India Calling

Brief Financial Comments on India and Europe

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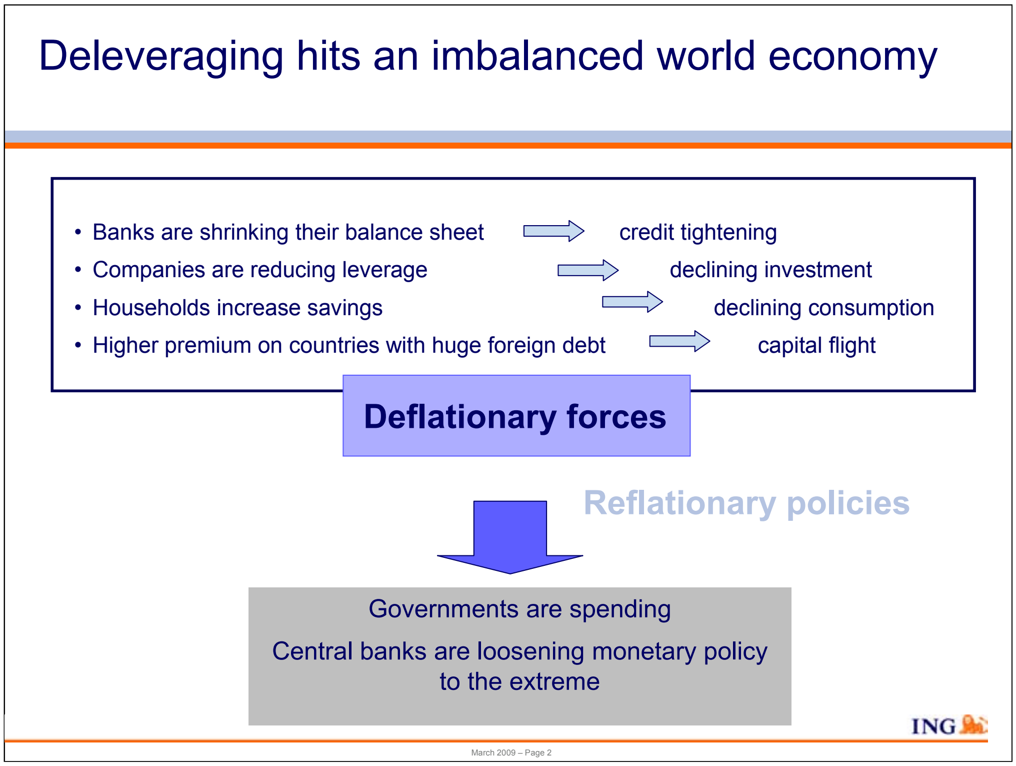
World economy in 2009: the “great recession”, only Emerging Asia will grow

ING forecasts world GDP to shrink 2.6% in 2009
to be followed by a subdued recovery in 2010.

% growth	2007	2008	2009	2010
USA	2.2	0.4	-2.7	1.9
Eurozone	2.6	0.6	-3.8	1.2
Belgium	2.6	1.1	-3.0	1.0
Japan	2.0	-0.7	-5.7	2.0
China	11.4	9.0	8.3	9.8
India	9.7	9.0	5.9	7.5

Asia will buck the trend with China, India and Indonesia to continue showing strong growth in 2009.

- Asia is pulling the world economy in 2009.
- What little growth there is comes from Asia: the other BRICs don’t do it (Brazil 0.5%, Russia -7%).
- China, India, Indonesia (4.6%) and Vietnam (4-5%) and also the Philippines (+1.3%) will be among the few countries that grow.



• Although we see promising green shoots nowadays, we should not forget that the world is going through a structural change and this will take time. The recovery should also be rather subdued.

•US consumers were used to carrying 5 credit cards, they may now have to do it with one.

• If you look at the forces that hit the word economy, they do not really seem to apply that much to India.

• The main reason is that India is a rather closed economy, with domestic services as the main driver (54% of the economy).

Strong policy responses in Asia

Country	Policy Response: Monetary Easing/ CB Rate Cuts	Policy Response: Fiscal Stimulus
China	-189bp	$605 bn (14% of GDP)
India	-400bp	$16 bn (1.6% of GDP)
Indonesia	-150bp	$7 bn (1.5% of GDP)
Japan	-40bp	$418 bn (8% of GDP)
Korea	-325bp	$47 bn (7.5% of GDP)
Thailand	-225bp	$3 bn (1.2% of GDP)
Vietnam	-550bp	$17 bn (20% of GDP)

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•That is one reason why the fiscal stimulus in India is relatively low, the other reason is that the Indian govt. Actually has less financial means and little budgetary room to maneouvre.

•massive government expenditure, in particular in China and Vietnam.

- China spread over 2 years

India: like in China, factories are kept busy…

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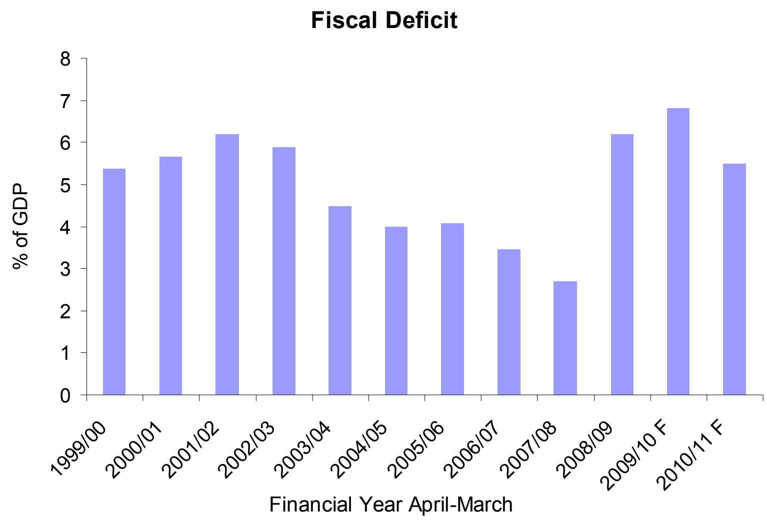
The chart shows YoY growth in industrial production

•Starting in May and all through this summer strong rebound in industrial production,

•We see this as a very positive development because manufacturing it indicates that the govt. is boosting the right economic sectors, and veers the economy off too much reliance on consumption and the service sector.

Like China, India's domestic demand is boosted by fiscal stimulus…

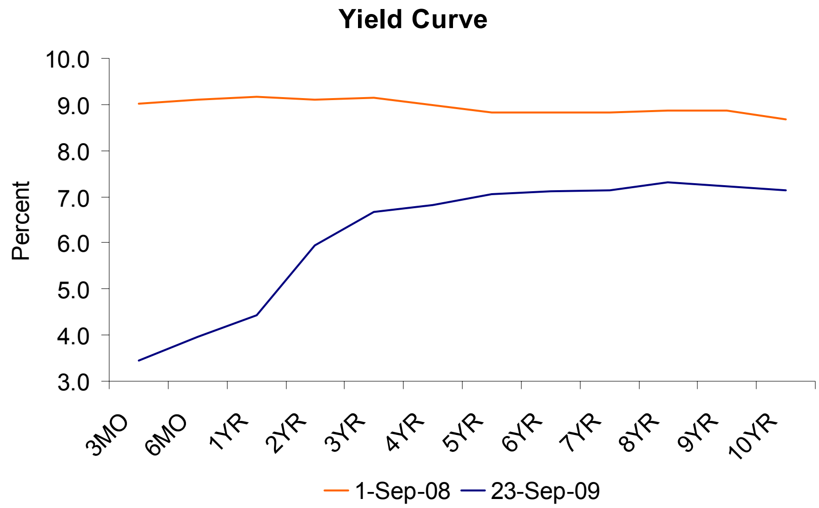


•The authorities are committed to accommodative fiscal policy stance.

•Running a risk of FY2009/10 fiscal deficit exceeding the 6.8% budget target.

•A substantial fiscal stimulus is unlikely to be rolled back until the economy hits PM Singh's 9% GDP growth target which we expect will be hit by 2011.

India: …and especially monetary stimulus



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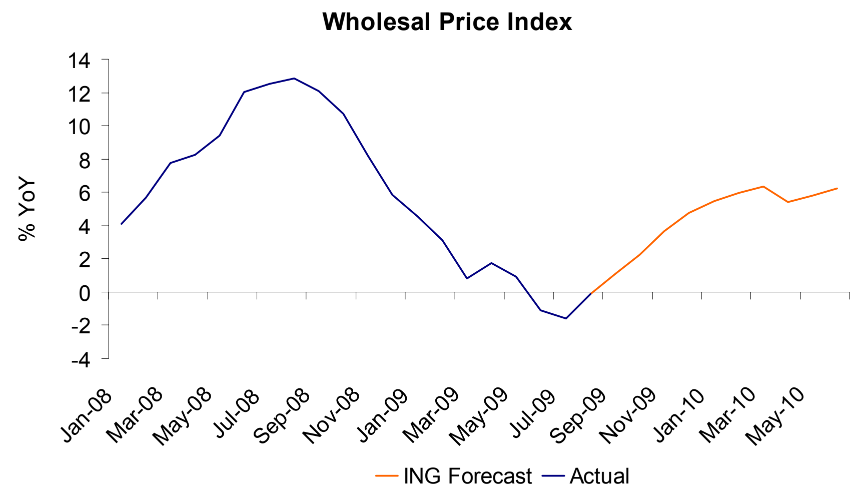
- Yield curve in Sept. 08 and in Sept 09.
- Massive easing of the ST interest rates.

- Improving activity, rising inflation and supply are bearish for the government bonds.
- Yields from belly to the long end of the curve have risen by about 100bp since the last RBI rate cut on April 21.
- We see another 100bp of upside **in yields by mid-2010.**

India: Inflation Will be an Issue in Early 2010



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•Drought and the low base from 2H08 commodity price crash will push WPI inflation until 2Q10.

•Growth concerns will keep the RBI on hold in the rest of this year but we expect it to join other Asian counterparts in tightening in early next year.

Some numbers to watch

	Trade balance (USD billion)	Current account (% GDP) (f)	Consumer prices 2009 (%) (f)	3 mths interest rates (%)	Budget balance (% GDP) (f)
US	-604.9	-2.9	-0.4	0.20	**-13.5**
Eurozone	-22.8	-0.9	0.4	0.75	-6.5
Belgium	6.3	-2.4	0.3	0.76	-5.9
Japan	10.8	2.7	**-1.1**	0,39	-7.4
China	267.0	6.5	-0.8	**1.76**	-4.2
India	**-87.4**	**-1.1**	**7.7**	**3.39**	**-8.0**
Korea	26.3	3.9	2.7	2.60	-4.5
Taiwan	18.0	9.6	-1.1	0,85	-5.0
Thailand	11.3	5.5	-1.0	1,35	-5.8
Vietnam	-9.8	-0,5	5,4	n.a.	-8,5

Source: The Economist

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Highlighted are a few eye catching numbers such as Japan's continued struggle with deflation.

India stands out as the country in Asia that is most vulnerable to foreign financing as can be seen from its trade deficit, current account deficit, meaning that the Indian household is dependent on financing from abroad. On top of that the govt. runs a very big budget deficit which, at 8%, is understated. This puts a lot of pressure on the new Indian govt. At a time it needs to stimulate its economy. An even greater deficit would be dramatic and the country has the rating agencies watching with a knife in hand, possibly cutting India's credit rating to junk level.

China's ST interest rates are actually still rather high, compared internationally and also if seen against negative inflation. However in China the monetary policy is not yet the main instrument for intervention in the economy. Monetary policy passes through "blunt" instruments such as reserve requirements and quota's on bank lending.

Indian banks

Relatively sound

- conservative leverage
- stable funding
- healthy asset quality

High government involvement

- Ownership
- Captive lenders
- Protective towards foreigners

NPL ratio about 2.5%

High regulatory reserves

Almost no exposure to US sub-prime

Relatively diversified risk portfolio

Low-cost deposit base

Govt owns nearly ¾ of banking sector

Some banks need to raise capital (1/2 of $ 4.2 bn World Bank loan)

Need for consolidation requiring political and labour union goodwill

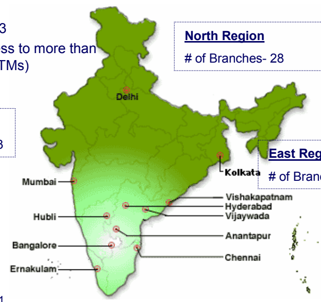
24% of banks'assets should be in govt paper (Statutory Liquidity Ratio)

Banks need to lend at least 40% of new funds to priority sectors (agri & SME)

ING Vysya Bank

Key statistics

Branches: 460
Employees: 6,283
ATMs: 203 (access to more than 10,000 shared ATMs)



North Region
# of Branches- 28

West Region
# of Branches- 33

East Region
# of Branches- 15

South Region
# of Branches- 384

Regional Offices: 11

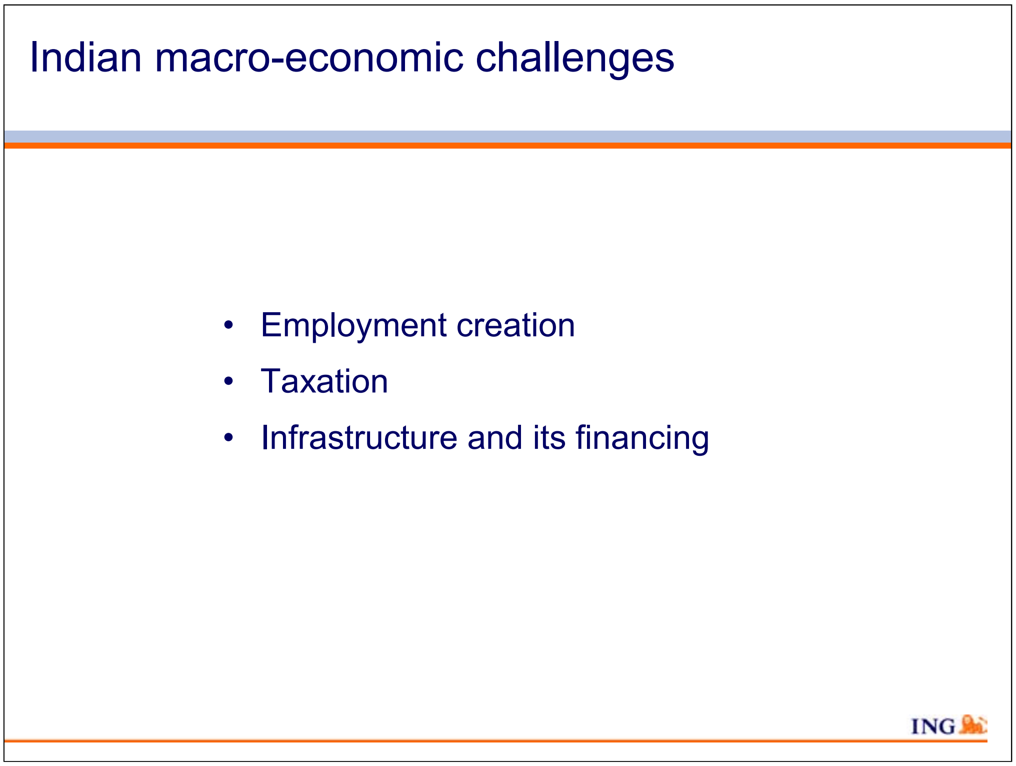
Key financials – FYE March, 2007

Shareholders Equity	€ 200 mn
Deposits	€ 2.8 bn
Advances	€ 2.1 bn
Investments	€ 823 mn
Total Assets	€ 3.5 bn

Interest Income	€ 255 mn
Interest Expense	€ 156 mn
NII	€ 99 mn
Non Interest Income	€ 35 mn

CAR	+ 10.56%
Net NPA	0.95%
Credit Deposit Ratio	78%

INR / Euro – 55



•Services sector which accounts for 54% of the economy does not create enough employment (1.5% pop. growth)

•Around 80% of economic activity in India remains untaxed. The agricultural sector does not pay tyaxes at all, while the services sector only recently started

•Tax to GDP ratio of 11.5% should be raised to 20% to put economy on a sustainable path

in view of fiscal deficit

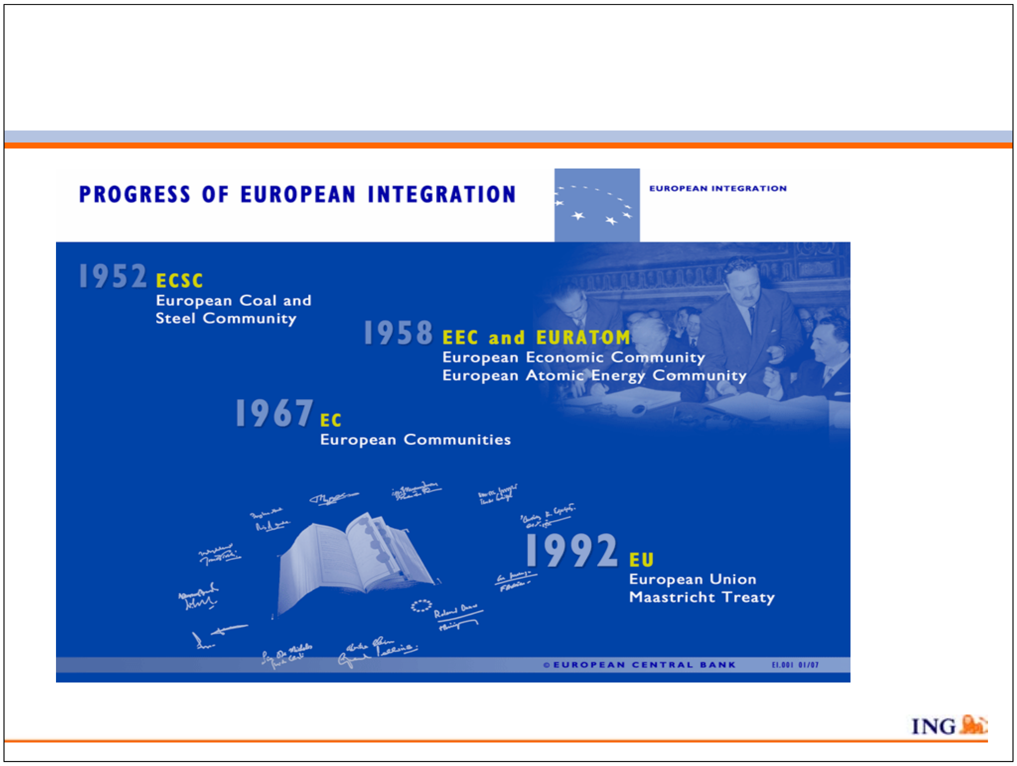
to finance infrastructure

New tax plan

•Public spending on infrastructure 3.6% in India (9% CN)

•Financing on govt budget 43% (21% in China)

•Mc Kinsey: single constraining factor



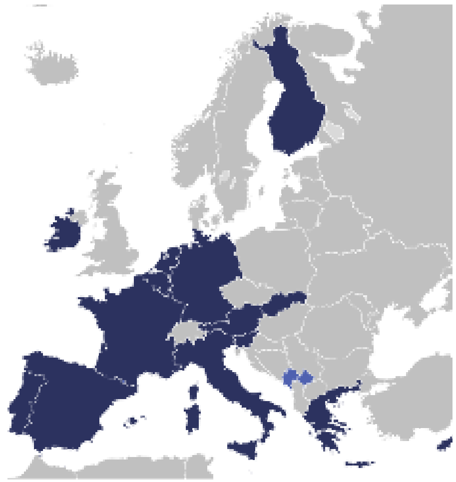
Here we are in the capital of Europe, so a few words on European integration.

Nowadays it looks like a laborious thing. It started in the wake of the Second Wold War with only a few countries, and for a long time people were all in favour. So Europe was built on a series of treaties but lacked a comprehensive framework of governance.

Tomorrow the Irish will vote on the Lisbon Treaty in an all important vote. The Lisbon treaty is a compromise after a more ambitious plan to give Europe a real constitution failed.

It will give more power to the European Parliament while also giving power to National Parliaments. It will allow more efficient voting. And the presidency of the EU would be given to one President replacing the rotation between the member states.

Eurozone as a subset of the European Union



eurozone as of 2009

Euro area: Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland

Greece(1999), Slovenia(2007),

Cyprus and Malta, (2008)

Slovakia (2009)

Opt-out (no legal obligation to adopt the euro): Denmark, UK

Derogation (must adopt euro when convergence criteria are met):

Czech Republic, Estonia, Hungary, Lithuania, Poland, Sweden, Latvia, Romania, Bulgaria

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A very important milestone in the development of Europe was of course the introduction end of last century of the EURO.

Today we have 27 countries that are member of the EU of which 16 have introduced the EURO.

Criteria to become a EURO-zone member are laid down in the Lisbon treaty, which put up a number of benchmarks or limitations on budget deficits, govt. Debt and inflation.

The introduction of the common currency has drastically changed the economic landscape in Europe in terms of ease of doing business and competition.

It is considered a big success to the extent that countries like Iceland, after it recently hit the wall , now wants to replace the Krone by the EURO. Also in Ireland they start to like Europe more. As a matter of fact some people say that the only difference between Iceland and Ireland is the R and the C, plus the EURO.

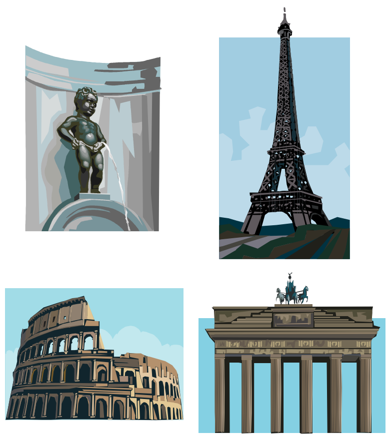
European Central Bank

- ***European Central Bank***, based in Frankfurt, sets monetary policy (interest rates)
- ECB is ***independent*** and cannot take instructions
- Primary objective in the Treaty: ***price stability*** (rationale: avoid ***"inflationary bias"*** of 1970s/80s)
- Price stability = keeping ***inflation below, but close to, 2% over the medium term***

Among the institutions that really work well, there is the European Central Bank .

Difference with the Federal Reserve: has also an employment objective.

Member States



- Fiscal policy (government expenditure and taxation decisions) determined at national level
- Common rules-based framework to encourage ***fiscal discipline*** and enhance ***co-ordination***
- Rationale: avoid ***"deficit bias"*** of 1970s/80s
- Rules-based framework = Treaty + SGP (revised)

Market developments

SEPA versus Payment Services Directive

Payment Services Directive

EU

All payment services within the EU in EUR or local currency of a member

Transposition 01/11/2009

SEPA Scheme Rulebooks and Resolutions

EPC EUROPEAN PAYMENTS COUNCIL Towards our Single Payment Area

Payment Transactions in EUR within the EU + Iceland + Liechtenstein + Norway + Switzerland between banks that signed the Adherence Agreement.

Credit Transfer from 28/01/2008

Direct Debit expected 01/11/2009

Harmonisation of Payment services within Europe

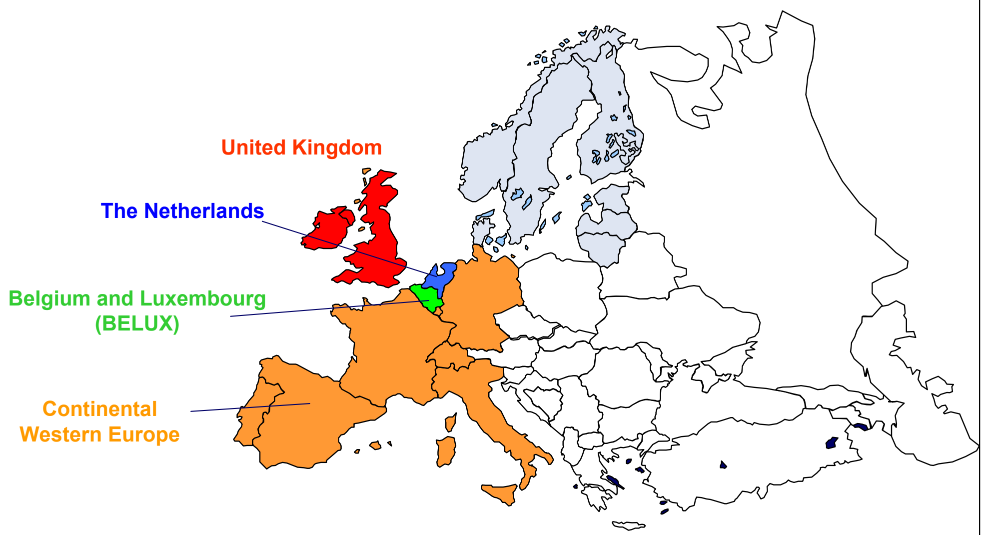
- Transparency of conditions and information obligations
- Increasing competition between payment service providers
- More efficient payments
- Protection of the consumer

Bank Mendes Gans

Bank Mendes Gans nv

- BMG is a <u>99,9% ING subsidiary</u> but operates under its own name and own banking license.
- BMG provides Notional Cash-Pooling and Netting services on a **global and multi-currency** base.
- BMG is generally considered to be the leading name in the area of International Cash Management.
- The services provided by BMG can be described as "**outsourced back office and in-house bank**" activities. Customers outsource (part of their) administrative processing to BMG; BMG runs the operation while the customer's corporate treasurer is in the driver's seat.
- BMG is **bank-neutral** which enables the customer and his operating companies (to continue) to bank with their preferred banks.

ING Bank in Western Europe



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Thank You !

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