

# Wholesale Banking

ING Benelux Conference

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Executive Board Member

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



# Key messages

## **Unprecedented market turmoil impacted 4Q2008 results**

- Negative impact on Group's result is evident
- Full-year 2008 client balance net production of EUR 93 billion
- Key capital ratios strengthened, but the Group remains vigilant
- Wholesale Banking's results were also affected

## **De-risking actions pro-actively effected across the Group**

- Illiquid Assets Back-up Facility agreed with Dutch State
- Group's asset allocation shifted to government bonds
- Group's real estate exposure declined
- ING Bank started reducing its balance sheet

## **Change programme implemented to navigate through the crisis**

- ING Group's top priorities and change programme
- Wholesale Banking's action plan

# ING posted a small 2008 loss; the banking business remained profitable

(in EUR million)	FY08			4Q08		
	Bank	Insurance	Group	Bank	Insurance	Group
<b>Commercial result before risk costs</b>	<b>5,263</b>	<b>2,057</b>	<b>7,319</b>	<b>998</b>	<b>348</b>	<b>1,345</b>
Impairments, etc on pressurised assets	-2,039	-560	-2,599	-1,734	-315	-2,049
Impairments on equity securities	-331	-1,376	-1,707	-43	-643	-686
Impairments on other debt securities	-255	-520	-775	-84	-185	-269
<b>Impairments and losses</b>	<b>-2,625</b>	<b>-2,455</b>	<b>-5,081</b>	<b>-1,861</b>	<b>-1,143</b>	<b>-3,004</b>
Revaluations on real estate	-732	-452	-1,184	-332	-280	-612
Revaluations on private equity		-399	-399		-267	-267
<b>Revaluations</b>	<b>-732</b>	<b>-851</b>	<b>-1,583</b>	<b>-332</b>	<b>-547</b>	<b>-879</b>
Equity capital gains/ equity hedge	30	1,181	1,211	-69	-145	-214
Equity related DAC unlocking		-567	-567		-313	-313
FX hedge/Other*	-206	-600	-806		-736	-736
<b>Other market impacts</b>	<b>-176</b>	<b>14</b>	<b>-162</b>	<b>-69</b>	<b>-1,194</b>	<b>-1,263</b>
<b>Risk costs Bank</b>	<b>-1,280</b>		<b>-1,280</b>	<b>-576</b>		<b>-576</b>
<b>Underlying result before tax</b>	<b>449</b>	<b>-1,235</b>	<b>-787</b>	<b>-1,841</b>	<b>-2,536</b>	<b>-4,377</b>
Tax and third-party interests	273	343	615	776	500	1,276
<b>Underlying net result</b>	<b>722</b>	<b>-893</b>	<b>-171</b>	<b>-1,065</b>	<b>-2,036</b>	<b>-3,101</b>
Divestments and special items	-267	-291	-558	-119	-493	-612
<b>Total net result</b>	<b>454</b>	<b>-1,183</b>	<b>-729</b>	<b>-1,184</b>	<b>-2,527</b>	<b>-3,711</b>

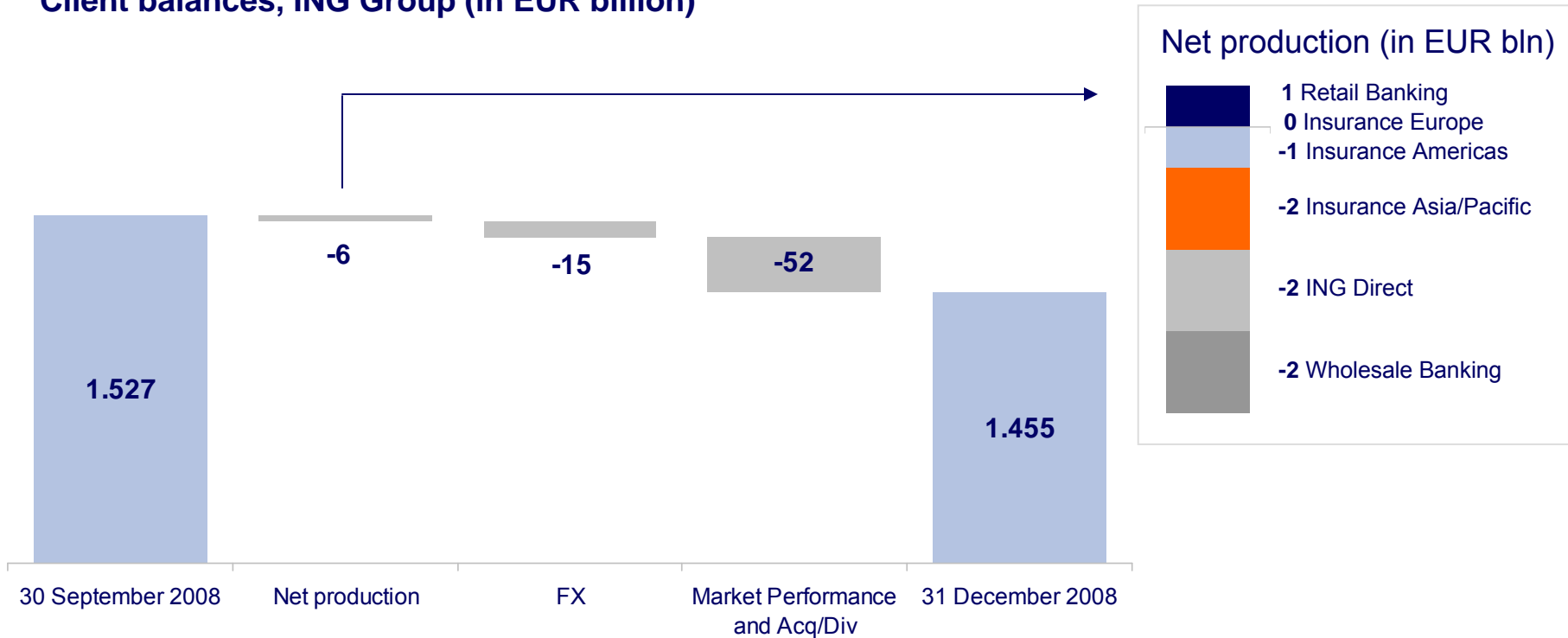
\* Other includes FX hedges and other market-to-market valuations

Numbers may not add up due to rounding



# Client balances production EUR -6 billion in 4Q08 but FY production resilient at EUR 93 bln

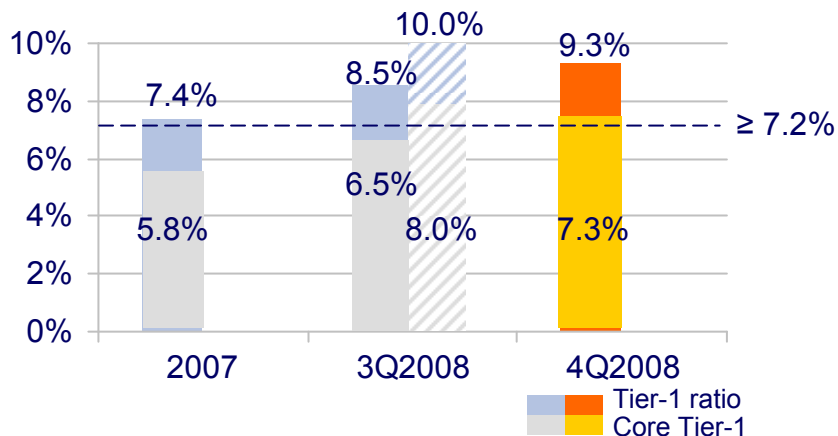
Client balances, ING Group (in EUR billion)



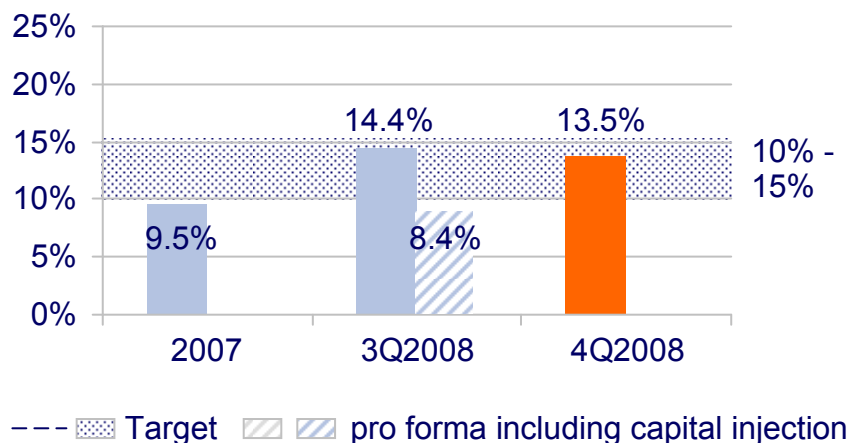
- In 4Q2008, client balance production was EUR -6 billion
- Over 2008, the net production of client balances, excluding currency impacts, was EUR 93 billion
- Clients savings and deposits accounted for EUR 21 billion of the net production in 2008 (excluding currency effects), of which EUR 12 billion was from retail customers

# ING's key capital ratios were strengthened but the Group remains vigilant

## ING Bank Tier-1 ratio



## ING Group D/E ratio



## Transaction with Dutch State:

- In October 2008, ING Group took advantage of a previously announced capital support facility, issuing EUR 10 billion of core tier-1 securities to the Dutch State
- During the quarter, the Group injected EUR 5 billion into Bank and EUR 4.05 billion into Insurance

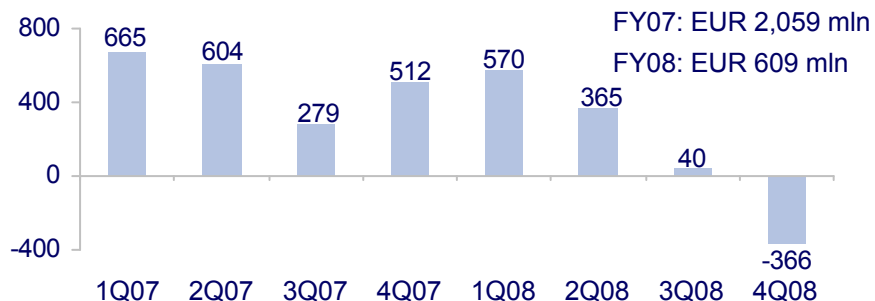
## Key capital ratios:

- ING Bank's Tier-1 ratio increased at the end of 4Q2008 to 9.3%, as an increase in RWA was compensated by the capital injection
- The Group's debt/equity ratio was 13.5% at the end of the quarter

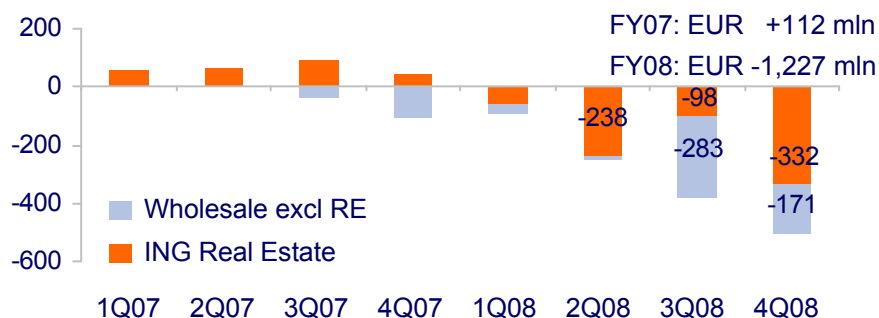


# Wholesale's results were affected by the turmoil

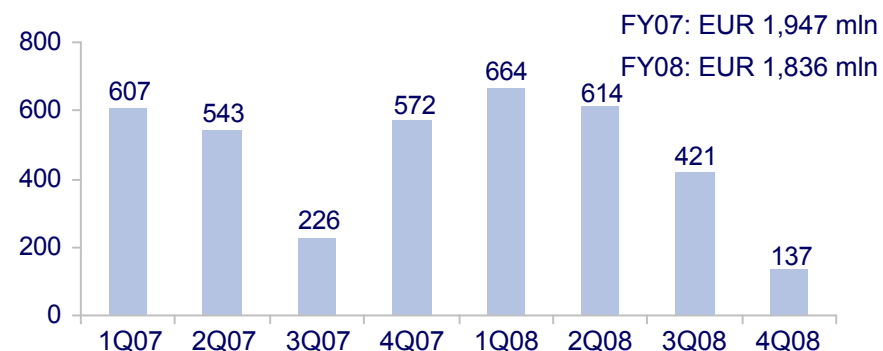
Underlying result before tax  
(in EUR mln)



Credit crisis-related losses; real estate revaluations and impairments  
(in EUR mln)



Result before tax excluding credit crisis-related losses, real estate revaluations and impairments  
(in EUR mln)



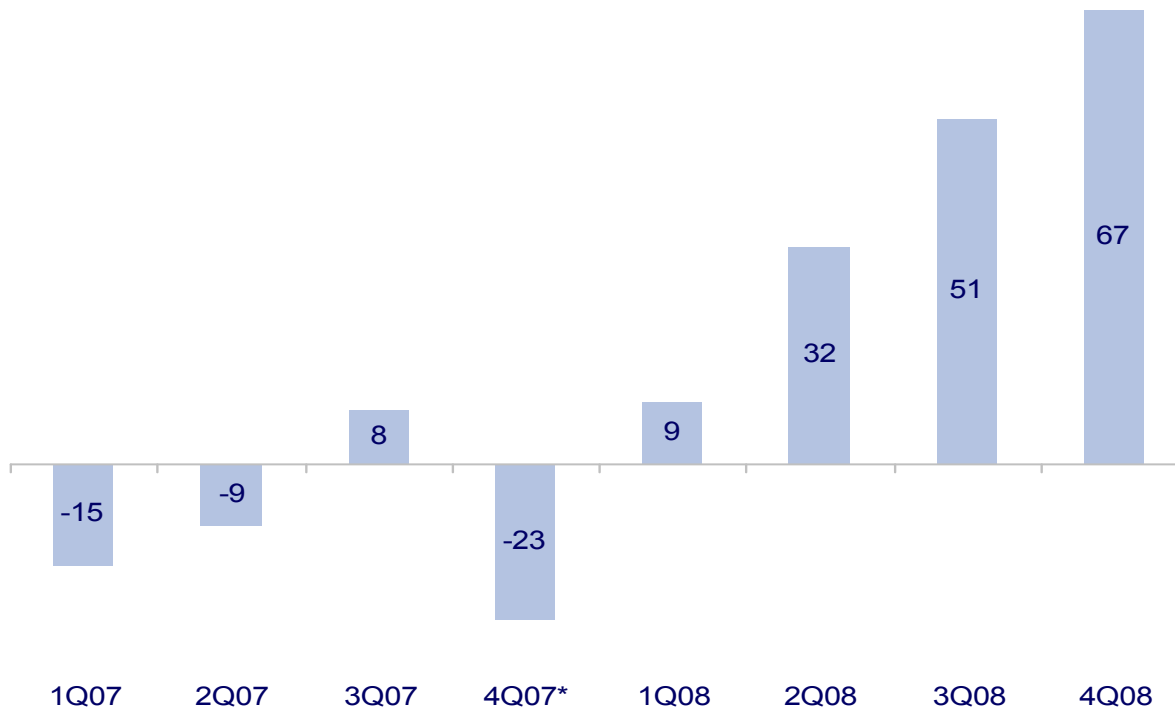
- Pre-tax result FY 2008 of EUR 609 mln
- At ING Real Estate, revaluations and impairments had an impact of EUR -729 mln for FY 2008
- Strong income growth in General Lending, Payments and Cash Management and Structured Finance
- Lower income in Financial Markets proprietary trading & Corporate Finance & Equity Markets
- Increase in loan loss provisions to EUR 524 mln, compared with net releases of EUR 142 mln in 2007
- Excluding impairments, fair value adjustments, revaluations *and* loan loss provisions, FY 2008 profit before tax increased 30.7%



# Wholesale's net addition to loan loss provisions was 67 bps of average CRWA in 4Q08

## Wholesale Banking Risk Costs:

Net addition to provisions for loan losses  
(in basis points of average credit RWA)



\* Due to a EUR 115 million release from a single debtor provision. Excluding that release, risk costs were +6 bps in 4Q07

- Risk costs were 41 bps of average CRWA over 2008, but with a steady increase over the quarters
- Structured Finance risk costs rose in Leveraged Finance and Trade & Commodity Finance
- Increase in General Lending risk costs in 2008 partly triggered by the collapse of the three Icelandic banks
- Higher risk costs reported for Leasing

# Key messages

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## **Change programme implemented to navigate through the crisis**

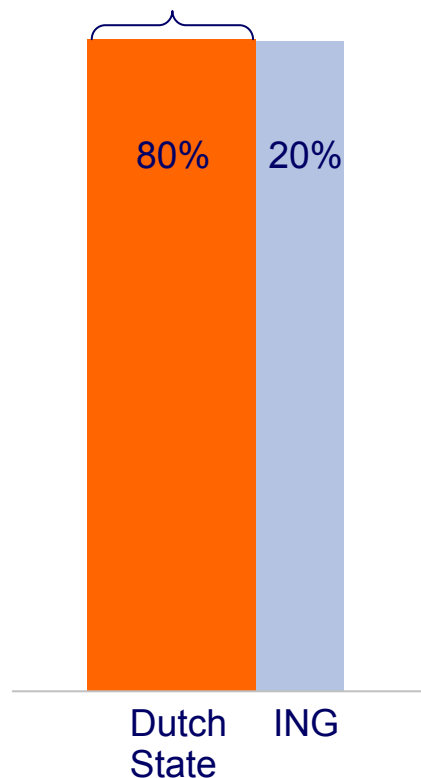
- ING Group's top priorities and change programme
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# The Illiquid Assets Back-up Facility transfers 80% of the risk of each Alt-A RMBS to the Dutch State

## Illiquid Assets Back-up Facility: Dutch State economically owns 80% of each Alt-A RMBS

EUR 21.9 billion amortised cost  
or EUR 15 billion market price



## Illiquid Assets Back-up Facility

- 26 Jan 2009: ING transfers 80% economic ownership of each Alt-A RMBS ING Direct and Insurance US to the Dutch State
- State has no funding and no IFRS accounting obligation
- Transaction is P&L neutral in 1Q2009

## Capital impact

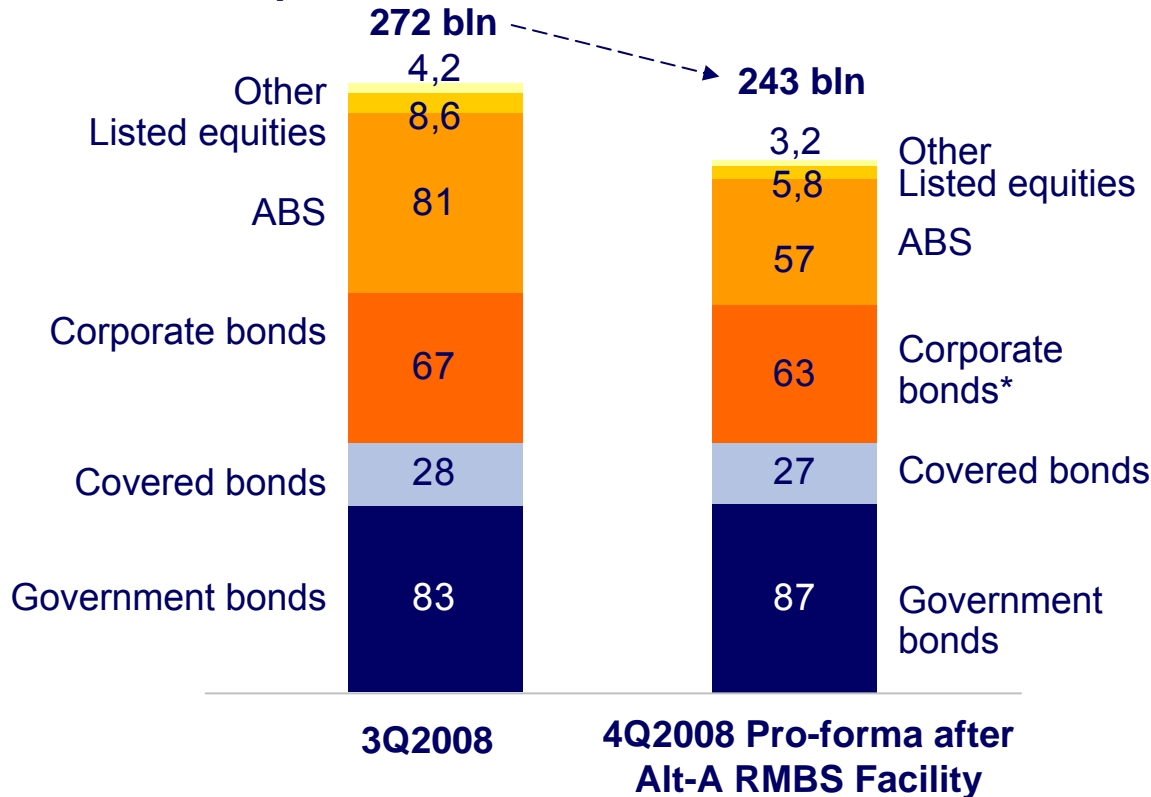
- Tier-1 ratio up 37 bps as the Facility reduces RWAs by EUR 13 bln

## P&L impact going forward

- State receives coupon on Alt-A RMBS of ~ 4.5%. ING receives coupon on Receivable of 3% (fixed RMBS) and US 1-month LIBOR (floating RMBS)
- Reduced risk of future impairments, while the coupon differential will reduce interest income by approx. EUR 100 mln per quarter. This impact gradually diminishes due to redemptions

# The asset allocation of the Group's investment portfolio is shifting to government bonds

## Investment portfolio: EUR 243 bln



- ING decreased its investment portfolio, notably in:
  - ABS EUR -24 bln
  - Listed equity EUR -2.8 bln
- Weight government bonds increased from 31% in 3Q2008 to 34% in 4Q2008 and 36% in 4Q2008 on a pro-forma basis
- After-tax revaluation reserve fixed income deteriorated from EUR -11.4 bln in 3Q2008 to EUR -13.5 bln in 4Q2008
- ING Direct intends to de-leverage its balance sheet and scale down its investment portfolio in 2009 by reinvesting in ING originated assets

Other = fixed income and real estate mutual funds, preference shares and private equity

\* Incl. EUR 1.7 bln bank tier-1 debt

Asset re-allocation aims to limit volatility in shareholders' equity



# The Group's real estate exposure declined in 4Q08

- ING Group has EUR 9.8 bln of real estate exposure that is revalued through the P&L:
  - Wholesale Banking Real Estate Investment Management: seed capital and investments of EUR 4.0 bln
  - Wholesale Banking Real Estate Development: investments not in own use of EUR 0.9 bln
  - ING Insurance: investments of EUR 4.9 bln
- Real Estate exposure revalued through the P&L declined EUR 1.7 bln in 4Q2008 compared with 3Q2008

## Real Estate accounted for through the P&L (EUR mln)

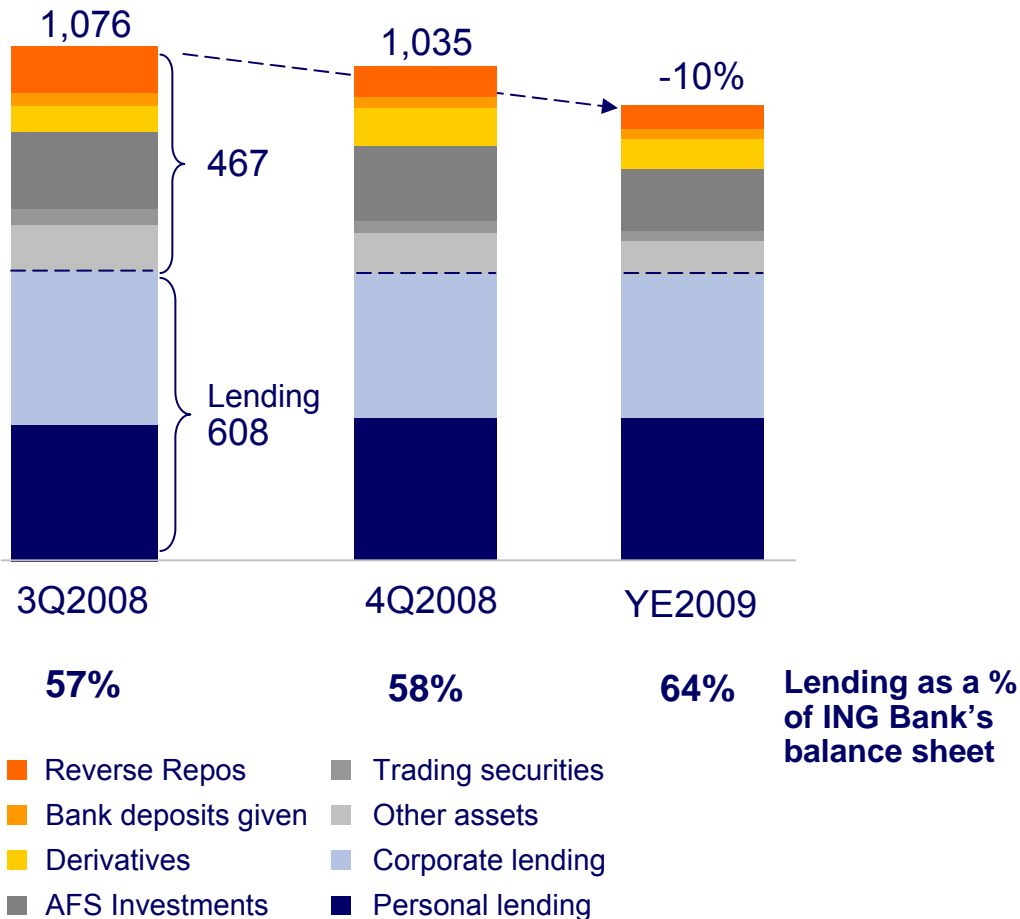
- ING's real estate exposure is well-diversified over sectors and geographies:

	Residential	Office	Retail	Industrial	Other	Total
Netherlands	294	1286	378	17	21	1,996
Spain	3	56	468	165	0	692
UK	27	139	227	48	72	513
Other EU	115	1020	1589	425	33	3,183
USA	234	141	69	337	170	951
Australia	3	93	261	126	51	534
Asia	244	99	277	7	19	647
Canada	0	30	119	854	120	1,123
Other	3	1	46	8	98	156
<b>Total</b>	<b>924</b>	<b>2,866</b>	<b>3,434</b>	<b>1,987</b>	<b>584</b>	<b>9,795</b>



# ING Bank started reducing its balance sheet

## Total Assets ING Bank (In EUR bln)



- ING Bank aims to reduce its balance sheet by 10% from 3Q2008 to year-end 2009 excluding FX
- In 4Q2008 ING Bank cut its balance sheet by EUR 41 bln. A further reduction of EUR 70 bln is anticipated in 2009
- Reductions are concentrated in the reverse repo and interbank activities in Wholesale. ING continues to lend to core clients
- Reductions in 2009 will further bring down investments, trading, reverse repo and interbank positions
- Balance sheet reduction will gradually impact revenues over the course of 2009. Expected impact to remain limited to EUR 130 mln in 2009



# Key messages

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# ING Group's top priorities going forward

Further reduce  
risk and  
leverage

## **We are reducing exposure to market volatility**

- Reducing the size of the available for sale portfolio
- Hedging direct public equity exposure
- Disposed EUR 900 mln of Real Estate and EUR 500 mln of Private Equity
- Reducing size of bank balance sheet by 10% by decreasing the non-lending part by 25%

Preserve  
capital

## **We will continue to work to preserve capital**

- Focus the organisation and divest non-core activities
- Stop setting up new businesses
- Work to buy back Core Tier-1 securities from Dutch State once current crisis abates

Take out  
costs

## **We are cutting operating expenses by EUR 1 bln in 2009**

- Reduction of costs also from head office, marketing, Formula 1, third-party staff
- Number of full-time positions will be reduced by 7,000 worldwide in 2009
- Restructuring provision of approximately EUR 450 mln after tax
- Expense reduction will lead to annual savings of EUR 1.1 bln starting 2010
- Modesty must prevail

Put  
customers  
first

## **We will work to earn our customers' trust every day**

- Deliver an easier experience with transparency and accountability
- Adapt product portfolio to accommodate changing customer needs



Go back to basics and make choices to emerge from crisis as a stronger company

# ING's change programme for 2009-2010

## Strengthen financials and navigate through the crisis

- Reduce costs
- Manage and reduce risk and capital exposures
- De-leverage balance sheet (reduce assets, preserve equity)

## Focus on fewer, coherent and strong businesses

- Review portfolio of businesses
- Reduce number of markets in which ING operates
- Simplify the group

## Invest to reinforce franchises in markets we focus on

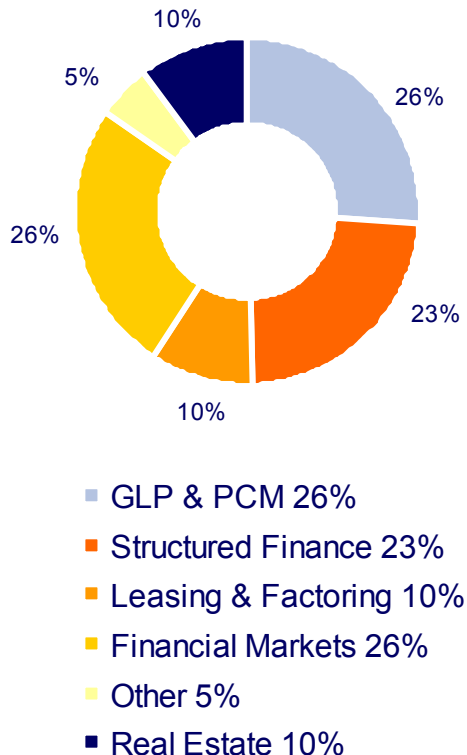
- Drive operational and commercial excellence
- Consolidate positions using acquisitions where needed
- Continue to adapt to customers' needs

## Build a stronger organisation

- Steer on operational and commercial performance with clear accountability
- Outward-looking and responsive to customer needs
- Simplify governance, further strengthen finance & risk, and reduce complexity

# Wholesale has adapted its strategy accordingly

## Wholesale Banking Underlying Income 2008



## In response to market circumstances:

- FM Emerging Markets strategy has been postponed
- Increase focus on de-leveraging and de-risking

## Going forward, we will:

- Deliver an improved cost structure and operational excellence
- Focus on growing key markets and product positions
  - No. 1 in the Netherlands and Belgium
  - Top 5 bank in CEE
  - Top 5 player in PCM and Lease in Europe
  - Top 10 player in Structured Finance globally



# A forceful action plan is in place

## Wholesale's action plan:

### Risk

- Postpone the Financial Markets emerging markets growth initiative
- De-risk the derivative book in volatile emerging markets
- Place strategic focus on core products in Financial Markets
- Place certain investment books in run-off mode
- Cap volatile sector and country exposures
- Selectively choose higher rated names
- Reduce exposure to real estate asset class
- Continue investing in systems to reduce operational risk

### Capital

- Reduce the balance sheet
- Limit lending assets growth and focus on our core franchise

### Costs

- Reduce costs by EUR 350 million in Wholesale Banking globally
- Reduce Wholesale Banking headcount by 1,400 FTEs
- Review geographical footprint

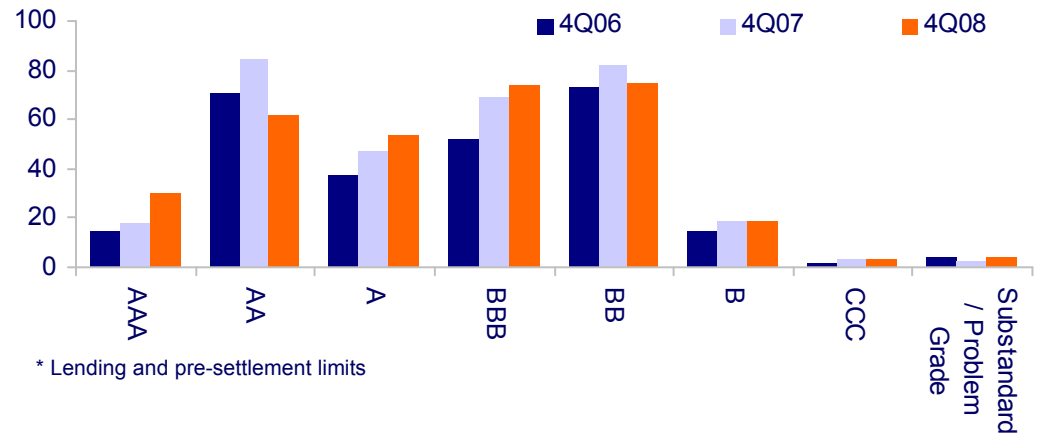
### Clients

- Increase margins
- Embed culture of cross-selling
- Enhance Dutch and Belgian client relationships

# Exposure to pressurised and volatile businesses will be reduced; Lending exposure is diversified

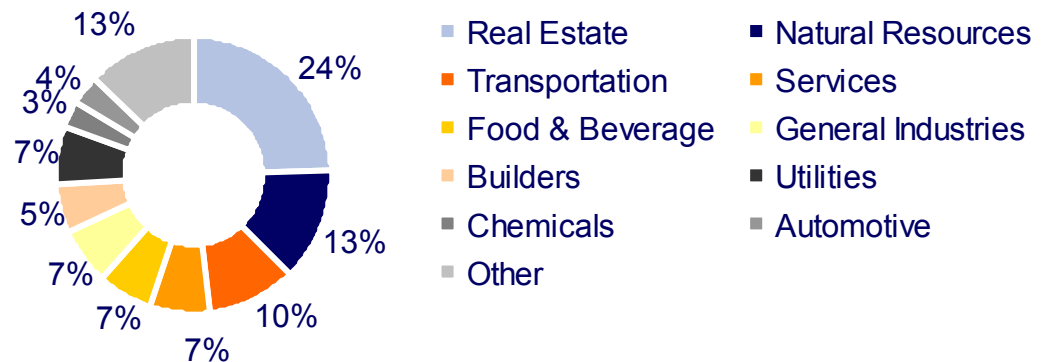
- Reduce exposure to real estate asset class
- Considerably reduce sub-investment grade underwriting commitments
- Reduce exposure to hedge funds
- Closely monitor and reduce counterparty risk exposure
- Improve ratings of new production
- Place strict caps on sector and country exposure, or use hedging
- Increase focus on secured lending

Rating breakdown of Wholesale Banking's lending exposure\* (in EUR billion)



\* Lending and pre-settlement limits

4Q2008 WB Commercial Lending Exposure by Industry



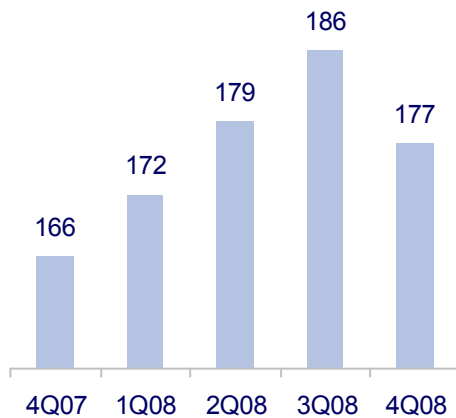
Risk

Capital

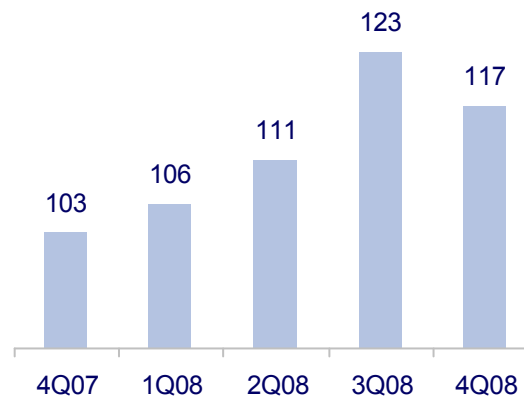
# Wholesale Banking lending asset growth will continue to be managed prudently

- Wholesale Banking's risk-weighted asset and lending asset growth were reduced in 4Q2008 after strong growth in the first part of 2008
- Going forward, Wholesale Banking aims to:
  - Concentrate new production in the Benelux and selectively in CEE
  - Concentrate new Structured Finance production on core project finance activities such as Natural Resources
  - Maintain lending assets selectively in Financial Markets to support strong franchises such as Global Securities Finance

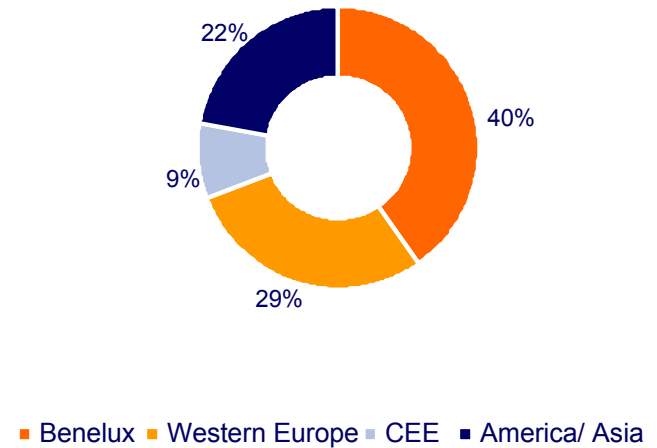
**WB Risk-Weighted Assets (EUR bln)**



**WB Lending Assets (EUR bln)**



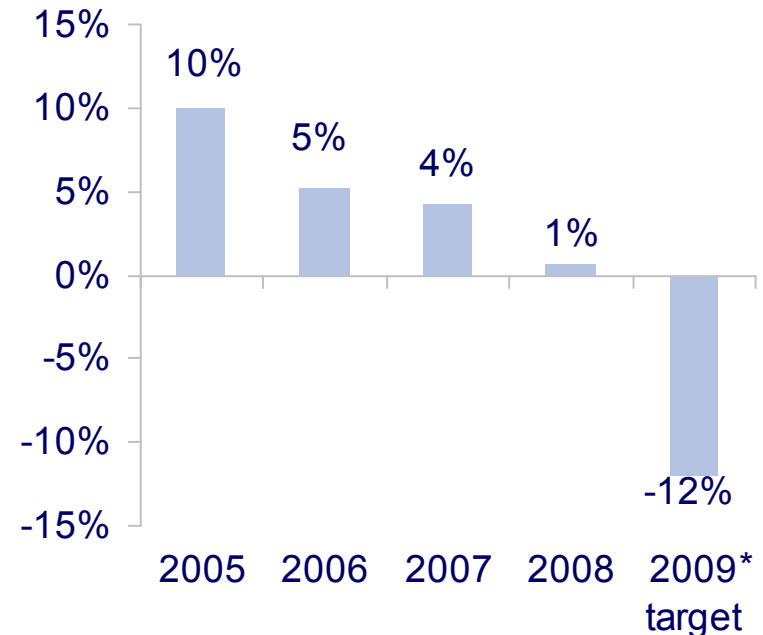
**4Q2008 WB lending assets by region**



# Reduce Wholesale Bank cost base by 12%

- Review client coverage and geographical footprint
- Downsize or exit volatile products and activities:
  - Equity Markets: Cut capacity across platform
  - Proprietary Trading: Downsize credit and equity business
- Right-size and optimize core products:
  - General Lending, Payments and Cash Management and Structured Finance: Further right-size across platform
  - Lease: Largely run-off general lease portfolio in Germany and France
  - Financial Markets: Further right-size across platform
  - Real Estate: Reduce headcount, particularly in Investment Management
- Reduce costs in support functions and operations and IT

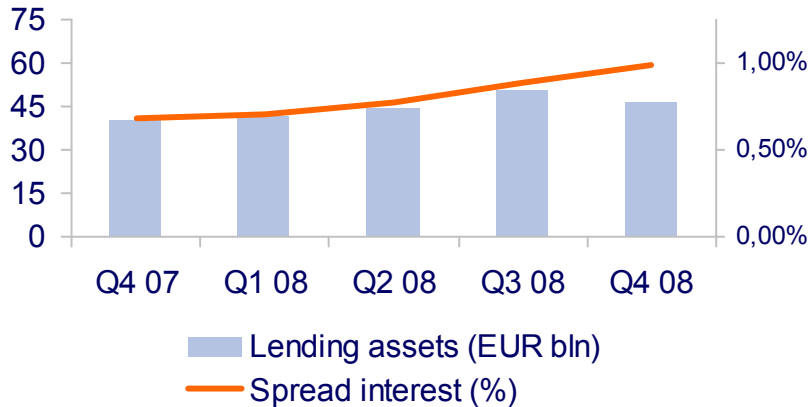
## Expense growth Year on Year



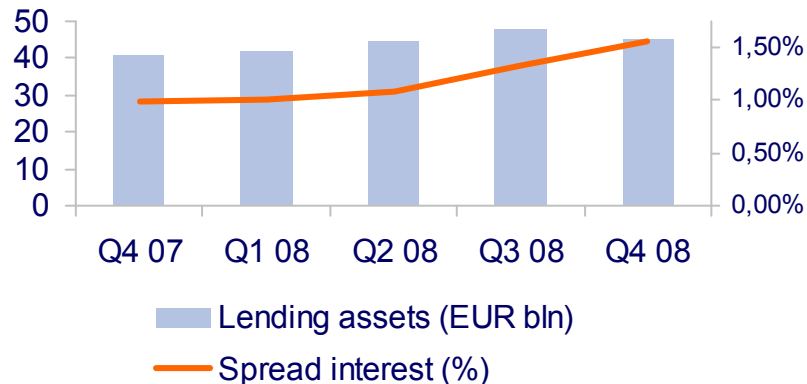
\* Excluding FX and impact of acquisitions & divestments

# Efforts to grow margins will continue

## General Lending Products: Interest / Lending assets



## Structured Finance: Interest / Lending assets




- Aim to be the number one in the Benelux and top five within key client segments in CEE
- Focus on key clients in our core franchise
- Bank landmark deals and excel with these clients
- Recycle assets towards highest priority, most profitable clients
- Increase cross-selling of high value-added Financial Markets products
- Capture large, complex multi-product opportunities via Event Finance unit

# Wholesale will build on the success of its major deals with key clients...

In 2008, our underlying business remained sound.

The deals executed by ING Wholesale Banking demonstrate that our franchise is:

- ✓ Competitively positioned
- ✓ Capable of executing in the current environment
- ✓ Realising good income levels



**AB InBev**  
 Joint Bookrunner  
 USD 45 billion senior credit facility  
 USD 9.8 billion subordinated equity bridge  
 Event Finance  
 Corporate Clients Belgium  
 Syndications  
 ECM  
 December



**e.on**  
 Joint Bookrunner  
 3-year EUR 750 million and  
 7-year EUR 1.25 billion  
 Fixed Rate Bonds  
 Debt Capital Markets  
 August 2008



**Strukton Groep** **Ballast Nedam**  
 DUO2  
 Joint Mandated Lead Arranger  
 Joint Swap Arranger  
 EUR 151 million Bridge Loan  
 Structured Finance  
 Financial Markets  
 September 2008



**gasunie**  
 NV Nederlandse Gasunie  
 Joint Bookrunner  
 EUR 1 Billion  
 5 year Fixed Rate Bond Issue  
 Dept Capital Markets  
 October 2008



**EDF**  
 Electricite de France  
 PCM  
 Sole Service Provider  
 Provision of Cash  
 Management Services  
 July 2008




**VINCI** **CFE** **bam PPP**  
 Sole Financial Adviser, MLA,  
 Hedge Adviser and Provider  
 EUR 841 Million  
 Term Loan Facility  
 Structured Finance  
 Financial Markets  
 November 2008



**Hana Bank**  
 Sole Arranger  
 \$ 315 Million  
 Asset Backed Securitisation  
 June 2008



**HOOGWEGT**  
 Sole Facility Agent  
 Collateral Monitoring Agent  
 Security Agent  
 € 400 Million  
 Credit Facility  
 May 2008



**Wolters Kluwer**  
 Joint Bookrunner  
 Joint Lead Manager  
 €750 Mln 10 year  
 Fixed rate Eurobond  
 April 2008

# ...as well as its strong 2008 league table standings

## 2008: ING in the Benelux


### Benelux loans

Bookrunner	Volume
1. ING 	10,805
2. RBS	9,482
3. Deutsche Bank	9,188
4. Fortis Bank	6,461
5. BNP Paribas	6,071

Bookrunner	No of deals
1. ING 	30
2. RBS	21
3. Fortis Bank	17
4. BNP Paribas	8
5. Citi	7

Source: Bloomberg, 2 January 2009

### All Euro bond issues in the Netherlands

Bookrunner	Value	Market share
1. ING 	7498	17
2. Deutsche Bank	6880	16
3. JPMorgan	4482	10
4. RBS	3125	7
5. Credit Suisse	2990	7
6. Rabobank	2778	6
7. Barclays Capital	2704	6
8. BNP Paribas	2387	5
9. UBS	2224	5
10. UniCredit Group	1921	4

Source: Dealogic, January 2008 - 2009

The 2008 leagues tables demonstrate the progress we have made over the last year:

- ✓ Number 1 in Benelux loans by volume and deals
- ✓ Number 1 in Netherlands for DCM
- ✓ Number 2 in MLA role in Netherlands
- ✓ Number 4 in Global Project Finance by deals (Structured Finance)
- ✓ PCM won Best Cash Management bank in Europe and Eastern Europe at 2008 TMI awards

# Thank you

Any Questions?





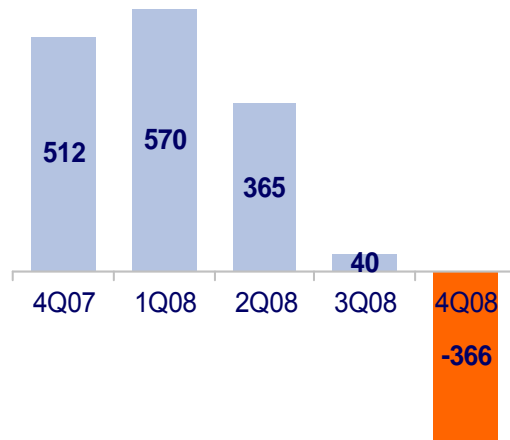
# Appendix



# Banking: Lower result driven by impairments, negative revaluations and risk costs

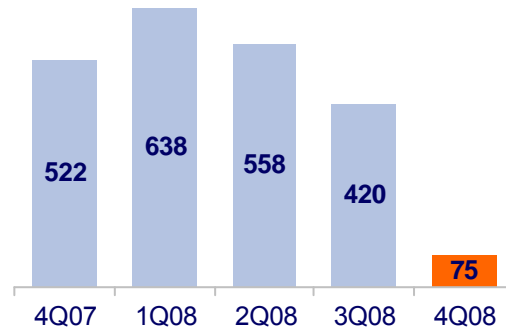
## Underlying result before tax (in EUR million)

### Wholesale Banking



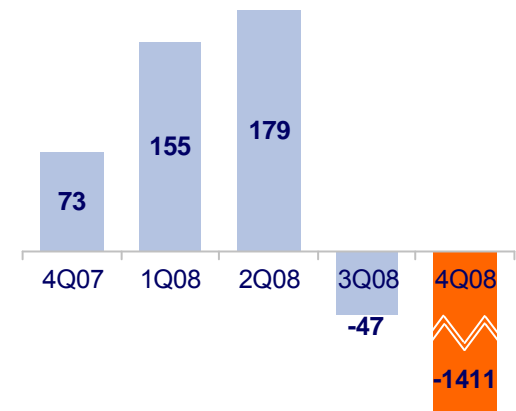
- Result before tax down to EUR -366 mln due to real estate revaluations (EUR -332 mln) and credit related markdowns and impairments (EUR -171 mln)
- Commercial performance in General Lending and Structured Finance was resilient
- Risk costs rose to EUR 254 mln due to worsening economic conditions

### Retail Banking



- Market turmoil puts pressure on commission income
- Intense competition for savings and deposits continues
- Losses in mid-corporates on financial market products
- Accelerated costs due to Dutch retail banking integration
- Risk costs up to EUR 207 mln driven by private banking and mid-corporates

### ING Direct



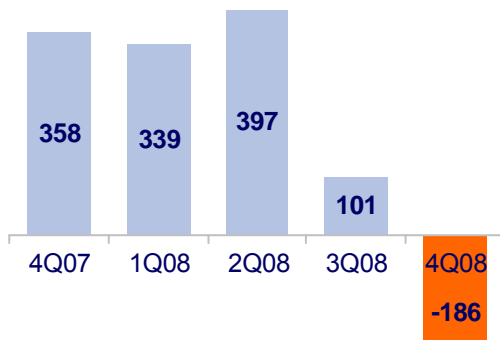
- Loss before tax due to EUR 1,670 mln in impairments, mainly on Alt-A
- Interest margin up to 0.99% following rate reductions
- 472,000 new clients added
- Illiquid Assets Back-up Facility reduces future Alt-A exposure
- Risk costs rose to EUR 115 mln, driven by the US



# Insurance: Financial markets downturn and volatility reduced earnings

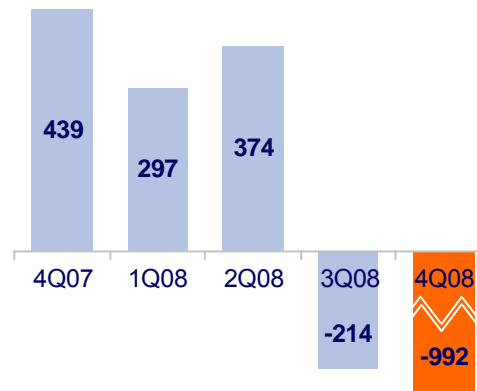
## Underlying result before tax (in EUR million)

### Insurance Europe



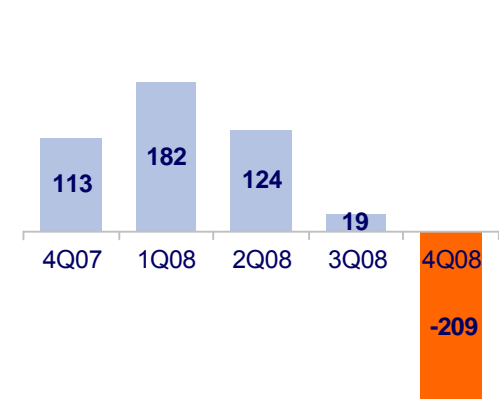
- Underlying result before tax declines to EUR -186 mln due to investment losses across asset classes
- Gross premium income increased 3.6% due to solid sales of single premium products in NL
- Derisking efforts include sale of proprietary equities and RE

### Insurance Americas



- Market turmoil triggers underlying loss of EUR 992 mln
- Result driven by EUR 442 mln investment losses and EUR 838 mln negative DAC unlocking
- Net flows in retirement services and variable annuity declined 35.3% but remained solidly positive at EUR 1,208 mln

### Insurance Asia/Pacific



- Underlying result before tax down to EUR -209 mln due to sharp declines in equity markets
- Japan: EUR 269 mln SPVA market-related hedge losses
- Despite lower sales, ING Insurance Asia/Pacific either maintained or improved market positions across the region