ING Group: Delivering on restructuring

Bank of America Merrill Lynch Conference

Jan Hommen
CEO

London - 27 September 2012
www.ing.com

Key points

- ING Group is making good progress on EC restructuring
- Solid performance in challenging environment in 2Q2012
- ING Bank is delivering on Ambition 2015

ING is maintaining momentum in restructuring

Delivering on EC restructuring

	Action
• Separation Bank/Insurance	✓
• Sell ING Direct USA	✓
• Sell Insurance Latin America	✓
• Sell Insurance/IM Asia	In progress
• Insurance/IM US	Base case IPO
• Insurance/IM Europe	Base case IPO
• Divesting WUB	Discussing alternatives with EC

ING and the Dutch State are in discussions with the EC

- Together with the Dutch State, ING is in discussions with the European Commission about adjustments to the restructuring plan
- ING remains committed to repay the Dutch State as soon as possible, while maintaining strong capital ratios given the uncertain economic outlook

Divestment of Asian Insurance & IM in progress

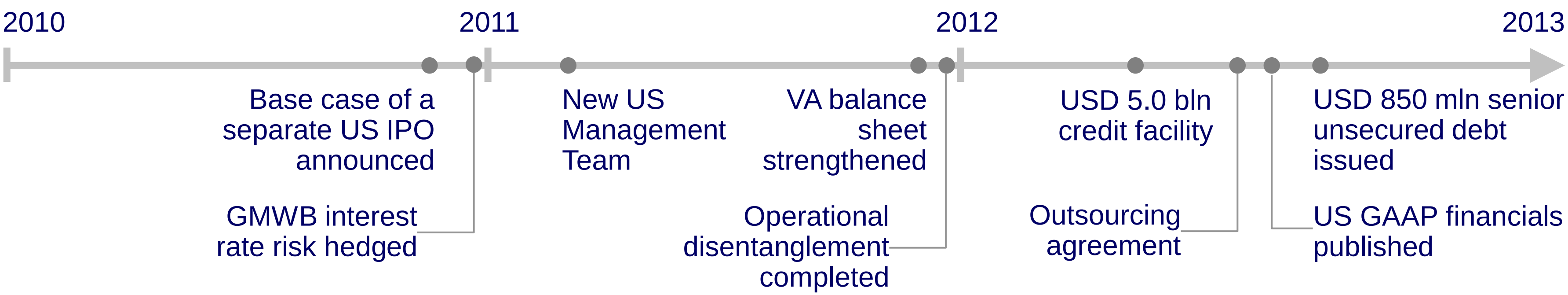
- The sales process for the Asian Insurance/IM businesses is on-going
- We are negotiating with several interested parties and expect the sale to take place through multiple transactions
- Further announcements will be made if and when appropriate

Multiple transactions expected

Key Figures – 2Q12 (in EUR bln)			
Country	2011 Pre-tax P/L (EUR mln)	IFRS Book Value	Tangible Book
Japan	263	2.1	2.1
Korea	243	2.5	2.3
SE Asia	124	1.5	1.5
JV's	7	0.3	0.2
IIM Asia	3	0.2	0.2
Total	639	6.6	6.4

- Book value reflects YTD currency movements/bond revaluations (EUR 0.4 bln) and net results (EUR 0.3 bln) as well as the full write-off (EUR 180 mln) of goodwill at IIM Korea in Q2
- EUR 1.0 bln of additional capital is held in ING Re NL related to internally reinsured VA Japan guarantees

ING US progressing towards planned IPO

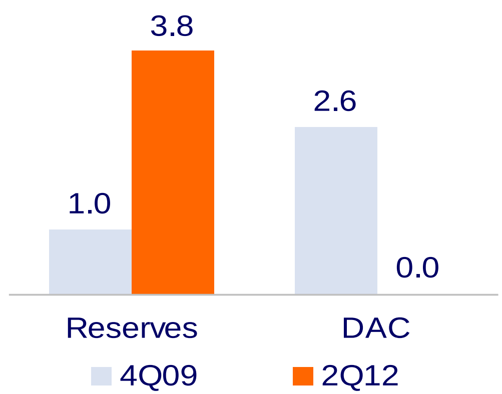


Improved funding & liquidity (EUR bln)

Insurance	9.9	Equity	10.1
CB VA	2.5	Loan ING-V	0.4
US IIM	0.3	Other Debt	2.7
CL/other	0.5		
	13.2		13.2

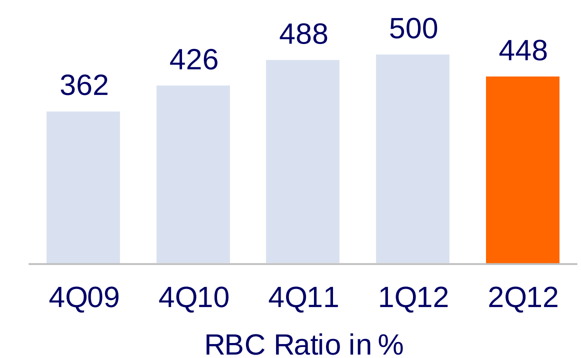
- EUR 1.85 bln of internal funding and ING-V guaranteed CP replaced by external debt YTD

VA B/S strengthened (EUR bln)



- VA reserves have been strengthened and all DAC written off

Improved capitalization



- RBC ratio comfortably above 425% despite transfer of USD 500 mln to SLDI and USD 300 mln to US holding company in 2Q12

ING Insurance/IM Europe preparing for base case IPO

2010 | 2011 | 2012 | 2013

- Base case of separate EurAsia and US IPO announced
- Bank and Insurance/IM operationally split
- EurAsia management and legal structure aligned
- Operational disentanglement of EurAsia and US Insurance/IM operations completed
- Separate divestment of Asia announced
- Stepping up efforts to prepare for base case IPO

Leading European Wealth Management and Protection Company

- Combination of cash-generating businesses and leading positions in growth markets
- 12,000 FTEs serving over 15 million private, corporate and institutional clients
- offering a variety of life insurance, non-life insurance, pensions and investment management products

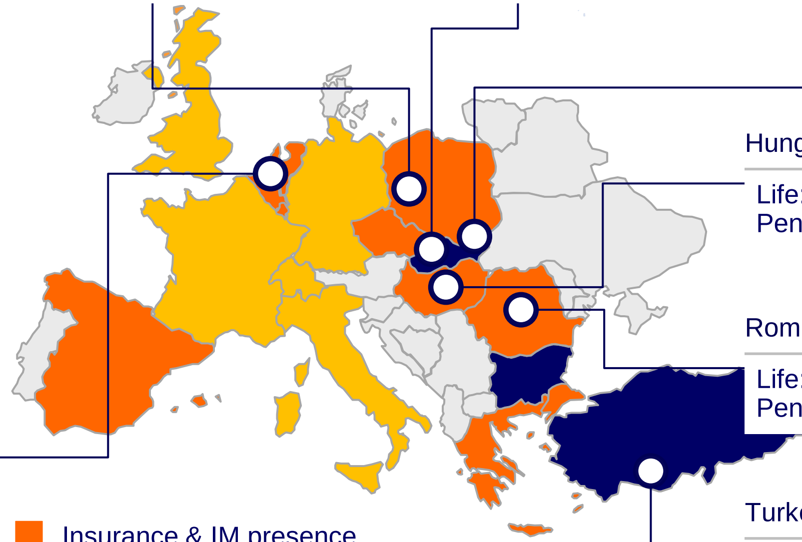
Dutch composite leader

	Rank	Market share (%)
Total Insurance	1	19.2
Total Life	1	20.7
Individual Life	1	20.3
Group Life	3	21.2
Total Non-Life	3	9.8
IIM Retail	1	14.5

Poland
Life: #5 (6%)
Pension: #1 (24%)

Czech Republic
Life: #4 (11%)
Pension: #6 (11%)

Slovakia
Life: #5 (7%)
Pension: #4 (11%)



Hungary
Life: #2 (14%)
Pension: #1 (22%)

Romania
Life: #1 (31%)
Pension: #1 (38%)

Turkey
Life: #15 (1%)
Pension: #6 (5%)

- Insurance & IM presence
- Insurance only
- IM only – also has presence in UAE

ING

Insurance Divestments To Reduce Double Leverage

ING Group 30 June 2012

ING Bank	37	Equity	51
ING Insurance	25	CT1 securities	3
Hybrids[B]	7	Core Debt	8
Hybrids[I]	3	Hybrids	10
	71		71

Remaining proceeds can be used to reduce double leverage in Group holding company

ING Insurance

Asia, Europe & US	27.3	Equity	25.2
IC Debt (Europe)	3.0	Hybrids (G)	2.5
IC Debt (US)	0.4	Debt $_{\text{Sub ord}}$	1.7
Sul America & Other	1.8	Other Debt	3.1
	32.5		32.5

Replace Intercompany (IC) debt with own issuance from US and Europe

Maintain current leverage ratios in Insurance holding companies

Europe [1]

Benelux	11.4	Equity	10.6
CRE	1.0	IC Debt	3.0
IIM Europe	0.3		
CL/Other	0.9		
	13.6		13.6

US

Insurance	9.9	Equity	10.1
CB VA	2.5	Loan INGV	0.4
IIM US	0.3	Other Debt	2.7
CL/other	0.5		
	13.2		13.2

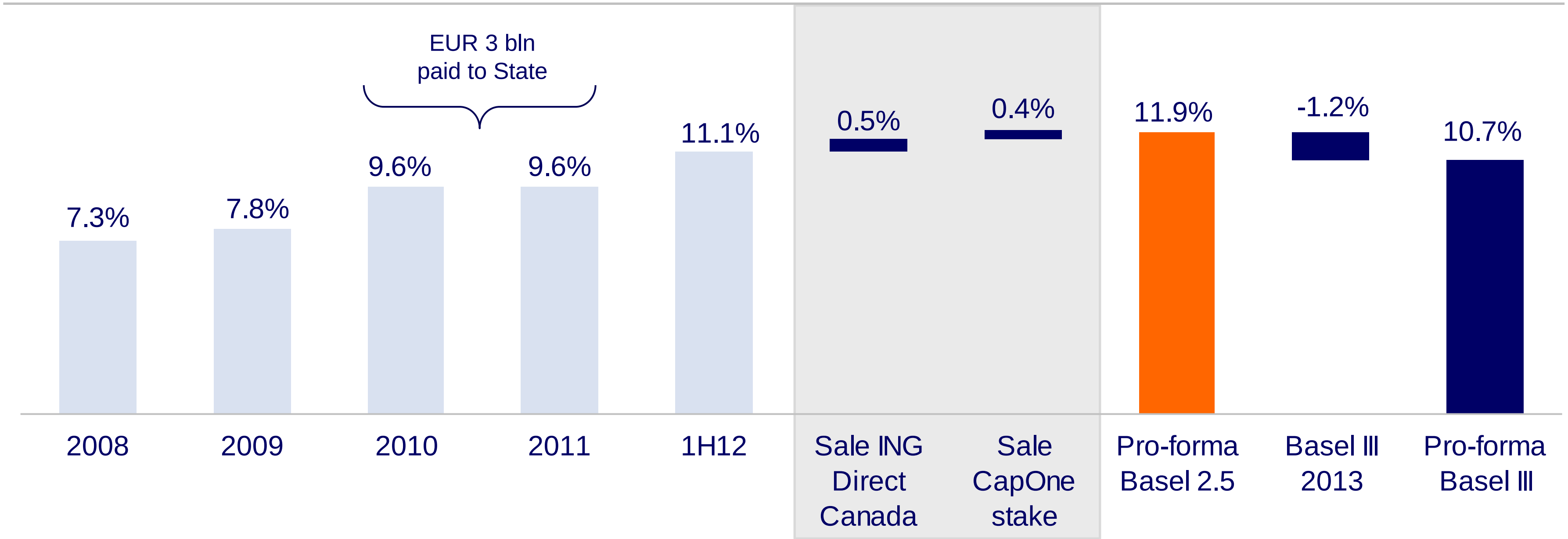
Asia [1]

Japan	2.1	Equity	6.6
Korea	2.5		
SE Asia	1.5		
JV's	0.3		
IIM Asia	0.2		
	6.6		6.6

[1] Excludes EUR 1 billion in capital held in ING Reinsurance related to Japanese SPVA guarantees

Bank Capital is building to enable state repayment

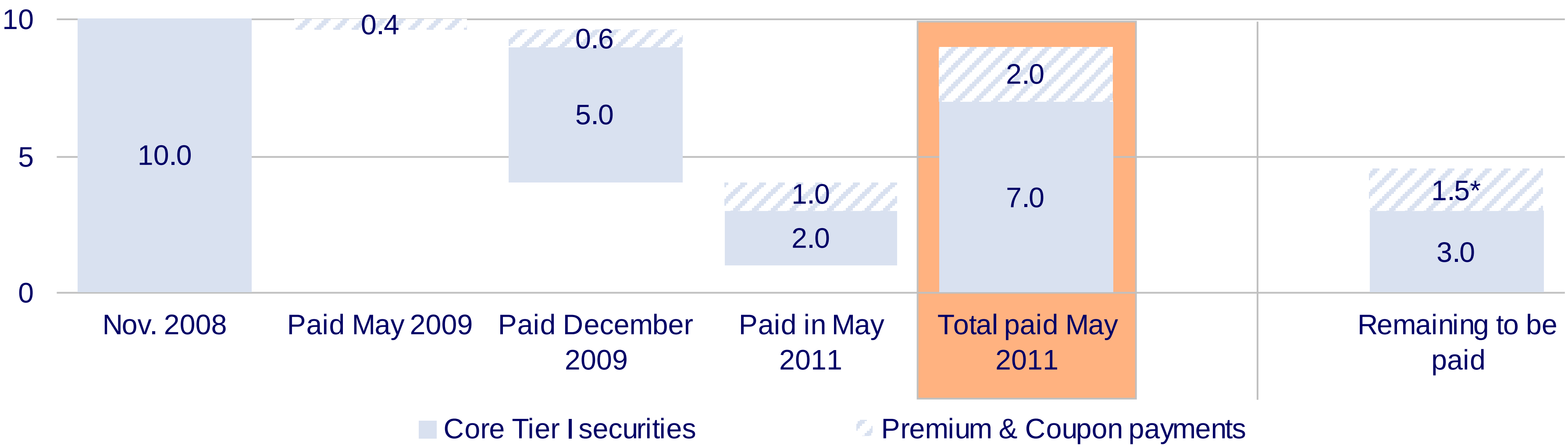
ING Bank core Tier 1 ratio (%)



- Sales of ING Direct Canada and stake in Capital One bring pro-forma CT1 ratio to 11.9% under Basel 2.5
- Each EUR 1 billion paid to the state = approximately 33 bps CT1
- Pro-forma Basel III CT1 ratio above 10% target for 2013

ING aims to repay the State as soon as possible

Core Tier I securities from Dutch State (EUR bln)



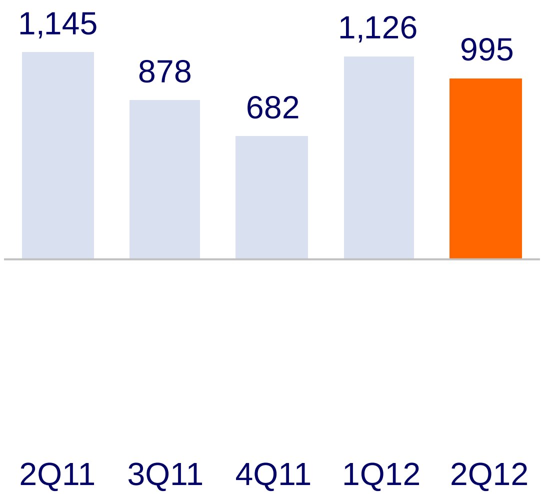
- ING has paid EUR 9 billion to the Dutch State (EUR 7 billion of principal and EUR 2 billion in exit premia and interest)
- ING aims to repay another tranche this year while maintaining strong capital ratios
- Terms and timing of repayment depend on the outcome of discussions with the Dutch State and the European Commission

* Indicative, based on 50% premium

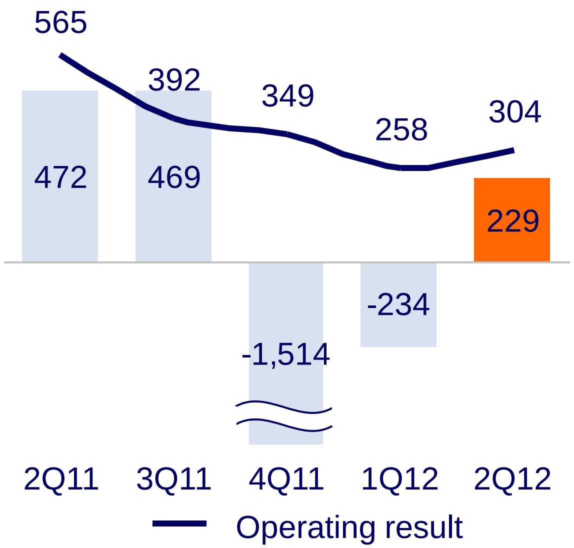
Solid second quarter results

ING Group posted underlying net result of EUR 1,045 mln

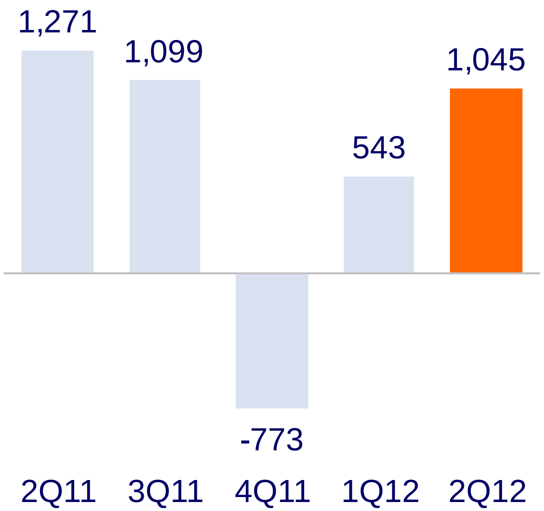
Bank underlying pre-tax result
(in EUR mln)



Insurance underlying pre-tax result
(in EUR mln)



ING Group underlying net result
(in EUR mln)

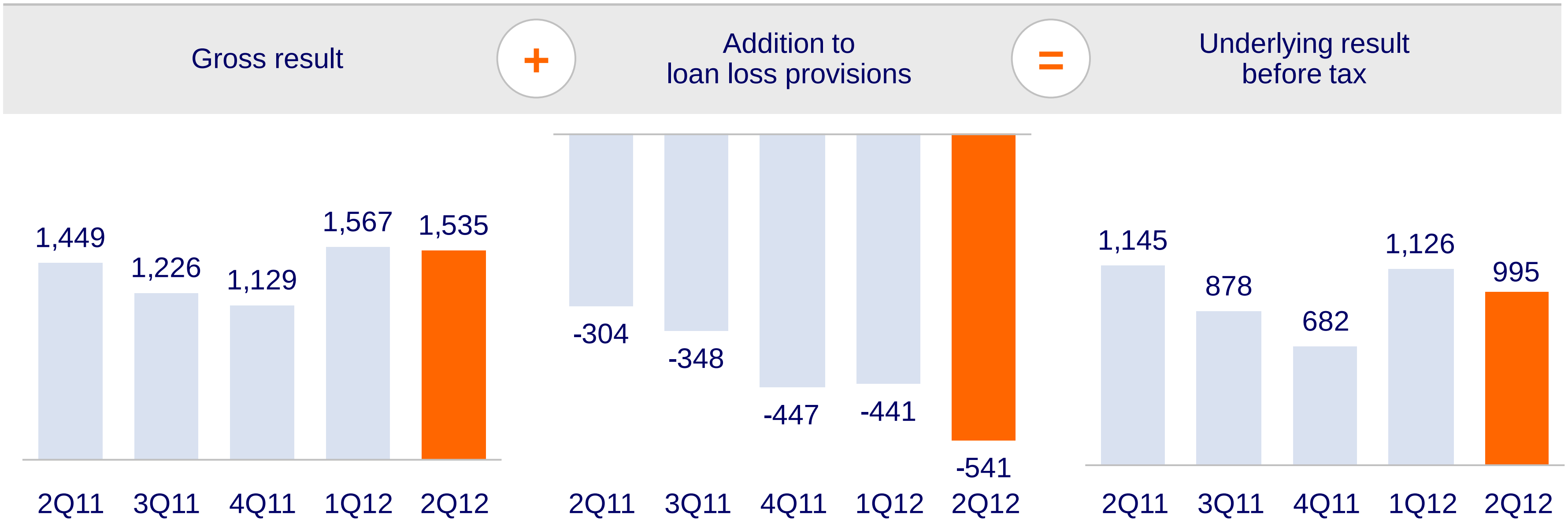


- ING Bank posted robust 2Q12 results despite losses from proactive de-risking, pressure on the NIM and elevated risk costs
- Insurance operating results improved versus 1Q12 to EUR 304 mln. Underlying results before tax included hedge gains in US VA and a negative change in the provision for separate account pension contracts in the Benelux

ING

Bank results robust despite higher provisioning

Bank results (in EUR mln)



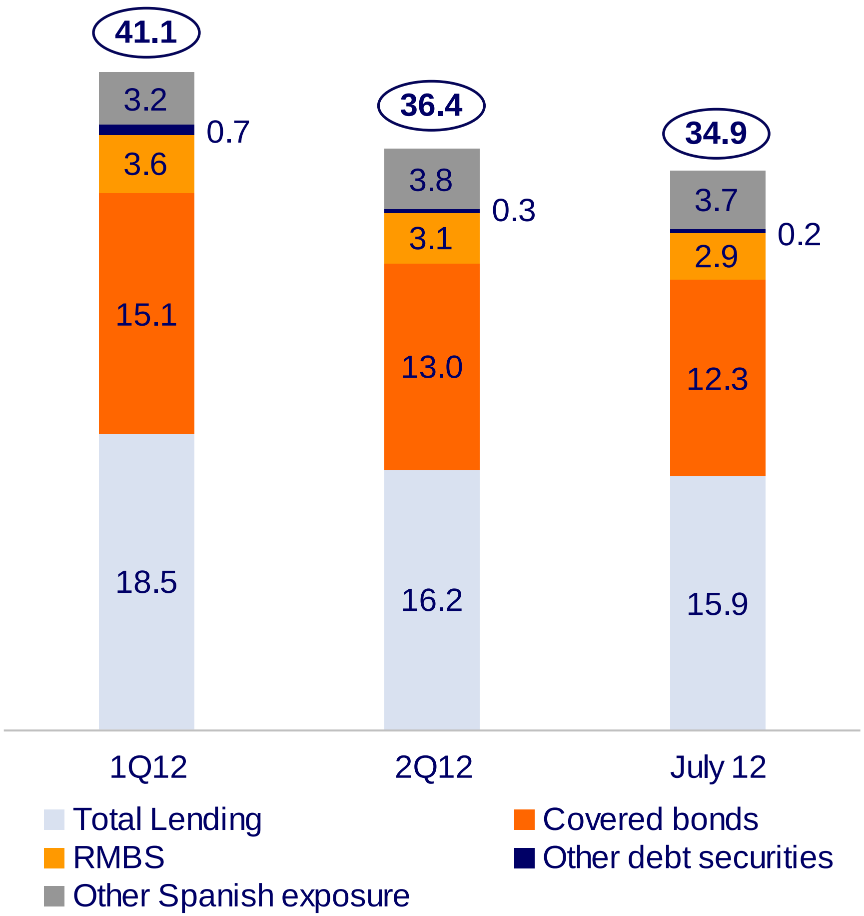
- Gross results stable as lower income was largely offset by lower expenses
- Risk costs increased from 1Q12, driven by higher risk costs in Commercial Banking and to a lesser extent Retail NL

Insurance results improved from the first quarter

- Both operating and underlying results improved from 1Q12 reflecting seasonally higher investment margin and positive results on regulatory capital hedges in US Closed Block VA
- Results declined from 2Q11 driven in part by EUR 98 mln of positive non-recurring items in the prior year as well as pressure on non-life results in the current quarter

Spanish exposure reduced by EUR 6.2 bln

Reduction of Spanish exposure ING Bank (in EUR bln)



Funding mismatch reduced to EUR 12.3 bln

Spain: total assets outstanding minus local funding

- Covered bonds reduced by EUR 2.9 bln
- RMBS portfolio reduced by EUR 0.7 bln
- Loss on sales of Spanish debt securities amounted to EUR 156 mln in 2Q12 and EUR 78 mln in July
- EUR 0.8 bln of REF/CB lending assets and EUR 2.3 bln investments/bonds have been transferred to ING Direct Spain

Spanish lending portfolio is holding up well

Bank lending to Spain 2Q2012 (in EUR bln)

	1Q12 O/S	2Q12 O/S	2Q12 NPL%	Coverage ratio
Retail mortgages	8.7	8.8	0.7%	19%
Other retail lending	0.5	0.5	3.7%	132%
Real Estate Finance	2.7	2.7	18.2%	36%
Business Lending	2.1	1.7	4.0%	24%
Structured Finance	1.4	1.2	16.1%	85%
Leasing (run-off)	0.7	0.6	25.9%	39%
Fin. Inst. Lending	2.3	0.3	0.0%	
Other lending	0.1	0.4	0.0%	
Total lending	**18.5**	**16.2**	**6.4%**	**44%**

Lending decreased by 12%

- Lending reduced by EUR 2.3 bln or 12% versus 1Q12, driven by Financial Institutions Lending, Business Lending and Structured Finance
- NPL ratio rose from 5.7% to 6.4%. Coverage ratio increased from 39% to 44% to 2Q12

Residential mortgages

- NPL ratio remained flat at 0.7% versus market average of 3.3%.
- Average LTV increased from 60% to 64%
- Client base is healthy (primary residences, urban area, saving account clients)

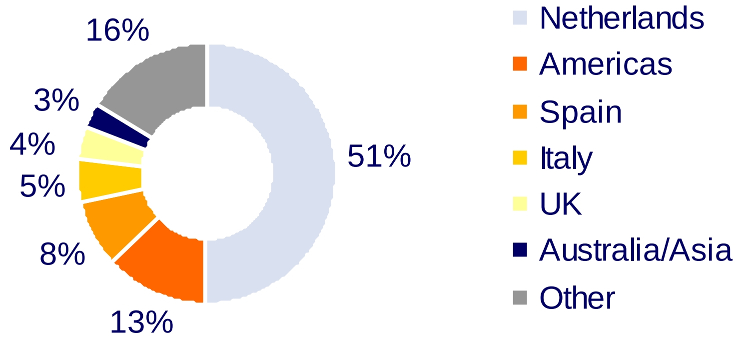
Commercial Real Estate

- Real Estate Finance in Spain has seen elevated NPLs for the past two years
- Construction is EUR 42 mln, or 1.6% of REF portfolio
- NPL ratio remained stable at a relatively high 18%
- Provisions are expected to remain elevated given ongoing deterioration in the market

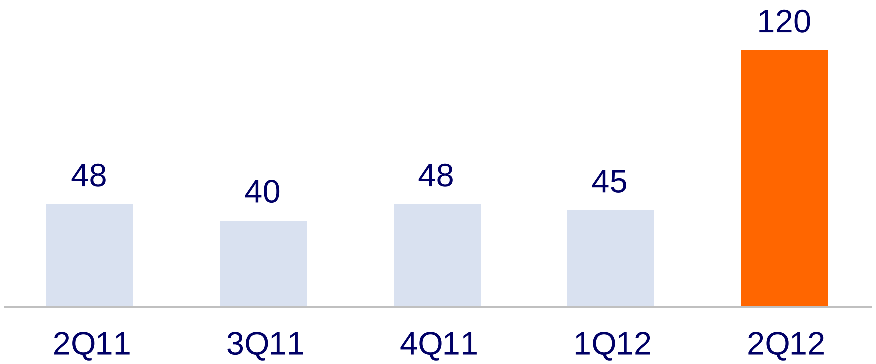
ING

Risk costs in Real Estate Finance increased

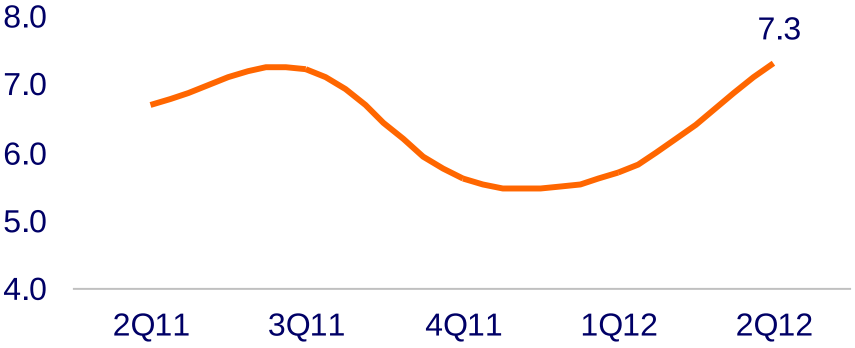
Real Estate Finance portfolio by country of residence



Risk costs (in EUR mln)



Non-performing loans ratio (%)

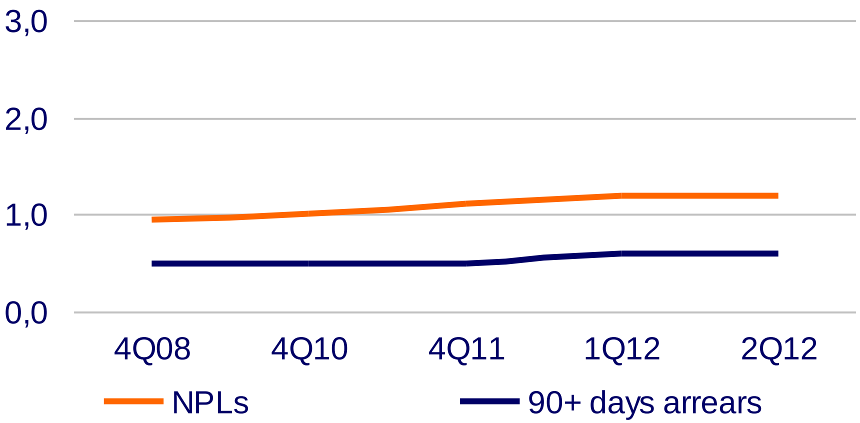


Risk costs expected to remain elevated

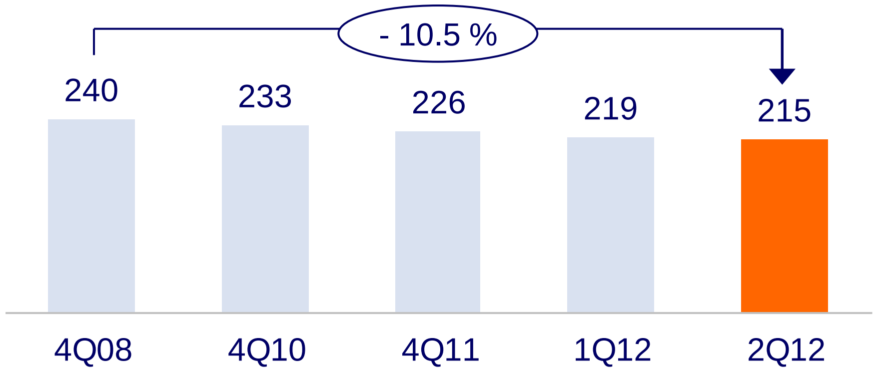
- Increase risk costs Real Estate Finance driven by NL, UK and Australia
- NPL ratio increased to 7.3% driven by the Netherlands and the UK
- Risk costs in REF are expected to remain elevated given uncertainty in European commercial real estate markets
- ING REF lending assets decreased by EUR 1.0 bln at constant FX in 2Q12 to EUR 31.7 bln. ING will selectively reduce its Real Estate Finance portfolio further

NPLs on Dutch mortgages stable despite house price declines

Non-performing loans ratio Dutch mortgages (%)

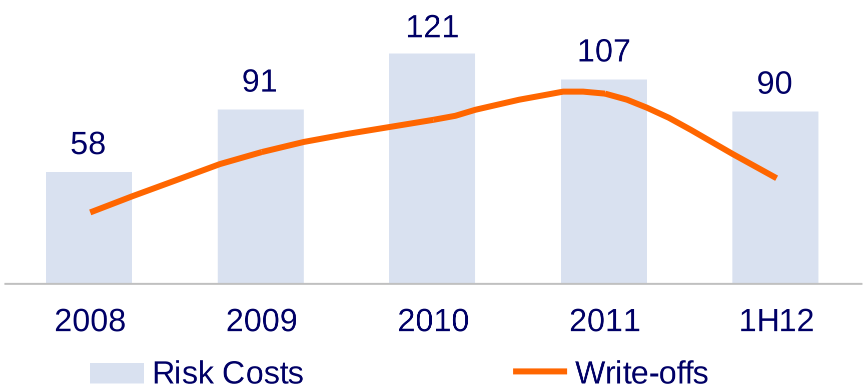


Average house prices (x EUR 1,000)



Source: NVM (Dutch Realtors' Association)

Risk costs and write offs (in EUR mln)



Risk costs expected to remain elevated

- Risk costs in 1H12 were EUR 90 million
- The higher level of provisioning was mainly driven by lower house prices
- NPL's have remained stable through the last 5 years
- Further decline in Dutch house prices and increase in unemployment would lead to higher risk costs on mortgages, but we do not expect a dramatic increase

Delivering on Ambition 2015

ING Bank is making progress on Ambition 2015

		2Q/30 June 2012	
Assets	• Balance sheet to remain stable at ~EUR 900 billion	EUR 900 bln	☑
Core Tier 1	• At least ≥10% under Basel III	10.7%*	☑
Leverage	• Leverage to decline below 25 (Basel III)	27	☐
LtD	• Loan to Deposit ratio to decline to below 1.10	1.15	☐
LCR	• Liquidity coverage ratio >100% in 2015	>100%	☑
NIM/assets	• Re-pricing, deleveraging to improve NIM (140-145 bps)	126 bps	☐
C/I	• Cost/income ratio to decline to 50-53% in 2015	58.4%	☐
RoE	• Return on Equity of 10-13% over the cycle	8.2%	☐

* Proforma including sale ING Direct Canada and Capital One stake

Bank B/S reduced to EUR 900 bln through optimisation

Change versus 1Q12

~ EUR 900 bln

Total Balance Sheet reduced to EUR 900 bln target level

Cash and balances at central banks reduced by EUR 30 bln

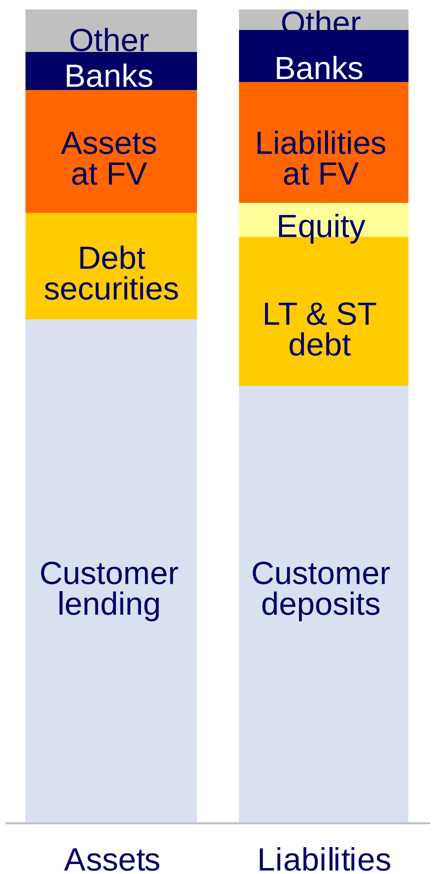
Amount due to Banks declined by EUR 10 bln

Debt securities flat while de-risking measures accelerated

Short-term debt reduced by EUR 8 bln and long-term debt increased by EUR 2 bln

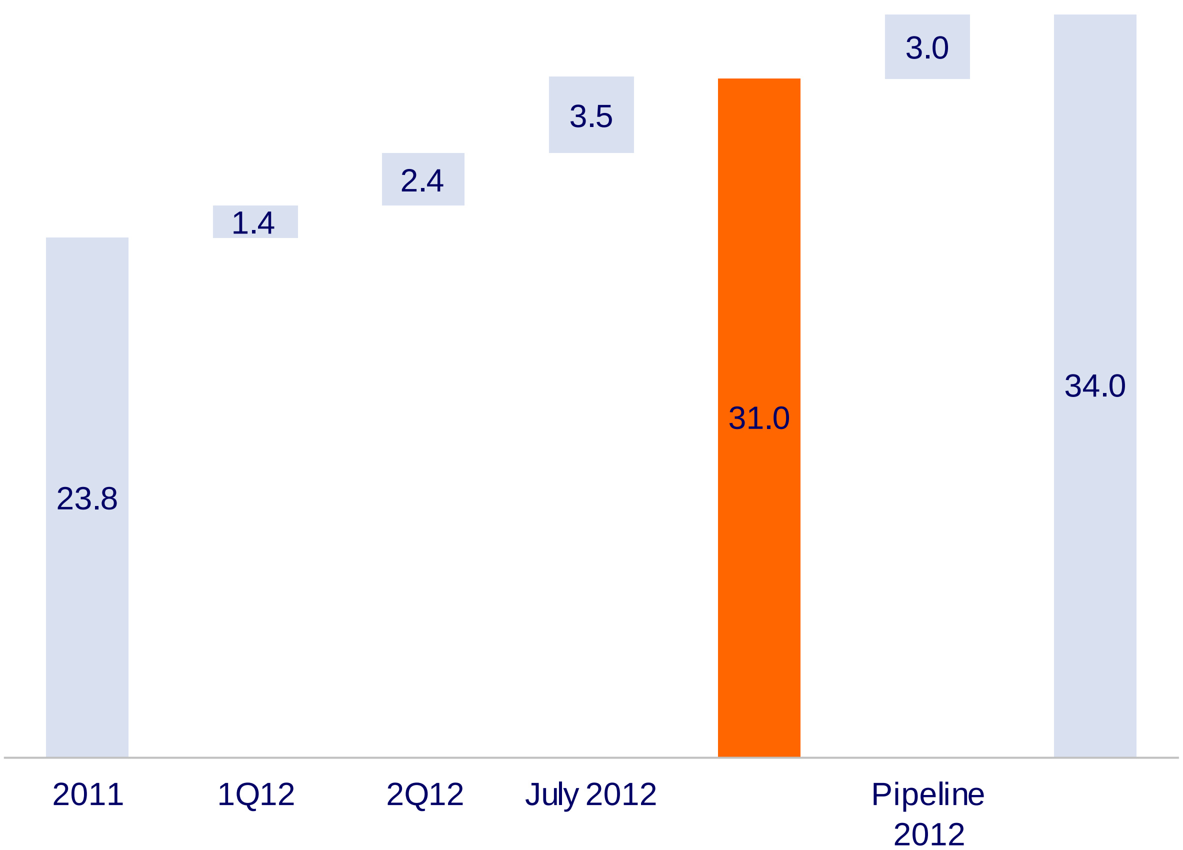
Customer lending grew by EUR 2 bln FX adjusted without total balance sheet growth

EUR 4 bln of retail funds entrusted inflow in 2Q12, following EUR 11 bln inflow in 1Q12



EUR 31.0 bln Balance Sheet integration completed

Balance Sheet integration progressing

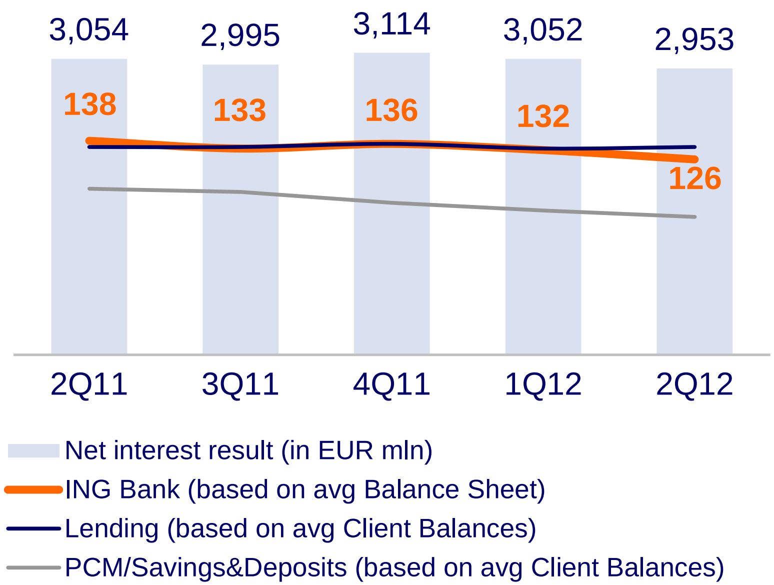


Recent initiatives

- EUR 2.4 bln achieved in 2Q12 through transfer of EUR 1.7 bln of Real Estate Finance assets and EUR 0.7 bln of Commercial Banking lending assets from NL legal entity to funding rich entities
- EUR 3.5 bln achieved in July through transfer of EUR 1.9 bln securitised Dutch mortgages, EUR 0.2 bln of CB lending assets and EUR 1.4 bln of Lease assets from NL legal entity to other countries
- Pipeline remainder of 2012: EUR 3.0 bln
- Further potential being investigated

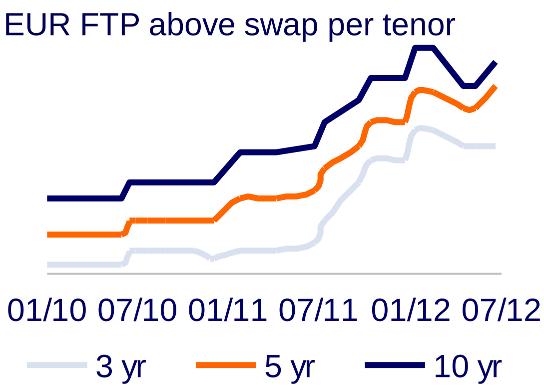
Lending margins maintained despite higher funding costs

Interest margin by quarter (in bps)



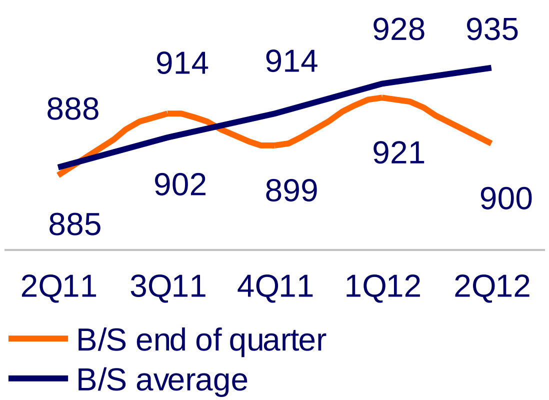
- Net interest result declining by 3% reflecting pressure on savings margins due to derisking and low interest rates
- NIM shows larger decline due to average B/S extension

Funding costs priced through in lending (in bps)



Lending margins remained stable while pricing in higher funding costs

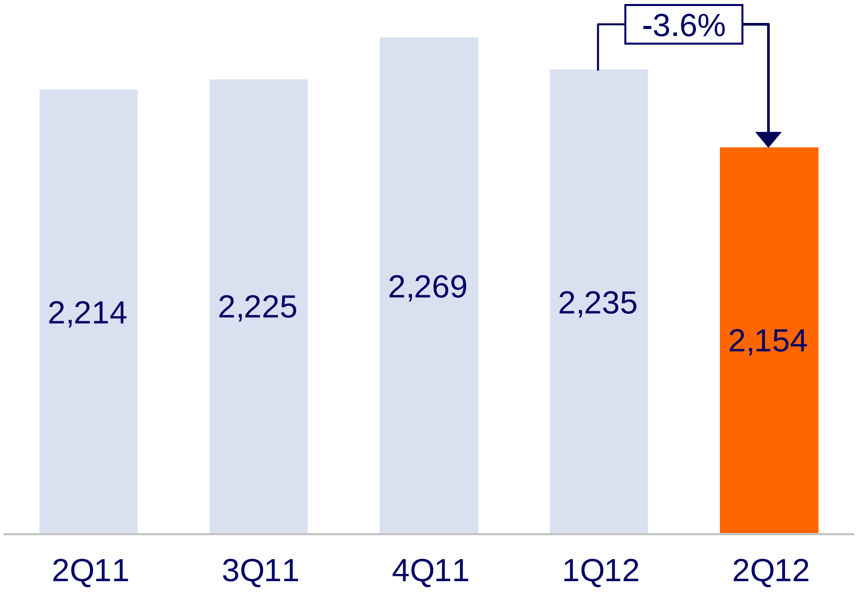
Balance Sheet (in EUR bln)



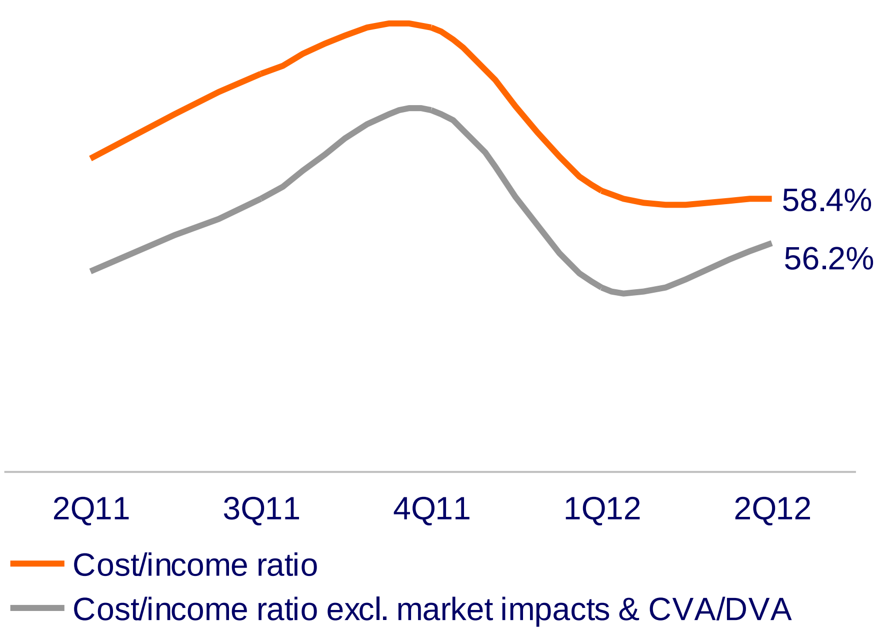
NIM impacted by higher average B/S in Q2, despite decline by quarter end

Operating expenses are trending down….

Operating expenses (in EUR mln)



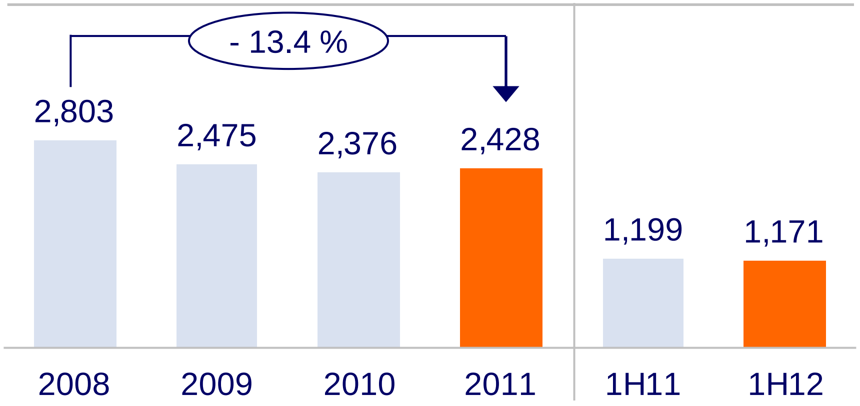
Underlying cost/income ratio (%)



- Cost control stepped up as income comes under pressure
- Operating expenses declined 3.6% versus 1Q12, mainly due to lower performance-related personnel expenses and EUR 38 mln reimbursement from old DGS in Belgium
- Cost/income ratio adjusted for market impacts & CVA/DVA rose to 56.2%

Cost reduction plan Retail Netherlands is on track

Underlying expenses (in EUR mln)



Cost reduction programme announced in November 2011 (in EUR mln)

	2011	2012	2013	2014	2015
Cost savings	-	75	215	330	330
Non-recurring costs	235	75	105	40	
Total benefits	-235	-	110	290	330

Efficiency in the Netherlands

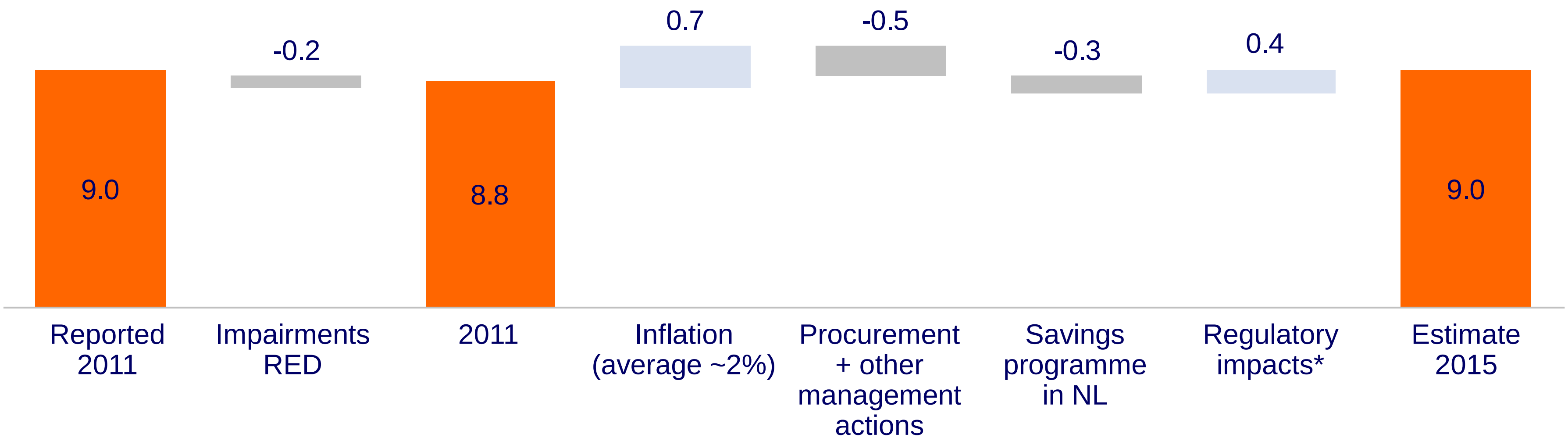
- ING Retail NL has reduced expenses by 13.4% in the past 3 years
- Weakening economic environment, more stringent regulatory requirements and changing customer expectations are putting pressure on volumes & margins
- In addition, a Bank Tax is being introduced in the Netherlands in Q4 with an estimated impact of EUR 220 million for ING

Cost base being further reduced

- A cost reduction programme was introduced in November 2011, which is expected to lead to total annual cost savings of EUR 330 million by 2014 and an FTE reduction of 2,700
- IT investments being made to offer better service to our customers, further improve processes, reduce complexity and streamline workflows
- Reduce costs while delivering faster, more accurate service

…and we are determined to reach C/I target by 2015

Underlying operating expenses (in EUR bln)



Structural improvements are needed to reach long-term cost target

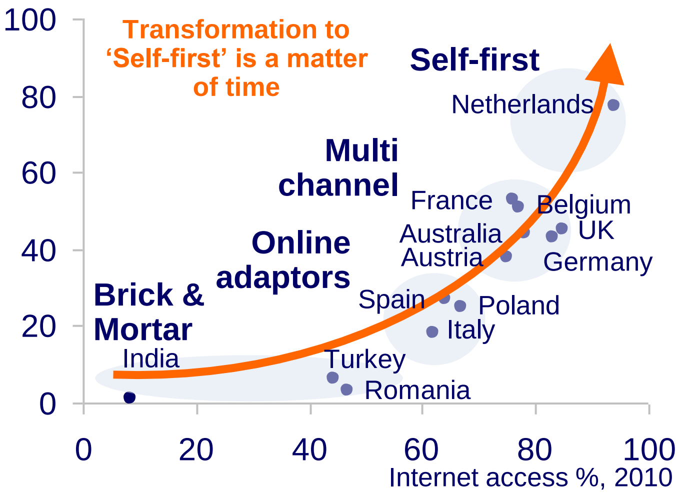
- We are striving to offset rising costs to reach a cost/income ratio of 50-53% by 2015
- Cost reduction plans announced in the Netherlands will deliver EUR 330 mln in annual savings
- Procurement initiatives are expected to save EUR 300 mln per year by 2015
- Further structural efficiency improvements in processes and investments in IT will be needed to reach the long-term cost/income ratio target of 50%

• Regulatory impacts include estimated Dutch Bank Tax and DGS

ING is a leader in innovative distribution

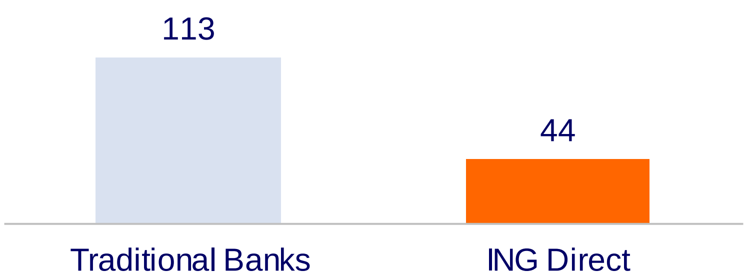
NL is a leader in online banking

Online banking usage %, 2010



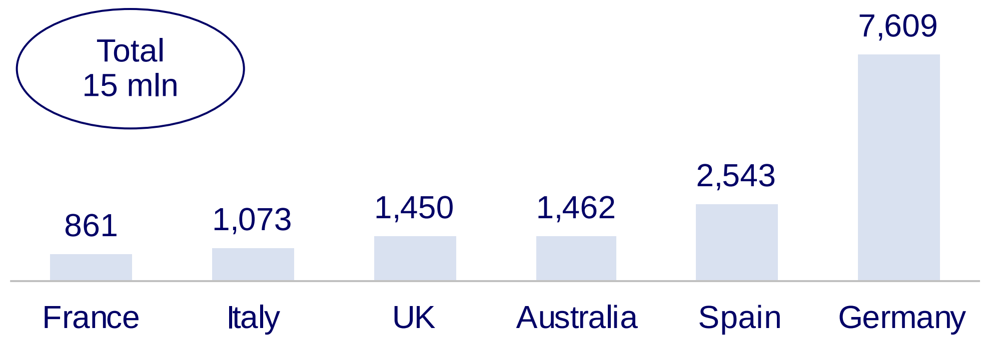
Giving us a structural cost advantage

Operating expenses/Retail balances 2011 (bps)



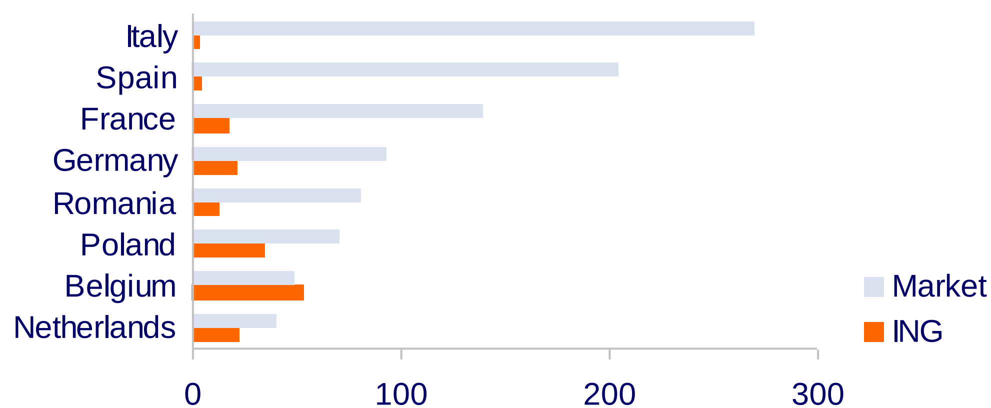
Which ING has exported successfully

ING Direct customers 30 June 2012 (x 1,000)



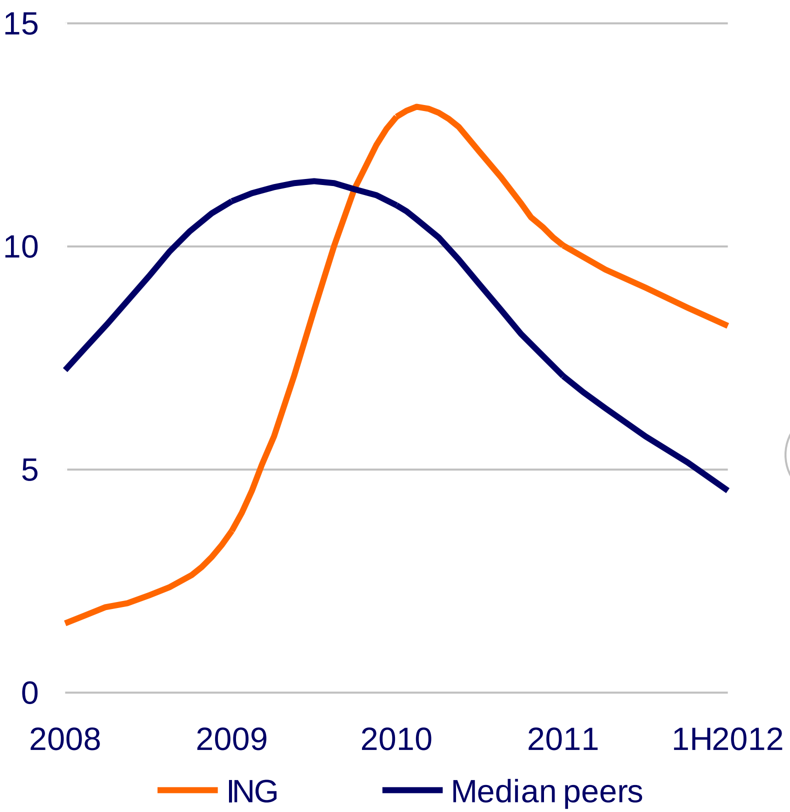
While offering value for customers at low cost

Costs for current account (EUR)



We can deliver competitive ROE with low risk profile

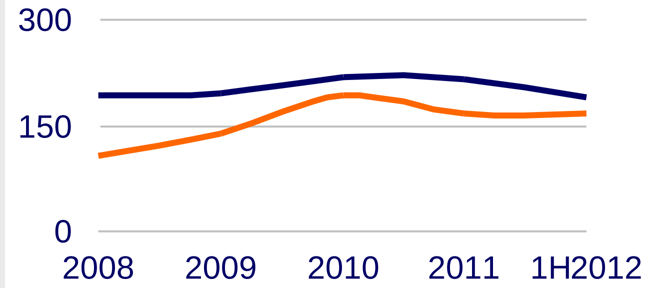
ING produces a better Return on Equity than peers…



Notes: Peers are BNP Paribas, Credit Agricole, Lloyds Banking Group, Nordea and Santander
Source: Annual reports, Public company data

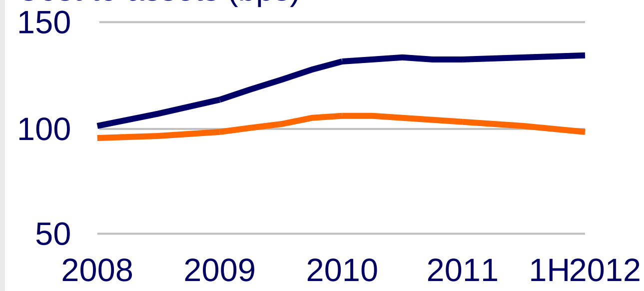
…despite lower income and fees to clients

Income/assets (bps)



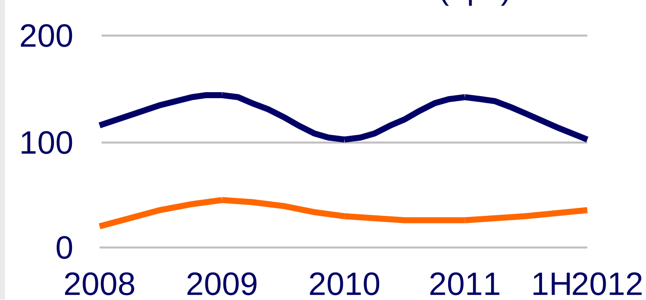
…because we are efficient…

Cost to assets (bps)

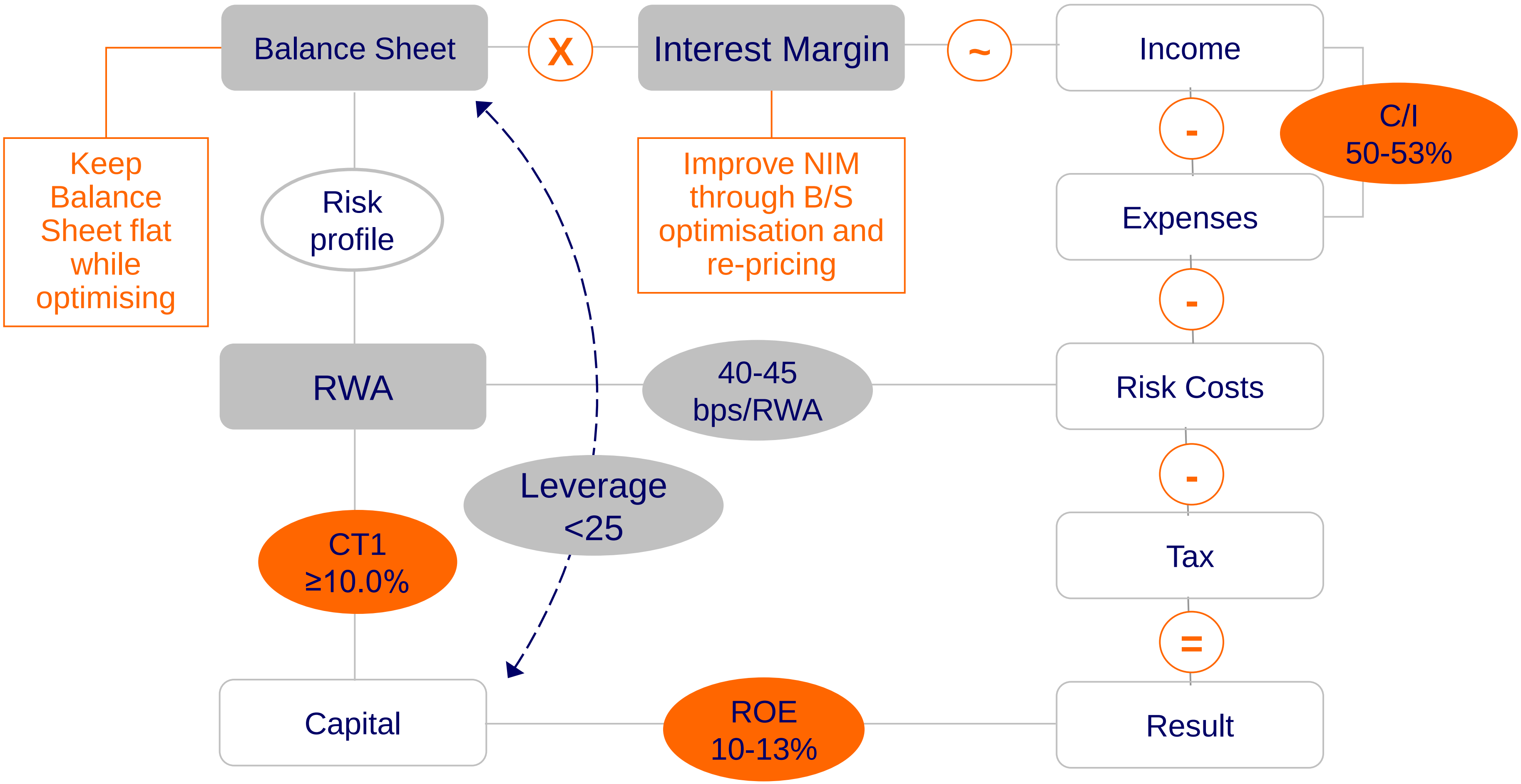


…and have a low risk profile

Risk costs to Customer loans (bps)



Optimised balance sheet should result in ROE of 10-13% under Basel III by 2015



Wrap-up

- ING Group is making good progress on EC restructuring
- Solid performance in challenging environment in 2Q2012
- ING Bank is delivering on Ambition 2015

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 2011 ING Group Annual 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) consequences of a potential (partial) break-up of the euro, (4) the implementation of ING's restructuring plan to separate banking and insurance operations, (5) 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, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations, (14) changes in the policies of governments and/or regulatory authorities, (15) conclusions with regard to purchase accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit-ratings, (18) ING's ability to achieve projected operational synergies and (19) the other risks and uncertainties detailed in the Risk Factors section contained in the most recent annual report of ING Groep N.V. Any forward-looking statements made by or on behalf of ING speak only as of the date they are made, and, 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 does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.

www.ing.com

ING