GBB-Rating

A+ indeterminate

Rating Committee: 12/17/2020

ING Bank N.V.

Rating result

Strengths/Opportunities:

- Well-balanced business model; business mix with many profitable growth drivers
- Strong franchise in its core markets
- Profitable strong business performance
- Steady primary customer growth and continual increase in mobile interactions
- Frontrunner and leader in digital banking
- Strong capital and solid liquidity position
- ING Groups CET1 ratio considerably above the regulatory requirements for 2020
- ING Groups TLAC ratios meet the requirements
- Well-diversified loan portfolio, good asset quality

Weaknesses/Threats:

- Uncertainty about economic developments in ING Bank's main markets and conditions on Dutch housing market depending on the strength of the negative economic impact of the Covid-19 pandemic
- Ongoing low interest rate environment
- Highly competitive markets; potential increase in competition from new entrants, in particular Fintechs and Big Techs
- High burden due to regulatory costs

Financial data:

(in EUR m)	09/30/2020	09/30/2019
Net interest income	10,260	10,481
Total income	13,468	13,867
Operating result	2,763	5,497
Net result	1,757	3,901
Total assets	956,701	922,379
CET1 capital ratio (ING Group)	15.3%	14.6%
Total capital ratio (ING Group)	20.0%	19.0%

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With reference to our rating process and due to the ongoing supervision, we executed a monitoring on ING Bank N.V. analyzing figures and information as at 30 September 2020. Based on this information, the financial standing of ING Bank is still considered high at the present time. As a result of the monitoring, GBB-Rating confirms the rating result of A+. However, due to the Covid-19 pandemic short to medium term challenges to the high credit rating are emerging. As a consequence, the outlook remains indeterminate.

The “indeterminate outlook” and “uncertain watch” reflect our view, that the global economic downturn could have an unfavorable impact on ING’s sustainable profitability and may weaken the credit quality substantially.

As a G-SIB, ING belongs to the leading financial institutions in Europe. ING is focused on Retail Banking and Wholesale Banking. In addition to its strong market position in the Benelux countries, ING also has a good franchise in other European countries as well as in Australia. In Wholesale Banking, ING operates globally via its worldwide network. In the first nine months of 2020, the primary customer base increased by 0.4 million to 13.7 million, while the number and share of mobile interactions continued to grow. ING is a frontrunner and leader in the digitalization of banking services and considers further innovation as essential to achieve its strategic targets. Overall, ING possesses a clearly defined, sustainable and successful business model. With the challenging environment, ING is refocusing its activities. In Wholesale Banking, ING will concentrate even more on core clients and simplify its geographical footprint. This includes the closing of offices in South America and some in Asia. In Retail Banking, ING will reduce the scope of Maggie, a project launched to provide a standardized customer experience and integrate the product offering in four of the European Challenger countries. The decision has been taken in light of the current economic headwinds and learnings from the complexities and costs of cross-border system and product integration. The refocusing of the wholesale and retail activities will result in a headcount reduction of approx. 1,000 FTEs by end of 2021.

In the first nine months of 2020, ING Bank generated a significantly lower net result of EUR 1,757 million, down from EUR 3,901 million in the same period of the previous year. The strong decline was primarily due to higher risk costs (including a significant management overlay) caused by the expected future economic impact of the Covid-19 pandemic. Nevertheless, the gross result also decreased by 15.5%, partly because of the decline in total income by 2.9%. While net commission income rose

Summary:

	Rating
Financial profile	strong
- Earnings position	strong
- Capital position	strong
Business profile	adequate
- Strategy and market	strong
- Risk profile	adequate
- Capitalization potential	strong

(strong > adequate > acceptable > deficient > problematic > insufficient)

Rating history:

Rating	Outlook	Date
A+	**indeterminate**	**12/17/2020**
A+	indeterminate	06/10/2020
A+	stable	03/26/2020
A+	stable	12/17/2019
A+	stable	07/11/2019

Rating scale:

Rating	Rating categories
AAA	highest financial standing
AA+ / AA / AA-	very high financial standing
A+ / A / A-	high financial standing
BBB+ / BBB / BBB-	good financial standing
BB+ / BB / BB-	satisfactory financial standing
B+ / B / B-	financial standing scarcely adequate
CCC+ / CCC / CCC-	financial standing no longer adequate
CC / C	inadequate financial standing
D	moratorium / insolvency proceedings

by 5.0%, net interest income declined by 2.1% mainly due to liability margin pressure and subdued lending growth. In addition, investment income and other income decreased, reflecting negative valuation adjustments and an impairment on the equity stake in TMB. Moreover, operating expenses increased by 7.3%, mainly caused by the impairment on capitalized software (reduction in scope of project Maggie) and goodwill impairments on a number of past acquisitions. Excluding the impairments, operating expenses increased only moderately.

The capital position is strong. As per 30 September 2020, the CET1 ratio of ING Bank was 13.7% and 15.3% at the level of ING Group as the main regulated entity. The Group's CET1 ratio is also clearly above the regulatory requirements for 2020. Additionally, GBB-Rating takes into positive consideration the significant progress in meeting the future requirements on TLAC/MREL since the beginning of 2017. At the end of the third quarter 2020, ING Group meets the current TLAC requirements with a TLAC ratio of 27.7% of RWA and 7.5% of leverage exposure. Due to the strong current capital position, ING is well-positioned for business growth and able to comply with future TLAC/MREL requirements with ING Group instruments only.

ING Bank's moderate risk profile is characterized by a strict risk appetite with a focus on senior, collateralized lending. The loan portfolio is well-diversified. However, the credit risk has increased because of expected further negative economic effects of the Covid-19 pandemic. Regarding the high dependency on the availability of customer-related IT systems, particularly in the direct banking business, there is a substantial operational risk and an increasing susceptibility to cyberattacks. Moreover, ING is subject to legal and reputational risks as the financial sector remains to be in the focus of regulatory and public scrutiny. ING's funding and liquidity position remains sound. Furthermore, ING has a prudent and clearly defined risk management and governance structure which is deeply rooted in the whole bank and in accordance with industry best practice. In the light of past events, early in 2017 ING has launched a bank-wide, global KYC Enhancement Program with various initiatives to strengthen the management of compliance risks and its role in fighting financial and economic crime.

Rating drivers

The health policy measures to contain the corona virus are accompanied by strong economic effects and a high degree of uncertainty about future economic development worldwide. In this respect, an essential factor that could affect the rating result is a negative effect from the possible deterioration of the economic situation as a result of the pandemic crisis. The rating result will be stable at its high financial standing if the sustainable profitability does not fall significantly below the previous level and credit quality remains at an acceptable level, despite the expected global recession.

Appendix

Assets – selected data (Mio. EUR m)	**12/31/2019**	**12/31/2018**	**12/31/2017**
Cash and cash balances at central banks	53,202	49,988	21,989
Loans and advances to banks	35,133	30,420	28,746
Loans and advances to customers	611,907	592,328	574,899
Financial assets at fair value through profit or loss	96,218	120,505	123,190
Investments	n/a	n/a	79,073
Financial assets at fair value through other comprehensive income	34,468	31,223	n/a
Securities at amortised cost	46,108	47,276	n/a
Investments in associates and joint ventures	1,790	1,044	947
Intangible assets	1,009	921	653
Goodwill	907	918	816
Tangible assets	3,219	1,713	1,866
Tax assets	981	1,042	1,142
Other assets	6,967	8,372	12,997
Assets held for sale	0	1,262	0
Total assets	**891,910**	**887,012**	**846,318**

Liabilities – selected data (Mio. EUR m)	**12/31/2019**	**12/31/2018**	**12/31/2017**
Liabilities due to banks	34,826	37,330	36,821
Liabilities due to customers	606,410	580,294	552,690
Debt securities in issue	93,721	102,159	90,231
Financial liabilities at fair value through profit or loss	77,943	92,707	87,157
Provisions	688	1,011	1,713
Tax liabilities	1,194	1,496	1,526
Other liabilities	12,796	13,396	15,972
Subordinated loans	16,515	13,643	15,831
Equity	47,817	44,976	44,377
Total liabilities and equity	**891,910**	**887,012**	**846,318**

Income statement (Mio. EUR m)	**2019**	**2018**	**2017**
Net interest income	14,074	13,949	13,782
Net fee and commission income	2,868	2,803	2,714
Valuation results and net trading income	765	1,031	672
Investment income	188	183	192
Share of result from associates an joint ventures	30	124	166
Result on disposal of group companies	117	-123	1
Other Income	251	136	349
Total income	**18,295**	**18,102**	**17,876**
Staff expenses	-5,753	-5,430	-5,198
Other operating expenses	-4,590	-4,490	-4,603
Addition to loan loss provisions	-1,120	-656	-676
Operating result [1)]	**6,831**	**7,526**	**7,399**
Income (expenses) related to extraordinary events	0	-775	5
Result before tax	**6,831**	**6,751**	**7,404**
Taxation	-1,889	-2,036	-2,303
Net result	**4,942**	**4,715**	**5,101**
Net result attributable to shareholder of the parent	4,843	4,607	5,019
Net result attributable to non-controlling interests	99	108	82

[1)] Including DVA adjustments on own issued notes (EUR 79 million in 2017)

Credit and Counterparty risk cluster	2019	2018	2017
Gross profitability 1 Adjusted gross profit / Average Total assets	2.06%	2.09%	2.12%
Gross profitability 2 Net interest income and net credit risk provisions / Average risk-weighted exposure amounts [1]	4.68%	4.96%	4.95%
Net profitability 1 Operating result after provisions for cr and val. adjustments / Average total risk exposure amount	2.14%	2.42%	2.41%
Net profitability 2 Gross annual profit / Average Adjusted total assets [2]	0.73%	0.74%	0.84%
Return on equity 1 Operating result after provisions for credit risks and valuation adjustments / Average total capital	14.72%	16.85%	16.90%
Return on equity 2 Gross annual profit / Average total capital	14.72%	15.11%	16.91%
Cost income ratio 1 Administration costs and provisions for credit risks / Gross profit	64.05%	60.00%	60.55%
Cost income ratio 2 Administration costs / Adjusted gross profit	56.54%	54.80%	54.59%

[1] Risk weighted exposure amount for credit, counterparty credit and dilution risks and free deliveries
[2] Comprises on-balance sheet total assets, contingent liabilities and loan-loss allowances

Financial data (Mio. EUR m)	2019	2018	2017
Net interest income	14,074	13,949	13,782
Net interest income and net credit risk provisions	12,954	13,293	13,106
Gross profit	17,898	17,628	17,304
Advanced gross profit [1]	18,294	18,102	17,955
Administration costs [2]	-10,343	-9,920	-9,801
Administration costs and provisions for credit risks [2]	-11,463	-10,576	-10,477
Operating result after provisions for credit risks and valuation adjustments [1] [2]	6,831	7,526	7,478
Gross annual profit [1]	6,831	6,751	7,483
Average risk-weighted exposure amounts [3]	277,055	267,992	264,671
Average total risk exposure amount	319,884	311,431	310,687
Average total assets	889,461	866,665	845,119
Average Adjusted total assets [4]	937,381	912,423	889,220
Average total capital	46,397	44,677	44,262

[1] Excluding DVA adjustments on own issued notes (EUR 79 million in 2017)
[2] Excluding expenses or income related to extraordinary events
[3] Risk weighted exposure amount for credit, counterparty credit and dilution risks and free deliveries
[4] Comprises on-balance sheet total assets, contingent liabilities and loan-loss allowances

Indicators of sustained capital position	12/31/2019	12/31/2018	12/31/2017
Total capital ratio Own funds / Total risk exposure amount	17.90%	17.22%	18.19%
Tier 1 capital ratio Tier 1 capital / Total risk exposure amount	15.14%	14.56%	14.62%
Common Equity Tier 1 ratio Common Equity Tier 1 capital / Total risk exposure amount	13.05%	12.89%	13.13%

Financial data (Mio. EUR m)	12/31/2019	12/31/2018	12/31/2017
Own funds	58,394	53,988	56,259
Tier 1 capital	49,397	45,671	45,217
Common Equity Tier 1 capital	42,571	40,431	40,602
Total risk exposure amount	326,193	313,572	309,287

GBB-Rating

Regulatory disclosure requirements

Name and function of the analysts:

- Klaus Foro, Lead Rating Analyst, Manager, GBB-Rating, Cologne
- Angelika Komenda, Rating Analyst, Manager, GBB-Rating, Cologne

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Members of the Rating Committee:

- Martin Küster, Junior Manager, GBB-Rating, Cologne
- Christina Weymann, Manager, GBB-Rating, Cologne
- Martin Anspach, Manager, GBB-Rating, Cologne
- Volker Jindra, Manager, GBB-Rating, Cologne

Date	Rating Committee	Notification	Issue
First rating	12/16/2013	12/17/2013	12/30/2013
Current rating	12/17/2020	12/17/2020	12/21/2020

Validity:

- Rating: 12 months
- Outlook: 24 months

Subsequent rating changes after notification to the rated entity:

- none

Major sources of information for the rating:

- Annual report as at 12/31/2019
- Third quarter 2020 results
- Further disclosures and company specific information

Statement about the quality of information available (including potential restrictions):

- The quality and extent of information (interviews and documents) were suitable to obtain a comprehensive picture of the bank and to assign an objective, transparent and professional credit rating

Applicable rating methodology, rating type and release:

- Solicited rating
- Methodology for Rating 3.0.04 Banks – credit and counterparty credit risk (CCR)
- https://gbb-rating.eu/en/ratings/methodik/Pages/default.aspx

Meaning of the rating category:

- https://gbb-rating.eu/en/ratings/ratingskala/Pages/default.aspx

Business relationship:

- Besides the rating mandate there are further business relationships with the Group

Legal remarks

Since 28 July 2011 GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH has been registered with the European Securities and Markets Authority (ESMA) as a European rating agency and therefore complies with the applicable regulatory requirements of the European supervisory authorities for a European rating agency.

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Future events are uncertain. Ratings are based on predictions of these and thus inevitably rely upon estimates. Therefore, they solely represent statements of opinion rather than statements of fact or investment advice.

Credit ratings are performed with proficiency and due professional care. Ratings are based on the data and information provided by the applicant. This information is used in reaching an opinion about the future viability as well as the strengths and weaknesses of the rated company as of the date of rating issuance.

GBB-Rating puts focus on sustainability and is a signatory of the UN Global Compact since 2018. We support the 10 principles of the UN Global Compact relating to human rights, labor standards, the environment and anti-corruption.

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