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CREDIT OPINION
28 March 2019

Update

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RATINGS

Domicile	Amsterdam, Netherlands
Long Term CRR	Not Assigned
Long Term Debt	Baa1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Not Assigned

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 Groep N.V.

Seminannual update

Summary

ING Groep's Baa1 senior unsecured rating primarily reflects its sole operating subsidiary ING Bank's sound credit fundamentals, notably its (1) resilient profitability, based on a diversified business mix, (2) its low asset risk, despite exposures to sensitive market segments as part of its diversified wholesale banking operations, and (3) its sound liquidity profile. For further details on ING Bank's baseline credit assessment (BCA), please refer to the related Credit Opinion.

ING Groep's senior unsecured rating also reflects our Loss Given Failure (LGF) analysis which concludes that there is a moderate risk of loss owing to the structural subordination of ING Groep's senior debt to ING Bank's senior debt in a resolution scenario, which results in a rating in line with the bank's baa1 Adjusted BCA. Furthermore we consider the probability of government support to ING Groep's senior unsecured debt to be low. We believe that the Dutch government's support would likely be provided only to the operating entity ING Bank given that the holding company debt is expected to absorb losses ahead of losses that could be born by the bank's own senior liabilities. As such ING Groep's debt does not benefit from government support uplift. Consequently ING Groep's senior unsecured debt rating is in line with ING Bank's BCA of baa1.

Credit strengths

» ING Bank's profitability has been resilient over the last few years, due to a balanced business mix across products, business lines and geographies.

» Asset risk is low, as a result of the bank's diversified activities.

» ING Bank's liquidity and funding profile is sound due to a decreased reliance on market-sensitive wholesale funding and lengthened debt maturities.

Credit challenges

» ING is exposed to sensitive activities (e.g. oil and commodity finance) and geographies (e.g. Ukraine and Turkey) as part of its generally well diversified wholesale banking business.

» Low interest rates in the euro area exert pressure on the bank's net interest margin.

Rating Outlook

The stable outlooks on ING Bank and ING Groep's long-term ratings reflect our expectation that, given the benign operating environment in the Netherlands and the major countries the bank is operating in, as well as its sound solvency and liquidity, the banking group's creditworthiness will remain steady over the medium term.

Factors that could lead to an upgrade

» ING Groep's ratings would likely be upgraded as a result of an upgrade of ING Bank's BCA. ING Bank's BCA could be upgraded in case of (1) a material improvement in the operating environment in the EU countries to which the bank is mostly exposed, leading to substantially improved asset risk and a higher profitability level; (2) a strengthening capital position; or (3) a lower reliance on confidence-sensitive wholesale funding. An upgrade in the BCA would likely lead to an upgrade to all 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 and/or junior instruments, leading to lower loss severity for senior creditors.

Factors that could lead to a downgrade

» Conversely, ING Groep's ratings could be downgraded as a result of a downgrade of ING Bank's BCA. ING Bank's BCA could be downgraded in case of (1) an unexpected deterioration in asset risk and profitability; or (2) a material weakening in its capital position. A downgrade of the BCA would likely result in downgrades to all ratings.

Key indicators

Exhibit 1

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

	6-18[2]	12-17[2]	12-16[2]	12-15[2]	12-14[2]	CAGR/Avg.[3]
Total Assets (EUR million)	905,984	826,551	818,050	977,891	964,338	-1.8[4]
Total Assets (USD million)	1,057,787	992,520	862,840	1,062,278	1,166,900	-2.8[4]
Tangible Common Equity (EUR million)	47,656	47,545	46,452	43,359	37,959	6.7[4]
Tangible Common Equity (USD million)	55,640	57,091	48,995	47,101	45,933	5.6[4]
Problem Loans / Gross Loans (%)	1.9	2.2	2.4	2.2	3.2	2.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.0	15.3	14.8	13.5	12.6	14.2[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	21.0	24.0	26.3	31.2	38.4	28.2[5]
Net Interest Margin (%)	1.6	1.7	1.5	1.4	1.5	1.5[5]
PPI / Average RWA (%)	2.5	2.6	2.2	2.4	2.0	2.3[6]
Net Income / Tangible Assets (%)	0.6	0.6	0.6	0.5	0.3	0.5[5]
Cost / Income Ratio (%)	56.2	54.6	60.1	55.7	60.6	57.4[5]
Market Funds / Tangible Banking Assets (%)	29.4	24.3	25.4	23.9	25.4	25.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	21.1	26.3	25.3	23.7	24.4	24.2[5]
Gross Loans / Due to Customers (%)	106.4	107.3	108.8	106.4	108.2	107.4[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 due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented.
Source: Moody's Financial Metrics

Profile

ING Groep is the parent company of ING Bank N.V. (ING Bank; Aa3/Aa3 stable; baa1), the largest Dutch bank by assets (€887 billion at end-December 2018) and one of the largest financial institutions in Europe and globally.

ING Groep holds a strong position in wholesale and retail banking. It also has a solid universal banking franchise in Belgium and Germany, where it operates through its local subsidiaries ING Belgium SA/NV (A1/A1 stable; baa1) and ING DiBa AG (A2 stable, a2), respectively.

In April 2016, the group has completed the divestment of its insurance operations by the sale of its remaining 14.1% stake in NN Group N.V. (a holding company which absorbed the former ING Verzekeringen in 2014), in accordance with European Commission's decision on state aid of 2009, amended in November 2012 and November 2013. As a result, ING Groep has become a "pure" bank holding company, with stakes limited to the group's banking activities.

Detailed credit considerations

ING Groep has historically had an integrated treasury and capital management strategy, whereby perpetual hybrid securities were raised via direct issuance at the level of the ultimate holding company (ING Groep) or via dedicated funding vehicles guaranteed by ING Groep. Conversely, lower Tier 2 capital or subordinated debt was raised directly from the main banking or insurance subsidiaries, according to their needs.

In the context of the Group's resolution strategy, which is driven by the Bank Recovery and Resolution Directive (BRRD), ING announced, in November 2016, that ING Groep will be the group's designated resolution entity. This single-point of entry strategy has been approved by the European Single Resolution Board (SRB) in January 2017. This will allow the group to issue senior unsecured and subordinated debt instruments qualifying for the European minimum requirement of own funds and eligible liabilities (MREL) and Financial Stability Board (FSB)'s total loss-absorbing capacity (TLAC) at the holding company.

This holding company debt consists of Additional Tier 1, Tier 2 and senior unsecured debt securities, which are structurally subordinated to the bank's own senior unsecured debt and deposits in a resolution scenario. In this regard, over the past two years, the group increased its MREL/TLAC buffer to build a management buffer above the minimum requirement and protect the bank's senior creditors by using its holding company (ING Groep)[1]. In 2017 and 2018, ING Groep issued €4.9 billion Tier 2 debt and €17.7 billion 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 in line with its medium-term plan, based upon its continued good access to the capital markets. ING announced further €7 to 9 billion senior debt issuance from the holding company in 2019, replacing most ING Bank's senior debt that will mature, so as to further reinforce its MREL/TLAC buffers.

The SRB has set the minimum requirement for own funds and eligible liabilities (MREL) for ING Groep at 10.9% of its total liabilities. This requirement has been set on data as of 31 December 2016 and corresponds to €91 billion or 29% of ING Groep's RWA at that time. The group already complies with this requirement.

As G-SIB entity, ING Groep is subject to Total Loss Absorbing Capacity (TLAC) rules, which are to be transposed into the EU law. The FSB framework requires a minimum TLAC of 21.5% of risk-weighted assets (RWAs) by January 2019, and 23.5% by January 2022[2]. Based on our estimations, ING Groep's TLAC already exceeds the requirement of 23.5% at year-end 2018.

At end-December 2018, ING Groep's fully-applied CET 1 ratio was 14.5%. ING Groep's capital is higher than that of ING Bank. The difference stems from the accumulated reserves and the profit retention policy at the holding company level. ING Groep has accumulated positive reserves from retained earnings and the sale of its insurance subsidiaries (Voya and NN Group) which were not distributed to shareholders and kept within the group in the perspective of future regulatory requirements (SREP, TLAC and MREL). Although part of this excess capital could be distributed to shareholders in the future, we do not expect this to happen in the short run as this surplus can help the group absorb the impact of upcoming regulatory changes, even though ING Groep's CET 1 ratios currently stand above the minimum requirement of 11.8% to be applied in 2019.

Finally, ING indicated in December 2018 that the estimated impact of Basel IV on its CET1 ratio would be around -200 bps [3] all other things being equal. Considering ING's current capitalisation, the timeframe for the implementation of the new rules (up to 2027 for the full output floor) and the group's ability to mitigate some of the impacts through management actions, we estimate that the group will be able to meet the requirement in due time.

Support and structural considerations

Loss Given Failure and additional notching

ING Groep (together with its subsidiary ING Bank) is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider to be an Operational Resolution Regime. We assume a residual tangible common equity at failure of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits (amounting to 26% of total deposits), a 5% run-off in preferred deposits, and assign a 25% probability of deposits being preferred to senior unsecured debt. These are in line with our standard assumptions.

ING has communicated planned issuance of at least €16 billion of ING Groep's senior unsecured and subordinated debt by year-end 2019 under its medium and long-term funding plan. We expect that ING will continue its issuance programme in line with its medium and long-term funding plan, based upon the group's continued good access to the capital markets.

As a result of the MREL/TLAC buffers built since the end of 2016 through the issuance of senior debt from ING Groep, our LGF analysis indicates a moderate loss-given-failure for ING Groep's senior unsecured debt leading to no uplift from ING Bank's Adjusted BCA.

For subordinated debt issued by ING Groep our LGF analysis indicates a high loss-given-failure, which result in a rating one notch below ING Bank's BCA. As regards junior subordinated debt and preference shares, we also incorporate additional downward notching to reflect coupon suspension risk ahead of failure, of one and two notches, respectively.

Please refer to the Credit Opinion for ING Bank, for further details on our LGF analysis.

Government support considerations

We consider the probability of government support to ING Groep's senior unsecured debt to be low as such support would likely be provided only to the operating entity in order to maintain its critical functions and mitigate risks to financial stability. Similarly, for junior securities, the probability of government support is low, and, as such, the ratings for these instruments do not include any related uplift.

Ratings

Exhibit 2

Category	Moody's Rating
ING GROEP N.V.	
Outlook	Stable
Senior Unsecured	Baa1
Subordinate	Baa2
Jr Subordinate	Baa3 (hyb)
Pref. Stock	Baa3 (hyb)
Pref. Stock Non-cumulative	Ba1 (hyb)
ING BANK A.S. (TURKEY)	
Outlook	Negative
Counterparty Risk Rating	Ba2/NP
Bank Deposits -Fgn Curr	B2/NP
Bank Deposits -Dom Curr	Ba3/NP
NSR Bank Deposits	Aa1.tr/TR-1
Baseline Credit Assessment	b3
Adjusted Baseline Credit Assessment	ba3
Counterparty Risk Assessment	Ba2(cr)/NP(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 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., 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-DIBA AG	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
ING BANK N.V. (SINGAPORE)	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured	Aa3

Source: Moody's Investors Service

Endnotes

1 ING announced, in November 2016, that ING Groep will be the group's designated resolution entity. This single-point of entry strategy has been approved by the European Single Resolution Board (SRB) in January 2017.

2 TLAC requirements of 16% of RWAs from 2019 and 18% from 2022 plus a Capital Conservation buffer of 2.5% and a Systemic Risk buffer of 3%, based on current guidance

3 ING announced a potential increase in RWA by 15-18% on a fully-loaded basis

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