First quarter 2018 Results

ING 1Q18 net profit of €1,225 million

Ralph Hamers, CEO ING Group

Amsterdam ▪ 9 May 2018

thinkforward

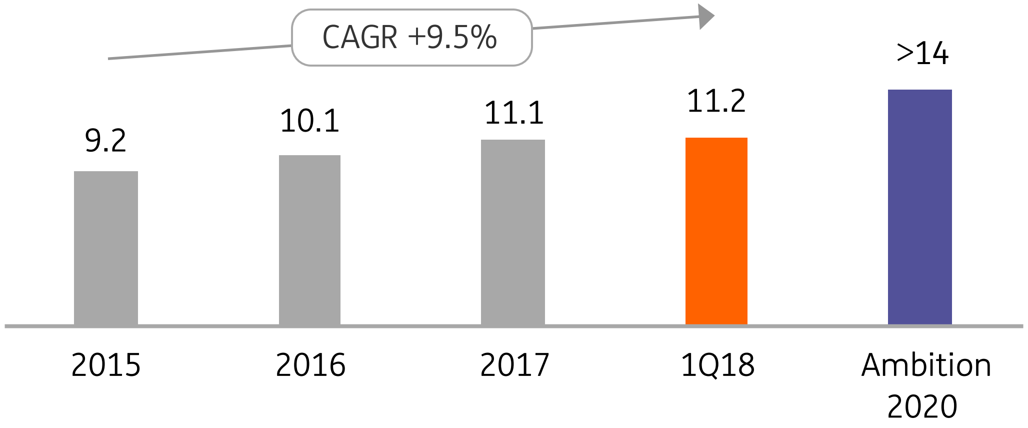
ING

Key points

- ING posted 1Q18 net profit of €1,225 mln, up 7.2% on 1Q17
- Primary customers increased by 170,000 to 11.2 mln with Australia contributing strongly to the quarterly growth
- We recorded net core lending growth of €12.3 bln in the quarter; net interest margin at 152 bps
- Expenses came down from more elevated 4Q17 demonstrating good cost control in the quarter
- IFRS 9 adopted; low risk costs due to more positive macroeconomic outlook and benign credit environment
- On a four-quarter rolling average basis, ING Group's underlying return on equity was up slightly at 10.3%
- Fully loaded CET1 ratio at 14.3%; we have set a CET1 ambition of around 13.5%, taking the impact of Basel IV and TRIM on the current CET1 ratio into account, and an underlying ROE ambition of 10-12%

Our focus on primary customers and digital drives value

Target to reach 14 mln primary customers* by 2020



Core lending

1Q18 net growth

€ **+12.3** bln

Customer deposits

1Q18 net growth

€ **+2.4** bln

Net promoter scores (NPS)

1Q18

#1 in **7** out of 13 retail countries

of digital interactions**

1Q18

828 mln

+21.5% YoY

Customer value = **Number of customers** × **Share of primary** × **Cross-buy** × **Product value**

* Historical numbers have been restated as of 2016; 200k additional primary customers due to definition alignment between countries
** Log-in to mobile app or Internet banking

Innovative, clear and easy products and services in order to create the go-to digital platform

We innovate ourselves…

Yolt passed 250k user mark

YOLT

Blockchain-based trade finance

EASY TRADING connect

Peer-to-peer payments + cashback

twyp

Building a shared banking app

"Banking to go"

…and we partner with (fin)techs

Robo advice partnership

scalable .CAPITAL

Acquisition of leading payment services provider

PAYVISION

Instant lending for SMEs

Kabbage

Digital identity management

itsme to prove it's you

ING

Strong start of the year for sustainable finance

Responsible Finance portfolio (year-end 2017)

	€ bln	% of WB lending
Climate finance	14.6	9.0%
Social impact finance	0.5	0.3%
Industry ESG leaders	5.5	3.4%

Building our reputation as leading green bond house

ING led 8 green bonds for clients in 1Q18 including:

- Joint bookrunner on the green bond debut of the Kingdom of Belgium, a €4.5 bln transaction that was met with massive demand
- SpareBank 1 issued the Nordic's first green covered bond of €1.0 bln. Proceeds are used to acquire energy-efficient residential mortgages. ING acted as sole structuring advisor

Sharpened sustainability direction

- We strengthened our approach by introducing a Responsible Finance portfolio, replacing our Sustainable Transitions Financed. By 2022, ING aims to double (baseline 2017) our funding to these companies and sectors
- In March 2018, the Green Loan Principles were published by the Loan Market Association. ING has been instrumental in the development of these principles

First sustainability-linked syndicated RCF in Asia

- ING acted as Sustainability Coordinator for Olam International's new $500 mln sustainability-linked syndicated revolving credit facility (RCF), which is the first of its kind in Asia

ING Group financial ambitions

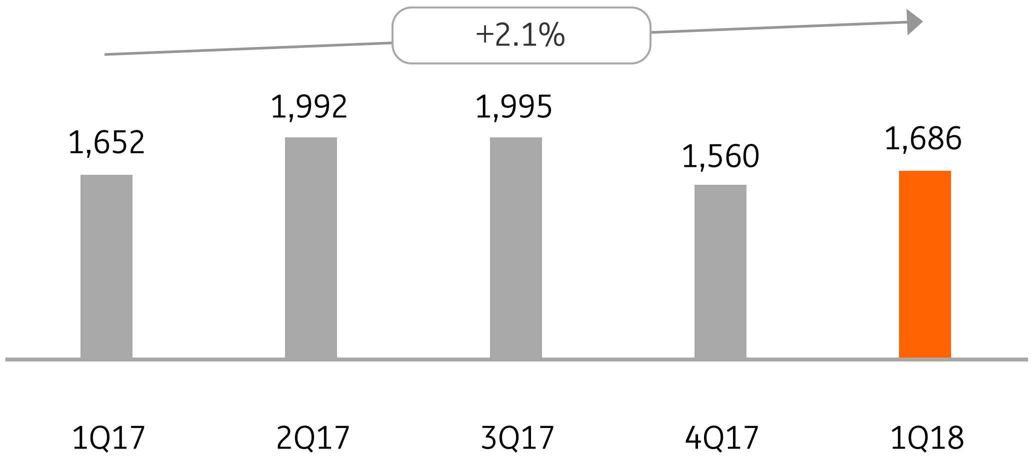
		Actual 2017	Actual 1Q18	Financial ambitions
Capital	• CET1 ratio (%)	14.5%*	**14.3%***	~13.5%** (Basel IV)
	• Leverage ratio (%)	4.7%	**4.4%**	>4%
Profitability	• Underlying C/I ratio (%)***	55.5%	**55.7%**	50-52% (by 2020)
	• Underlying ROE (%)*** (IFRS-EU Equity)	10.2%	**10.3%**	10-12%
Dividend	• Dividend (per share)	€0.67		Progressive dividend

* Basel III CET1 ratio of 14.5% as per 1 January 2018; Estimated Basel IV impact on CET1 of around -2.0 %-point will dilute current Basel III CET1 ratio over time
** Implies management buffer (incl. Pillar 2 Guidance) of 170 bps over prevailing fully-loaded CET1 requirements (currently 11.8%)
*** Based on 4-quarter rolling average; the ING Group ROE is calculated using IFRS-EU shareholders' equity after excluding 'interim profit not included in CET1 capital'. As at 31 March 2018, this comprised the final dividend 2017 of €1,670 mln and the 1Q18 interim profit not included in CET1 capital of €868 mln

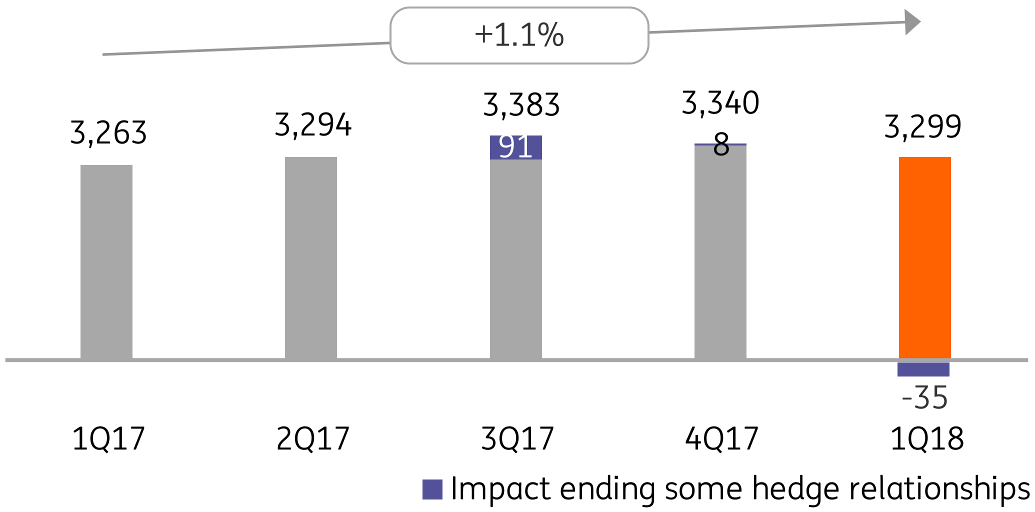
1Q18 results

Solid pre-tax result despite seasonally high regulatory costs

Underlying pre-tax result (in € mln)



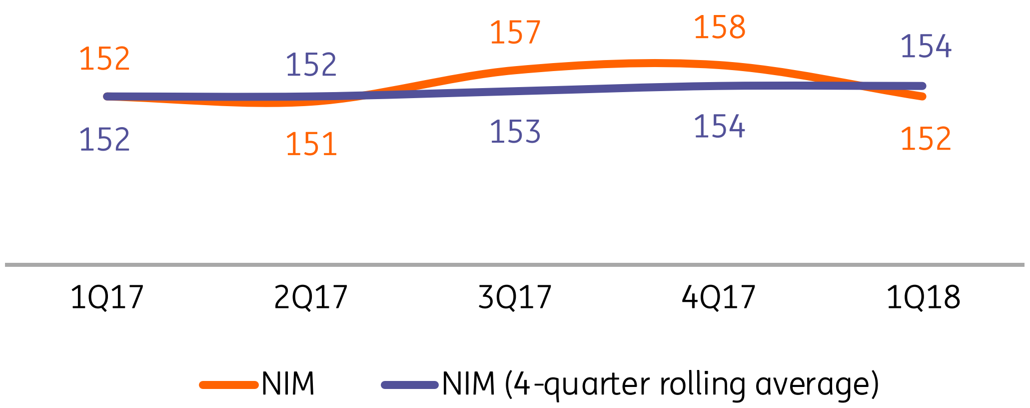
Net interest income excl. Financial Markets (in € mln)



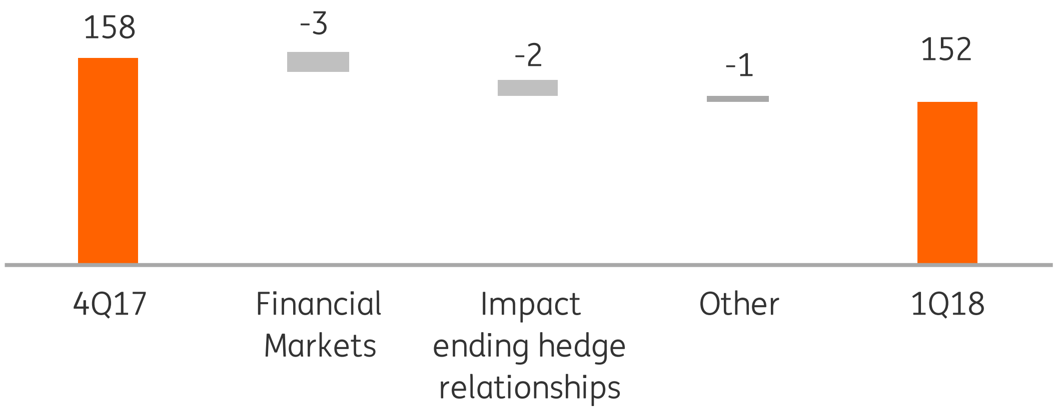
- Underlying result before tax of €1,686 mln in 1Q18, mainly attributable to continued loan growth at resilient margins and lower risk costs, but also included seasonally higher regulatory costs
- NII excluding FM rose 1.1% versus 1Q17, despite currency impacts, supported by continued loan growth and an overall stable net interest margin
- Compared to the previous quarter NII is down 1.2% largely due to the impact of ending some hedge relationships and decreasing savings income

NIM continues to be at healthy levels

Net interest margin down quarter-on-quarter… (in bps)



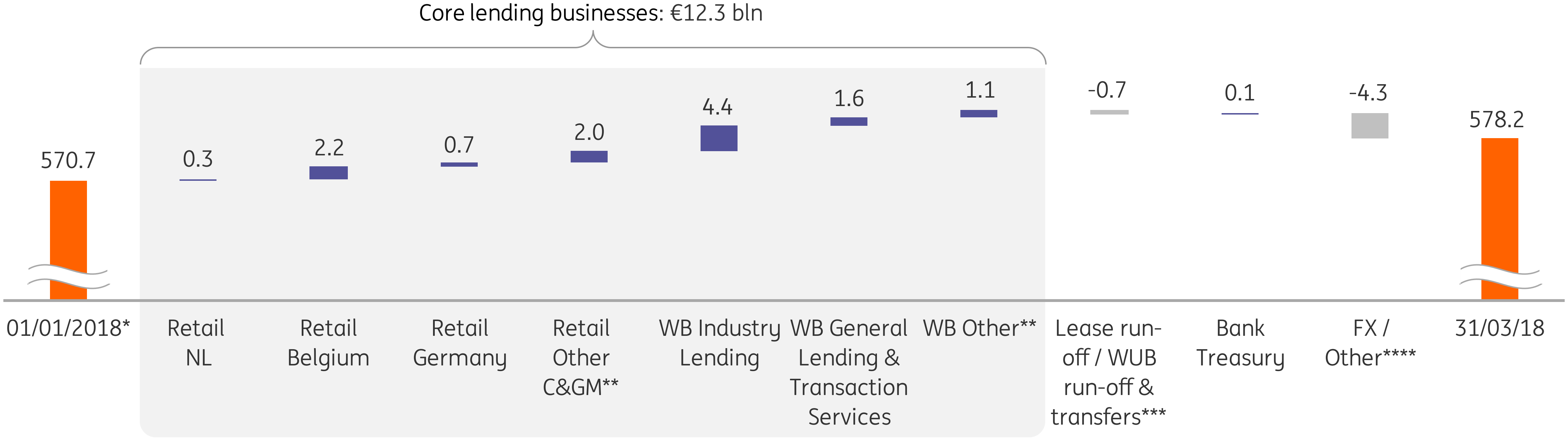
…as volatile positive impacts in 4Q17 largely reversed



- Net interest margin was down to 152 bps in 1Q18 due to lower interest result in Financial Markets, negative impact of ending some hedge relationships as well as lower interest margins on (non-mortgage) lending and savings
- On a 4-quarter rolling average basis, which reduces the impact of accounting-related items, the net interest margin remained stable at 154 bps

Core lending growth in all franchises

Customer lending ING Group 1Q18 (in € bln)

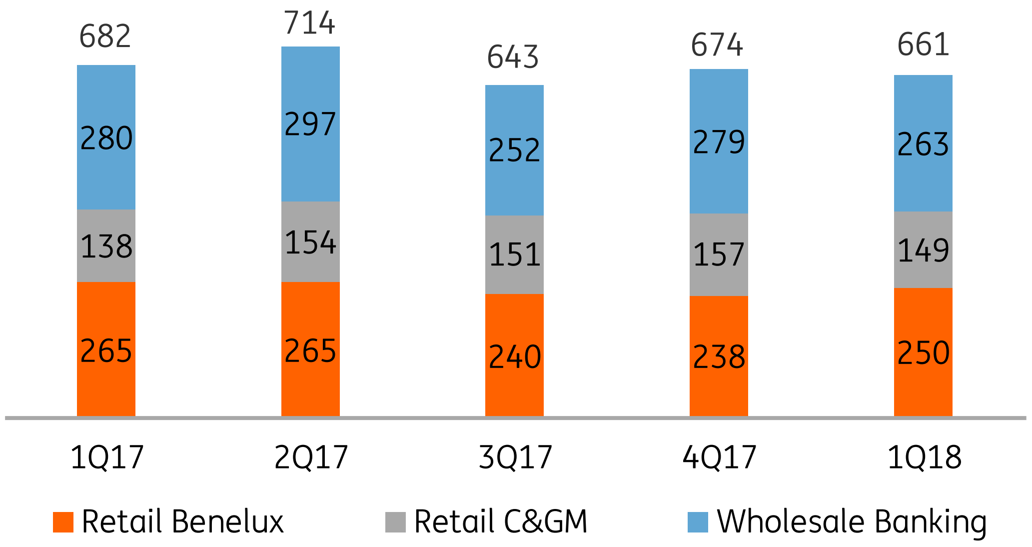


- Our core lending franchises grew by €12.3 bln in 1Q18, with growth again well diversified:
  - Retail Banking increased by €5.2 bln, of which approximately two thirds in other (non-mortgage) lending
  - Wholesale Banking increased by €7.1 bln, predominantly in Industry Lending and General Lending & Transaction Services

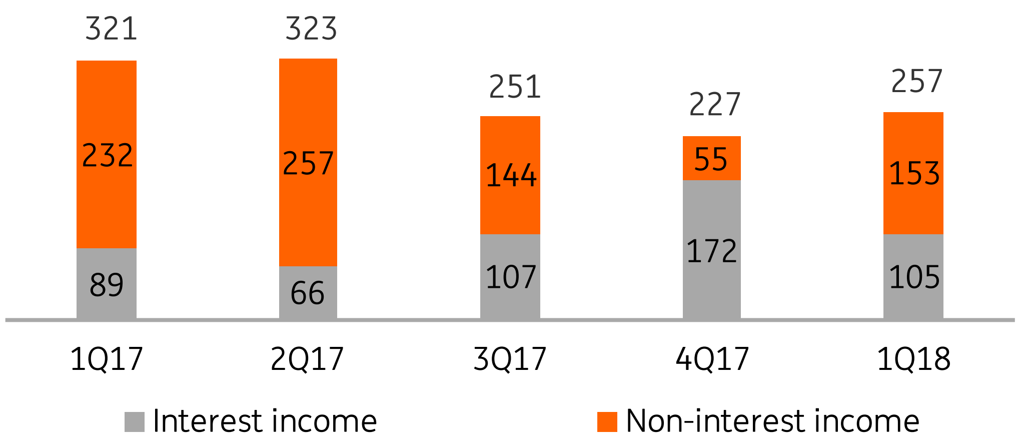
* Impact accounting change includes the adoption of IFRS 9, and reclassifications related to new accounting rules for accrued interest. Of this impact, €-2.8 bln is explained by a reclassification in Retail Netherlands of mortgages from customer lending to financial assets at fair value through OCI
** C&GM is Challengers & Growth Markets; WB Other includes Financial Markets
*** Lease run-off was €-0.1 bln, WUB run-off was €-0.3 bln and €-0.2 bln due to the sale of a mortgage portfolio in Retail Belgium
**** FX impact was €-4.1 bln and Other €-0.2 bln

Fee income growth in C&G; FM impacted by lower client activity

Net commission income (in € mln)



Underlying income Financial Markets* (in € mln)



- Commission income declined by 3.1% year-on-year to €661 mln. The decrease was mainly caused by lower fee income from investment products in Retail Belgium, partly due to market volatility, and in Industry Lending. Fee income in C&G continues to make good progress albeit commissions paid for the origination of mortgages in Germany were higher in 1Q18
- Year-on-year, Financial Markets total income was down, as client activity in the current quarter was lower and put pressure on Rates and Credit revenues. Sequentially total income was up slightly on a weak 4Q17

* Excluding CVA/DVA

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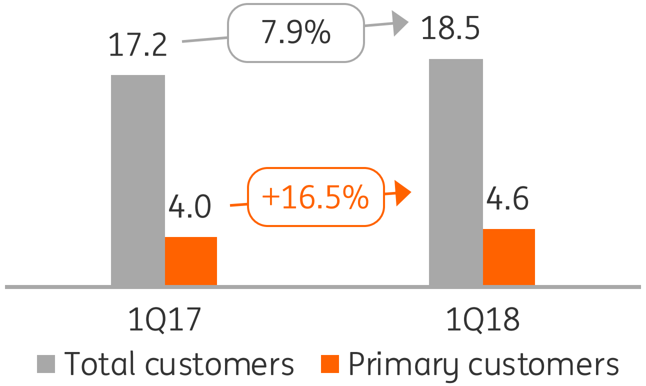
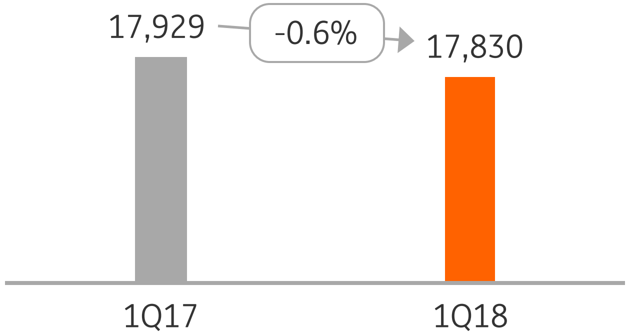
Primary customer focus drives value in Retail Other C&G

Strong customer growth (in mln)



Headcount remains broadly stable (internal FTEs)



Our value proposition speaks for itself…

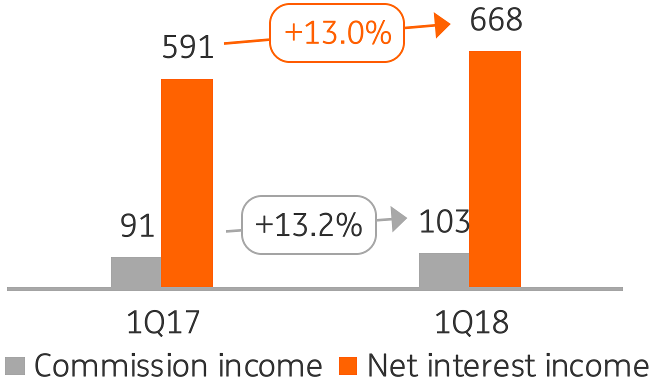
#1 NPS rank in **5** out of 8 Other C&G countries

Introduced instant payments solution in Australia

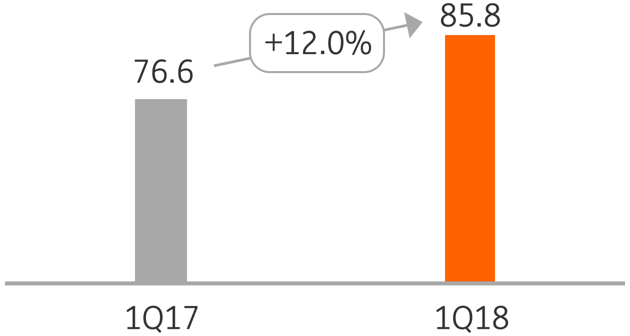
Green initiatives launched in Poland with ECO credit and leasing products

Cards hub in Poland will process transactions from France

Double digit growth in NII and fees (in € mln)



Strong core lending growth (in € bln)*



Retail Other Challengers & Growth Markets which includes Australia, Czech Republic, France, Italy, Spain, Romania, Turkey and the Asian banks (excluding Germany)
* Core lending balance excluding BT and FX impact

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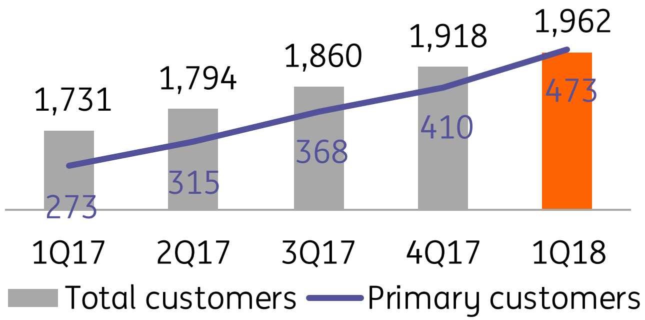
Australia delivering on Think Forward priorities

NPS aided by digital focus and expanded product range

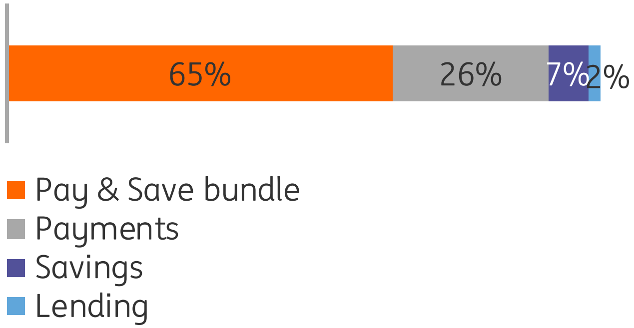
#1 NPS Score in Australia
(+22 points vs. best competitor)

- Exceeded 1 mln payment accounts in April
- Launched Everyday Round Up, a digital savings feature
- Digital interactions and digital sales almost doubled over past 12 months
- Accelerating diversification through consumer and business lending
- Wholesale, Insurance and Superannuation further grow fees

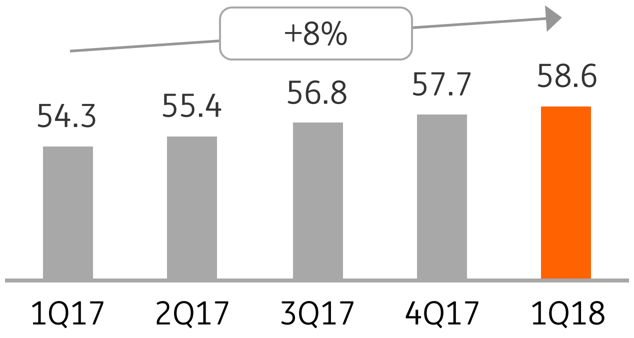
Primary customers (in thousands)



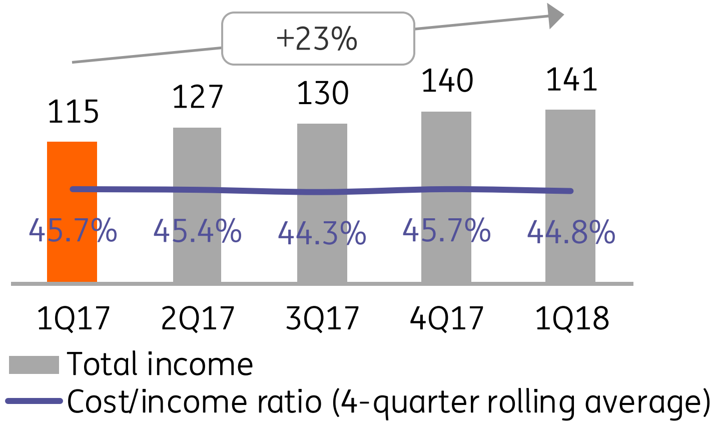
1Q18 customer acquisition by product



Customer balances* (in € bln)



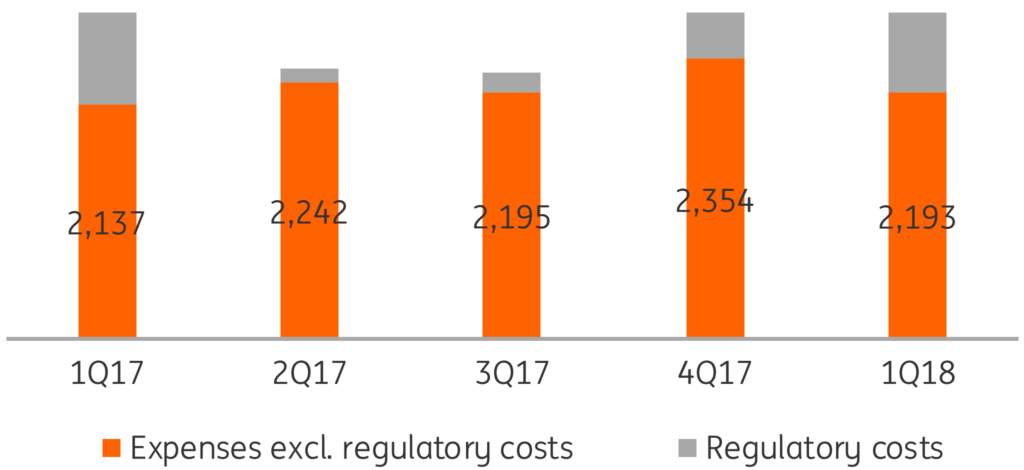
Good cost/income profile* (in € mln)



All disclosed financials concern ING Group management accounting figures (Retail and Wholesale Banking combined), which might deviate from local disclosures
* Customer balances is sum of customer lending and customer deposits; comparable quarters recalculated against FX rate of 1Q18

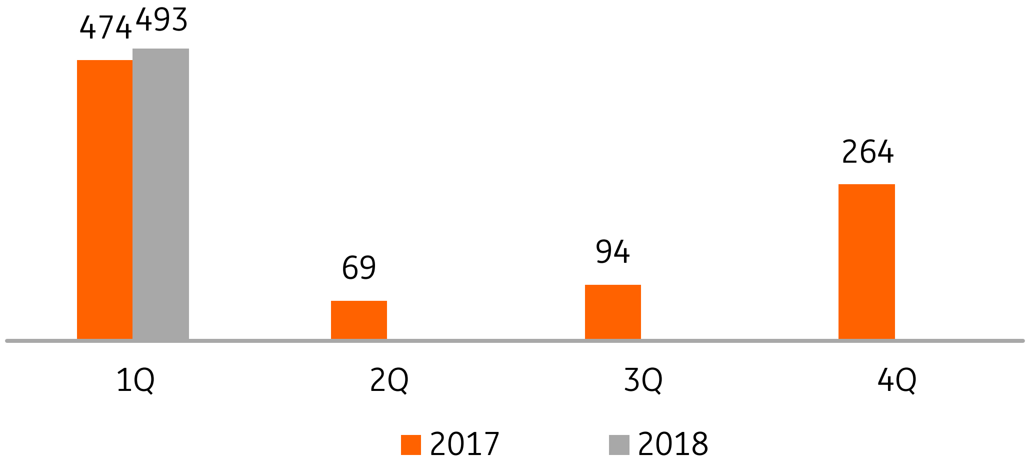
Operating expenses excl. regulatory costs normalised in 1Q18

Underlying operating expenses (in € mln)

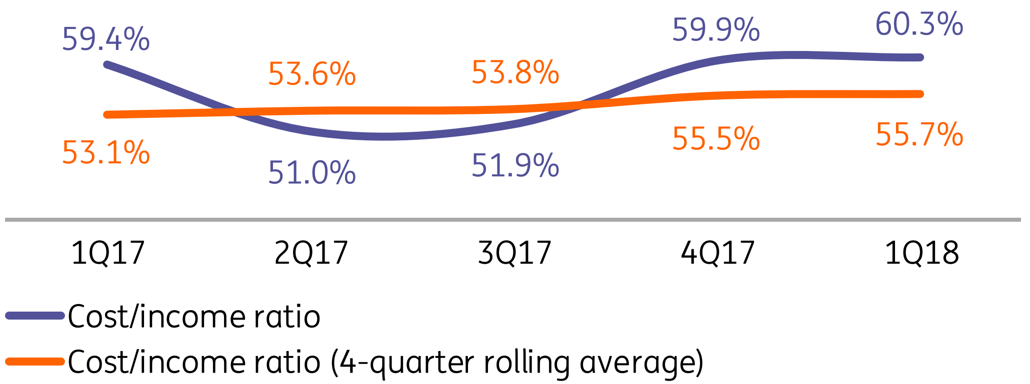


- Compared to 4Q17, which included a step-up in digital investment spend and incidentally higher costs, expenses excluding regulatory costs fell by €161 mln QoQ
- Year-on-year, costs are up modestly largely to support business growth in Retail C&G and Wholesale Banking as well as temporarily higher external staff expenses in Retail Belgium
- Total regulatory costs are high in Q1 as ING is required to recognise certain annual charges in full in the first quarter

Regulatory costs (in € mln)

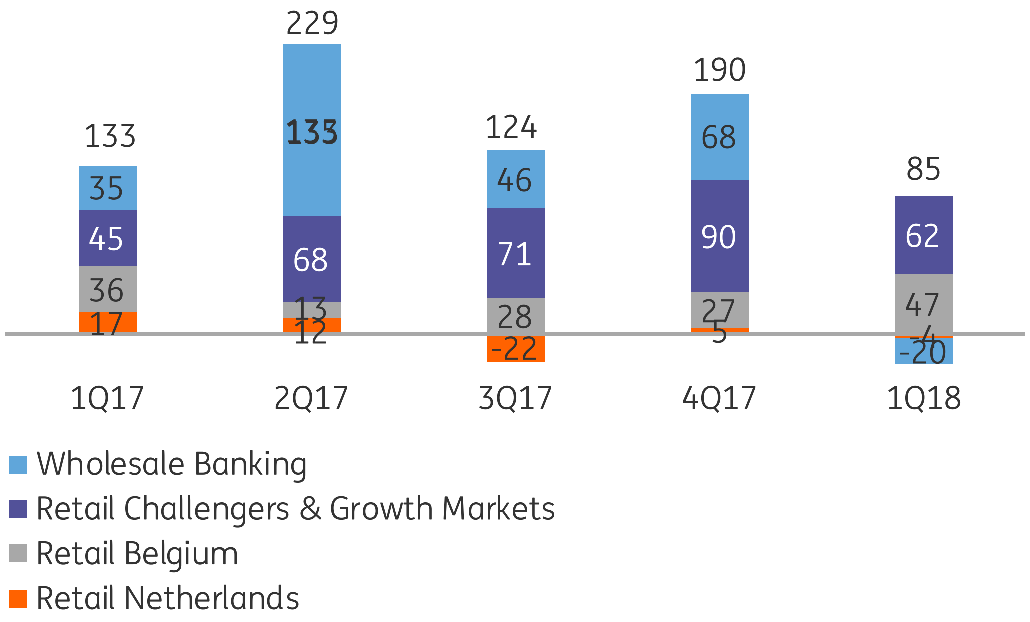


Cost/income ratio

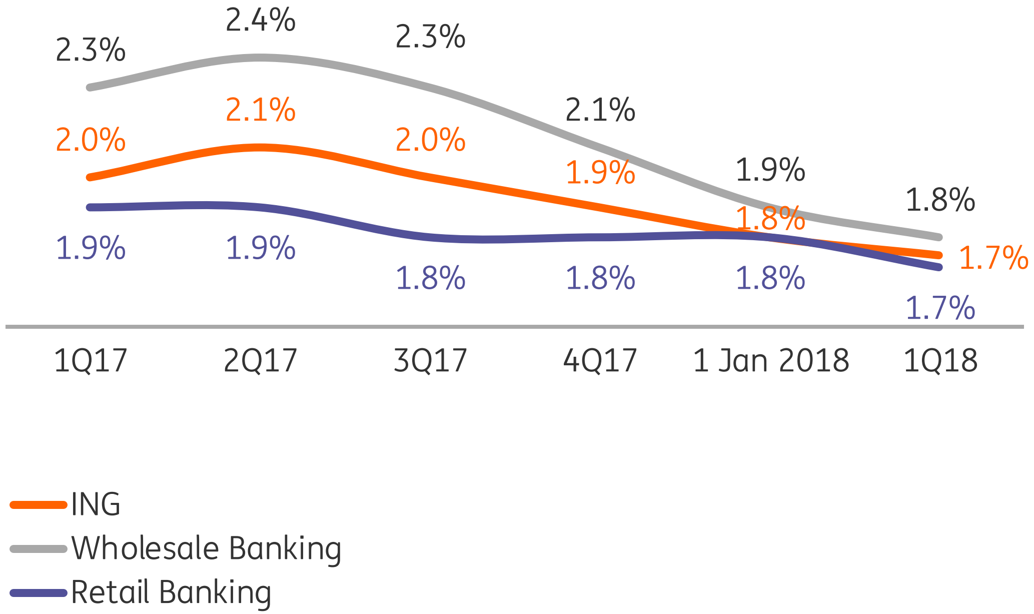


Risk costs remained low; new NPL metric introduced under IFRS 9

Risk costs (in € mln)



Stage 3 ratio*

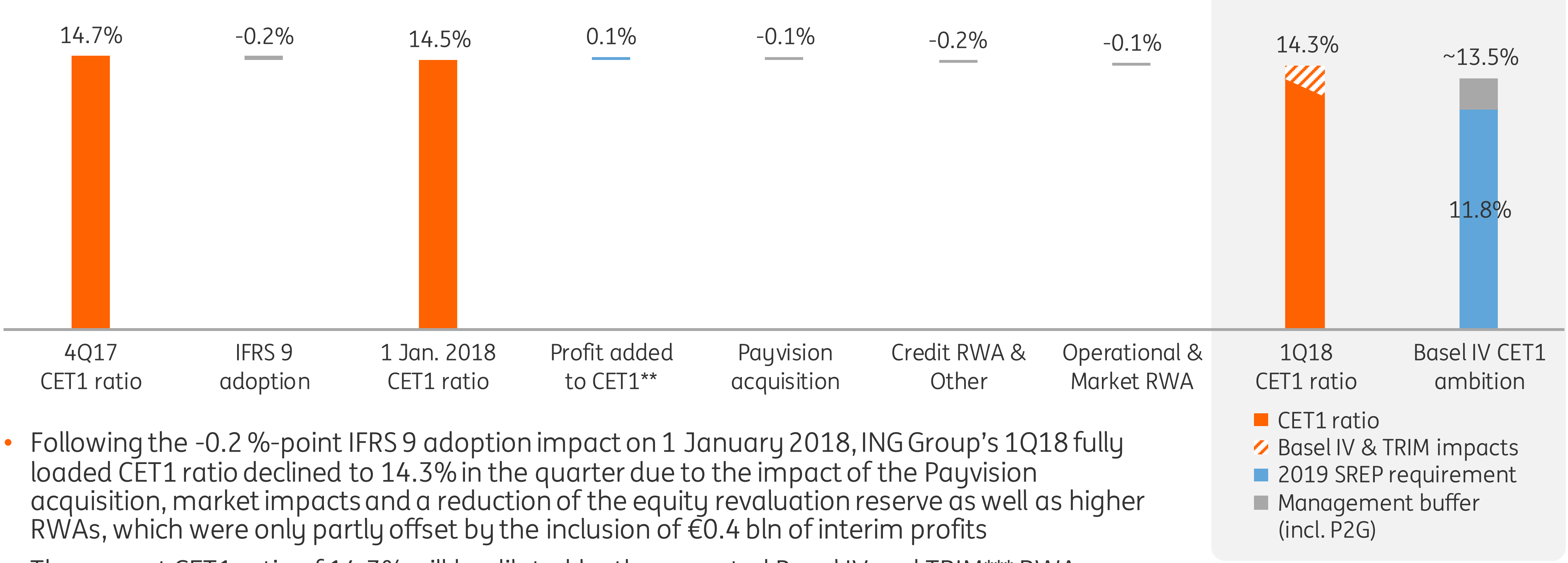


- 1Q18 risk costs were €85 mln, or 11 bps of average RWA, well below the 40-45 bps through-the-cycle average
- Retail Netherlands recorded a net release, while Retail Belgium risk costs were up from 4Q17 largely due to business lending
- Wholesale Banking risk costs were negative (-5 bps of average RWA) due to several larger releases on individual files

* Prior to 1 January 2018, stage 3 ratio was known as NPL ratio as per IAS 39 guidelines

ING Group CET1 ratio at 14.3% including IFRS 9 impact

ING Group fully loaded CET1 ratio development*



- Following the -0.2 %-point IFRS 9 adoption impact on 1 January 2018, ING Group's 1Q18 fully loaded CET1 ratio declined to 14.3% in the quarter due to the impact of the Payvision acquisition, market impacts and a reduction of the equity revaluation reserve as well as higher RWAs, which were only partly offset by the inclusion of €0.4 bln of interim profits
- The current CET1 ratio of 14.3% will be diluted by the expected Basel IV and TRIM*** RWA impacts

* ING Group's 1Q18 fully loaded capital ratio is based on RWAs of €312.4 bln; small differences in the graph due to rounding
** 1Q18 Group net profit of €1,225 mln, of which €868 mln set aside for dividends and the remainder (€357 mln) added to CET1 capital
*** ECB's Targeted Review of Internal Models

Wrap up

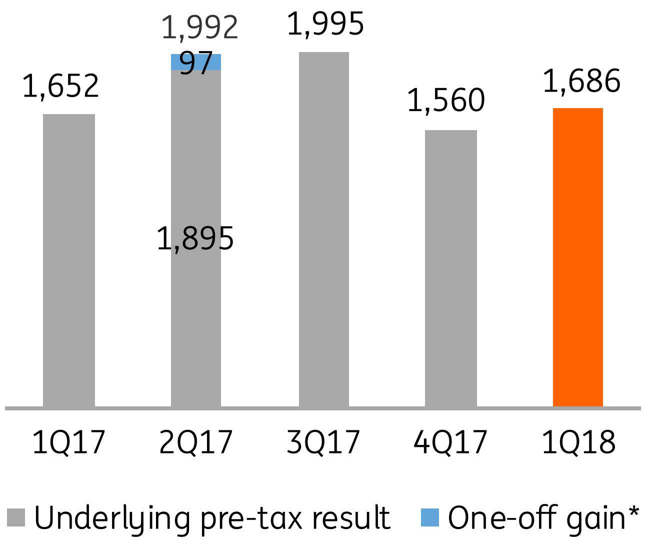
Wrap up

- ING posted 1Q18 net profit of €1,225 mln, up 7.2% on 1Q17
- Primary customers increased by 170,000 to 11.2 mln with Australia contributing strongly to the quarterly growth
- We recorded net core lending growth of €12.3 bln in the quarter; net interest margin at 152 bps
- Expenses came down from more elevated 4Q17 demonstrating good cost control in the quarter
- IFRS 9 adopted; low risk costs due to more positive macroeconomic outlook and benign credit environment
- On a four-quarter rolling average basis, ING Group's underlying return on equity was up slightly at 10.3%
- Fully loaded CET1 ratio at 14.3%; we have set a CET1 ambition of around 13.5%, taking the impact of Basel IV and TRIM on the current CET1 ratio into account, and an underlying ROE ambition of 10-12%

Appendix

Solid 1Q18 result; volatile items swing to positive in the quarter

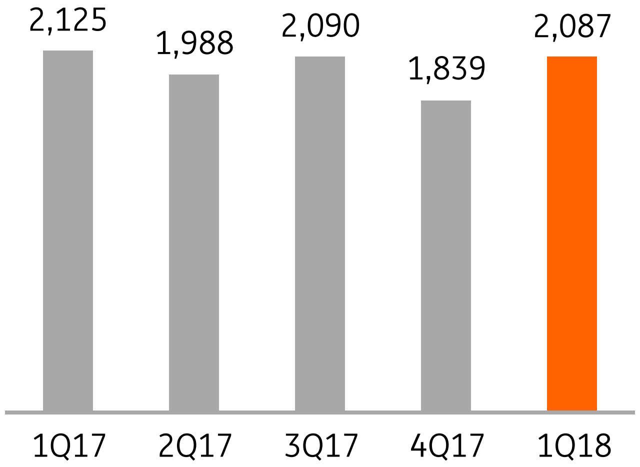
Underlying pre-tax result (in € mln)



Volatile items and regulatory costs (in € mln)

	1Q17	2Q17	3Q17	4Q17	1Q18
CVA/DVA	30	-42	-1	-45	23
Capital gains/losses	45	25	27	11	63
Hedge ineffectiveness	-74	-7	-27	19	6
Other items*		97			
Total volatile items	1	73	-1	-15	92
Regulatory costs	-474	-69	-94	-264	-493

Pre-tax result excl. volatile items and regulatory costs (in € mln)



- Excluding volatile items and regulatory costs, 1Q18 pre-tax result was down 1.8% from 1Q17, reflecting our focus on growth and transformation in both the Retail and Wholesale Banking businesses as well as the strong first quarter for FM in 2017
- Sequentially, the pre-tax result excluding volatile items and regulatory costs was up by 13.5%, largely due to higher revenues, lower risk costs and lower operational expenses

* 2Q17 one-time gain relates to the sale of an equity stake in the real-estate run-off portfolio (€97 mln)

Potential for further core savings rate adjustments limited

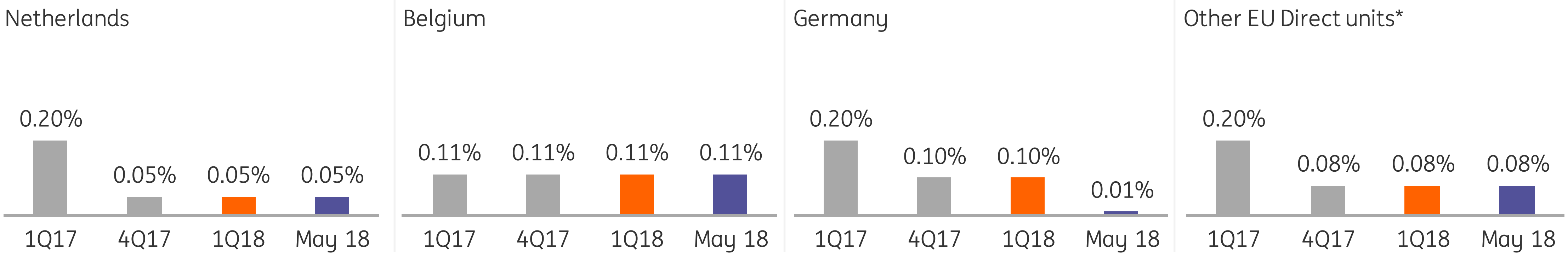
Only few savings rate adjustments since year-end…

- In 1Q18, we only reduced core savings rates in Australia (-20 bps)
- On 4 April 2018, core savings rates in Germany were lowered from 10 bps to 1 bps

…while we have other levers to stabilise NIM

- Continue growth in higher margin lending without changing our risk appetite
- Further balance sheet optimisation

Core client savings rates



* Unweighted average core savings rates in France, Italy and Spain

Group CET1 ratio at 14.3% and underlying ROE at 10.3%

Group fully loaded CET1 ratio development during 1Q18 (amounts in € bln and %)

	Capital	RWA	Ratio	Change
Actuals 31 December 2017	45.5	309.9	14.7%	
IFRS 9 impact	-0.4	1.3		-0.2%
Actuals 1 January 2018	45.2	311.2	14.5%	
Net profit included in CET1*	0.4			+0.11%
Equity stakes	-0.1	-0.3		-0.01%
Payvision acquisition	-0.3			-0.09%
FX	-0.3	-2.0		+0.01%
RWA & Other**	-0.4	3.5		-0.28%
Actuals 31 March 2018	44.6	312.4	14.3%	-0.25%

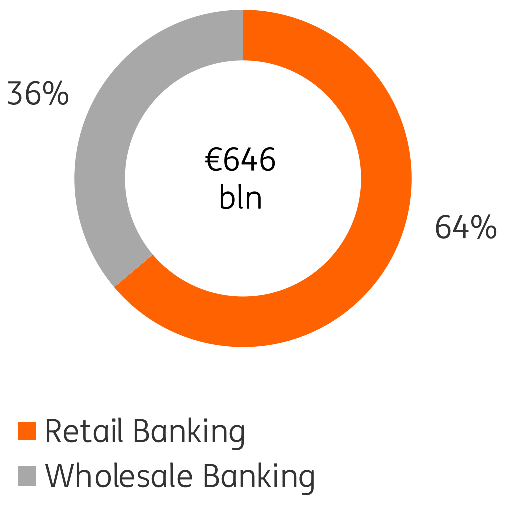
Group underlying ROE calculation in 1Q18 (in € mln)

As of 31 March 2018	
IFRS-EU shareholders' equity	50,164
deduct: Interim profit not included in CET1 capital***	2,538
Adjusted shareholders' equity	**47,626**
Adjusted shareholders' equity (4Q-rolling average)	48,070
Underlying net result (last four quarters)	4,974
Underlying ROE (4Q-rolling average)****	10.3%

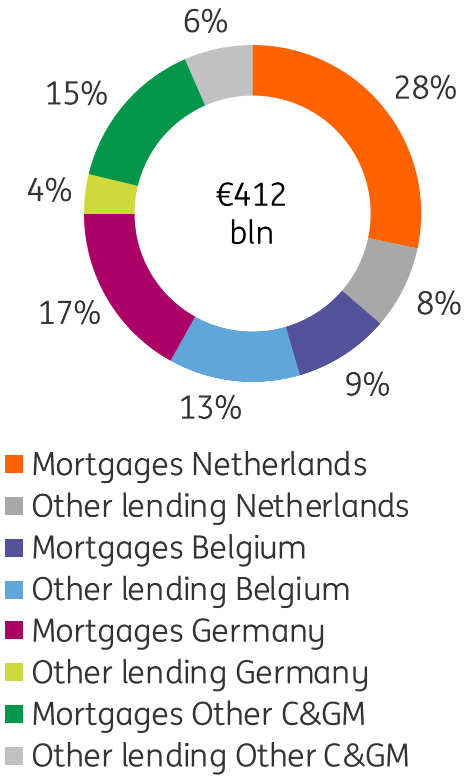
* 1Q18 Group net profit (€1,225 mln) partly reserved for dividends (€868 mln) and remainder included in Group CET1 capital (€357 mln)
** Group CET1 includes the negative impact of volume growth (-16 bps), Operational RWA (-9 bps), Market RWA (-4 bps) and other items (-7 bps) which were only partly offset by the positive impact from risk migration (+3 bps) and model updates (+5 bps)
*** The profit not included in CET1 is €2,538 mln which is comprised of the final dividend 2017 (€1,670 mln) and the 1Q18 interim profit not included in CET1 capital (€868 mln)
**** Impact of the adjustment of shareholders' equity, by deducting profit not included in CET1 capital in 1Q18, is approx. 39 bps on the 4Q-rolling average Group ROE

Well-diversified lending credit outstandings by activity

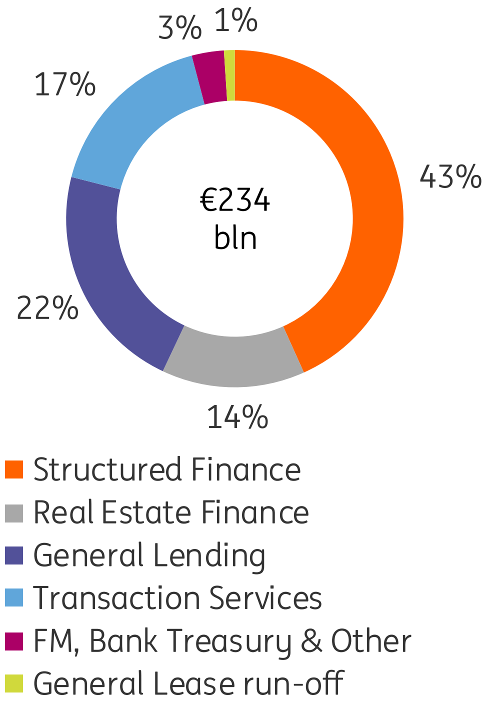
ING Group*



Retail Banking*



Wholesale Banking*



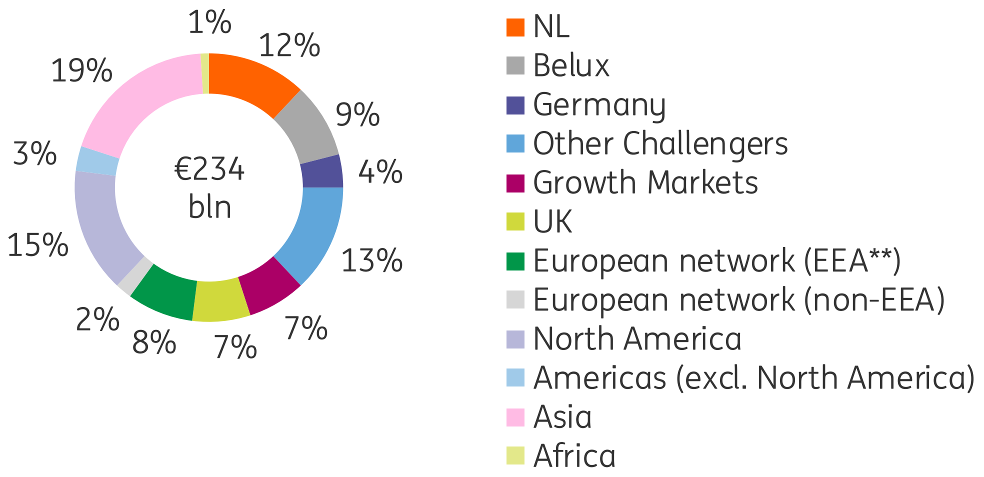
- ING has a well-diversified and collateralised loan book with a strong focus on own-originated mortgages
- 64% of the portfolio is retail-based

* 31 March 2018 lending and money market credit outstandings, including guarantees and letters of credit, but excluding undrawn committed exposures (off-balance sheet positions)

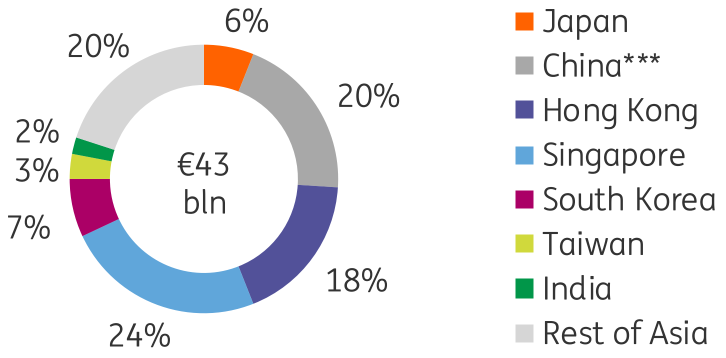
Granular Wholesale Banking lending credit outstandings by geography and sector

Loan portfolio is well diversified across geographies…

Lending Credit O/S Wholesale Banking (1Q18)*

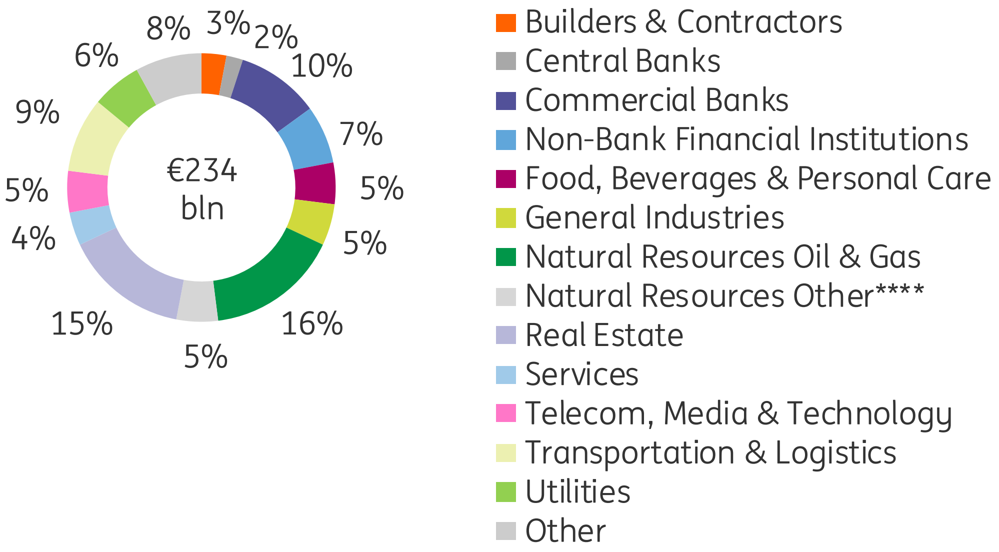


Lending Credit O/S Asia (1Q18)*



…and sectors

Lending Credit O/S Wholesale Banking (1Q18)*



* Data is based on country/region of residence; Lending Credit O/S include guarantees and letters of credit
** Member countries of the European Economic Area (EEA)
*** Excluding our stake in Bank of Beijing (€2.5 bln at 31 March 2018)
**** Mainly Metals & Mining

Detailed stage 3 / NPL disclosure on selected lending portfolios

Selected lending portfolios (in € mln)

	Lending credit O/S 1Q18	Stage 3 ratio 1Q18	Lending credit O/S 4Q17	NPL ratio 4Q17	Lending credit O/S 1Q17	NPL ratio 1Q17
Wholesale Banking	**234,201**	**1.8%**	**232,521**	**2.1%**	**234,175**	**2.3%**
Industry Lending	133,242	2.0%	132,425	2.4%	131,979	2.4%
Of which Structured Finance	101,136	2.1%	101,265	2.5%	102,826	2.4%
Of which Real Estate Finance	32,106	1.7%	31,161	2.0%	29,153	2.4%
Selected industries*						
Oil & Gas related	37,941	2.5%	36,708	3.3%	36,495	2.7%
Metals & Mining**	14,962	3.8%	14,899	4.3%	15,485	4.4%
Shipping & Ports***	13,175	5.7%	13,175	5.9%	14,384	6.6%
Selected countries						
Turkey****	15,627	2.4%	15,941	2.5%	17,524	2.4%
Russia	4,481	2.7%	4,594	2.8%	5,117	3.1%
Ukraine	798	41.6%	785	43.2%	1,077	48.5%

* Includes WB Industry Lending, General Lending (CFIL) and Transaction Services
** Excluding Ukrainian and Russian Metals & Mining exposure, the stage 3 ratio would be 1.6%
*** Shipping & Ports includes Coastal and Inland Water Freight which is booked within Retail Netherlands. Excluding this portfolio, stage 3 ratio is 2.8%
**** Turkey includes Retail Banking activities (€8 bln)

IFRS 9

Change in impairment methodology due to IFRS 9

Stage 1 assets
- 12 month ECL
- No significantly increased credit risk

Migration triggered by significant increase in credit risk since origination →

← **Move back triggered by above conditions no longer being met**

Stage 2 assets
- Lifetime ECL
- Significantly increased credit risk

→

Stage 3 assets
- Lifetime ECL
- Defaulted

- ING's Expected Credit Loss (ECL) model, which is probability-weighted, reflects three macroeconomic scenarios via a baseline, an up and a down scenario
- In the baseline scenario, the use of external consensus forecasts for economic variables (unemployment rates, GDP growth, house prices, commodity prices, short-term interest rates) ensures unbiased ECL estimates
- For retail exposures, unemployment is the main economic variable. For wholesale exposures, GDP growth is a key driver
- ING assesses a significant increase in credit risk using: the delta in the lifetime default probability, watch list status, intensive care management, internal ratings, arrears and "more than 30 days past due" backstop for Stage 1 and Stage 2 transfers
- Compared to the IAS 39 scope, an important change is the inclusion of certain off-balance sheet exposures and the securities portfolio classified as Fair Value through Other Comprehensive Income (FVOCI)

Key macro-economic parameters

Main macro-economic forecasts (averages 2018-2020)

	Baseline (60%)	Up (20%)	Down (20%)
GDP (YoY %-change)			
Netherlands	2.0	3.6	0.4
Belgium	1.6	2.4	0.5
Germany	1.9	3.4	0.2
US	2.3	4.0	0.5
Unemployment (%)			
Netherlands	4.2	2.9	6.2
Belgium	6.8	5.6	8.1
Germany	3.6	2.3	4.9
US	3.9	2.2	6.1

- ING's baseline scenario (60% weighting) is the main driver of IFRS 9 Expected Credit Loss (ECL) numbers as the up and down scenarios are derived from the baseline scenario

Three-stage approach to measure expected credit losses

Lending credit outstandings* (in € bln)

	1 January 2018	31 March 2018	QoQ change
Total	**643.7**	**646.1**	**0.4%**
Of which Stage 2	44.3	43.7	-1.4%
Of which Stage 3	11.7	11.3	-3.4%

Loan loss provisions** (in € bln)

	1 January 2018	31 March 2018	QoQ change
Total	**5.4**	**5.2**	**-4.4%**
Of which Stage 2	1.0	0.9	-2.2%
Of which Stage 3	4.0	3.8	-5.5%

- Stage 2 and stage 3 lending credit outstandings decreased, despite an increase in total outstandings, due to a more positive macroeconomic outlook combined with a benign credit environment
- ING's stock of provisions decreased by €0.2 bln to €5.2 bln, mainly driven by higher amounts written off in stage 3 and a positive trend of the asset quality in stage 1 and 2
- Stage 3 coverage ratio decreased to 33.8% from 34.6% on 1 January 2018, driven by several write-offs which had a relatively high coverage ratio

* Lending and money market credit outstandings, including guarantees, letters of credit but excluding undrawn committed exposures (off-balance positions)
** At the end of March 2018, the stock of provisions included provisions for loans and advances to banks (€9 mln), financial assets at FVOCI (€20 mln), securities at amortised cost (€16 mln) and provisions for contingent liabilities recorded under Provisions (€91 mln)

Major macroeconomic outlook change will cause P&L volatility

Change in outlook

- The **current benign macroeconomic outlook** leads to below average expectations for PDs and LGDs
- However, as was observed in e.g. 2008-2009, the **macroeconomic outlook may quickly change**. Such a sudden outlook change will instantly affect PDs and LGDs expectations, leading to higher additions to LLPs (compared to the previous IAS 39 accounting rules)
- An **overreaction in the outlook** will amplify P&L volatility, as this will lead to additional impact in the stress year but possible releases in the year thereafter
- The bottom right figure presents the current outlook, the average through-the-cycle (TtC) outlook and **an adverse scenario**

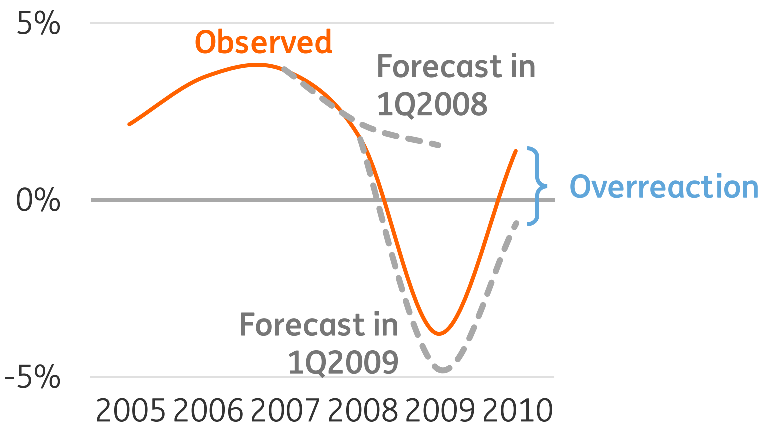
Portfolio effects

- The impact will differ per portfolio, depending on e.g. observed / modelled sensitivity towards the macro-economy as well as the maturity of a loan. **Medium-term tenors** tend to cause more volatility as they are more sensitive to a move to stage 2 which results in an expected lifetime provision

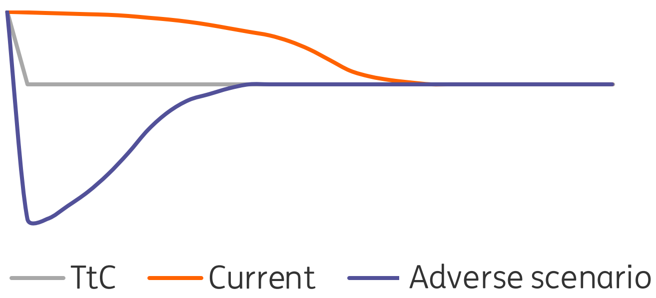
Conclusion

- The extent to which the P&L will become more volatile, from quarter to quarter, will depend primarily on the **ability to predict the future** macroeconomic state

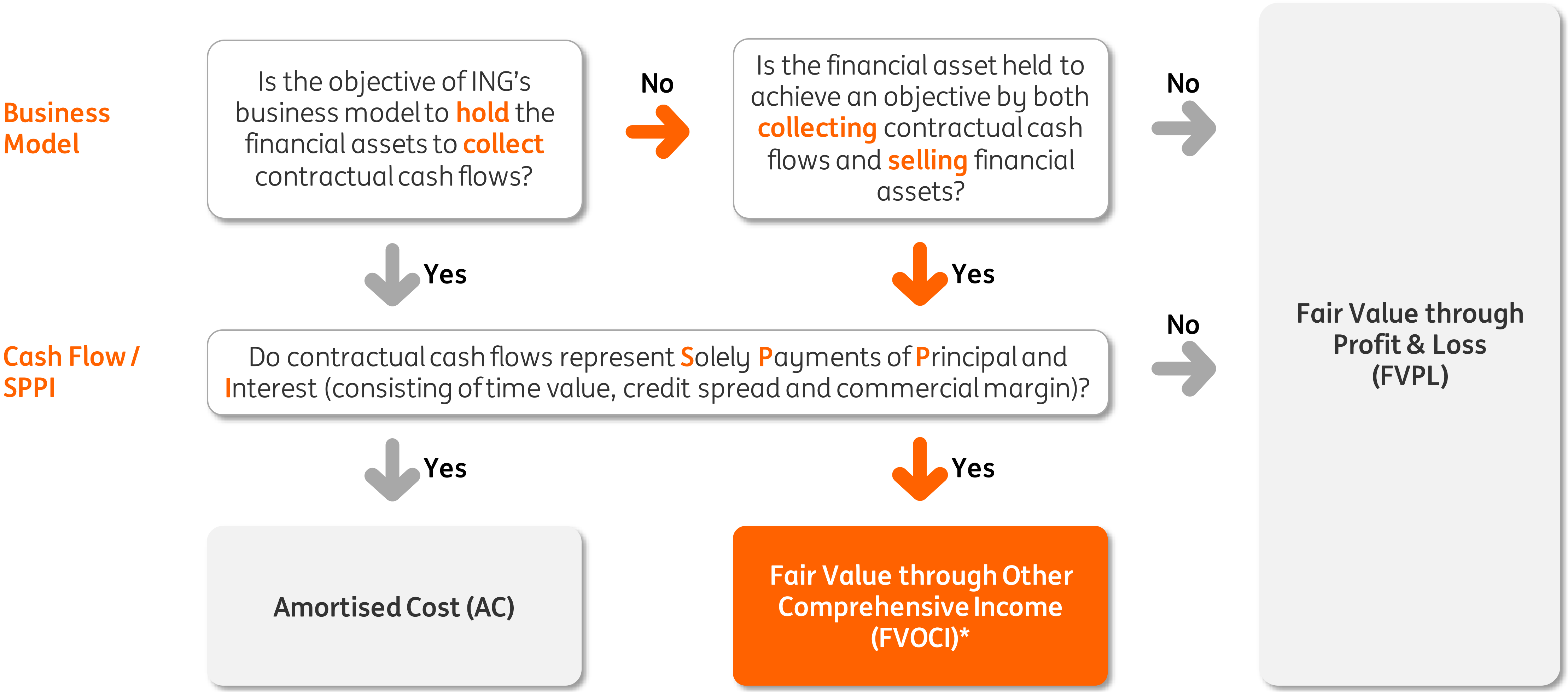
Dutch GDP: Consensus forecast vs. observed



An instant shift in the macroeconomic outlook



Classification & measurement



* Part of equity
The main impacts caused by the classification and measurement approach are summarised on slide 32 and pages 113 and 114 of the 2017 ING Group Annual Report

Financial impact on capital at transition

Impact (net of tax) of adopting IFRS 9 on 1 January 2018

	Impact on shareholders' equity (in € bln)	Impact on FL CET1 ratio (in %-point)
Loan loss provisions[1]	-0.6	
Investment portfolio[2]	-0.6	
Mortgages held in HTC&S portfolio[3]	0.2	
Other[4]	-0.1	
Total impact	**-1.0**	**-0.2**

1. The €-0.6 bln is the post-tax impact on equity of the estimated IFRS 9 ECL increase amounting to €0.6 bln. The capital impact for the Advanced Internal Ratings Based (IRB) portfolios will be offset by the existing regulatory provision shortfall
2. Main impact from the reclassification of a part of the investment portfolio from the Available for Sale (FVOCI) debt securities under IAS 39 to the Hold-to-Collect portfolio (Amortised Cost (AC)) under IFRS 9
3. A portfolio of mortgages will be measured at FVOCI under IFRS 9 instead of AC under IAS 39 resulting in an impact of approx. €0.2 bln impact on CET1 capital
4. This item mainly relates to the estimated impact of reporting loans and debt instruments at fair value through the P&L because the cash flows of these assets do not represent Solely Payments of Principal and Interest (SPPI)

IFRS 9 impact on capital on 1 January 2018

- IFRS 9 impacts capital as a result of the transition adjustments recorded in shareholders' equity on transition date
- Main impact on shareholders' equity and CET1 ratio come from the reclassification of a part of the investment portfolio (which reduces CET1 volatility)
- Increase in LLPs will have limited impact on ING's CET1 ratio as for the AIRB portfolios it will be offset by the existing regulatory provision shortfall
- ING Group has decided not to apply the IFRS 9 impairment transitional arrangements

Important legal information

Projects related to the integration of Record Bank in Belgium are still subject to regulatory approval.

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, except as described otherwise, the same accounting principles are applied as in the 2017 ING Group consolidated annual accounts. All figures in this document are unaudited. Small differences are possible in the tables due to rounding.

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