1Q2022 Pre-earnings call

ING Investor Relations

11 April 2022, 16:00 CET

Good day all,

Welcome to the 1Q2022 pre-earnings call of ING Group. First of all: we're shocked and saddened by the violence we're witnessing in Ukraine and the impact it has on people's lives. For those affected I hope they are and remain safe.

Over to the pre-earnings call. As always, I will take you through the line items and later there will be time for clarifying questions by sell-side analysts, in case any statement was unclear.

This script will be published on ING.com.

Some general comments:

- In Retail, the mortgage market remained strong with continued demand across our geographies.
- On the Wholesale Banking side a higher demand for trade and commodity financing on the back of higher commodity prices can be expected. Keep in mind that 4Q2021 included the short term TLTRO related lending.
- Before 24 February we already observed higher energy prices, supply chain issues and inflation as well as the easing of Covid-19 related restrictions.

NII

- Eurozone interest rates significantly increased this quarter, which over time will reduce the pressure on liability margins. For a more immediate effect however, short term rates would have to increase as well.
- We have already seen central bank rate hikes in some of our non-eurozone markets, notably in Poland.
- Note that the tracking into market rates generally follows with some delay.

- We continue managing the size of the replicating portfolio by limiting the inflow of new deposits and reducing savings-only customers. As an example, we have introduced custodian charges in several countries and no savings account-only policies.
- Since 2020 we have taken several steps in charging negative rates, of which the results are expected to become further visible during 2022. Amongst these is the charging of those customers in Germany with deposits above €50k who have given their consent.
- 1Q2021 included a €233 mln ECB funding rate benefit from the TLTRO III programme and in 4Q2021 the ECB funding rate benefit was €84 mln. The beneficial funding rate of the TLTRO III programme will run until 23 June 2022.
- 4Q2021 included a €-23 mln reclassification in Retail Belgium from other income to NII.
- There were no core rate changes made by ING in the quarter.

Net fee and commission income: the 1Q2021 fee income amounted to €854 mln and it was €925 mln in 4Q2021, supported by higher daily banking package fees, good results in Retail on investment products and increased deal activity in Wholesale Banking.

- In Retail Banking, the previously announced increase of daily banking package fees in the Netherlands is effective as of 1 January 2022.
- In Wholesale Banking, fee income is mainly driven by lending activity.

Investment income: the 1Q2021 investment income was €39 mln, while it was €15 mln in 4Q2021.

Other income: In 1Q2021 other income was €296 mln. This was supported by positive valuation adjustments and improved trading results. In 4Q2021 other income was €310 mln, including a €28 mln gain on an investment in an associate and strong results for Financial Markets, which benefited from volatility in the market.

Expenses, excluding regulatory costs were €2,429 mln in 1Q2021 and €2,562 mln in 4Q2021. Note that 1Q2021 included €84 mln of incidental items related to redundancy and restructuring costs in Retail NL and Czech Republic, whereas 4Q2021 included €166 mln of incidental items, mainly related to the announcement to leave the retail banking market in France.

Furthermore note that 4Q2021 included amongst others higher performance-related staff expenses.

Regulatory costs were €587 mln in 1Q2021 and €385 mln in 4Q2021:

- Regulatory costs are seasonally high in the first quarter due to the annual contribution to the European single resolution fund, the Belgian deposit guarantee scheme, as well as the annual Belgian bank tax.
- 4Q2021 contained the annual Dutch bank tax, including an incidental 50% increase in tariff for 2021.
- For 1Q2022, based on a stronger than expected inflow of covered deposits in the Banking Union in 2020, we may expect a higher SRF contribution.

Risk costs

- On asset quality, as a result of a proven risk management framework, we have a strong and well-diversified loan book and a low stage 3 ratio.
- The war in Ukraine is likely to affect our provisioning in various ways. The macro-economic indicators will be updated as per the end of the reporting period, reflecting the estimated effects on the economy as a whole.
- ING maintains the principle that a counterpart rating cannot be better than its country rating. Therefore you may expect that the downgrading of a country rating will affect the rating of clients associated with that country and cause possible migration to stage 2.

- Furthermore, just as a reminder on IFRS, based on individual assessments clients can be moved to watchlist and move to stage 3 in case of payment default. Note that sanctions do not automatically trigger a default.
- As concerns on inflation and energy prices remain, you can assume that certain management overlays taken in various quarters remain relevant.

Tax

- We have guided the 2022 effective tax rate to be between 27-29%.

CET1 ratio of the Group stood at 15.9% at the end 4Q2021.

- On RWA, as you know the Dutch mortgage add-on will be effective as of this quarter and we previously mentioned an estimated impact of €7.5 bln on RWA. Furthermore, a sovereign rating downgrade will likely have an impact on the risk weighting of clients associated with that country.
- The volatility in the markets may have an effect on MRWA.
- We continue to reserve 50% of resilient net profit for future distribution as per our policy. This will be held outside of CET1 capital.
- We will pay a final dividend over 2021 of €0.41 per share in May 2022, subject to AGM approval.
- As said we will update the market on capital distribution at 1Q22 results.

Corporate Line

- The Corporate Line represents certain P&L elements not allocated to the units. The Corporate Line delivers a negative result before tax of approx. €-100 mln per quarter, however can be affected by exceptional items.