net profit (€0.5 bln)
- At the end of 4Q2021, there was €1,568 mln of reserved profits not included in CET1 capital
- The 4Q2021 AT1 ratio was stable at 2.2%. The Tier 2 ratio increased by 0.3%-point to 2.9%, reflecting the issuance of a €1.0 bln Tier 2 instrument in November 2021. We benefit fully from the CET1 capital relief provided by article 104(a) CRD V

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Here, you see the development of our CET1 ratio, which has again improved to close to 16%, well above our 12.5% ambition level.

Buffer to fully-loaded Maximum Distributable Amount, including announced CCyB increases, remained strong at ~5%

ING Group fully-loaded SREP



- ING Group's fully-loaded CET1 requirement is 10.71%
  - 4.50% Pillar 1 Requirement (P1R)
  - 0.98% Pillar 2 Requirement (P2R)
  - 2.50% Capital Conservation Buffer (CCB)
  - 0.23% Countercyclical Buffer (CCyB)\*
  - 2.50% Systemically Important Financial Institutions Buffer (SiFi)
- Fully-loaded Tier 1 requirement is 12.54%
  - 0.33%-point of P2R can be filled with AT1
- Fully-loaded Total Capital requirement is 14.98%
  - 0.44%-point of P2R can be filled with Tier 2

\* Fully-loaded CCyB increased by 0.19% to 0.23% in 4Q2021, mainly due to announced increases in Germany and the UK; 4Q2021 CCyB remained 0.03%

On this slide, you can clearly see that we have a buffer of more than 5% over our various MDA levels. We are more than adequately capitalised. We also have absorbed all expected RWA inflation from a regulatory perspective. If you look at the composition of the buffer, you can clearly see that the vast majority of that buffer consists of CET1 capital and not from AT1 or Tier 2. The AT1 ratio was 2.2% and the Tier2 ratio was 2.9% and with that we fully benefit from the capital relief that was provided two years ago by the activation of Article 104A.

### ING's distribution plans in 2022 and beyond

#### ING's Distribution Policy

- Pay-out ratio of 50% of resilient net profit
  - Net profit adjusted for significant items not linked to the normal course of business
  - To be paid out in cash or a combination of cash and share repurchases, with the majority in cash
  - Cash-only interim dividend, representing ~1/3 of first half year resilient net profit, to be paid out with our half year results
- Additional return of structural excess capital
  - To be considered periodically, taking into account alternative opportunities as well as macro-economic circumstances and the outcome of our capital planning

#### Distribution in 2022 and beyond

- We are on track to reach our 10-12% ROE ambition
- In line with our policy, we intend to distribute 50% of resilient net profit, resulting in an attractive yield for shareholders
  - Our current share buyback programme will be finalised before 5 May 2022
  - We will pay a final dividend over 2021 of €0.41 per share in May 2022, subject to AGM approval
- The remaining 50% of resilient net profit can be used to support profitable loan growth, meet regulatory requirements, inorganic opportunities and / or additional shareholder return
- With a CET1 ratio of ~15.9% at the end of 4Q2021, ING holds a significant amount of capital in excess of our ~12.5% CET1 ambition
- We have a constructive dialogue with the ECB about the potential distribution of excess capital and will announce next steps when required approvals are in place

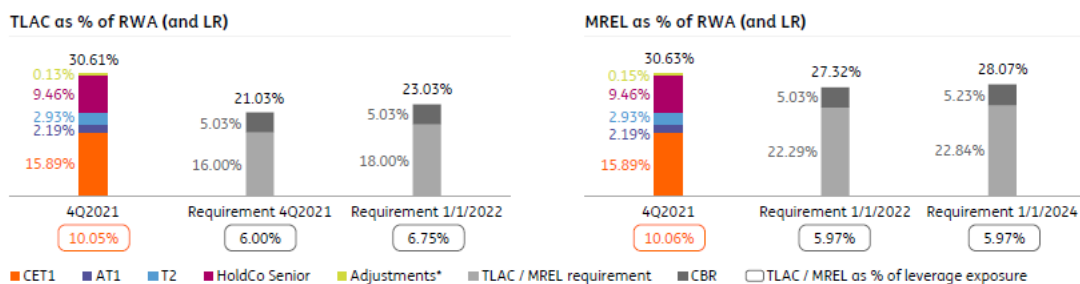
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Well, Mark already talked about the final dividend. The share buyback is running and it will be finalised before 5 May or any time earlier. We hold more than EUR 10 billion of CET1 capital in excess over our 12.5% ambition level. Apart from regulatory requirements or profitable alternative uses of capital, we will return this capital to our shareholders in the coming years, on top of our current pay-out ratio of 50% in order to get to that 12.5% ambition level.

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### ING meets its regulatory capital requirements



- ING follows a Single Point of Entry (SPE) resolution strategy and issues TLAC/MREL eligible instruments from its resolution entity ING Groep NV
- ING amply meets the end-state TLAC requirement with a TLAC ratio of 30.61% of RWA and 10.05% of TLAC leverage exposure (LR)
- RWA-based MREL is the most constraining requirement for ING. As per 31 December 2021, ING Group amply meets the intermediary MREL requirements as per 1 January 2022
- In 4Q2021, ING issued a €2 bln Senior HoldCo dual tranche transaction and a €100 mln private placement, bringing the FY2021 Senior HoldCo issuance volume to ~€8 bln

\* Relates to regulatory adjustments on T2

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On slide 27, you can see that regarding TLAC, which starts on the left, ING clearly meets the end state of TLAC with 30.6% of RWA and more than 10% of TLAC leverage. But you can also see that the most constraining requirement in terms of loss absorption is the MREL target as a percentage of RWA, that we show on the right-hand side of this slide. You can see that we have met our intermediate MREL requirement as per 1 January this year, but we also already meet the final requirement of 28.07% that we have to meet by January 2024. Obviously, this requirement is subject to MDA regulatory changes of which, most likely, the countercyclical buffer requirements that will change over time will also have an impact on the MREL requirements.

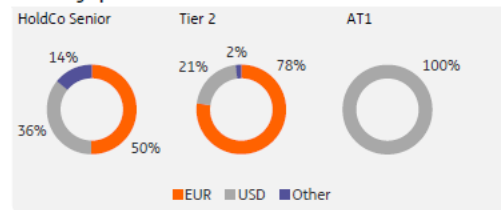


### Long-term debt maturity ladder and issuance guidance

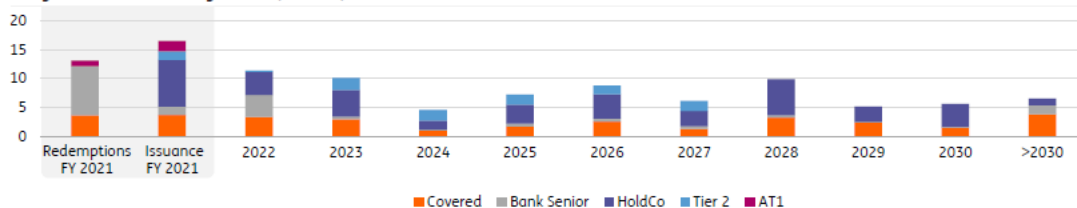
#### Issuance guidance 2022

- Guidance on HoldCo Senior issuances for 2022 is ~€8-10 bln, subject to balance sheet developments
- Covered bonds to be issued from various programmes in 2022
- OpCo Senior could be issued for internal ratio management and general corporate funding purposes

#### Currency Split



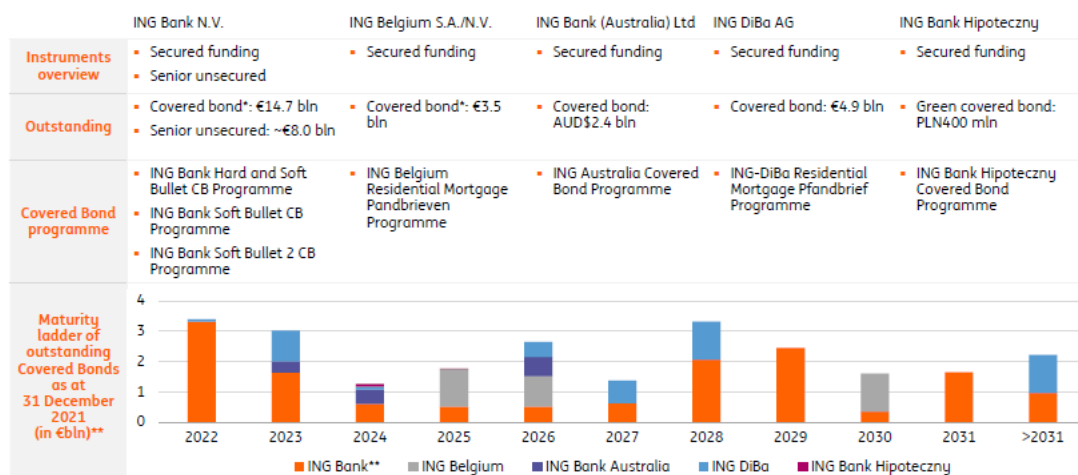
#### Long-term debt maturity ladder (in € bln)\*



\* Tier 2 maturities are based on the 1st call date for callable bonds and contractual maturity for bullets. All HoldCo Senior bonds are based on contractual maturity. Excluding RMBS 27

On the debt issuance side, we were very pleased to still execute some pre-funding late last year at the end of November. That allowed us to stay side-lined at the early week of January, which proved to be very crowded week. This year we plan to issue between EUR 8 billion and EUR 10 billion of group holdco debt, subject to the balance sheet evolution. This is higher than what you have seen in the prior year. We do note that we have EUR 4.5 billion of bullet senior holdco redemptions. We expect RWA growth on the back of our volume growth targets and also the RWA impact of our Dutch mortgages. Our aim is to optimise our MREL stack by replacing the CET1 surplus with senior holdco over time. In other words, in case we would announce an additional capital return for that amount, we need to then issue clearly holdco debt instead. And for AT1 and Tier2 we strive towards the optimisation of our capital structure. Currently we feel comfortable with the levels of 2.2% and 2.9%.

### Covered bond funding through various programmes



\* Externally placed covered bonds  
 \*\* Maturity ladder as per contractual maturity

The covered bond activity is obviously linking into TLTRO repayments. As you know, there is a very favourable rate on the TLTRO, for banks that have met the zero-lending asset growth target at the end of this year. That favourable rate will end in June and then from 2023 to 2024 TLTRO needs to be repaid, but it continues as a deposit-rate facility. Depending on further announcements, we will be very prudently planning to prepay the TLTRO before it comes to final maturity. Replacement of part of these funds with covered bonds is to be expected.

We see limited need to issue senior from our bank operating company, but if so it will be for tactical reasons and at a relatively short credit duration.

And let me stop talking now and open the floor for any questions for Mark or myself.

**QUESTIONS AND ANSWERS**

- **Robert Malley – UBS**

Good morning, good afternoon, and thanks very much for doing the call. I just want to circle back on the provisioning in the fourth quarter. On the Wholesale side addressing Stage 3, were these loans that were basically on life support that had gotten subsidies through due to Covid and now you no longer see them as viable? Or is it a mix of other things?

And then on the mortgages, we are really not seeing that from your competitors. Is there any characteristic of your borrower that is different than your competitors' in this area that would prompt you to act differently.

**Mark Milders – Head of Investor Relations:** I will take that. Thank you very much for your questions. To your first part on the Wholesale, no, that is not the case. It has more to do about the recovery expectation on certain asset classes. So, these are customers that are already in Stage 3 or in the restructuring department, given the Covid-situation but also given markets that we believe we had to take a different approach to recovery and have a more critical view at the expected recovery valuation. That is more an LGD-kind of thing.

Regarding mortgages, I cannot speak for others. What I tried to explain is that in certain markets we have seen a very sharp increase of house prices and for that proportion of our book that is already in Stage 3, we expect the spending power of individuals to be affected by inflation and on the other hand the purchasing power perhaps to reduce over time for the mortgages, which will have an impact on property valuation. So, maybe we are known as a

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prudent and conservative bank in this area, maybe we are, maybe others will follow, but you would need to ask them. This is what we see and what we have a view on that could have an impact.

**Robert Malley – UBS:** Great. That is very helpful. Thank you.

- **Lee Street – Citi Group**

Hello. Thanks for taking my question. Just one quick one on the issuance of Holdco Senior. You see very clear about how much you intend to issue this year. But as I look through time, as you bring your CET1 ratio down from 15.9% to 12.5%, should I be thinking about that as a sort of incremental differential or being funded with sort of net new holdco issuance, as we look ahead, as you still seek to maintain your MREL ratio? That is my question, thank you.

**Geert Wijnhoven – Group Treasurer:** Lee, indeed, that is the way you should look at it. I cannot give you the pace but if that would take three year and CET1 would drop to the ambition level of 12.5%, then effectively we lose roughly EUR 11 billion with today's metrics of MREL stack, consisting of the most expensive part, which we will then very limitedly replace by additional Tier 1 and Tier 2, simply in order to manage the ratios, but the bulk will clearly be refilled by holdco group senior.

**Lee Street – Citi Group:** All right, that is very clear. Thank you.

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- **Louis Garrido – Bank of America Merrill Lynch**

I just wanted to clarify on the 12.5% target; you seem to have underlined to equity investors that this is unlikely to be revisited. Is it that you are comfortable with having a 1.8 percentage point buffer to MDA in a couple of years or that you really expect some of today's buffer requirements to go? For instance, you pushed back against the idea of this SIFI buffer. Which of the two is more likely, do you think?

**Geert Wijnhoven – Group Treasurer:** On a very frequent basis we calibrate our management buffer over MDA and in that calibration we take into consideration the return of pro-cyclical regulatory measures, like for instance the reintroduction of countercyclical but now also for the first time in Germany, making use under CRD V the introduction of a sectoral systemic risk buffer. And all of that is part of the calibration of the management buffer and hence we talk about a management buffer of up to 200 basis points. But there is room to absorb additional regulatory pressure in that buffer.

Now, if the regulatory pressure exceeds the room that we have calculated in the management buffer, then obviously things will have to change. But as it looks now with what we know from the past, including the countercyclical buffers, we believe that the current management buffer is sufficient to target the 12.5% ambition level of CET1.

**Louis Garrido – Bank of America Merrill Lynch:** Very clear. Thank you very much.

**Geert Wijnhoven – Group Treasurer:** As there are no more questions, thanks everyone. We are in time to listen to madame Lagarde. Of course, the IR team is available for your any follow-up questions. Just reach out to them. I wish you a very nice day. Thanks for listening in. Bye, bye.

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End of call