S&P Global
Ratings

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ING Groep N.V. (Holding Company)

ING Bank N.V. (Lead Bank)

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Table Of Contents

ING Groep N.V. (Holding Company)

ING Bank N.V. (Lead Bank)

SACP	a
Anchor	bbb+	
Business Position	Strong	+1
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

\+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating
A/Stable/A-1

Bank Holding Company Rating
A-/Stable/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Strong competitive positions in core markets, with good brand name recognition and supportive geographic diversity. • Focused strategy and clear financial roadmap. • Sound earnings generation and strong capitalization.	• Reliance on wholesale funding for Dutch operations. • Pressure on interest margins on retail banking activities , similar to peers. • Moderate economic growth prospects in its main markets.

Outlook: Stable

The stable outlook on ING Bank and its non-operating holding company (NOHC) ING Group reflects our view that the group's financial profile will continue to steadily strengthen, benefiting from a resilient economic environment. We expect the continuation of the group's medium-term strategy, including the execution of its publicly stated financial roadmap, will support internal capital generation and the maintenance of strong capital adequacy metrics. As a result, we expect ING Bank's projected risk-adjusted capital (RAC) ratio before diversification to remain sustainably above 10% in the next 18 to 24 months. It also reflects our view that the group's risk appetite, in particular credit growth outside of the bank's core markets, will remain contained and growth initiatives limited to known areas and territories.

We could lower our rating on ING Bank if the bank's projected RAC ratio trended downward below 10% because of riskier assets growing more aggressively than we currently expect, which could result from faster expansion into emerging markets, or an acquisition.

We could raise our rating on ING Bank if the bank built in the next two years a sizable buffer of securities, which could be bailed-in in resolution and therefore would further protect senior creditors of the operating bank, while displaying an overall financial profile comparable with peers rated at the same level.

Rationale

The starting point for our ratings on ING Bank is our 'bbb+' anchor, which is in line with our anchor for Dutch commercial banks operating only in The Netherlands, while also taking into consideration the mix of countries in which ING Bank operates. We then adjust for the following bank-specific factors:

- Strong business position, primarily reflecting its strong franchise in The Netherlands, Germany, and Belgium, and good diversification of its revenues by product and geography.
- Strong capital and earnings, based on our expectation that our RAC ratio for the bank will remain sustainably above 10% in the coming 18-24 months.
- An adequate risk position owing largely to the sound diversification of its exposures and solid track record in retail and corporate lending.
- Average funding and adequate liquidity, underpinned by its large deposit base and sound liquidity buffer.

The resulting stand-alone credit profile (SACP) is 'a'. There is no uplift for support or additional rating factors. The long-term counterparty rating is 'A'.

Anchor: 'bbb+', reflecting that the bank is based in The Netherlands, but with a geographic mix of operations

The 'bbb+' anchor draws on our Banking Industry Country Risk Assessment (BICRA) methodology. The economic risk score for The Netherlands is '3' on a scale of 1-10 ('1' representing the lowest risk and '10' the highest) and the weighted-average score for the countries in which ING operates is just above that mark, based on the rounded geographic distribution of its private sector customer lending at the end of June 2016:

- The Netherlands: 35%
- Belgium and Germany: 30% combined
- Other Europe including Central and Eastern Europe: 20%

- Asia-Pacific, in particular Australia: 10%
- Americas: 5%

We base our assessment of economic risk on our view that the Dutch economy is wealthy, diversified, open, and competitive, as seen in its high income per capita, its net external asset position, recurrent and elevated current account surpluses, and a long track record of prudent and flexible macroeconomic policies. Following real GDP growth of 2% in 2015, we believe that The Netherlands' real GDP growth will be 2% this year, before dropping to a 1.5% average during 2017-2019. The ongoing recovery continues to be fueled by strong domestic demand.

Although residential house prices have been on the rise since mid-2013, the recovery in the commercial real estate segment is lagging behind. We anticipate that the improving conditions for the private sector will remain to some extent constrained by still-elevated gross household leverage, and the subpar growth outlook in the European Economic and Monetary Union and the U.K., especially after the Brexit vote. Our trend on economic risk in the Netherlands is stable.

Our assessment of industry risks for Dutch banks incorporates high domestic concentration and our view of a stable competitive environment. We consider that the prospective profitability of domestic banking activities is adequate. Some of the large banks have received state aid in the aftermath of the financial crisis and completed large restructurings. Cost-optimization programs continue in the context of persistently low interest rates and the cost of risk has also improved, mitigating asset repricing.

The system's relatively large reliance on wholesale funding is partly attributable to households' propensity to save using life insurance and pension products, rather than bank deposits. We consider that Dutch systemwide funding benefits from, among other things, the depth of the domestic capital market and the Dutch authorities' good track record in providing liquidity support. Our trend on industry risk in the Netherlands is stable.

The combination of the blended economic risk and industry risk scores results in our 'bbb+' anchor for ING.

Table 1

ING Bank N.V. Key Figures

		--Year-ended Dec. 31--			
(Mil. €)	**2016***	**2015**	**2014**	**2013**	**2012**
Adjusted assets	883,081	836,961	826,947	786,038	834,290
Customer loans (gross)	559,921	541,897	522,329	513,663	546,703
Adjusted common equity	37,354	35,358	32,493	29,669	31,407
Operating revenues	8,665	16,498	15,577	15,430	15,944
Noninterest expenses	4,477	9,275	8,705	8,447	9,175
Core earnings	2,713	4,342	3,889	3,531	3,493

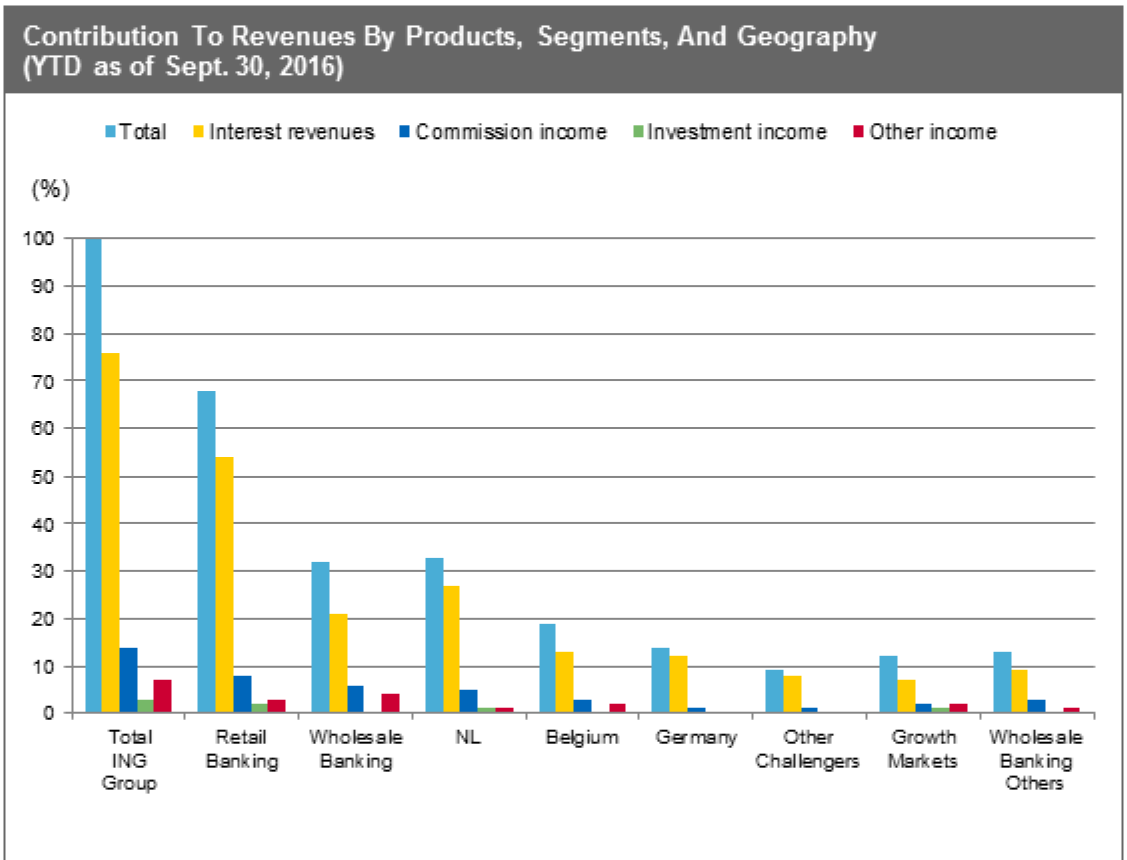
*Data as of June 30.

Business position: Strong franchise in The Netherlands, Germany, and Belgium; global presence in commercial banking; focused strategy

We expect ING Bank to maintain its strong business position given its focused medium-term strategy to stand as a leading pan-European pure bank, with good brand name recognition, supportive product and geographic diversity, and established digital capabilities. With total assets of €870 billion on Sept. 30, 2016, ING Bank is the largest Netherlands-based bank, and the second largest by domestic assets. It is also the third-largest bank in Belgium. ING ranks among the market leaders in the wealthy Dutch and Belgian markets and continues to expand its cost-efficient digital reach beyond Germany to other large European economies. We also view ING as a leading global player in structured finance. From a large global bancassurance group, ING went through a large transformation in the aftermath of the financial crisis to become a pure commercial bank.

The good recurrence of ING Bank's revenues stems from the dominance of interest revenues (76% of business revenues at end-September 2016) and commissions (14%), and, from a divisional point of view, retail banking (68%). Insurance products, a fee generating business, are now offered mainly through partnerships. The modest contribution of investment activities contributes to the predictability of the revenue base (see chart 1).

Chart 1



Through the crisis, ING Bank managed to retain its core customer franchise. ING is now focused on expanding its base of 35 million individual customers, and specifically grow the number of primary relationships to about 14 million by 2020 from 9.3 million currently. We believe that its good brand name recognition and advanced forays in digital banking capabilities are key factors explaining the resilience of its franchise. We view positively the group's clear delineation of territories where it intends to grow its banking presence, from core historical markets in the Benelux region where it enjoys a leading position, to those in which it operates more as a challenger, mainly in neighboring European countries, or other selected emerging markets with growth potential:

- Market leaders: Netherlands, Belgium, and Luxembourg.
- Challengers: Germany, Austria, Czech Republic, Spain, Italy, France and Australia.
- Growth Markets: Poland, Turkey, Romania, complemented by stakes in banks mainly in Thailand and China.

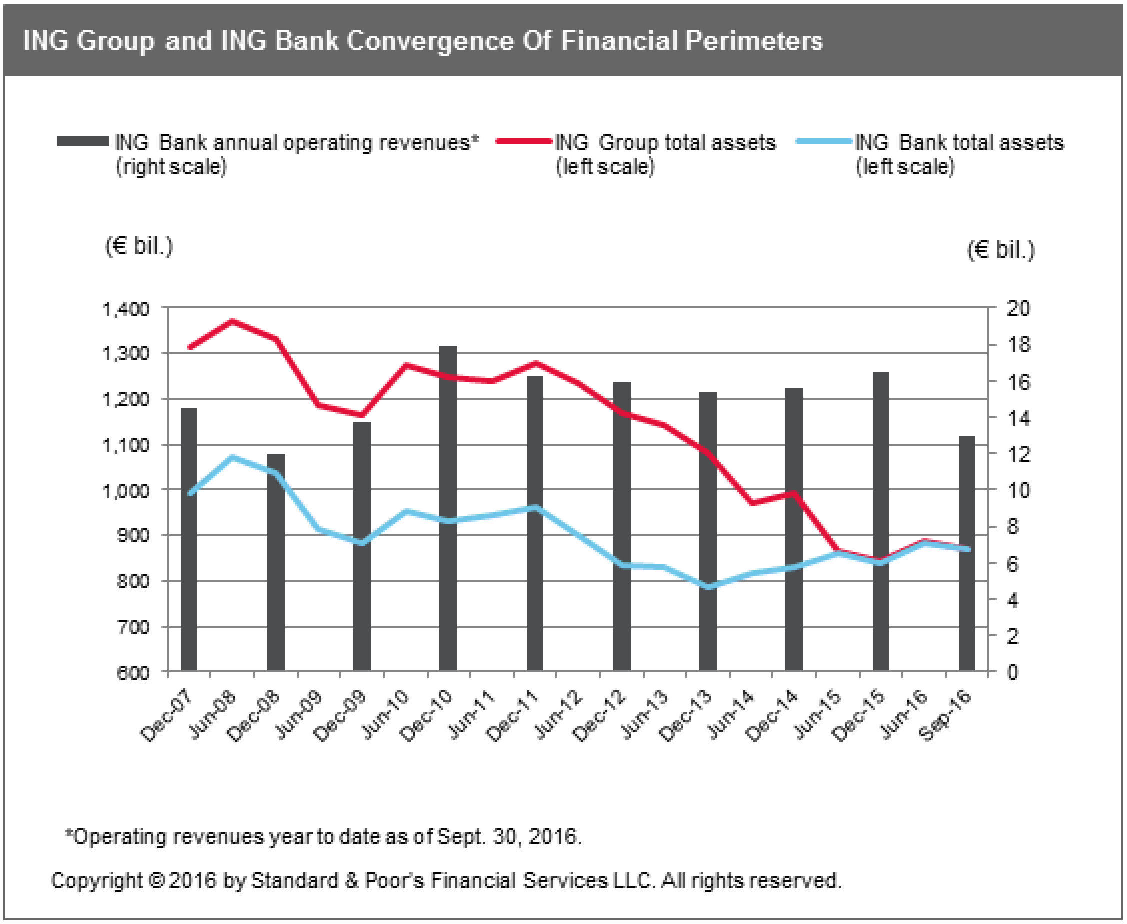
ING displays a highly efficient digital banking model in developed retail markets. It represents a key part of the group's strategy, especially for retail deposit collection, and increasingly on the asset side also, with a broadening product offer in these territories. Of note, ING Bank, through its ING-DiBa direct banking franchise, has grown to become one of the largest retail banks in Germany, with €118.7 billion in customer deposits, €65.2 billion in residential mortgages, and €22.8 billion in commercial banking loans and other customer lending at end-September 2016.

ING is also present in more than 40 countries through its wholesale banking international network. Commercial banking tends to account for about one-third of the bank's operating revenues. The division offers a full product range to corporate customers in the Benelux region (the economic union comprising Belgium, The Netherlands, and Luxembourg) and in Central Eastern Europe. It is one of the top two lenders to Dutch large corporates. Internationally, through its extensive network, its strategy is also to support large European, American, and Asian corporations and financial institutions that do business globally. ING is a leading global player in structured finance. Its outstanding credit portfolio of structured finance transactions amounted to €81 billion at the end of the third quarter of 2016, which represented 40% of its total commercial banking portfolio. Transaction services and financial market activities are two other pillars contributing to the diversification of commercial banking revenues.

This overall strategic positioning results from the combined execution of restructuring measures agreed with the European Commission (EC) in 2009 in exchange of State Aid, and the "Think Forward" medium-term strategy initiated in March 2014.

Due to the significant state aid received, the EC required a restructuring plan to be submitted. This plan, agreed in 2009 and amended in 2012, included the required divestment of all the group's insurance and investment management businesses. In March 2015, ING completed the divestment of Voya Financial, formerly ING U.S. In April 2016, it sold its remaining stake in NN Group, the holding company of ING's insurance and investment management activities in the Benelux region, Central and Eastern Europe, and Japan. By doing so, ING became a pure bank and the perimeters of ING Bank and ING Group ultimately converged (see chart 2 below). The group also exited its ING Direct operations in the U.S., Canada, and the U.K. ING distributes insurance products mainly through its partnership with NN Group.

Chart 2



With the completion of the restructuring measures in 2016, the medium-term strategy has been further refined. In October 2016, ING communicated its 2016-2020 "Accelerating Think Forward" plan. Building on the former plan, the group will continue to operate a pure bank business model, leveraging on the strengths of its digital capabilities and focusing on primary banking relationships. This plan is also intended to adapt the group to the persistently low interest rates, digital transformation, regulatory challenges and improve efficiency.

ING has been an innovative and early adopter of digital banking capabilities. We consider ING's first mover advantage on the digital front is beneficial at a time when interest rates are low and putting pressure on interest margins, notably in retail banking. We believe that one of the main challenges ING now faces is to maintain this competitive advantage while the industry is being equipped and non-bank competitors are entering the field. The two main axes of the strategy evolve around converging banking platforms, in The Netherlands and Belgium (the "Orange Bridge" initiative), but also for operations in challenger markets (the "Model Bank" initiative), and a distribution strategy centered around an omnichannel approach with a focus on mobile banking.

We believe that management has proven execution capabilities and that, after years of restructuring, risk appetite remains prudent. We do not exclude the possibility of some limited nonorganic growth, but only in selected and already known regions and within the existing areas of expertise. The bank intends to compensate the repricing of the loan book by growing more rapidly in higher margin lending than typical domestic mortgage lending, targeting SME, consumer, and corporate clients. We also note the strategic ambition to better balance the lending mix between the Benelux region (58% of lending at end-2013 and already 53% at mid-year 2016) and other target countries, which are on average riskier, in our view. We believe that one of ING's challenges is to find acceptable lending opportunities in the jurisdictions where it operates to optimize the use of its digital capabilities--particularly efficient for deposit gathering.

Given our view that economic risk for banks operating in the ING-designated "challenger" or "growth" markets is on average moderately higher than in the Benelux region, except for Germany, we expect the bank will maintain conservative underwriting standards. We anticipate its focus will be on top-end customers, in line with its strategy and track record in the wholesale banking segment. We will monitor this gradual rebalancing of the loan book because a diverging trend, which is not our base case scenario, could put pressure on the ratings.

Other peers with a strong business position assessment operating in countries with a similar industry risk profile include Cooperatieve Rabobank U.A. in the Netherlands, with a strong foothold in the domestic market and global presence in the food and agriculture business, large French, U.K. and Belgian banks, like Société Générale, Crédit Agricole, Lloyds Banking Group and KBC, with at least a solid domestic retail franchise and other commission generating business, like asset management or insurance activities. Another peer is the cooperative banking sector in Germany, with a strong position in domestic retail banking and highly predictable business volumes.

Table 2

ING Bank N.V. Business Position

		--Year-ended Dec. 31--			
(%)	**2016***	**2015**	**2014**	**2013**	**2012**
Total revenues from business line (mil. €)	8,666	17,070	15,772	15,327	16,916
Commercial banking/total revenues from business line	25.4	24.4	25.1	23.2	24.2
Retail banking/total revenues from business line	67.4	65.8	67.7	66.3	53.3
Commercial & retail banking/total revenues from business line	92.7	90.1	92.8	89.5	77.5
Trading and sales income/total revenues from business line	6.8	8.5	6.1	9.4	5.1
Other revenues/total revenues from business line	0.5	1.4	1.0	1.1	17.3
Investment banking/total revenues from business line	6.8	8.5	6.1	9.4	5.1
Return on equity	10.8	11.8	7.7	8.8	8.8

*Data as of June 30.

Capital and earnings: Supportive internal capital generation is part of the bank's financial roadmap

We view ING Bank's capital and earnings as strong. This is based primarily on our anticipation that the bank's RAC ratio before diversification adjustments will remain sustainably above 10% in the next 18-24 months. This ratio stood at 10% at end-2015 compared with 9.1% at end-2014. In April 2015, ING Group issued US$2.25 billion of fixed-rate reset perpetual additional Tier 1 (AT1) capital notes, on-lent to ING Bank, which contributed to a 50 basis point (bps) increase in our pro forma RAC ratio at year-end 2014. The remaining improvement resulted from internal capital generation and active management of the asset base. ING Group issued another $1 billion AT1 instrument in November 2016.

Our forecast that the projected RAC ratio will remain sustainably above 10% is based on the following key assumptions:

- 3%-5% annual growth in lending and credit risk-weighted assets in 2016-2017, with more active credit growth in non-core markets that display higher economic growth potential.
- A 1%-3% increase in upfront costs as a result of information technology projects being implemented. ING plans to invest €800 million in digital transformation from 2016 to 2021, gradually offset by efficiency gains. ING has also announced a one-off €1 billion restructuring provision charge to be accounted for in Q4 2016. This is part of the announced medium-term transformation strategy and mainly linked to an expected gradual reduction of about 7,000 full-time equivalent employees;
- A resilient net interest margin over time, resulting from the higher margin lending strategy;
- A stabilization in loan impairment charges in 2016 and 2017;
- The annual phasing out of the "old style" Tier 1 hybrids that are subject to CRR/CRD IV grandfathering rules and currently included in total adjusted capital, with no replacement hybrids assumed at this stage; and
- A dividend for the year at least equivalent to the €2.5 billion paid in 2015. We understand that dividend may increase over time depending on regulatory developments, earnings generation and growth opportunities. In August 2016, ING Group paid an interim cash dividend of €0.9 billion and the third-quarter 2016 profit was not accounted for in the CET1 capital calculation at the same date.

ING Bank's fully loaded common equity tier 1 (CET 1) ratio stood at 12.6% at end-September 2016, its Tier 1 ratio at 14.6% and total capital at 17.6%, compared to 11.6%, 13.9%, and 16.6% at end-2015, and 11.4%, 13.3%, and 16.5% at end-2014. As of Sept. 30, 2016, ING Group's CET 1 ratio was 13.5% and total regulatory capital was 18.5%.

Since the beginning of the year, regulatory ratios have been positively impacted by internal capital generation, the final sale of NN Group in April, the partial sale of its stake in Kotak Mahindra Bank in India in September to 3.9% from 6.4%, risk migration linked to real estate portfolios and a reduction of market risk reflecting the increased netting of derivatives positions. This improvement was partly compensated by foreign currency movements and the growth of risk assets.

Under the 2016 Supervisory Review and Evaluation Process (SREP) ING Group is due to comply with a Maximum Distributable Amount (MDA) restriction level set at a CET1 of 9% for 2017, raising to 11.75% by 2019 (assuming no change to pillar 2 requirements) as the Dutch Systemic Risk Buffer continues to be phased-in annually by an incremental 0.75%, up to 3%, and the capital conservation buffer reaching 2.50%. As of Sept. 30, 2016, the buffer to the 2017 MDA restriction level was €14.1 billion or 4.5% of RWA.

Importantly, we note management's clear statements to maintain the relatively conservative group risk appetite and strong capital position and we anticipate that this stance will prove enduring. We understand that ING intends to manage its capital position at ING Group level, where it maintains a cash buffer of about €4.5 billion as of September 2016. We understand that this buffer is intended to absorb any forthcoming regulatory requirement, but also to deliver an attractive return to shareholders. The incorporation of this cash buffer in our RAC calculation at the bank level would have raised the pro forma RAC ratio for ING Bank by about 100 bps. We note that in the wake of the group's restructuring, ING Group's double leverage has been eliminated.

The difference between our RAC ratio and the regulatory Tier 1 ratio mostly stems from the higher risk weights we apply to retail and corporate credit exposures. Ongoing discussions around the revision of Basel risk-weights for the calculation of capital adequacy, in particular regarding mortgage portfolios, could bring some convergence. This Basel revision is a challenge faced by the banking industry at large, but is particularly acute for Dutch banks because of country-specific characteristics, notably higher average loan to value (LTV) ratios than peers' in their mortgage loan portfolios. Other credit factors mitigate the relatively high LTVs, but any dramatic revision of Basel risk weights on mortgage loans in relation to LTV levels would put pressure on Dutch banks' regulatory capital requirements (see "Regulatory Uncertainty Shapes Dutch Banks' Capital Position," published Sept. 23, 2016, on RatingsDirect).

The bank calculated its Basel III leverage ratio at 4.1% as of Sept. 30, 2016, in line with its internal target and above the proposed BIII regulatory minimum of 3%. It is also above the minimum level of 4% that the local regulator intends to require for the four domestic systemically important banks. At group level, the leverage ratio stood at 4.4% at end-September 2016.

We view ING Bank's profitability as adequate compared with peers, with core earnings to adjusted assets at 0.55% as of Sept. 30, 2016. The bank displays a superior cost-efficiency ratio (about 52% as of June 30, 2016 by our measure) compared with peers, which low-cost digital retail distribution channels largely explain, in our view. The bank's ambition to further diversify its lending portfolio and reduce the proportion of mortgages should support the net interest margin. So far, ING has been able to lower client saving rates in many countries--for instance by a further 20 bps during the third quarter of this year in the Netherlands. We believe that the repricing of retail deposits will be limited due to some local constraints, like the cap at 11 bps in Belgium or the benchmark rate applied to regulated savings in France. We assume annual net income will reach on average about €5 billion in the next two years.

We regard the quality of ING Bank's capital as satisfactory as it largely consists of core equity. The amount of hybrid capital instruments included in S&P Global Ratings total adjusted capital (TAC), the numerator of the RAC ratio, amounted to less than 15% at end-2015. As of Sept. 30, 2016, the capital buffer to conversion trigger set at 7% CET1 stood at €20.3 billion or 6.5% of RWA.

Table 3

ING Bank N.V. Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2016***	**2015**	**2014**	**2013**	**2012**
Tier 1 capital ratio	14.5	13.9	12.5	13.5	14.4
S&P RAC ratio before diversification	N.A.	10.0	9.1	8.9	8.7
S&P RAC ratio after diversification	N.A.	12.7	11.6	11.3	10.8
Adjusted common equity/total adjusted capital	83.9	83.2	85.8	85.7	82.7
Net interest income/operating revenues	75.7	77.2	80.9	77.5	76.8
Fee income/operating revenues	14.1	14.1	14.7	14.5	13.4
Market-sensitive income/operating revenues	8.4	7.9	3.2	7.8	8.1
Noninterest expenses/operating revenues	51.7	56.2	55.9	54.7	57.5
Preprovision operating income/average assets	1.0	0.9	0.9	0.9	0.8
Core earnings/average managed assets	0.6	0.5	0.5	0.4	0.4

*Data as of June 30.

N.A.--Not available.

Table 4

ING Bank N.V. RACF [Risk-Adjusted Capital Framework] Data

(Mil. €)	Exposure*	Basel II RWA	Average Basel II RW (%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	134,421	8,370	6	5,266	4
Institutions	107,372	25,602	24	30,448	28
Corporate	269,558	125,104	46	202,789	75
Retail	312,916	70,647	23	107,393	34
Of which mortgage	265,664	45,951	17	76,147	29
Securitization§	8,130	1,904	23	3,003	37
Other assets	25,292	20,963	83	28,387	112
Total credit risk	857,689	252,590	29	377,286	44
Market risk					
Equity in the banking book†	5,200	12,838	280	6,808	131
Trading book market risk	--	9,638	--	12,669	--
Total market risk	--	22,475	--	19,477	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	43,138	--	29,149	--
(Mil. €)		**Basel II RWA**		**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification		318,202		425,912	100
Total Diversification/Concentration Adjustments		--		(90,741)	(21)
RWA after diversification		318,202		335,171	79
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		42,721	13.4	42,516	10.0
Capital ratio after adjustments‡		42,721	13.4	42,516	12.7

*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2015, S&P Global Ratings.

Risk position: A diversified risk profile and a gradually recovering domestic economy

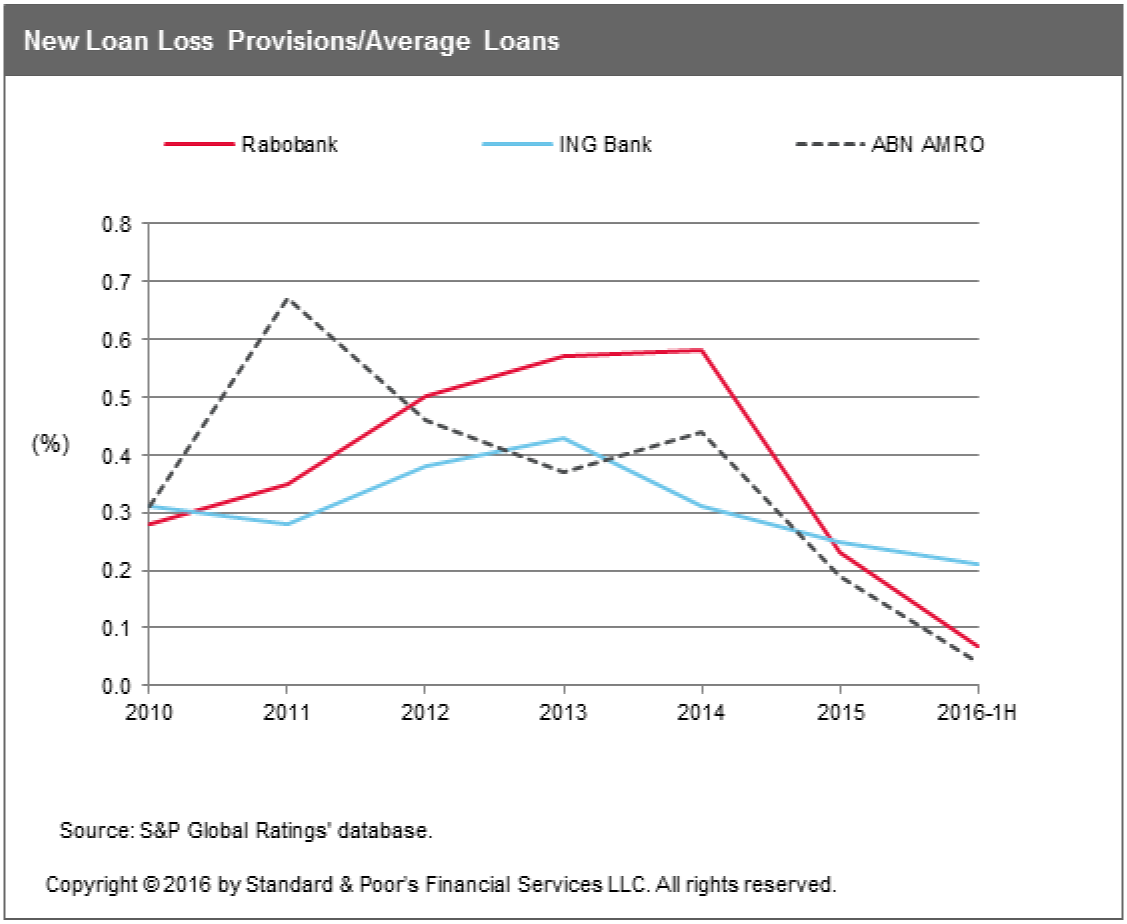
We regard ING Bank's risk position as adequate. This reflects the material de-risking and deleveraging of the bank's balance sheet over the past five years, the good level of diversification in its exposures, mostly in relatively low risk countries--with a risk appetite that we consider as broadly comparable across markets--and the generally sound asset quality track record of its retail and corporate portfolios. There are some identified pockets of risk, though, on which the bank provides regular updates as part of its quarterly communications.

We consider that ING Bank's risk position benefits from the diversification of its exposures. Among the Dutch banks, it is the only institution for which the Dutch market does not account for the majority of its lending. This is reflected in a diversification benefit of 21% at end-2015 under our RAC methodology. Despite its large exposure to residential mortgages (about 52% of end-September 2016 gross customer lending), we consider that the bank's risk exposures are well-diversified by sector. ING Bank's residential mortgage portfolio is well diversified by geography. At the same date, The Netherlands accounted for 47% of mortgage balances, Germany 23%, Belgium 12%, Australia 11%, and the remainder split between much smaller portfolios, mainly in Spain and Italy. The average loan-to-value (LTV) on residential mortgages is trending down. It stood at 74% at end-2015, compared to 83% at end 2013. This trend is mainly due to a lower average LTV in The Netherlands (but still well above the average for the whole book at 83% at end-2015) on the back of fiscal reforms, property price increases, and prepayments.

Corporate lending, which represents about a quarter of the book, is well diversified by sector. Commercial real estate represented approximately 4% of total customer lending at end-September 2016 (about €28.3 billion), most of which was in The Netherlands, a sector that has been under material pressure in recent years on the back of falling property valuations, and now recovering.

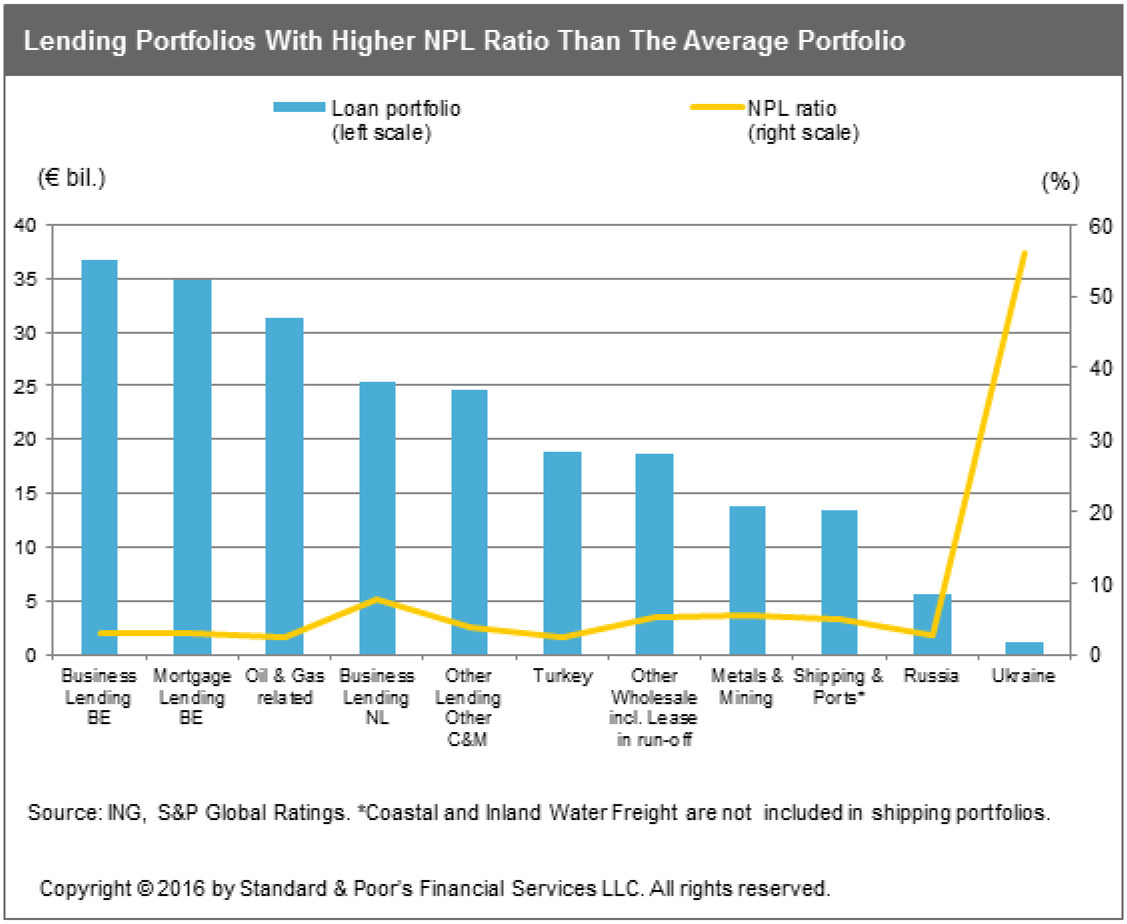
ING Bank has a broadly sound track record in terms of cost of risk in its core retail and corporate banking portfolios. It peaked in 2013 at 43 bps as a result of the weaker environment, then gradually reduced to pre-crisis levels and stood at 25 bps in 2015 and 20bps during the first nine months of 2016. Compared to its domestic peers, ING Bank's loss experience has been less volatile, on average, due to its more diversified portfolio. More recently, The Netherlands' economic recovery has been slightly less beneficial for ING (for the same reason) than for other more concentrated domestic peers. We expect a broadly comparable level of impairment charges in 2017. We note that at all times, the bank's loan losses remained below our computation of normalized credit losses for the same portfolio under our RAC framework.

Chart 3



ING reported a nonperforming loan ratio of 2.2% at Sept. 30, 2016, compared to 3% at end-2014. Coverage by loan impairment allowances was about 41% by our measure. The distribution of nonperforming exposures broadly follows the distribution of the loan book. The group regularly communicates about its credit exposure to the commercial real estate sector (€28.3 billion of outstanding exposures; NPLs 2.9%), Russia (€5.6 billion of outstanding exposures at end third-quarter 2016; NPLs 2.8%), China, excluding the stake in Bank of Beijing (on a reducing trend at about €6.1 billion with no significant NPLs), Ukraine (€1.1 billion outstanding exposures; NPLs 56% of which more than half are provisioned). It also communicates its €31.3 billion exposure to the oil and gas sector (mainly related to trade finance, asset finance, and corporate loans) with a 2.5% NPLs ratio. We also monitor ING's exposure to the Turkish market, which has proved relatively resilient so far with NPLs increasing to 2.5% at Sept. 30, 2016, from 1.8% a year ago, for an overall lending portfolio of about €19 billion.

Chart 4



ING maintains a high quality debt security investment portfolio, amounting to €99 billion as of Sept. 30, 2016. This portfolio predominantly comprises government bonds (51%), sub-sovereign, supranationals and agencies (23%), and covered bonds (15%). Exposure to noninvestment grade counterparties is marginal. Asset-backed securities stood at €6.1 billion also with a residual portion of speculative grade exposures. Other market risks are relatively modest, in our view, reflecting the moderate scale of ING Bank's financial market activities. The overnight VaR for ING Bank's trading portfolio is low and has ranged between €6 million and €22 million since the beginning of the year, and is trending down on average for 2016 compared to the average of €14 million reported at end-2015.

Table 5

ING Bank N.V. Risk Position

		--Year-ended Dec. 31--			
(%)	**2016***	**2015**	**2014**	**2013**	**2012**
Growth in customer loans	6.7	3.7	1.7	(6.0)	(5.9)
Total diversification adjustment / S&P RWA before diversification	N.A.	(21.3)	(21.5)	(21.6)	(19.3)
New loan loss provisions/average customer loans	0.2	0.3	0.3	0.4	0.4
Net charge-offs/average customer loans	0.2	0.3	0.3	0.3	0.3
Gross nonperforming assets/customer loans + other real estate owned	2.5	3.6	4.0	3.4	2.9

Table 5

ING Bank N.V. Risk Position (cont.)

	--Year-ended Dec. 31--				
(%)	**2016***	**2015**	**2014**	**2013**	**2012**
Loan loss reserves/gross nonperforming assets	40.8	29.7	28.7	34.7	34.1

*Data as of June 30.

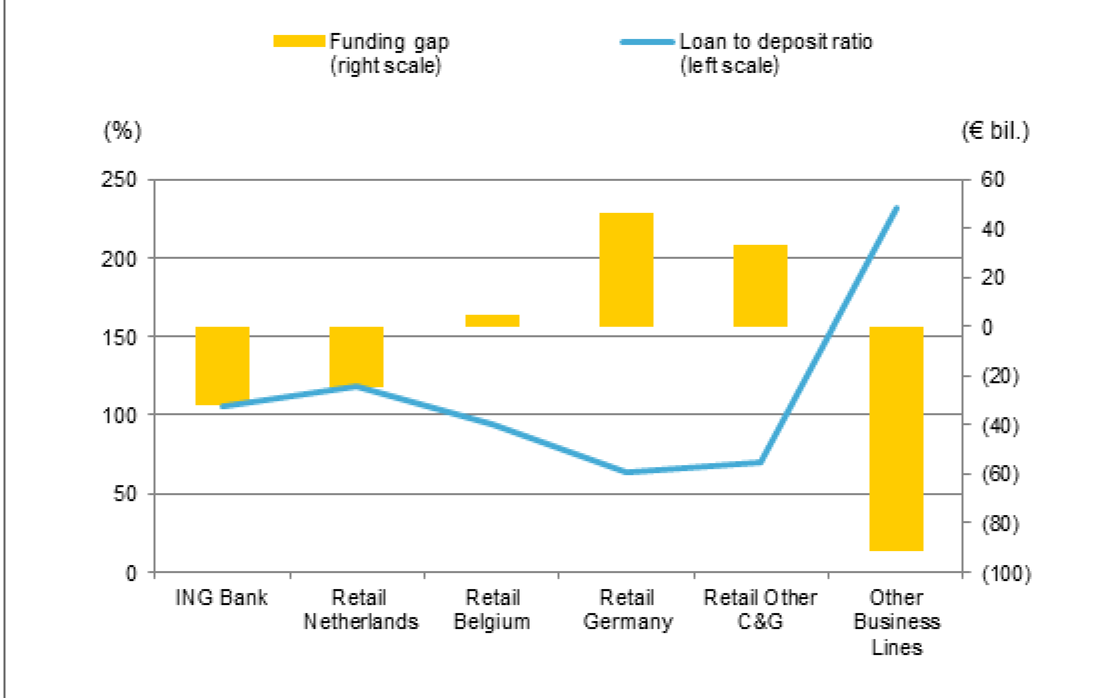
N.A.--Not available.

Funding and liquidity: Funding supported by large retail deposit base despite some wholesale funding reliance by domestic operations

We consider ING Bank's funding to be average and its liquidity adequate. The bank benefits from less reliance on wholesale funding compared with a number of peers. It reported an improving consolidated loan-to-deposit ratio of 106% at end-September 2016, which compares favorably with the average of the Dutch banking system and ratios of large domestic peers. This is partly attributable to its deposit-rich digital banking franchise. It also creates the challenge to find a good match of acceptable lending opportunities in each jurisdiction. Chart 5 below illustrates this deposit rich situation experienced by the group in most retail markets outside of the Netherlands. We note that this deposit base showed resilience through the turbulent conditions in the banking sector in recent years, the first major test of its kind for the bank's retail business.

Chart 5

ING Bank Geographical Funding Gap



In line with its Dutch peers, ING Bank's domestic operations rely somewhat on wholesale funding. We consider the bank's wholesale funding base as relatively diverse and observe that the maturity profile has been lengthened. This has translated into an improvement in our stable funding ratio from about 88% at year-end 2010 to about 107% by year-end 2015, and this positive trend should continue in 2016/2017. ING Bank has a €35 billion covered bond program in place with €24.6 billion of bonds outstanding as of June 30, 2016, about one-third of long-term debt. The cover pool is made of prime residential mortgage loans. The amount of long-term senior debt issued by ING Bank maturing in the next three years averages around €9 billion annually.

We consider that ING Bank has a sound liquidity buffer, supported by a large share of government bonds and substantial deposits placed with central banks. This improved buffer, and the reduced reliance on short-term wholesale funding, supported the improvement in our broad liquid assets to short-term wholesale funding ratio to 1.5x from 0.8x between year-end 2010 and year-end 2015. Structural liquidity has also been enhanced through internal securitizations, the majority of which are eligible for repurchase agreements with the European Central Bank in a liquidity stress scenario. The bank estimates its liquidity coverage ratio well above 100% at Sept. 30, 2016.

Table 6

ING Bank N.V. Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2016***	**2015**	**2014**	**2013**	**2012**
Core deposits/funding base	67.7	69.7	69.0	68.6	66.8
Customer loans (net)/customer deposits	106.7	105.4	105.6	107.0	117.8
Long term funding ratio	81.1	83.4	82.9	82.4	81.5
Stable funding ratio	104.4	106.9	105.5	102.9	95.7
Short-term wholesale funding/funding base	20.1	17.6	18.1	18.5	19.6
Broad liquid assets/short-term wholesale funding (x)	1.4	1.5	1.5	1.3	1.1
Net broad liquid assets/short-term customer deposits	11.7	13.4	13.2	9.2	4.2
Short-term wholesale funding/total wholesale funding	60.6	56.4	56.9	57.6	57.3

*Data as of June 30.

Support: Government support is now uncertain

In our view, ING Bank has high systemic importance in The Netherlands due to its leading retail and commercial franchise.

Since December 2015, we have regarded the prospect of extraordinary government support for Dutch banks as uncertain in view of the country's well-advanced and effective resolution regime. As a result, systemic banks are not eligible for notching uplift for possible future Dutch government support. However, we view the Dutch resolution regime as effective under our additional loss-absorbing capacity (ALAC) criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit non-viable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

We have not included notches in the long-term rating on ING Bank under our ALAC criteria because we believe ING Bank's ALAC ratio is unlikely to exceed the 5% of S&P RWA threshold over a three-year projection period. At end 2015, this percentage would have represented a buffer of about €21.5 billion.

We estimate that the ALAC ratio is likely to remain within the 2.5%-3.0% range over our projection period. We take into account the amount of excess RAC above our 10% threshold, which will likely remain marginal under our current forecast assumptions, and the stock of available subordinated instruments, about €9.8 billion as of Sept. 30, 2016. We are cognizant that some regulatory developments under discussion could eventually facilitate the gradual build-up of an ALAC buffer up to the required amount, if they were implemented and effectively used.

ING ranks among the 30 global systemically important banks (G-SIBs) identified by the Financial Stability Board (FSB). ING qualifies as a G-SIB mainly because of its cross-jurisdictional activity, interconnectedness and size factors. We understand that it ranks in the lower bound of the lowest bucket of the systemic categorization but, as such, is subject to the higher capital buffer requirements--+1% Higher Loss Absorption, from January 1st, 2018--and to Total Loss-Absorbing Capacity (TLAC) requirements. ING currently assumes that it TLAC requirements will stand at 23.5% of risk-weighted assets at end-2022 and calculates it at ING Group level as the requirement to comply with a phased-in systemic risk buffer of 3% is applied by the Dutch regulator to ING Group. Given ING Group's current level of total capital adequacy ratio (18.5% as of Sept. 30, 2016%) and the amount of long-term senior debt maturing over the period, ING considers that it has ample flexibility to comply with the expected requirements.

In November 2016, ING announced that, under its preferred resolution strategy, the NOHC ING Group would be the designated resolution entity (point of entry) for the group. This is still subject to confirmation from the Single Resolution Board (SRB).

Consequently, capital instruments and TLAC/MREL eligible debt instruments will likely be issued out of this entity. The amount of senior unsecured bonds intended to be issued out of ING Group in the next two-to-three years is estimated at €16 billion. We will monitor how these measures will be executed, once confirmed by regulatory authorities.

Core and highly strategic subsidiaries

We consider that ING Belgium S.A./N.V. comfortably meets our criteria to be classified as a core subsidiary of ING Bank N.V. It is a key component of the ING group, contributing to the strong business position of its parent in the Benelux countries.

The ratings on U.S. broker dealer ING Financial Markets also reflect our view of its core status within the group as the hub for ING Bank's U.S. financial markets business, which we think is critical in the group's overall strategy.

We classify ING Bank (Australia) Ltd. as a highly strategic subsidiary. Among other things, this reflects its ownership by ING Bank N.V., the close alignment between the subsidiary's activities and the rest of the group, and sound track record to date, although we do not consider that its operations represent a significant proportion of the consolidated group.

ING Group N.V.

We rate ING Group one notch lower than ING Bank as a result of its status as a non-operating holding company.

Additional rating factors: None

There are no additional rating factors.

Related Criteria And Research

Related Criteria

- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology, Nov. 19, 2013
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Commercial Paper I: Banks, March 23, 2004
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- S&P Global Ratings' National And Regional Scale Mapping Tables, June 1, 2016
- Guarantee Criteria--Structured Finance, May 7, 2013
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Regulatory Uncertainty Shapes Dutch Banks' Capital Positions, Sept. 23, 2016
- ING Bank (Australia) Ltd., Aug. 3, 2016
- Dutch Banks Ratings Unaffected By Developments In Interest-Rate Derivatives Litigation, July 7, 2016
- ING Bank Proposed Tier 2 Subordinated Notes With Exchange Clause Due 2028 Rated 'BBB', April 6, 2016

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 28, 2016)

ING Bank N.V.	
Counterparty Credit Rating	A/Stable/A-1

Ratings Detail (As Of December 28, 2016) (cont.)	
Certificate Of Deposit	
Local Currency	A-1
Commercial Paper	
Local Currency	A-1
Short-Term Debt	A-1
Counterparty Credit Ratings History	
08-Jun-2015	A/Stable/A-1
29-Apr-2014	A/Negative/A-1
02-Dec-2013	A/Stable/A-1
16-Nov-2012	A+/Negative/A-1
Sovereign Rating	
Netherlands (State of The)	AAA/Stable/A-1+
Related Entities	
ING Bank (Australia) Ltd.	
Issuer Credit Rating	A-/Positive/A-2
ING Bank N.V. (Dublin Branch)	
Issuer Credit Rating	A/Stable/A-1
ING Belgium S.A./N.V.	
Issuer Credit Rating	A/Stable/A-1
ING Financial Markets, LLC	
Issuer Credit Rating	A/Stable/A-1
ING Groep N.V.	
Issuer Credit Rating	A-/Stable/A-2
Junior Subordinated	BB
Junior Subordinated	BB+
Senior Unsecured	A-
Subordinated	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:
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