

CEE Issuance Outlook 2024

January 2024



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Borrowing needs will fall this year, meaning a lower supply of LCY bonds, but there is still a long way to go given the slow fiscal consolidation. Central and Eastern Europe should remain more active in the FX market than pre-Covid, while a busy January and broadening of funding sources offer flexibility for the rest of the year.

CEE issuance summary (YoY %ch)

	Poland	Czech Republic	Hungary	Romania
Gross borrowing needs	↑57%	↓29%	↓17%	↓7%
Gross LCY issuance	↑17%	↓27%	↓26%	↓6%
Net LCY issuance	↑18%	↓29%	↓72%	↓11%
Gross FX issuance	↑54%	X	↓28%	↓8%
Net FX issuance	↑78%	X	↓18%	↓37%

Source: Ministry of Finance, ING estimates

Borrowing needs this year will be down on last year in the whole CEE region, with the exception of Poland. The decline is due to both lower budget deficits and redemptions. In contrast, in Poland, both have increased year-on-year. Overall, the supply of local currency bonds should fall but remain well above pre-Covid levels. Given lower yields, this supply may prove more difficult to place in the market compared to last year, which saw strong market demand despite record supply. This time is different, and we expect financial markets to be tougher and punish more budget overruns and additional issuance.

Local currency issuance: Improvement but still a long way to go

From a positioning perspective, we find the Romanian government bond (ROMGBs) market to be overcrowded after the significant inflows last year. On the other hand, the significantly underweight Polish government bond (POLGBs) market should help cover the historically record borrowing needs. Czech government bonds (CZGBs) and Hungarian government bonds (HGBs) remain somewhere in between with steady foreign inflows into the market. On the sovereign ratings side, all the obvious changes happened last year and should stabilise this year with only some adjustments in outlooks in the pipeline, unless a more significant shock arrives.

On the local currency supply side, we see a clear improvement from last year in the Czech Republic, as it was a bright spot in the CEE region with credible public finance consolidation. In addition, we see it as the only country in the region with positive risks of a lower supply of CZGBs than the Ministry of Finance indicates. Hungary has also made great progress here, of course, with the traditional broad diversification of funding sources that should keep the pressure off the HGB market in the event of an overshoot of the projected deficit. In contrast, we see only a relatively small improvement in Romania, where the supply of ROMGBs will fall only a little. The supply of Polish government bonds, meanwhile, was already at a record-high last year and is set to rise a little more this year. In addition, the use of additional sources to avoid flooding the local currency bond market will increase significantly, which we believe represents the biggest challenge for the bond market in the CEE region this year.

Frantisek Taborsky, EMEA FX & FI Strategist

FX issuance: Fast start and diverse funding sources offer flexibility

On the FX side, CEE sovereigns are set to remain active in the Eurobond primary market in 2024 and beyond, with the overall trend driven by recent external shocks from Covid and surging energy prices, along with structural factors such as the energy transition in Europe. A key theme that unites regular issuers Romania, Poland, and Hungary is the diversification of funding sources, with more consistent interest in the US dollar, as well as alternative currencies such as the Japanese yen and Chinese yuan, alongside the more traditional euro for the region. The growing green bond market is also an area of focus, with Hungary leading the way, and Romania set to follow this year. At the same time, 2024 should see some divergence, with Poland taking the lead in the region for Eurobond issuance and set to be one of the largest EM sovereign issuers globally this year. Hungary should see a slight reduction in Eurobond supply compared to recent years, with its strategy of diversifying funding sources and front-loading supply providing plenty of flexibility for the rest of the year. Romania should retain its position as a regular issuer, although net supply will be lower this year, while catching up with Poland and Hungary in terms of diverse funding sources via green issuance and alternative currencies. A strong start to the year, with almost \$15bn in issuance for CEE in January so far, should mean less pressure on the region to issue later in the year if market conditions turn.

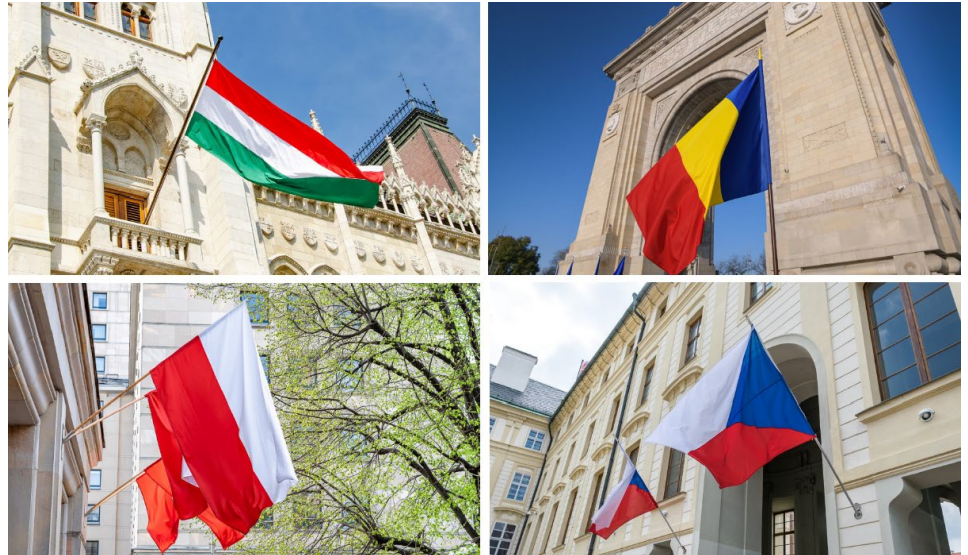
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CEE bond technicals: Foreign bondholders, sovereign ratings and index changes

Market positioning favours Poland, while Romania seems overcrowded after last year's significant inflow. On the sovereign rating side, we do not expect much change this year given that the situation has only recently stabilised in the CEE region. India's inclusion in the bond index will mean outflows for the region

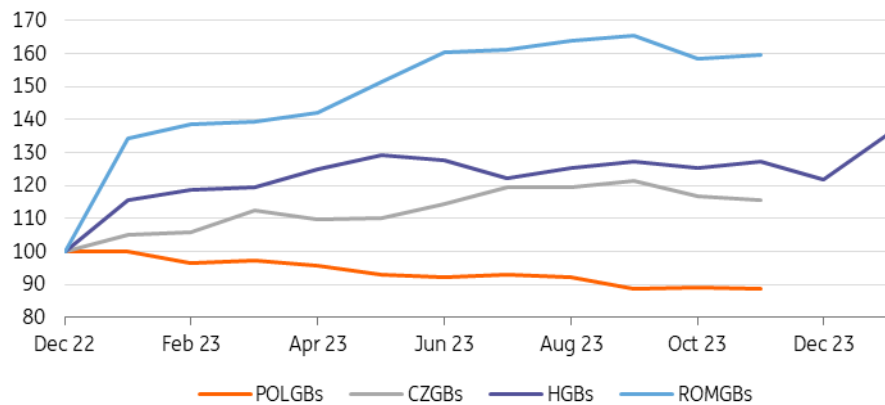


Foreign bondholders: Positioning favours POLGBs and undermines ROMGBs for this year

The headline numbers from the bondholder statistics have not changed much in the past year with a stable share of foreign holders of local bonds in the Czech Republic and Hungary at around 27%. Romania has seen a significant increase from levels below 20% to 26%. On the other hand, Poland fell from 17% to 13.5%. However, given the high issuance activity across the board, relative numbers do not always paint the right picture. If we look in detail, we see significant inflows from abroad into Romanian government bonds (ROMGBs), where foreign bondholders in nominal terms have increased by 60%, whereas Hungarian government bonds (HGBs) grew by 'only' 22% and Czech government bonds (CZGBs) by 16%. The outlier in this space remains Polish government bonds (POLGBs), where outflows continued for all of last year with a full-year decline of 11.5%.

From a positioning perspective, this may prove the ROMGBs market to be overcrowded this year after impressive momentum last year. On the other hand, in this sense, the POLGBs market is the most attractive with the largest share of underweight investors with significantly less room to sell off in the event of problems.

Foreign inflow/outflow to local currency sovereign bonds (Dec-22 = 100)



Source: Ministry of Finance, ING estimates

Sovereign ratings: The situation has improved but too soon for any changes

Last year brought a couple of small changes to sovereign ratings in the CEE region and we don't expect much in the baseline scenario for this year.

In Poland, the sovereign rating and outlook seems most stable in the CEE region and so far there is no indication of any changes here. The latest reports point to fiscal risk and the National Bank of Poland political conflict. On the other hand, the unlocking of EU money and economic recovery are positive factors. Therefore, we do not expect any changes for this year. However, S&P maintains a rating that is one notch higher than other agencies here, which may be a sensitive spot in case of problems.

In the Czech Republic, Moody's upgraded the outlook from negative to stable in November following the approval of the consolidation package and the presentation of a brighter public finance profile. This makes Fitch the last agency to hold a negative outlook since May 2022. We see a good chance for improvement here this year as well.

In Hungary, S&P downgraded the rating last January. Also, Fitch downgraded the rating outlook from stable to negative last year. The situation has stabilised both on the domestic and foreign (EU funds story) side since then, but we think it is too early for a rating improvement. The budget deficit may pose some downside risk, but on the other hand, the other stories tend to point to improvement.

In Romania, Fitch upgraded the rating outlook from negative to stable in March last year. Otherwise, the situation remains stable and, as in Hungary, the main risk here is public finances. However, given the European Commission's oversight, we do not expect a significant deviation from the roadmap despite the election year, which should imply a stable outlook for the rating agencies.

Sovereign rating review calendar

	S&P	Moody's	Fitch
Poland	10-May 08-Nov	22-May 20-Sep	10-May 08-Nov
Czech Republic	12-Apr 11-Oct	02-Feb 26-Jul	23-Feb 16-Aug
Hungary	26-Apr 25-Oct	31-May 29-Nov	14-Jun 06-Dec
Romania	12-Apr 11-Oct	29-Mar 27-Sep	01-Mar 30-Aug

Source: Rating agencies

GBI-EM changes: Inclusion of India triggers outflow in the region

CEE countries within the GBI-EM index increased their weighting by 1.92 percentage points to 21% at the end of the year, significantly more than in previous years. In January, the region got a small boost, with the exception of Hungary, by increasing its weight after Egypt was removed from the index (from 0.11pp to 0.18pp per country). In the first half of the year, the weighting of CEE countries can be expected to increase further, however, in the second half of the year, the inclusion of India will come into play, which means a reduction in weight for the other countries. The inclusion will be spread over 10 months from June 2024 to March 2025. Those with the largest weighting will see the largest reductions, which are Poland (-1.3ppt) and the Czech Republic (-1.0ppt). Hungary (-0.5ppt) and Romania (-0.7ppt) will be slightly less affected. However, in all cases, it does imply some outflows for these markets.

Estimated outflow spread over 10 months

	Current weight (%)	Estimated weight (%)	Change (pp)	Estimated outflow (USDbn)	Estimated outflow (LCYbn)
Poland	7.7	6.3	-1.3	-2.7	-11.1
Czech Republic	6.4	5.1	-1.0	-2.2	-51.3
Hungary	3.3	2.6	-0.5	-1.1	-398.0
Romania	4.1	3.2	-0.7	-1.4	-6.4

Source: ING estimates

Poland: Record-high borrowing needs

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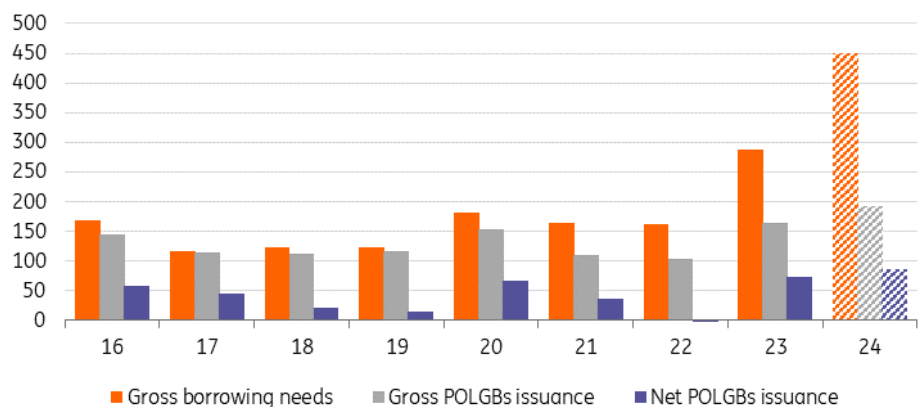
The budget deficit remains high this year, which, coupled with record redemptions, is leading to all-time record borrowing needs. To relieve pressure on Polish government bonds (POLGBs), the Ministry of Finance is diversifying funding into all available tools, boosting FX and T-bill issuance and by tapping the cash buffer



Fiscal policy: Politics first, consolidation later

Public finances ended last year in a deficit of around 5.3% of GDP. The funding plan for this year is based on a public deficit of 5.1% of GDP or PLN184bn in nominal terms. We expect the general government deficit to be in the range of 5.5-6.0% of GDP due to overly optimistic VAT collection assumptions for this year, which is posing upside risk to the Ministry of Finance's funding plan.

Gross financing needs and POLGBs issuance (PLNbn)



Source: Ministry of Finance, ING estimates

Local issuance: Broad diversification of sources to relieve pressure on POLGBs

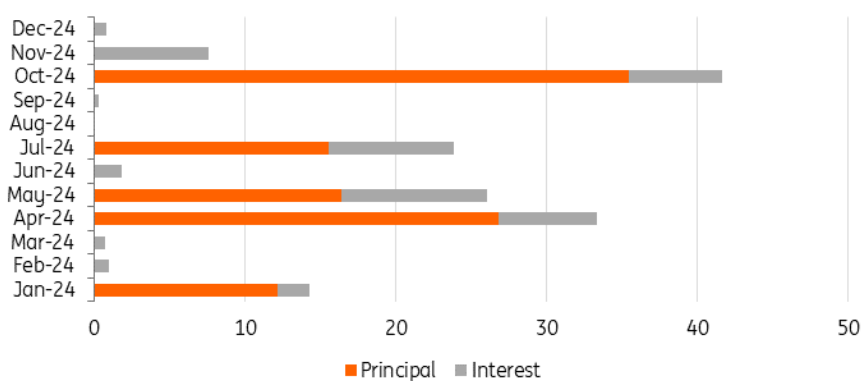
Last year's gross borrowing needs hit an all-time record and we expect a further increase this year due to a higher cash budget deficit but also historically record redemptions, especially on the local side. Gross borrowing needs will thus rise from PLN289bn to PLN449bn (+56% year-on-year). Given the level of gross needs, the Ministry of Finance plans to diversify funding sources more than usual. POLGBs are expected to finance only 43% of total needs but gross supply will still increase from PLN164bn to PLN192bn (+17%) with net supply increasing by 18%. The rest of the needs will be covered roughly equally by retail bond issuance, FX issuance and T-bills, which the Ministry of Finance will issue for the first time since 2020, and by tapping the cash buffer. Due to heavy issuance, the Ministry of Finance has decided to conduct auctions three times a month instead of the current two. The issuance of POLGBs is likely to be flexible to reflect market demand given the planned volume. However, the maturity calendar is even heavier in the coming years than this year, which at the short end only gives room for bonds maturing in 2027 and 2029 and beyond. We can also expect that if demand for POLGBs is sufficient, MinFin will skip the issuance of T-bills and increase the issuance of POLGBs or potentially FX issuance.

Financing needs for 2024 (PLNbn)

	MinFin
State budget	184.0
Others	68.2
Domestic redemptions	160.9
Foreign redemptions	35.9
Total financing needs	449.0
<hr/>	
POLGBs issuance	192.1
Retail bonds	41.6
T-Bills issuance	47.3
FX issuance	62.6
EU money	40.0
Supranational loans	3.8
Others	61.6
Gross borrowing requirement	449.0
Net POLGBs issuance	85.7

Source: Ministry of Finance, ING estimates

POLGBs maturity calendar (PLNbn)



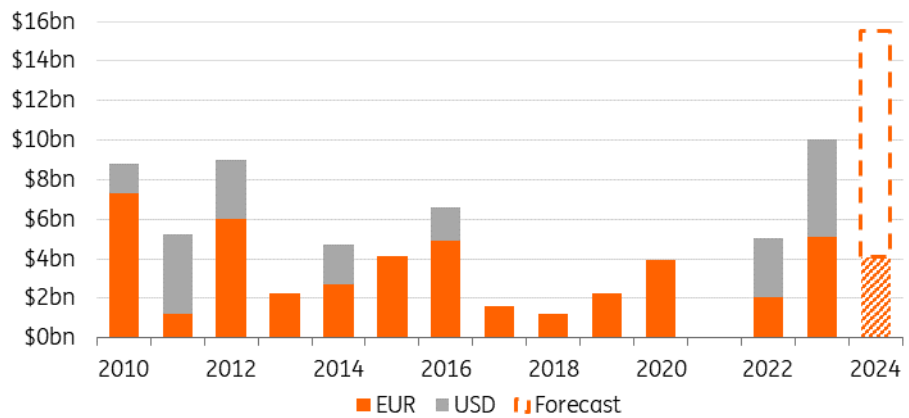
Source: Refinitiv, ING

FX issuance: A bumper year for Poland

Poland's Eurobond issuance is set to pick up again this year in both gross and net terms, in line with overall financing needs. The government has budgeted for just over EUR14bn (USD15.5bn) for 2024, up from just over USD10bn in 2023. As with the local currency

outlook, some of the increase in issuance needs is due to fairly large redemptions on the FX side, with almost USD8bn maturing across the year. In turn, this is well above typical plans for Poland seen over much of the past decade, which saw modest gross issuance and negative net issuance for most of these years with much of the focus on local currency funding. While this year's supply stands out relative to Poland's recent history, it is also notable among peers as the nation is set to be one of the largest EM sovereign issuers this year. However, it is unlikely to be a complete outlier, with this January already seeing a \$12bn deal for Saudi Arabia, and almost \$10bn in issuance from Mexico over two deals. In terms of currency, the euro should continue to dominate, although as with the past two years, healthy USD issuance is likely, along with potential for JPY to diversify sources as much as possible.

Poland (POLAND) international sovereign bond issuance (USD equivalent)



2024 shows YTD issuance as of 23 Jan, and ING forecast for additional issuance.
Source: BondRadar, ING

Czech Republic: On the way back to the good old days

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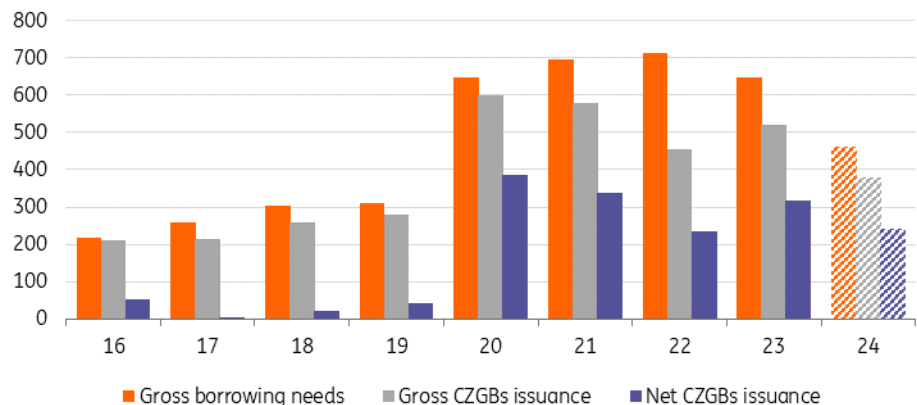
Fiscal policy is entering the first year of a consolidation package, starting the process of returning the budget deficit to levels seen in the pre-Covid years. Coupled with exceptionally low redemptions, gross borrowing needs have fallen significantly from the previous year, resulting in a limited supply of Czech government bonds (CZGBs)



Fiscal policy: Back to normal

The state budget deficit last year ended slightly lower than the Ministry of Finance planned, and we are bringing a positive bias into this year as well. The state budget for this year assumes a CZK252bn cash deficit, while we forecast CZK240bn due to the government's traditionally better performance. Together with the surplus of other sectors of the public finances, we expect the public deficit to fall from 3.4% of GDP last year to 2.5% of GDP this year.

Gross financing needs and CZGBs issuance (CZKbn)



Source: Ministry of Finance, ING estimates

Local issuance: Steep decline in CZGBs supply

The plan for this year is very favourable due to a lower planned deficit and exceptionally low redemptions. We thus expect gross redemptions to fall from CZK645bn to CZK456bn

this year (-29% year-on-year). The vast majority will be covered through CZGBs issuance, which we calculate will fall from CZK519bn to CZK380bn (-27% YoY) in gross terms and net supply will fall by 29%. The Ministry of Finance also has to cover EUR2.5bn of needs this year coming from the maturity of euro-denominated Eurobonds and euro-denominated T-bills. We believe that EUR1.0bn will be financed through supranational loans and EUR1.5bn through the issuance of euro-denominated CZGBs under local law. However, the risk here is the use of more loans from the European Union or supranational institutions depending on market conditions.

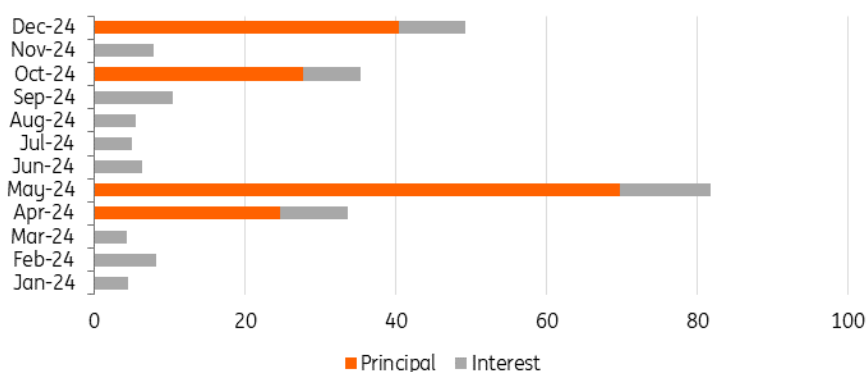
Financing needs for 2024 (CZKbn)

	MinFin	ING
State budget	252.0	240.0
Transfers and other operations of state financial assets	4.4	4.4
T-Bonds denominated in local currency redemptions	138.0	138.0
T-Bonds denominated in foreign currency redemptions	24.4	24.4
Redemptions and early redemptions on retail bonds	5.0	5.0
Money market instruments redemptions	44.0	44.4
Redemption of T-bills		44.4
Redemption of other money market instruments		0.0
Repayments on credits and loans	0.6	0.6
Total financing needs	468.4	456.8
Money market instruments		10.0
T-bills		10.0
Other money market instruments		0.0
CZGBs issuance	Min 300-400	379.7
CZGBs EUR-denominated		36.9
FX issuance		0.0
Retail bonds		10.0
Received credits and loans		24.6
Financial asset and liquidity management		-4.4
Total financing sources		456.8
Gross borrowing requirement		461.2
Net CZGB issuance		241.7

Source: Ministry of Finance, ING estimates

Given the Ministry of Finance's very comfortable situation this year, we expect the issuance focus to be on the long maturities around the 10-year segment. Last year, the Ministry of Finance was very active in the secondary market, which we expect will be lower to cover this year's needs. On the other hand, in the second half of the year, we expect the Ministry of Finance to start switching bonds maturing in 2025 due to higher redemptions in the following year.

CZGBs maturity calendar (CZKbn)



Source: Refinitiv, ING

Hungary: Low bond supply thanks to diversification

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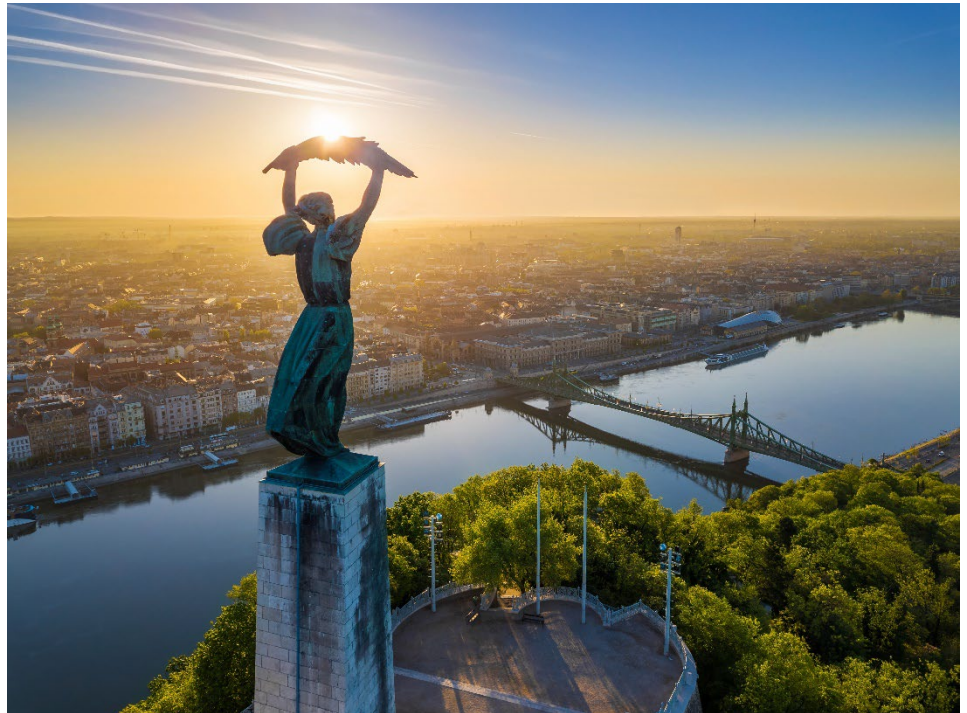
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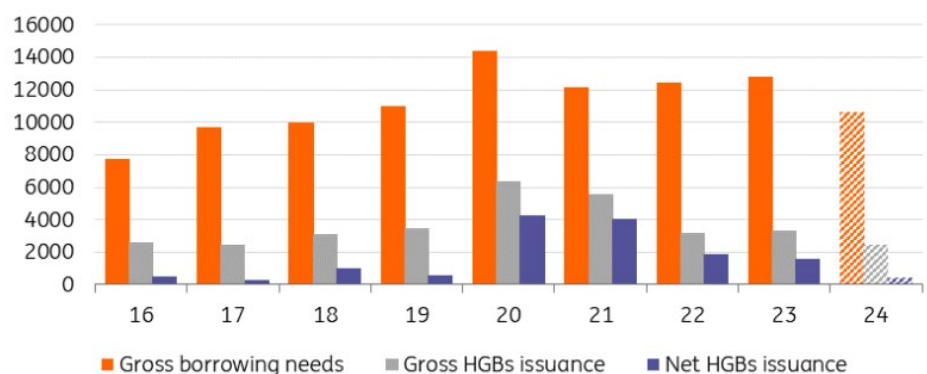
Despite the remaining fiscal risk, we expect a significant reduction in borrowing needs this year. In particular, the net issuance picture for Hungarian government bonds (HGBs) looks exceptionally good in a CEE context due to the debt agency's focus on retail and FX issuance



Fiscal policy: Lower deficit than last year but upside risks remain

The government forecasts that the budget deficit last year was 5.9% of GDP, higher than the original target of 3.9%, which was later revised to 5.2%. For this year the government is projecting a deficit of 2.9% of GDP, which is the assumption for the debt agency's (AKK) funding plan for this year. However, the budget plan hinges heavily on a recovery in domestic consumption without which it will suffer further. We thus expect a deficit of 4.4% of GDP for this year.

Gross financing needs and HGBs issuance (HUFbn)



Source: Ministry of Finance, ING estimates

Local issuance: Record low net HGBs issuance despite high gross needs

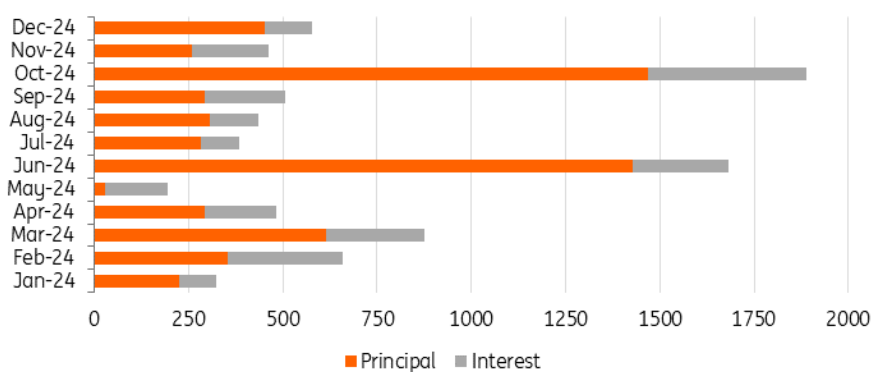
Despite a higher deficit than projected in the AKK plan, low redemptions and diversification of funding paints a favourable picture for HGBs this year. We expect gross borrowing needs to fall this year from HUF12,839bn to HUF10,639bn (-17% year-on-year). This is a result of both a lower government budget deficit and redemptions. As the focus remains on retail bond issuance, HGBs offer a nice picture despite the fiscal risk. Gross HGB issuance is expected to fall from HUF3,349bn to HUF2,472bn (-26%) this year. Moreover, despite total redemptions being lower this year than last, HGB redemptions are actually higher year-on-year, leading us to see a net HGB supply drop of 72%. As usual in the Hungarian case, supply should be roughly evenly spread among maturity baskets. It is clear from the breakdown that HGBs will offer a buffer this year in the case of a higher state budget deficit, however, we believe the AKK's focus will remain on retail and potentially FX issuance, which should leave HGBs protected from a potential increase in supply later.

Financing needs for 2024 (HUFbn)

	AKK	ING
State budget	2,515	3,515
Domestic redemptions	6,097	6,097
Foreign redemptions	792	792
Pre-financing	742	742
Total financing needs	10,146	11,146
HGBs issuance	1,872	1,972
HGBs switch auctions	500	500
T-bonds for local authorities	100	100
Retail bonds	4,298	4,698
T-Bills issuance	924	1,124
HUF loans	0	0
FX issuance	1,489	1,789
IFI and other loans	961	961
Other FX borrowings	130	130
Gross borrowing requirement	10,274	11,274
HGBs issuance (inc. switches)	2,372	2,472
Net HGBs issuance (inc. switches)	2,372	2,472

Source: Ministry of Finance, ING estimates

HGBs maturity calendar (HUFbn)



Source: Refinitiv, ING

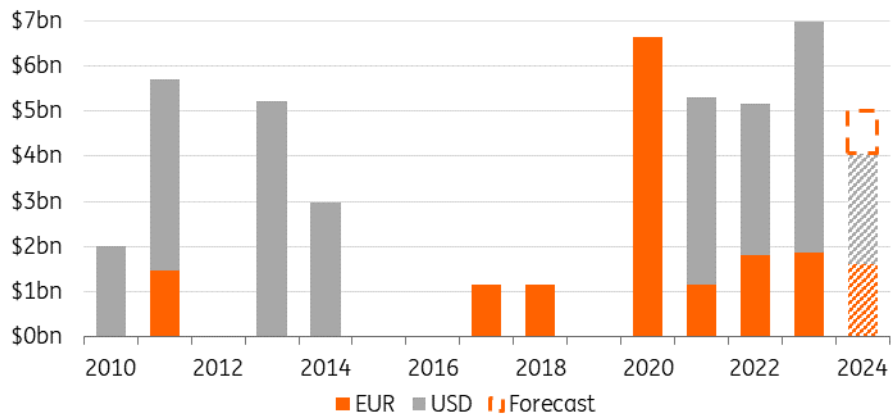
FX issuance: Diversification and flexibility

On the FX issuance side, AKK has front-loaded the supply this year with two issues of USD2.5bn and EUR1.5bn (green bond) in January, which essentially covers AKK's target for this year (EUR3.8bn). However, the agency has indicated it may issue a Samurai (JPY) or Panda (CNY) bond in the second half of the year, depending on market conditions.

This would effectively reduce issuance elsewhere in the plan if fiscal policy remains under control. We budget for EUR4.6bn in FX bond issuance over the year.

In the context of Hungary's typical Eurobond (FX) issuance, this year's plan (already covered) sees slightly lower gross issuance, compared to \$6bn annually on average in the post-Covid era. Given the successful front-loading, this would appear to offer plenty of flexibility for increasing supply later in the year, whether on the back of fiscal slippage, continued EU disbursement uncertainty, or simply pre-financing for 2025. While Hungary has been more active on the international market than pre-Covid – there was almost no gross issuance from 2014-2019 – from this year onwards it looks set to be quieter than CEE peers Romania and Poland. In terms of currency, the nation is likely to continue its preference for USD, while being one of the more active issuers in JPY and CNY, along with its focus on green bonds. This highlights the overall strategy of maximum diversification of funding sources.

Hungary (REPHUN) international sovereign bond issuance (USD equivalent)



2024 shows YTD issuance as of 23 Jan, and ING forecast for additional issuance.
Source: BondRadar, ING

Romania: Just slightly lower issuance than last year

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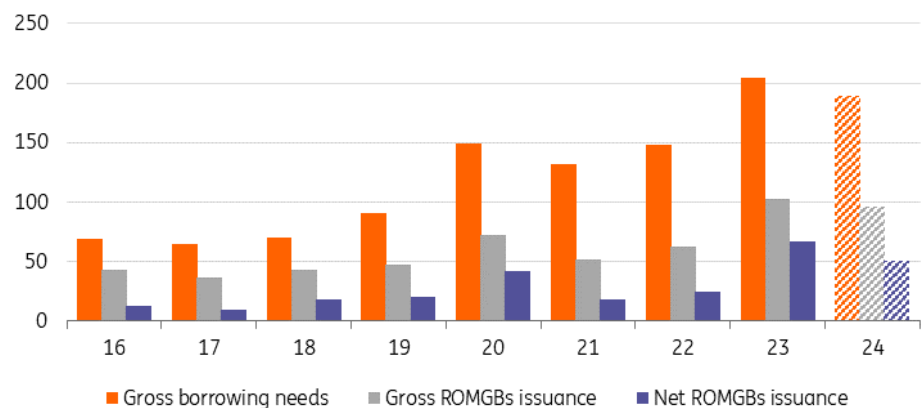
The combination of a slightly lower government deficit and redemptions leads to a year-on-year decline in borrowing needs. Half of this will be covered by Romanian government bonds (ROMGBs), the supply of which will also fall slightly this year. The other half is evenly split between retail, FX issuance and EU money



Fiscal policy: Election year puts budget deficit at risk

According to the Ministry of Finance, the budget deficit last year ended below 5.7% of GDP after a bumpy road with an initial target of 4.4% of GDP. For this year, like the Ministry of Finance, we expect a 5.0% of GDP deficit, however, we see upside risks here given that this is an election year in Romania.

Gross financing needs and ROMGBs issuance (RONbn)



Source: Ministry of Finance, ING estimates

Local issuance: Slightly lower ROMGBs supply than last year

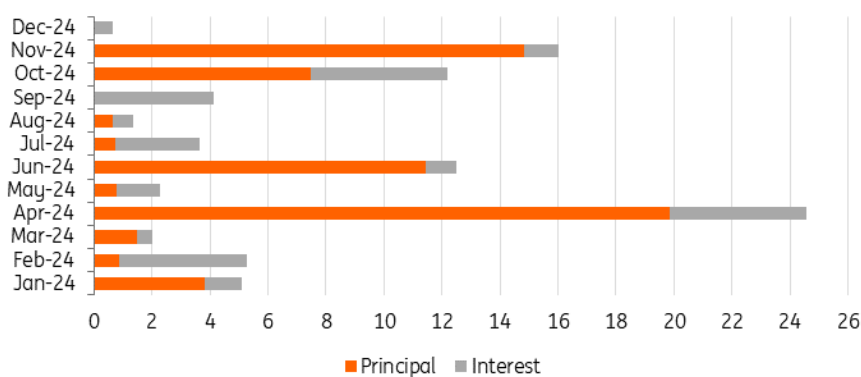
The cash budget deficit for this year is not much lower than last year, but together with slightly lower redemptions, we see slightly lower gross borrowing needs this year with a drop from RON205bn to RON190bn (-7% year-on-year). Similar to last year, ROMGBs should cover about half of the needs. Gross issuance will fall slightly this year from RON103bn to RON97bn (-6%) and net issuance will fall by 11%. The rest of the needs will be covered by a combination of retail bonds, which the Ministry of Finance increasingly relies on, FX issuance and EU money. The Ministry's focus in ROMGB issuance should be more on the longer maturities given the already heavy redemption calendar after short-term maturities up to the 3y segment. However, we believe that the Ministry of Finance will try to match market demand according to the conditions.

Financing needs for 2024 (RONbn)

	MinFin	ING
State budget	86.6	95.4
Domestic redemptions	71.5	71.5
Foreign redemptions	22.9	22.9
Total financing needs	181.0	189.8
ROMGBs issuance	116-121	96.7
ROMGBs EUR-denominated		0.6
Retail bonds		20.0
T-Bills issuance		10.0
FX issuance	42.5 - 47.5	45.0
EU money	10.0	10.0
Supranational loans	7.5	7.5
Gross borrowing requirement	181.0	189.8
Net ROMGBs issuance		96.7

Source: Ministry of Finance, ING estimates

ROMGBs maturity calendar (RONbn)



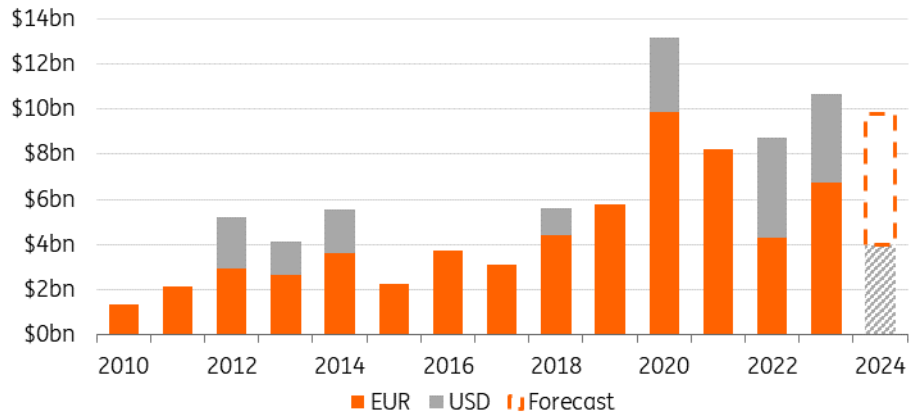
Source: Refinitiv, ING

FX issuance: Following in the footsteps of CEE peers

Romania's Ministry of Finance indicates EUR8.5-9.5bn in Eurobond issuance for this year. Government officials recently highlighted the potential for both USD and EUR issuance this year, along with plans for debut green and Samurai (JPY) bonds, following in the footsteps of Hungary and Poland in this respect. As with the rest of CEE, Romania is off to a strong start to the year and came to the market with a well-anticipated \$4bn deal across 5-year and 10-year tranches. This year's plan is roughly in line with recent years' numbers, with a post-Covid average of just over 10bn USD-equivalent (while similar to Hungary, this is elevated versus a pre-Covid average of USD4bn from 2015-2019). However, this will likely equate to less than recent years on a net basis, given fairly sizable maturities of just under \$4bn this year. In terms of currency, Romania has kicked

off this year continuing its recent trend of regular USD issuance, which has the benefit of benchmark inclusion within the JPM EMBI-GD index. However, the skew towards EUR should be more pronounced than the almost 50/50 split seen in 2022 and 2023, given the much heavier EUR maturity schedule and planned green bond issuance being more naturally suited to an EUR investor base than USD. This week's deal therefore likely completes the nation's planned USD issuance for the year.

Romania (ROMANI) international sovereign bond issuance (USD equivalent)



2024 shows YTD issuance as of 23 Jan, and ING forecast for additional issuance
 Source: BondRadar, ING

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