

ING Groep NV

4Q23 – 2024E NII and costs' outlook to drive consensus downgrades

Maintain Rating: NEUTRAL | PO: 16.40 EUR | Price: 13.19 EUR

2024 outlook for NII and costs below BofAe and cons

ING provided 2024 profitability outlook but longer-term guidance will be updated in a CMD on 17 June. For 2024, it guides for (1) 12% ROTE (vs cons/BofAe 12.3%), (2) NII at €15-15.5bn (vs cons at €16.2bn, BofAe at €15.8bn), (3) Fee income growing at 5-10% YoY (inline with cons/BofAe) and (4) Operating expenses at €12bn (+3% YoY) vs €11.7bn at cons/BofAe. We believe the NII outlook should disappoint the most and ING have been assuming the following assumptions: (1) liability margins converging towards 100bp in YE24, (2) 4% healthy loan growth and (3) stable lending margins at 130bp. The gap in operating costs' guidance with cons derive mainly from the implementation of the "Danske Bank" ruling on VAT in the Netherlands and higher investments in the business. Lower 2024 outlook and no clarity on 2025/26 should lead to weak share price performance today. The bank trades at 7.2x P/E, 0.84x P/TBV for 12.3% ROTE in 2024E. Our Neutral rating is driven by its superior capital return, delivering amongst the highest yield in the sector.

CET1 at 14.7%, €0.756 2023 final dividend

4Q23 CET1 ratio came at 14.7% (inline with BofAe, -50bp QoQ) driven by: (1) +20bp from organic capital generation (after 50% payout accrual) and (2) -80bp related to the announced €2.5bn SBB in November 2023. ING announced it will update the market with further SBB distribution with 1Q24 results that we estimate at €2.5bn. ING still guides for 12.5% CET1 ratio target by 2025. The capital headwinds are manageable with remaining 20bp impact from operational risk in 2025E.

Inline u/l net profit: miss in NII, fees offset by lower CoR

ING reported an adjusted net profit of €1.8bn, broadly inline with cons and BofAe driven by 3% lower revenues, inline costs and 77% lower CoR. NII and fee income came 3% lower than cons and BofAe. The 4% YoY lower NII was driven by 3bp lower liability margins at 118bp while lending margins were stable at 130bp. Core lending growth was good at €7.2bn showing some green shoots in Retail and Wholesale Banking while deposits inflows were mixed at +€2.5bn in Retail but €3.5bn outflows in Wholesale Banking. Costs (adjusted) were in line but grew 5% YoY driven by inflation impact, reflected in higher staff expenses and an increase in FTEs. CoR came materially below cons at 5bp (€86mn) and well below the through-the-cycle average of 25bp.

Estimates (Dec) (EUR)	2021A	2022A	2023E	2024E	2025E
Net Profit (EURm)	3,516	2,429	7,096	5,670	5,699
EPS (Adjusted Diluted)	1.27	1.02	2.18	1.94	2.15
Dividend / Share	0.40	0.59	1.05	0.94	1.02
Adjusted NAV PS	14.0	13.5	14.6	15.6	17.0
ADR EPS (Adjusted Diluted - US\$)	1.50	1.07	2.37	2.10	2.33
ADR Dividend / Shares (US\$)	0.48	0.62	1.14	1.02	1.11
Valuation (Dec)					
P/E	10.4	13.0	6.1	6.8	6.1
EPS Change (YoY)	97.3%	-19.7%	114%	-11.1%	10.9%
Price / NAV	0.94x	0.98x	0.91x	0.84x	0.78x
Net Yield	3.06%	4.45%	7.96%	7.13%	7.73%

01 February 2024

Equity

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Stock Data

Price (Common / ADR)	13.19 EUR / 14.20 USD
Price Objective	16.40 EUR / 18.00 USD
Date Established	4-Jan-2024 / 4-Jan-2024
Investment Opinion	B-2-7 / B-2-7
52-Week Range	9.59 EUR-13.83 EUR
Market Value (mn)	49,802 EUR
Shares Outstanding (mn)	3,775.8 / 3,775.8
Average Daily Value (mn)	143.04 USD
Free Float	100.0%
BofA Ticker / Exchange	INGVF / ENA
BofA Ticker / Exchange	ING / NYS
Bloomberg / Reuters	INGA NA / INGAAS
ROE (2023E)	14.2%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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Refer to important disclosures on page 7 to 10. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 01 February 2024 02:35AM EST

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Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(EUR Millions)	IFRS	IFRS	IFRS	IFRS	IFRS
Net Interest Income	13,615	13,756	16,038	15,796	16,132
Net Fee Income	3,521	3,590	3,629	3,808	3,995
Securities Gains / (Losses)	138	187	138	149	149
Other Income	1,221	1,032	2,975	1,932	1,670
Total Non-Interest Income	4,880	4,809	6,741	5,888	5,813
Total Operating Income	18,494	18,565	22,779	21,684	21,945
Operating Expenses	(12,457)	(12,448)	(11,799)	(11,941)	(12,138)
Pre-Provision Profit	6,038	6,117	10,980	9,743	9,807
Provisions Expense	(516)	(1,861)	(757)	(1,514)	(1,549)
Operating Profit	5,521	4,256	10,223	8,229	8,258
Non-Operating Items	0	0	0	0	0
Pre-Tax Income	5,521	4,256	10,223	8,229	8,258
Net Income to sh/holders	3,516	2,429	7,096	5,670	5,699
Adjusted Cash Earnings	4,780	3,678	7,314	5,853	5,855

Key Balance Sheet Data	2021A	2022A	2023E	2024E	2025E
Total Assets	951,317	967,861	974,647	996,913	1,022,252
Average Interest Earning Assets	612,928	631,554	634,552	640,078	654,455
Weighted Risk Assets	312,616	332,853	327,293	334,815	348,157
Total Gross Customer Loans	627,550	635,557	633,547	646,609	662,300
Total Customer Deposits	657,831	686,341	715,040	727,254	741,250
Tier 1 Capital	48,798	43,430	50,739	56,588	62,439
Tangible Equity	52,763	48,807	48,948	47,281	46,215
Common Shareholders' Equity	53,919	49,909	50,050	48,383	47,317

Key Metrics	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	1.49%	1.46%	1.68%	1.65%	1.65%
Tier 1 Ratio	15.6%	13.0%	15.5%	16.9%	17.9%
Core Tier 1 Ratio	13.8%	11.4%	13.8%	15.2%	16.3%
Basel 3 "fully phased in" Tier 1 Ratio	13.8%	11.4%	13.8%	15.2%	16.3%
Effective Tax Rate	34.0%	40.5%	28.6%	28.6%	28.5%
Loan / Assets Ratio	66.0%	65.7%	65.0%	64.9%	64.8%
Loan / Deposit Ratio	95.4%	92.6%	88.6%	88.9%	89.3%
Oper Leverage (Inc Growth - Cost Growth)	3.21%	0.45%	27.9%	-6.01%	-0.44%
Gearing (Assets / Equity)	17.6x	19.4x	19.5x	20.6x	21.6x
Tangible Equity / Assets	5.55%	5.04%	5.02%	4.74%	4.52%
Tangible Equity / WRAs	16.9%	14.7%	15.0%	14.1%	13.3%

Business Performance	2021A	2022A	2023E	2024E	2025E
Revenue Growth	4.84%	0.38%	22.7%	-4.81%	1.20%
Operating Expense Growth	1.62%	-0.06%	-5.21%	1.20%	1.65%
Provisions Expense Growth	-80.7%	260%	-59.3%	99.9%	2.31%
Operating Revenue / Average Assets	0.58%	0.44%	1.05%	0.83%	0.82%
Operating Expenses / Average Assets	-1.32%	-1.30%	-1.21%	-1.21%	-1.20%
Pre-Provision ROA	0.64%	0.64%	1.13%	0.99%	0.97%
ROA	0.37%	0.25%	0.73%	0.58%	0.56%
Pre-Provision ROE	11.1%	11.8%	22.0%	19.8%	20.5%
ROE	6.48%	4.68%	14.2%	11.5%	11.9%
RoTE	9.02%	7.24%	15.0%	12.2%	12.5%
RoWRAs	1.55%	1.14%	2.22%	1.77%	1.71%
Dividend Payout Ratio	32.4%	59.0%	50.1%	51.2%	50.1%
Efficiency Ratio (Cost / Income Ratio)	60.5%	60.3%	50.8%	54.2%	54.6%

Quality of Earnings	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	26.4%	25.9%	29.6%	27.2%	26.5%
Market-Related Revenue / Total Revenues	19.0%	19.3%	15.9%	17.5%	18.2%
Provisioning Burden as % of PPP	8.55%	30.4%	6.90%	15.5%	15.8%
NPLs plus Foreclosed Real Estate / Loans	0%	0%	0%	0%	0%
Loan Loss Reserves / NPLs	NA	NA	NA	NA	NA
Loan Loss Reserves / Total Loans	0%	0%	0%	0%	0%
Provisions Expense / Average Loans	0.08%	0.29%	0.12%	0.24%	0.24%

Company Sector

Banks-Multinational/Universal

Company Description

ING Group is a global financial institution (Dutch origin), offering banking services. Following the sale of its remaining stakes in insurance operations, ING will become a pure bank with a European retail focus combined with a global Commercial Banking activity.

Investment Rationale

We believe ING's story offers mostly an attractive capital return amongst the highest in Europe given its excess capital and low growth potential. However, the revenues' growth should be muted given its revenues mix highly reliant on NII in a decreasing rate environment.

Stock Data

Shares / ADR	1.00
Price to Book Value	0.9x

Group results

Exhibit 1: ING Bank - P&L (€mn)

Broadly inline with cons and BofAe underlying net profit driven by 3% lower revenues, inline costs and 77% lower CoR. NII and fee income came 3% lower than cons and BofAe

	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023E	Q4 2023A	Q4 23 cons.	Q4 QoQ	Q4 YoY	Actual vs. cons.
Net interest income	3,545	4,012	4,061	4,028	3,937	3,875	3,983	-4%	9%	-3%
Fees & commissions income	888	896	912	909	908	879	911	-3%	-1%	-3%
Investment income	15	1	2	102	9	0	0			
Realised gains and fair value changes on investments	0	15	0	0	10	0	0			
Total investment income	15	15	1	103	18	-24	15	-123%	-257%	-258%
Total other income	420	644	785	802	744	679	721	-15%	62%	-6%
Total income	4,868	5,567	5,759	5,842	5,608	5,408	5,587	-7%	11%	-3%
Operating expenses	2,888	3,070	2,626	2,793	3,093	3,075	2,984	10%	6%	3%
Pre-provision profit	1,980	2,496	3,133	3,049	2,515	2,333	2,564	-23%	18%	-9%
Loan loss provisions	269	152	98	183	324	86	381	-53%	-68%	-77%
Pre-tax profit	1,711	2,344	3,035	2,866	2,191	2,247	2,203	-22%	31%	2%
Taxation	575	715	818	817	573	620	624	-24%	8%	-1%
Minority interests	48	37	62	67	39	68	39	2%	43%	76%
Underlying net profit	1,089	1,591	2,155	1,982	1,580	1,558	1,540	-21%	43%	1%
Net gains/losses on divestments	0	0	0	0	0	0				
Special items after tax	0	0	0	0	0	0				
Adjusted Net profit	1,089	1,591	2,155	1,982	1,580	1,558	1,540	-21%	43%	1%

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Divisional results

Exhibit 2: ING Bank - division results (€mn)

Miss in most divisions except Retail Netherlands and Corporate Line

	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023E	Q4 2023A	Q4 23 cons.	Q4 QoQ	Q4 YoY	Actual vs. cons.
Retail Banking - Pre-tax profit	1,140	1,379	1,911	1,898	1,409	1,565	1,591	-18%	37%	-2%
o/w Retail Netherlands	442	682	753	766	535	660	550	-14%	49%	20%
o/w Retail Belgium	181	3	277	208	164	174	208	-16%	-4%	-16%
o/w Retail Germany	258	397	493	491	436	409	480	-17%	59%	-15%
o/w Retail Challengers & Growth Markets	259	296	389	433	274	322	329	-26%	24%	-2%
Wholesale Banking - Total income	1,507	1,791	1,846	1,825	1,815	1,595	1,791	-13%	6%	-11%
o/w Lending	746	807	809	804	812	805	815	0%	8%	-1%
o/w Daily Banking & Trade Finance	443	529	561	527	524	536	524	2%	21%	2%
o/w Financial Markets	287	349	359	375	369	197	345	-47%	-31%	-43%
o/w Treasury & Other	31	107	117	119	111	57	107	-52%	81%	-47%
Wholesale Banking - Pre-tax profit	570	1,021	1,091	1,037	811	686	711	-34%	20%	-3%
Corporate Line - Pre-tax profit	1	-55	32	-70	-28	-4	-101	-94%	-497%	-96%
Total - Pre-tax profit	1,711	2,344	3,035	2,866	2,191	2,247	2,203	-22%	31%	2%

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Price objective basis & risk

ING Groep NV (INGVF / ING)

Our price objective of EUR16.4 (US\$18 per ADR) is based on our standard sum-of-the-parts valuation model. Our sum-of-the-parts valuation methodology values the bank on a divisional basis, applying PNAV multiples to our divisional forecasts on the basis of an ROE/COE model $[(ROE - G) / (COE - G)]$. Rather than use management's allocation of capital, we apply our own internal method to allocate capital. $ROE = \text{Expected earnings} / \text{allocated capital}$ assuming 13.5% CET1 ratio. $COE = 12.5\%$. $G = 1\%$.

Our valuation model arrives at the following target multiples: The multiples has changed reflecting our net profit forecast changes.

Retail at 1.6x allocated capital (ROE 17%, COE 11.7%, G 1%) or an implied 9.5x earnings
Wholesale Banking at 0.8x allocated capital (ROE 11%, COE 14%, G 1%) or an implied 7.0x earnings. We value the capital surplus at 1x BV.

Downside risks to our PO are 1) material macro slowdown in ING's core markets (Netherlands, Belgium and Germany) driven by global geopolitical uncertainty, 2) significant deterioration in the lending book asset quality in Western Europe and in CEE and 3) faster drop in ECB rates.

Upside risks to our PO are 1) a more favourable dividend from 2024, 2) sustainable asset quality normalisation, 3) less rate cuts than priced by the market and 4) exceed 12% ROE target

Analyst Certification

I, Tarik El Mejjad, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Allied Irish Banks	AIBRF	AIBG ID	Alastair Ryan
	Bank of Ireland Group	XBOIF	BIRG ID	Alastair Ryan
	BFF Banking Group	XBBZF	BFF IM	Antonio Reale
	BNP Paribas	BNPQF	BNP FP	Tarik El Mejjad
	BNP Paribas	BNPQY	BNPQY US	Tarik El Mejjad
	CaixaBank	CIXPF	CABK SQ	Antonio Reale
	Credit Agricole	CRARF	ACA FP	Tarik El Mejjad
	Danske Bank	DNSKF	DANSKE DC	Tarik El Mejjad
	Erste Bank	EBKOF	EBS AV	Alastair Ryan
	Erste Bank	EBKDY	EBKDY US	Alastair Ryan
	HSBC	XHSBF	5 HK	Alastair Ryan
	HSBC	HBCYF	HSBA LN	Alastair Ryan
	HSBC -A	HSBC	HSBC US	Alastair Ryan
	Intesa Sanpaolo	IITSF	ISP IM	Antonio Reale
	Intesa Sanpaolo	ISNPY	ISNPY US	Antonio Reale
	KBC Group	KBCSF	KBC BB	Tarik El Mejjad
	KBC Group NV	KBCSY	KBCSY US	Tarik El Mejjad
	NatWest Group	RBSPF	NWG LN	Rohith Chandra-Rajan
	Natwest Group PLC	NWG	NWG US	Rohith Chandra-Rajan
	Nordea	NBNKF	NDA FH	Tarik El Mejjad
	Nordea	XSABF	NDA SS	Tarik El Mejjad
	Nordea Bank Abp	NRDBY	NRDBY US	Tarik El Mejjad
	Santander	SAN	SAN US	Antonio Reale
	Santander	BCDRF	SAN SQ	Antonio Reale
	Societe Generale	SCGLF	GLE FP	Tarik El Mejjad

EMEA - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Societe Generale	SCGLY	SCGLY US	Tarik El Mejjad
	Unicredit	UNCF	UCG IM	Antonio Reale
	Unicredit	UNCRY	UNCRY US	Antonio Reale

NEUTRAL

	ABN AMRO	ABMRF	ABN NA	Tarik El Mejjad
	Banco Bilbao Vizcaya Argentaria	BBVA	BBVA US	Antonio Reale
	Banco BPM	BNCZF	BAMI IM	Antonio Reale
	Bankinter	BKIMF	BKT SQ	Antonio Reale
	BBVA	BBVXF	BBVA SQ	Antonio Reale
	Handelsbanken	SVNLF	SHBA SS	Tarik El Mejjad
	ING Groep NV	ING	ING US	Tarik El Mejjad
	ING Groep NV	INGVF	INGA NA	Tarik El Mejjad
	Lloyds Banking Group	LLDTF	LLOY LN	Rohith Chandra-Rajan
	Lloyds Banking Group	LYG	LYG US	Rohith Chandra-Rajan
	Monte dei Paschi	BMDPF	BMPS IM	Antonio Reale
	Raiffeisen Bank International	RAIFF	RBI AV	Alastair Ryan
	StanChart	SCBFF	STAN LN	Alastair Ryan
	StanChart	XCHBF	2888 HK	Alastair Ryan
	Svenska Handelsbanke	SVNLY	SVNLY US	Tarik El Mejjad
	UBS	XUJHF	UBSG SW	Alastair Ryan
	UBS	UBS	UBS US	Alastair Ryan

UNDERPERFORM

	Banco Sabadell	BNDSF	SAB SQ	Antonio Reale
	Barclays	BCLYF	BARC LN	Rohith Chandra-Rajan
	Barclays	BCS	BCS US	Rohith Chandra-Rajan
	Commerzbank	CRZBF	CBK GY	Rohith Chandra-Rajan
	Deutsche Bank	DB	DB US	Rohith Chandra-Rajan
	Deutsche Bank	XDUSF	DBK GY	Rohith Chandra-Rajan
	DNB	DNBBF	DNB NO	Tarik El Mejjad
	DNB ASA	DNBBY	DNBBY US	Tarik El Mejjad
	Mediobanca	MDIBF	MB IM	Antonio Reale
	Permanent TSB	ILPMF	PTSB ID	Alastair Ryan
	Poste Italiane	PITAF	PST IM	Antonio Reale
	SEB	SVKEF	SEBA SS	Tarik El Mejjad
	Swedbank	SWDBF	SWEDA SS	Tarik El Mejjad
	Swedbank AB	SWDBY	SWDBY US	Tarik El Mejjad
	Virgin Money UK PLC	CBBYF	VMUK LN	Rohith Chandra-Rajan
	Virgin Money UK PLC	CYBBF	VUK AU	Rohith Chandra-Rajan

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

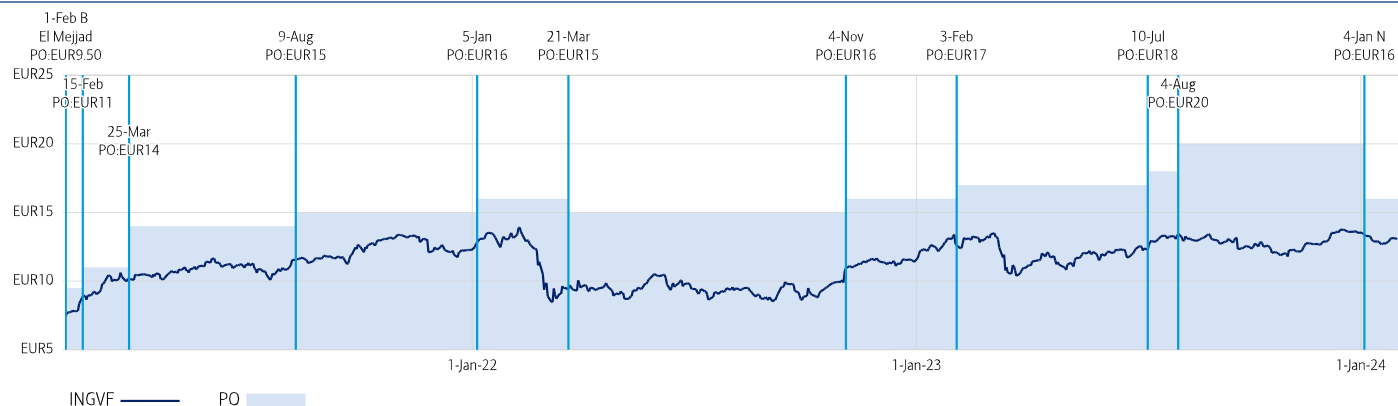
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Disclosures

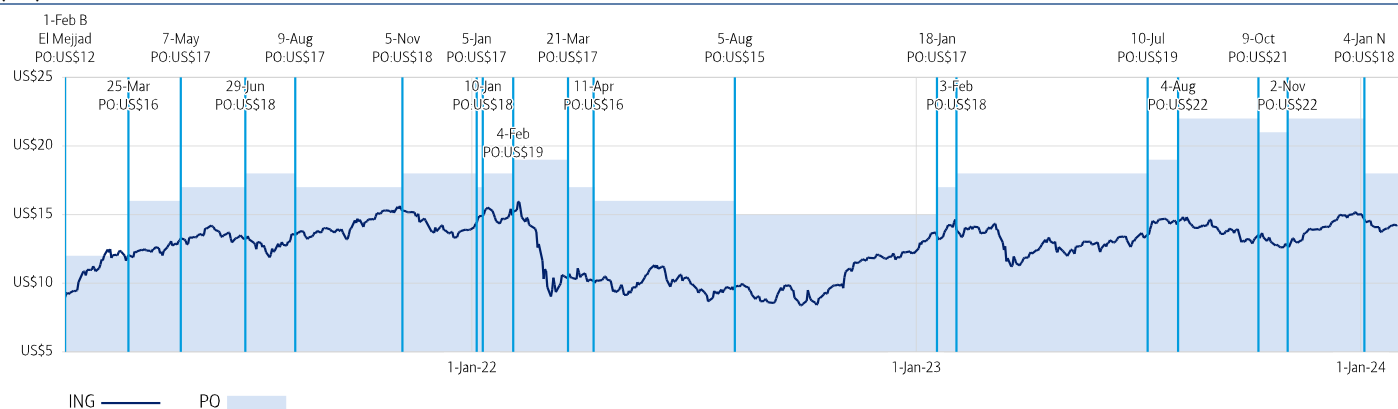
Important Disclosures

ING (INGVF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

ING (ING) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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