

MOODY'S

INVESTORS SERVICE

CREDIT OPINION

21 October 2020

Update

 Rate this Research

RATINGS

ING Bank N.V.

Domicile	Amsterdam, Netherlands
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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ING Bank N.V.

Update following affirmation of ratings with a stable outlook

Summary

[ING Groep N.V.](#) (ING, Baa1 stable) is the largest Dutch banking group by assets (€985 billion as of the end of June 2020) and one of the largest financial institutions included on the list of global systemically important banks. [ING Bank N.V.](#) (ING Bank, Aa3/Aa3 stable, baa1) is ING Groep's sole operating subsidiary.

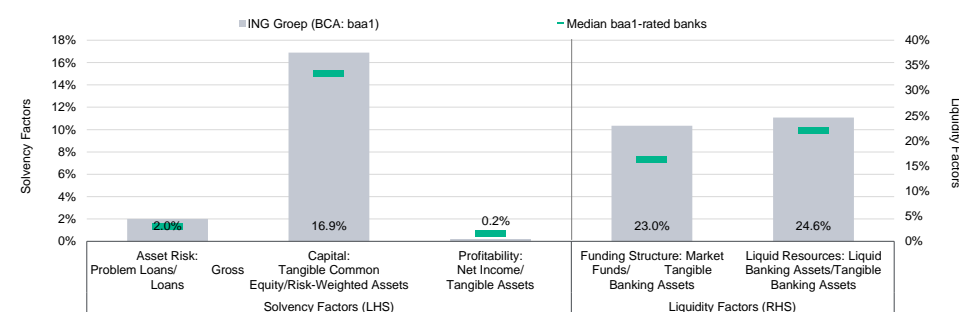
ING Bank's baa1 Baseline Credit Assessment (BCA) reflects the bank's sound asset quality based on a highly diversified loan portfolio but with significant exposures to highly cyclical sectors; its solid earnings generating capacity and good cost efficiency; its sound solvency; and its robust liquidity. We believe that the bank's fundamentals will remain resilient over the outlook horizon despite a likely deterioration in its asset quality and profitability because of the economic contraction resulting from the coronavirus pandemic.

The bank's depositors and senior creditors benefit from extremely low loss severity in our Advanced Loss Given Failure (LGF) analysis, reflected in a three-notch uplift from the BCA. Given the systemic status of the bank, the probability of government support is moderate, which translates into an additional one-notch uplift, leading to deposit and senior unsecured ratings of Aa3 for ING Bank.

The loss-given-failure is moderate and government support assumption is low for the senior unsecured debt issued by the holding company (ING Groep) as these securities along with equity are expected to absorb losses in case of resolution, resulting in no uplift from ING Bank's BCA.

Exhibit 1

Rating Scorecard - Key financial ratios



Sources: Moody's Financial Metrics and consolidated financial statement as of December 2019

Credit strengths

- » Resilient profitability because of the group's balanced business mix across products, business lines and geographies
- » Highly diversified loan portfolio
- » Robust solvency
- » Sound funding and liquidity

Credit challenges

- » Significant exposures to highly cyclical sectors in the wholesale banking business
- » Pressure from a low interest rate environment

Outlook

The outlook on ING Bank and ING Groep's senior ratings is stable and reflects our view that despite the negative pressures from the pandemic crisis, the group will maintain its sound fundamentals over the outlook horizon.

Factors that could lead to an upgrade

- » Although unlikely over the outlook horizon because of the deteriorating economic environment, ING Bank's BCA could be upgraded in case of a substantial improvement in its asset-risk profile and higher profitability or a strengthening of its capital position. An upgrade of its BCA would likely lead to an upgrade of all the ratings of ING Bank and ING Groep.
- » ING Groep's senior unsecured debt ratings could also be upgraded if the holding company were to issue higher-than-expected amounts of long-term debt or junior instruments, or both, leading to lower loss severity for senior creditors.

Factors that could lead to a downgrade

- » ING Bank's BCA could be downgraded in case of a higher-than-expected deterioration in the bank's asset risk and profitability, or a significant weakening in its capital position. A downgrade of the bank's BCA would likely result in a downgrade of all the ratings.
- » ING Bank's deposit and senior unsecured debt ratings, as well as ING Groep's senior unsecured debt rating, could be downgraded should changing regulatory requirements or management strategy lead to a reduction in loss-absorbing instruments, resulting in increased loss-given-failure.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

ING Groep N.V. (Consolidated Financials) [1]

	06-20 ²	12-19 ²	12-18 ²	12-17 ²	12-16 ²	CAGR/Avg. ³
Total Assets (EUR Million)	984,842.0	876,852.0	870,846.0	826,551.0	818,050.0	5.4 ⁴
Total Assets (USD Million)	1,106,129.1	984,264.8	995,502.9	992,520.2	862,840.0	7.4 ⁴
Tangible Common Equity (EUR Million)	54,500.5	53,984.8	48,833.0	47,544.5	46,451.8	4.7 ⁴
Tangible Common Equity (USD Million)	61,212.5	60,597.9	55,823.2	57,091.3	48,995.1	6.6 ⁴
Problem Loans / Gross Loans (%)	2.0	1.9	1.9	2.2	2.4	2.1 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	16.9	16.5	15.5	15.3	14.8	15.8 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	21.0	19.6	20.8	24.0	26.3	22.3 ⁵
Net Interest Margin (%)	1.5	1.6	1.6	1.7	1.5	1.6 ⁵
PPI / Average RWA (%)	2.3	2.6	2.5	2.6	2.2	2.4 ⁶
Net Income / Tangible Assets (%)	0.2	0.6	0.6	0.6	0.6	0.5 ⁵
Cost / Income Ratio (%)	60.5	55.5	58.2	54.6	60.1	57.8 ⁵
Market Funds / Tangible Banking Assets (%)	28.0	23.0	25.3	22.8	25.4	24.9 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	27.5	24.6	26.2	26.3	25.3	26.0 ⁵
Gross Loans / Due to Customers (%)	102.8	107.3	107.4	107.3	108.8	106.7 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

ING Bank N.V. (ING Bank) is the sole operating entity of ING Groep, the largest Dutch financial institution by assets (€985 billion as of the end of June 2020), and one of the largest in Europe and globally. The bank provides retail and wholesale banking services in more than 40 countries and qualifies as a global systemically important bank under the Financial Stability Board's (FSB) criteria.

ING Bank's retail banking services include mortgages, unsecured lending, payments, savings and current accounts. The retail client base comprises around 39 million individual customers. Wholesale banking activities are divided into the following global franchises: Lending; Daily Banking and Trade Finance; Financial Markets; and Treasury and Other. ING has an important presence globally, which is organised along the following business lines:

- » Market leaders (the Netherlands, Belgium and Luxembourg), where the bank holds a strong position in both retail and wholesale banking sectors
- » Challenger markets (Germany, Austria, Spain, Italy, France, Australia and the Czech Republic), where the bank has few or no branches and products are mostly digitally distributed
- » Growth markets (Poland, Romania, Turkey and Asian bank stakes)

Additionally, the bank provides wholesale banking services in other countries (including the US, Mexico, Brazil, Russia and India), given its extensive international network.

Detailed credit considerations

The loan portfolio is well diversified but exposures to some volatile sectors imply volatility in asset performance

ING has a highly diversified portfolio both geographically and across sectors. Retail loans represent around two-thirds of its exposures and the rest consists of the wholesale banking book.

The retail loan book bears low to moderate risk in our view. Close to two-thirds of the retail exposures consist of well-diversified mortgages across the Benelux and other regions where the bank carries out retail operations. Lending to businesses accounts for

another 30% of the retail book, the bulk of which is extended in the Netherlands and Belgium and to a lesser extent in Poland. The consumer loan book is relatively small (6% of the retail banking book as of the end of June 2020).

Despite its high degree of geographical and sector diversification, the wholesale loan book bears relatively high risks, as reflected by its volatile performance. Exposures to highly cyclical sectors are material. Even if lending directly exposed to oil price risk was only €4.5 billion, the bank's total exposure to the oil and gas sector amounted to €30 billion¹ (10% of the wholesale loan book and 62% of Common Equity Tier 1 [CET1] capital) as of the end of June 2020, which is substantial. Although well diversified across regions and asset types, exposures to the commercial real estate (CRE) sector amounted to €37 billion² (12% of the wholesale loan book and 76% of CET1 capital) as of the same date.

Asset performance was strong from 2015 to 2019, with annual credit costs below 20 basis points (bps) of outstanding loans. Because of the coronavirus pandemic, loan-loss provisions soared to 42 bps (annualised) in Q1 2020 and 85 bps (annualised) in Q2 2020. Out of the €2 billion charge booked in H1 2020, 40% were provisions on stage 1 and stage 2 loans, which reflects more "front-loading" than at many peers. Provisions on stage 3 loans also increased significantly to 2.6x the stage 3 provision charge of H1 2019. This increase was driven to a large extent by borrowers affected by the coronavirus pandemic and the decline in oil price, but also by a sizeable provision related to a suspected fraud case.

As of the end of June 2020, the stock of stage 3 loans increased only slightly to 1.6% from 1.4% of total loans as of year-end 2019, whereas the stock of stage 2 loans rose significantly to 7% from 5.3% as of year-end 2019.

ING's asset quality will remain under pressure and nonperforming loans will likely increase over the coming quarters as we expect Stage 2 exposures to move to Stage 3. But unless the economic environment deteriorates significantly from our current assumptions, we do not expect the cost of risk to exceed the bank's pre-provision income. Apart from the aforementioned exposure to the oil and gas sector, ING's exposures to the sectors that are the most at risk in the current crisis (aviation, hospitality and leisure) are relatively small. Loans that have been subject to moratorium are also relatively limited (2.5% of total loans). ING indicated that in the absence of any material change in the economic scenario, it expected its cost of risk to be lower in H2 2020 than in H1 2020.

We assign an Asset risk score of baa1, two notches below the Macro-Adjusted score of a2. The negative adjustment reflects the group's exposure to activities and markets that we consider more volatile and the expected trend in asset quality in the context of the current crisis.

Capital position offers comfortable buffer against unexpected shocks

As of the end of June 2020, ING Groep, which is the main regulated entity for regulatory capital purposes³ reported a fully loaded CET1 ratio of 15% (year-end 2019: 14.6%), well above its minimum requirement of 10.5%⁴, but below the CET1 ratio of its main domestic peers. The ratio as of the end of June 2020 was boosted by the adoption of capital relief measures under the "CRR 2 Quick fix"⁵, which had an impact of 34 bps, and other changes in the calculation of risk-weighted assets (RWA)⁶, which contributed another 50 bps. The leverage ratio at end-June 2020 was 4.3%.

As a global systemically important bank, ING Groep is subject to total loss-absorbing capacity (TLAC) rules. The FSB's framework currently requires a minimum TLAC of 21% of RWA and of 23% from January 2022.⁷ ING Groep's TLAC was 26.9% as of the end of June 2020. The TLAC leverage was 6.9% versus a requirement of 6%.

The MREL requirement ING set out by the SRB in Q1 2020 (to be complied with by 31 December 2023) is 10.5% of total liabilities and own funds (TLOF) on a consolidated basis⁸, which the group does not yet fully meet with the securities issued by the holding company and ING Bank's subordinated debt. In 2021, ING will be subject to a revised MREL requirement following the implementation of BRRD2 by year-end 2020. The group intends to use the transitional period to meet the final requirements.

Finally, ING confirmed in March 2019 that the estimated impact of the Basel IV rules would be an increase of 15%-18% in its RWA or a decrease of around 200 bps in its CET1 ratio⁹, 80% of which would come from the "input floor"¹⁰ and 20% from the "output floor". ING assessed that as of the end of June 2020, 90% of the expected input floor impact (i.e. around 140 bps out of the total Basel IV impact of 200 bps) was already absorbed. Considering ING's current capitalisation, the time frame for the implementation of the new rules (up to 2027 for the output floor) and the group's ability to mitigate some of the impact through management actions, we believe

the group will be able to meet the requirement in due time. The group's CET1 ratio ambition is around 13.5% under Basel IV, which we believe, will lead to a better capitalised bank.

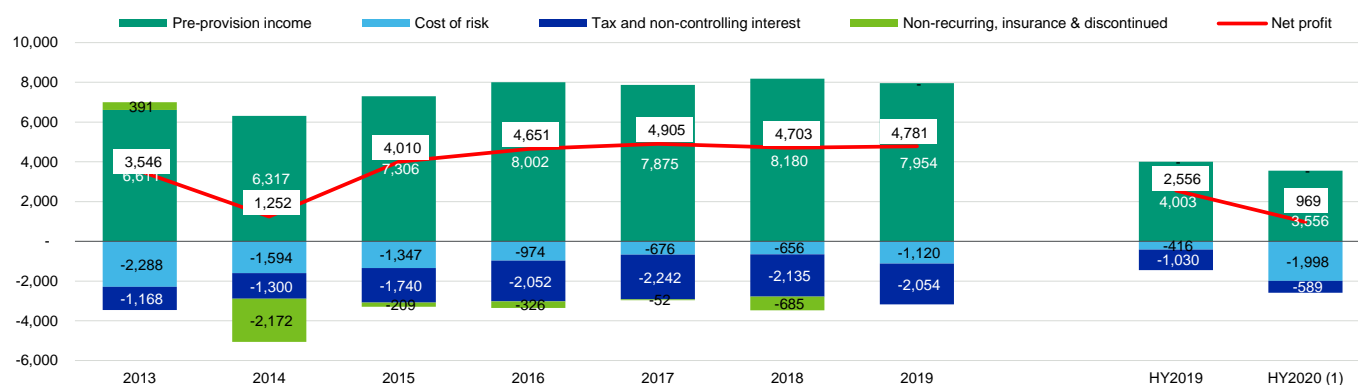
ING Groep's tangible common equity (TCE) amounted to €54.5 billion as of the end of June 2020 and includes €5.1 billion high-trigger Additional Tier 1 securities. The TCE-to-RWA ratio of 16.9% translates into a Macro-Adjusted Capital score of aa2. The adjusted score of a1 reflects the expected impact of Basel IV, as well as the likelihood that surplus capital will be distributed to its shareholders.

Profitability is resilient but will be affected in the short to medium term by higher loan-loss provisions because of the coronavirus pandemic

ING's recurring profitability is good. Its return on assets (net income/tangible assets) was 58 bps on average over the five-year period from 2015 to 2019, above that of its Dutch peers ([ABN AMRO Bank N.V.](#) (A1/A1 stable, baa1): 52 bps; [Rabobank](#) (Aa3/Aa3 stable, a3): 33 bps). The group has generated stable pre-provision income over the period, including in H1 2020.

Exhibit 3

The group has generated stable pre-provision income since 2015, but net profit was hit in H1 2020 by a surge in cost of risk
Breakdown of net profit in € million



(1) The decrease in pre-provision income in H1 2020 was mainly because of €0.3 billion impairment of goodwill.

Sources: Company data and Moody's Investors Service

Although subject to pressure, net income has proved resilient. Similar to its main Dutch peers, ING is strongly reliant on interest income, which makes up 75%-80% of its total underlying income, while fee and commission income accounts for around 15%. Despite the negative pressure exerted by the ultra-low interest rate environment, net interest income has been resilient because of good commercial growth¹¹ and stable interest margins¹². Although at a slower pace than in previous years, net interest income continued to increase in 2018 (+1.5%) and 2019 (+1.2%) and decreased only slightly in H1 2020 (-0.3%).

ING has been able to preserve good margins on lending but has had limited capacity to lower interest rates paid on retail deposits as these have reached extremely low levels in all the euro area bank markets. ING has nonetheless been charging negative interest rates to corporate clients, and more recently to retail clients above a certain threshold in the Netherlands to lower the cost of deposits. Until recently, the negative pressure stemming from retail euro-denominated deposits was offset by resilient margins on businesses in non-euro area markets. However, pressure has also been increasing in non-euro area since the end of Q1 2020 following central bank rate cuts in several countries.

The bank's loan book growth slowed down in H1 2020 (+1.1% from year-end 2019). The momentum in lending in the first quarter driven by substantial drawings on revolving credit facilities by corporate clients to secure liquidity faded away in the second quarter, while demand for other loans (except for mortgages) remained subdued. ING expects demand from business customers to remain low for the rest of the year but the strong mortgage demand of the first half to continue in the second half of the year. Combined with the positive effect of cheap funding provided by the €55 billion TLTRO raised at the end of Q2 2020¹³, the expected growth in mortgages would likely help the group to preserve a sound level of interest income over the coming quarters.

ING has good cost efficiency compared with that of many of its European Union (EU) peers including domestic competitors. Its cost-to-income ratio was 57% in 2019 and 58% in H1 2020,¹⁴ yet up from 55% in 2018 because of higher KYC-related expenses.

The cost of risk surged in 2020 and will likely remain elevated over the coming quarters. Loan-loss provisions absorbed 56% of the group's pre-provision income in H1 2020, compared with ratios consistently below 20% from 2015 to 2019. We nonetheless believe that in the absence of any further significant deterioration in the economy, ING will maintain the ability to absorb loan loss provisions within its recurring income.

The Macro-Adjusted Profitability score of b1 is based on the group's net profit in H1 2020, which was particularly low because of the upfront loading of loan-loss provisions. The assigned score of ba1 is adjusted upwards to take account of the prospect of slightly better profitability over the coming quarters and the group's earnings' stability resulting from its highly diversified revenue streams.

ING Groep's liquidity and funding are sound, despite its reliance on confidence-sensitive market funding

ING had a consolidated loan-to-deposit (LTD) ratio of 102% as of the end of June 2020, the lowest among the large Dutch banks. This primarily reflects the consolidation of deposit-rich subsidiaries in Belgium and Germany, while the Dutch parent company has historically been operating with a material shortage of customer deposits over loans¹⁵. ING's relatively high reliance on wholesale funding (22% of consolidated liabilities and equity at end-June 2020¹⁶) despite the low consolidated LTD ratio is partly due to the fact that funds are not fully fungible within the group, that is, the excess liquidity in an entity, if any, cannot be entirely used to fund the shortage in another entity through intercompany loans¹⁷.

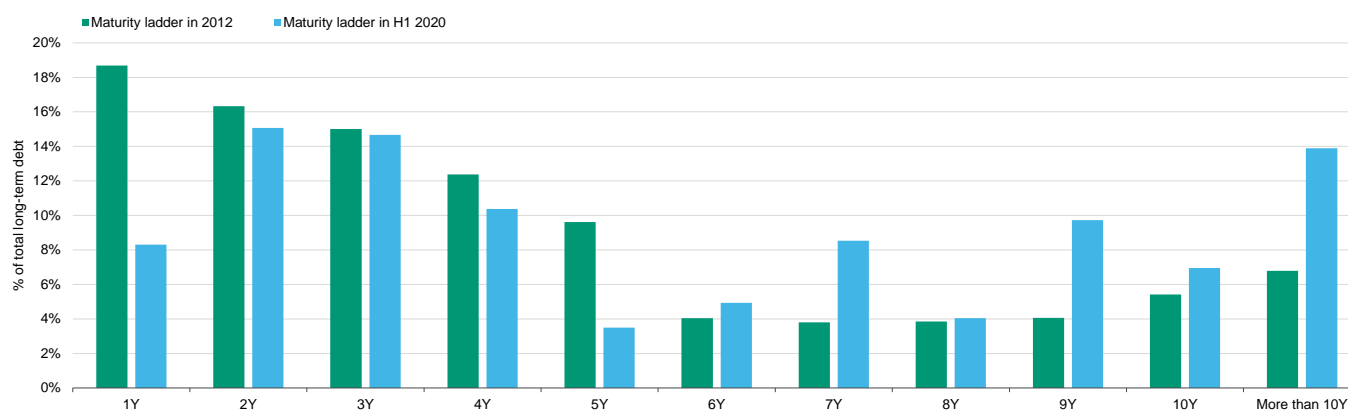
That being said, the group has progressively optimised its cash-rich entities' liquidity since 2012 by transferring to them or originating out of them increasing amounts of assets — wholesale assets (for example, structured finance loans to ING Belgium and ING Germany) and retail assets (for example, Belgian and Dutch mortgages to ING Germany). The cash-rich entities thereby reduced their excess funding while the Dutch entity reduced its structural funding shortage, resulting in a significantly better-balanced funding structure across the group than in the past. Under the group's funding policy, operating entities are primarily self-funded through the local customer deposits and own-raised covered bonds and RMBS. Senior unsecured debt is essentially raised by the parent to fund its own operations or the subsidiaries' operations that are not covered by their own liabilities.

ING's reliance on confidence-sensitive funding is mitigated by the sound term structure of its wholesale debt. The group has significantly lengthened the maturity profile of its long-term wholesale funding, thus reducing its refinancing risk. The increased issuance of TLAC/MREL-eligible senior unsecured debt by the holding company (ING Groep) in recent years¹⁸, and the €55 billion borrowing from the TLTRO III last June¹⁹ have contributed to this.

Exhibit 4

ING's long-term maturity profile has been extended

ING's long-term debt maturity ladders in 2012 and H1 2020 (as a percentage of total outstanding long-term debt)



Source: ING's financial statements

ING's funding needs have not increased significantly since the beginning of the coronavirus crisis. Despite substantial drawings on revolving credit facilities in the first quarter by corporate clients and moratoria on lending granted by the bank, the loan book increased by only 1% in H1 to €623 billion as of the end of June 2020. This increase is more than covered by the increase in customer deposits (+5% to €606 billion as of the end of June 2020) and the aforementioned borrowing from the TLTRO III.

The group's high-quality liquid assets portfolio amounted to €137.5 billion as of 30 June 2020 (of which €128 billion were level 1 assets), representing more than 170% of its wholesale debt maturing within one year²⁰, which we consider a comfortable coverage. Furthermore, the proportion of encumbered assets was 19% in 2019, a level that is below the EU banks' average (27% as of year-end 2019) and that leaves sufficient loans available to be packaged into central bank-eligible securitisations, if needed. The group's consolidated liquidity coverage ratio (LCR) was 130% as of the end of June 2020.

These factors are reflected in a combined Liquidity score of baa1.

ESG considerations

In line with our general view of the banking sector, ING Groep has a low exposure to environmental risks. See our [Environmental risks heat map](#) for further information. Environmental risks to banks are usually indirect, undertaken through financing clients' operations. Such risk exposure is unlikely to translate into a significant credit impact, because of the broad geographical diversification of ING outside and within the Netherlands, unless large parts of the country were to be affected by environmental catastrophes.

Through their financing activities, banks can play an active role in fostering sustainable initiatives. With that in mind, the bank has been developing and implementing the "Terra" approach through which it measures climate risk in its Wholesale Banking portfolio and shapes its financing activities so that they contribute to the Paris Agreement target of keeping global warming below 2°C.

Also in line with our general view of the banking sector, ING Groep has a moderate exposure to social risks. Social considerations are relevant for ING Groep in the sense that, as for other Dutch banks, it is likely subject to regular investigations by the Dutch supervisor related to good customer care and the possible sale of unsuitable or uneconomical products to clients. Investigations and related fines imposed by supervisors represent significant reputational risk for banks. See our [Social risk heat map](#) for further information.

In terms of governance, ING Groep has been affected by a range of issues related to the execution of customer due diligence in the Netherlands. The Dutch Public Prosecution Service investigations began in 2016 and are related to various breaches of Dutch requirements for client onboarding and the prevention of money laundering and corrupt practices. A settlement including a total payment of €775 million was reached in September 2018.

In March 2019, ING Groep announced that Banca d'Italia, Italy's central bank, had identified shortcomings in anti-money-laundering processes at its Italian subsidiary, ING Italy. In line with the enhancement programme announced in 2018, ING has taken steps intended to improve processes and management of compliance risks as required by Banca d'Italia. A plea bargaining agreement with the Italian authorities was reached in February 2020.

In response to these problems, ING Groep has initiated measures to strengthen its compliance risk management, and we do not consider the weaknesses uncovered to be material rating drivers. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Loss Given Failure (LGF) analysis

ING Groep is subject to the EU Bank Recovery and Resolution Directive, which we consider an operational resolution regime. We assume a residual TCE at failure of 3% and post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits (amounting to 26% of total deposits), a 5% runoff in preferred deposits, and assign a 25% probability of deposits being preferred over senior unsecured debt. These are in line with our standard assumptions.

As a result of instrument volume and the MREL/TLAC buffers built since year-end 2016 through the issuance of senior debt from the holding company, our Advanced LGF analysis indicates an extremely low loss given failure for ING Bank's junior depositors and senior unsecured creditors, resulting in a three-notch uplift from the bank's Adjusted BCA of baa1.

With regard to ING Groep's senior unsecured debt, our LGF analysis shows a moderate loss-given-failure, which results in no rating uplift from the bank's Adjusted BCA.

For the junior securities issued by ING Bank and ING Groep, our LGF analysis shows a high loss-given-failure. This leads to ratings one notch below the bank's Adjusted BCA. For ING Groep's junior subordinated and preference share instruments, we also incorporate an

additional downward adjustment to ING Bank's Adjusted BCA by one and two notches, to baa3 and ba1, respectively, to reflect coupon suspension risk ahead of failure.

Government support considerations

We consider a moderate probability of government support for ING Bank's senior debt and deposits because of its systemic importance both domestically and on a broader level. This results in an additional one-notch uplift for ING Bank's deposit and debt ratings.

For ING Groep's senior unsecured debt, we consider the probability of government support to be low, given its explicitly loss-absorbing nature, which results in no uplift from the bank's Adjusted BCA.

For junior securities, the probability of government support is also low, and the ratings for these instruments do not include any related uplift, either.

Counterparty Risk (CR) Assessment

The CR Assessment is an opinion of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

ING Bank's CR Assessment is Aa3(cr)/Prime-1(cr)

ING Bank's CR Assessment, before government support, is three notches above the bank's BCA of baa1, based on the buffer against default provided by instruments subordinated to the senior obligations represented by the CR Assessment. The CR Assessment also benefits from one notch of government support uplift, in line with our support assumptions on deposits and senior unsecured debt.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

ING Bank's CRRs are Aa3/Prime-1

ING Bank's CRR, before government support, is three notches higher than the Adjusted BCA of baa1, based on the level of subordination to CRR liabilities in the bank's balance sheet and assuming a nominal volume of such liabilities. The CRR also benefits from one notch of government support uplift, in line with our support assumptions on deposits and senior unsecured debt.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5

ING Groep N.V.

MACRO FACTORS

WEIGHTED MACRO PROFILE STRONG + 100%

FACTOR	HISTORIC RATIO	INITIAL SCORE	EXPECTED TREND	ASSIGNED SCORE	KEY DRIVER #1	KEY DRIVER #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.0%	a2	↓	baa1	Expected trend	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	16.9%	aa2	↓	a1	Expected trend	
Profitability						
Net Income / Tangible Assets	0.2%	b1	↑↑	ba1	Expected trend	Earnings quality
Combined Solvency Score		a3		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	23.0%	baa1	↔	baa1	Term structure	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	24.6%	baa1	↔	baa1		
Combined Liquidity Score		baa1		baa1		
Financial Profile				baa1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a3 - baa2		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		

BALANCE SHEET	IN-SCOPE (EUR MILLION)	% IN-SCOPE	AT-FAILURE (EUR MILLION)	% AT-FAILURE
Other liabilities	203,926	35.5%	234,055	40.7%
Deposits	295,379	51.4%	265,251	46.1%
Preferred deposits	218,581	38.0%	207,652	36.1%
Junior deposits	76,799	13.4%	57,599	10.0%
Senior unsecured bank debt	23,453	4.1%	23,453	4.1%
Dated subordinated bank debt	2,541	0.4%	2,541	0.4%
Senior unsecured holding company debt	24,006	4.2%	24,006	4.2%
Dated subordinated holding company debt	7,526	1.3%	7,526	1.3%
Preference shares(holding company)	994	0.2%	994	0.2%
Equity	17,252	3.0%	17,252	3.0%
Total Tangible Banking Assets	575,078	100.0%	575,078	100.0%

DEBT CLASS	DE JURE WATERFALL		DE FACTO WATERFALL		NOTCHING		LGF	ASSIGNED	ADDITIONAL	PRELIMINARY
	INSTRUMENT VOLUME SUBORDINATION	SUB-ORDINATION	INSTRUMENT VOLUME SUBORDINATION	SUB-ORDINATION	DE JURE	DE FACTO				
							NOTCHING VS. ADJUSTED BCA	LGf NOTCHING	NOTCHING	RATING ASSESSMENT
Counterparty Risk Rating	23.2%	23.2%	23.2%	23.2%	3	3	3	3	0	a1
Counterparty Risk Assessment	23.2%	23.2%	23.2%	23.2%	3	3	3	3	0	a1 (cr)
Deposits	23.2%	9.1%	23.2%	13.2%	3	3	3	3	0	a1
Senior unsecured bank debt	23.2%	9.1%	13.2%	9.1%	3	2	3	3	0	a1
Senior unsecured holding company debt	9.1%	4.9%	9.1%	4.9%	0	0	0	0	0	baa1
Dated subordinated bank debt	4.9%	3.2%	4.9%	3.2%	-1	-1	-1	-1	0	baa2
Dated subordinated holding company debt	4.9%	3.2%	4.9%	3.2%	-1	-1	-1	-1	0	baa2
Junior subordinated holding company debt	3.2%	3.2%	3.2%	3.2%	-1	-1	-1	-1	-1	baa3
Holding company cumulative preference shares	3.2%	3.0%	3.2%	3.0%	-1	-1	-1	-1	-1	baa3
Holding company non-cumulative preference shares	3.2%	3.0%	3.2%	3.0%	-1	-1	-1	-1	-2	ba1

INSTRUMENT CLASS	LOSS GIVEN		ADDITIONAL	PRELIMINARY	GOVERNMENT	LOCAL CURRENCY	FOREIGN CURRENCY
	FAILURE	NOTCHING					
			NOTCHING	RATING ASSESSMENT	SUPPORT NOTCHING	RATING	RATING
Counterparty Risk Rating	3	0		a1	1	Aa3	Aa3
Counterparty Risk Assessment	3	0		a1 (cr)	1	Aa3(cr)	
Deposits	3	0		a1	1	Aa3	Aa3
Senior unsecured bank debt	3	0		a1	1	Aa3	Aa3
Senior unsecured holding company debt	0	0		baa1	0	Baa1	Baa1
Dated subordinated bank debt	-1	0		baa2	0	Baa2	Baa2
Dated subordinated holding company debt	-1	0		baa2	0	Baa2	Baa2
Junior subordinated holding company debt	-1	-1		baa3	0	Baa3 (hyb)	
Holding company cumulative preference shares	-1	-1		baa3	0	Baa3 (hyb)	
Holding company non-cumulative preference shares	-1	-2		ba1	0		Ba1 (hyb)

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
ING BANK N.V.	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured	Aa3
Subordinate	Baa2
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1
ING BANK N.V. - SAO PAULO	
Outlook	Stable
Counterparty Risk Rating -Fgn Curr	Ba1/NP
Counterparty Risk Rating -Dom Curr	A3/P-2
Bank Deposits -Fgn Curr	Ba3/NP
Bank Deposits -Dom Curr	A3/P-2
NSR Bank Deposits	Aaa.br/BR-1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
ING BANK N.V., TOKYO BRANCH	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	Aa3/P-1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Commercial Paper -Dom Curr	P-1
ING BANK SLASKI S.A.	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
ING BANK N.V., SYDNEY BRANCH	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured -Dom Curr	Aa3
Commercial Paper	P-1
Other Short Term	(P)P-1
ING (U.S.) FUNDING LLC	
Bkd Commercial Paper	P-1
ING BELGIUM INTERNATIONAL FINANCE S.A.	
Outlook	Stable
Bkd Sr Unsec MTN -Dom Curr	(P)A2
ING BELGIUM SA/NV	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
ING-DIBA AG	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	a2

Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
ING BANK (AUSTRALIA) LIMITED	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3
ST Issuer Rating	P-2
ING BANK N.V. (SINGAPORE)	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured	Aa3
ING BANK HIPOTECZNY S.A.	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	Baa1
ST Issuer Rating	P-2
ING GROENBANK N.V.	
Counterparty Risk Rating	Aa3/P-1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured MTN -Dom Curr	(P)Aa3
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Investors Service

Endnotes

- 1 This includes a €12.2 billion exposure to trade and commodity finance companies.
- 2 In addition to the €37 billion booked in the wholesale loan book, ING had €15 billion additional exposure to CRE in its retail banking loan book as of the end of June 2020.
- 3 ING's supervisory authorities are the European Central Bank and De Nederlandsche Bank.
- 4 The CET1 requirement includes a 4.5% Pillar 1 requirement (P1), a 0.98% Pillar 2 requirement (P2R), a 2.5% Capital Conservation Buffer, a 0.03% countercyclical buffer (CCyB) and a 2.5% Systemic Risk Buffer (SRB). The requirement is down 1.5% from the pre-crisis level (11.8%) as the SRB was revised down to 2.5% from 3% previously, the P2R to 0.98% from 1.75% and the CCyB to 0.03% from 0.24%.
- 5 The CRR 2 Quick fix measures adopted by ING include the SME and infrastructure support factors, the preferential RWA treatment of income-backed loans, the prudential filter for sovereign exposures and the transitional IFRS 9 approach.
- 6 These include the switch to the standardised approach for the computation of sovereign exposures and the alignment for certain lending products of the calculation of regulatory maturity with contractual cash flow (CRR Article 162).
- 7 TLAC requirements of 16% of RWA from 2019 and 18% from 2022 plus a capital conservation buffer of 2.5%, an SRB of 2.5% and a CCyB of 0.03% (as of the end of June 2020), based on the current guidance.
- 8 This corresponds to around 28.6% of RWA, based on year-end 2017 balance sheet and capital requirements.
- 9 All other things being equal.
- 10 Input floors designate the minimum values set for internal ratings-based (IRB) parameters (PDs, LGDs and EADs) to limit the leeway banks have to estimate credit risk and to avoid excessively low RWAs. The new capital rules also set an overall minimum for total RWAs calculated using internal models for credit and market risks, and which is called output floor.
- 11 The bank's loan book (excluding treasury assets) grew 3.4% in 2019 and 4.1% in 2018.
- 12 NIM was 157 bps in 2019, 153 bps in 2018 and 154 bps in 2017.
- 13 The outstanding amount of TLTRO borrowings was €59.5 billion at end-June 2020. The full benefit from the TLTRO III as a cheap funding source will depend on the development of the qualifying loan portfolio.
- 14 Excluding the impact of €310 million goodwill impairment in H1 2020. In Q2 2020, ING booked €310 million impairment on goodwill, which had a total carrying value of €907 million as of the end of December 2019.
- 15 The customer funding gap typically reflects a structural feature of the Dutch banking system: a high proportion of Dutch households' savings are channelled towards mandatory pension funds, which structurally decreases the total amount of bank deposits.

[16](#) The 22% ratio is calculated as the sum of interbank borrowings, debt securities in issue and subordinated debt divided by total liabilities and equity.

[17](#) The transferability of ING's liquidity to the group's various entities is constrained by the local supervisors' requirement to maintain minimum liquidity buffers in some subsidiaries.

[18](#) Over the past three and a half years, the group increased its MREL/TLAC buffer to build a management buffer above the minimum requirement and to protect the bank's senior creditors by using its holding company ING Groep. Since 2017, ING Groep issued €7.5 billion in Tier 2 debt and close to €26 billion in senior unsecured debt that are structurally subordinated to the bank's own senior unsecured debt and deposits in a resolution scenario. We expect ING Groep to continue its issuance programme so as to further reinforce its MREL buffers. Part of the debt to be issued by the holdco will replace ING Bank's senior debt that will mature.

[19](#) The outstanding amount of TLTRO as of the end of June 2020 was €59.5 billion.

[20](#) Based on our own calculation.

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