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ING Groep N.V.

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Table Of Contents

ING Groep N.V.

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

\+

Support	+1
ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Holding Company ICR	A-/Stable/A-2

UGCP--The unsupported group credit profile of ING group. The holding company issuer credit rating shown applies to ING Groep N.V. and is two notches below the rating on the operating bank (ING Bank N.V.), reflecting its status as a nonoperating holding company.

Major Rating Factors

Issuer Credit Rating
A-/Stable/A-2

Strengths:	Weaknesses:
• A strong competitive position in the low-risk core markets of Netherlands, Belgium, and Germany, with good brand name recognition and supportive geographic diversity. • Focused digital strategy and a clear financial roadmap. • Sound earnings generation and strong capitalization.	• Reliance on wholesale funding for the Dutch operations. • Pressure on interest margins from a low-interest-rate environment, similar to peers. • Business model adaptation to upcoming regulatory changes.

Outlook

ING Groep N.V.

The stable outlook on ING Groep N.V., the non-operating holding company (NOHC) of Netherlands-based ING banking group (ING, the bank), reflects S&P Global Ratings' view that the financial profile of ING consolidated group (ING) will continue to strengthen steadily, benefiting from resilient economic conditions, although slightly less supportive than in 2018, and the continuation of the group's medium-term strategy. We believe the strategy will support internal capital generation and the maintenance of strong capital adequacy. As a result, we expect our projected risk-adjusted capital (RAC) ratio before diversification will remain above 10.25% over the next 18-24 months. The outlook also reflects our view that ING's risk appetite, particularly for credit growth outside of its low-risk core markets, will remain contained, and growth initiatives will remain limited to known areas and territories.

We could lower our ratings if ING's capital position were to weaken because exposure to riskier assets would develop more rapidly than we currently expect. This could result from, for example, faster expansion into emerging markets or material acquisitions. As an international group, ING is also exposed to a wide range of legal and compliance risks, and this necessitates a particularly robust risk framework, also for nonfinancial risks. The materialization of such a risk could, depending on the magnitude of its impact, lead us to lower the rating.

We see limited upside for our ratings in the next two years. We could raise our ratings if we were to believe that ING would display a lower credit risk profile than peers, given the nature of its business mix or higher capital generation capacity through the cycle compared with other 'A+' rated peers.

ING Bank N.V

The stable outlook on ING Bank N.V., the lead operating bank of the ING group, reflects the absence of particular downward or upward pressure on the unsupported group credit profile (UGPC), currently at 'a'. We also expect ING will continue to build its material buffer of bail-in-able debt, mainly through the issuance of senior unsecured debt by its NOHC.

Given that we already factor in one notch of additional loss-absorbing capacity (ALAC) uplift into the ratings on the bank, a higher rating would depend on us raising our assessment of the group's UGCP, a scenario we see as remote for the moment.

We could also lower the ratings on ING Bank if the issuance of instruments eligible as ALAC fell short of our expectations because of tighter capital or funding policies.

Rationale

ING's 'a' UGCP ranks among the highest we assigned to large European banking groups. It reflects ING's strong franchise, namely in the Netherlands, Germany, and Belgium, and the good diversification of its revenues by product and geography. ING's capital position has improved in recent years, and we factor the continuation for this trend in our ratings. We believe that our RAC ratio will stand above 10.5% by end-2019 as a result of resilient revenues, some additional efficiency gains, although compensated by investment in digitalization, and sound internal capital generation. We also consider ING's loan book as diversified by sector and geography, demonstrating a solid track record in retail and corporate lending. ING displays a funding profile in line with domestic peers', but is less reliant on wholesale sources to fund its customer loan book. It also displays adequate liquidity, underpinned by its large retail deposit base, and a sound liquidity buffer.

ING ranks among the 30 global systemically important banks identified by the Financial Stability Board. It has an established strategy to build total loss-absorbing capacity (TLAC) and minimum requirements for own funds and eligible liabilities (MREL) buffers, mainly by recycling debt formerly issued by ING Bank, the main operating bank, with debt issued by ING Groep, its NOHC. We expect that this strategy will continue in 2019 and 2020, and have therefore included a notch of uplift in our ratings to reflect the ongoing buildup of ALAC.

Other peers in Europe with a similar issuer credit rating include Cooperatieve Rabobank and ABN AMRO in the Netherlands, KBC in Belgium, SEB in Sweden, BPCE and Credit Agricole in France or Lloyds Banking Group in the United Kingdom.

Anchor: 'bbb+' for a Netherlands-based bank, with a geographic mix of operations in low-risk countries

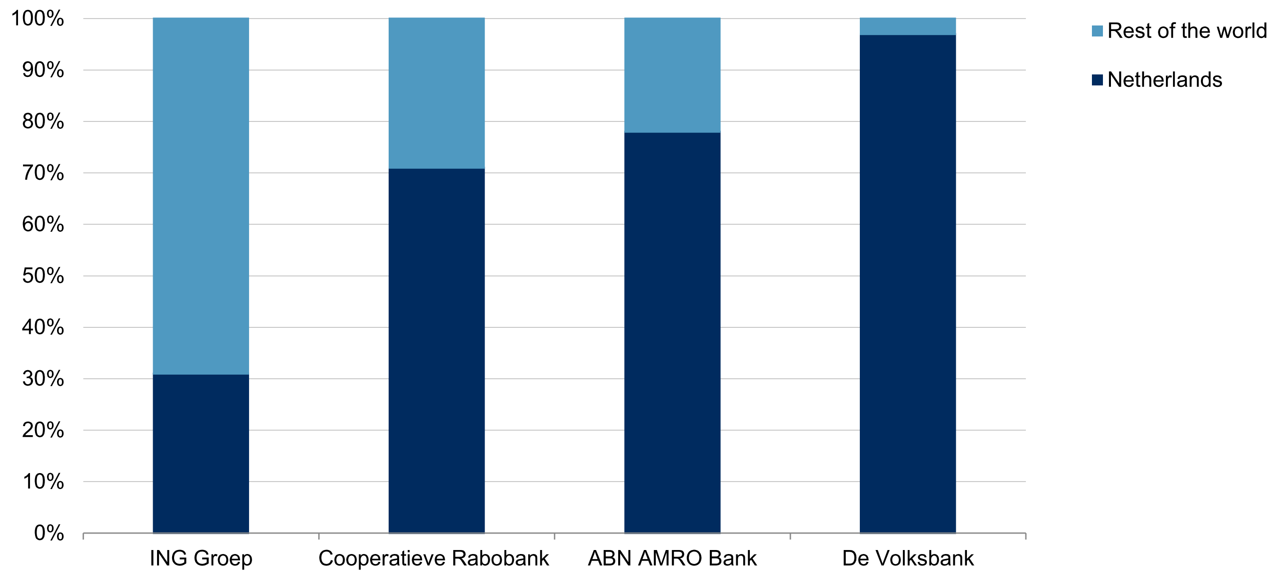
The starting point for our ratings on ING and its affiliates is the 'bbb+' anchor, which is based on the weighted-average of S&P Global Ratings' economic risk scores for the countries in which ING operates, combined with our industry risk assessment for the Dutch market. We use the following rounded geographic distribution of ING's private-sector customer lending at end-2018:

- The Netherlands, 30%.
- Belgium and Germany, 35% combined.
- Other European countries, including ones in Central and Eastern Europe, 20%.
- Asia-Pacific, in particular Australia, 10%.
- Americas, 5%.

ING displays a more geographically diverse loan book than its domestic peers. It also intends to continue to rebalance the geographic breakdown of its loan book, aiming for a smaller exposure to the Netherlands. Consequently, if we were to revise our economic risk score for Dutch banking activities, we believe that it would not trigger a change of the anchor for ING.

Chart 1

ING's Lending Portfolio Is More Diversified By Geography Than Domestic Peers'



Source: Banks, S&P Global Ratings.

We view the Dutch economy as wealthy, diversified, open, and competitive. Following average real GDP growth of 2.6% in 2016-2018, we believe that the Netherlands will post real GDP growth of 1.9% in 2019 and 1.8% in 2020. Strong domestic demand continues to propel the Dutch economy, which continues to outperform most of its eurozone peers, but the country is not immune to a slowdown due to rising external risks, notably Brexit and global trade tensions. We note the strong recovery in the Dutch residential property market. Residential house prices have been rising steadily since mid-2013, following a 20% drop. In the most dynamic cities, including Amsterdam, property price growth has substantially accelerated, due to a lack of supply pushing the country average annual growth at around 9%. Prices are now above their peak during the last cycle. We monitor closely any potential overheating and expect price growth to slow given affordability issues and less buoyant economic conditions. Continued efforts to address the elevated gross household debt and sound underwriting standards in the strongly performing economy will be key for any potential revision of our economic risk score.

In our view, the Dutch banking system is concentrated. The competitive environment remains fairly stable, except in the mortgage lending segment. We consider the prospective profitability of domestic banking activities as adequate. Litigation and compliance-related risk has increased in the past three years, as for most peers, and we observe that banks are under tense public scrutiny, which we believe limits their risk appetite, especially outside their home base. Cost-optimization programs continue amid persistently low interest rates. The cost of risk has improved, mitigating asset repricing and investment charges. The system's relatively large reliance on wholesale funding is partly attributable to households' propensity to save via life insurance and pension products, rather than bank deposits, but also the specific operating model of government-related banks (BNG Bank and Nederlandse Waterschapsbank). Large Dutch banks benefit from the depth of the capital markets where they operate and the Dutch authorities' good track-record in providing liquidity support.

Table 1

ING Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	**2018**	**2017**	**2016**	**2015**	**2014**
Adjusted assets	885,191	844,747	843,597	840,202	991,201
Customer loans (gross)	595,989	579,003	568,791	542,697	521,688
Adjusted common equity	42,999	42,996	41,182	39,085	45,766
Operating revenues	18,088	17,675	17,519	16,680	15,463
Noninterest expenses	9,907	9,830	10,614	9,326	8,946
Core earnings	5,294	4,920	4,418	4,382	2,940

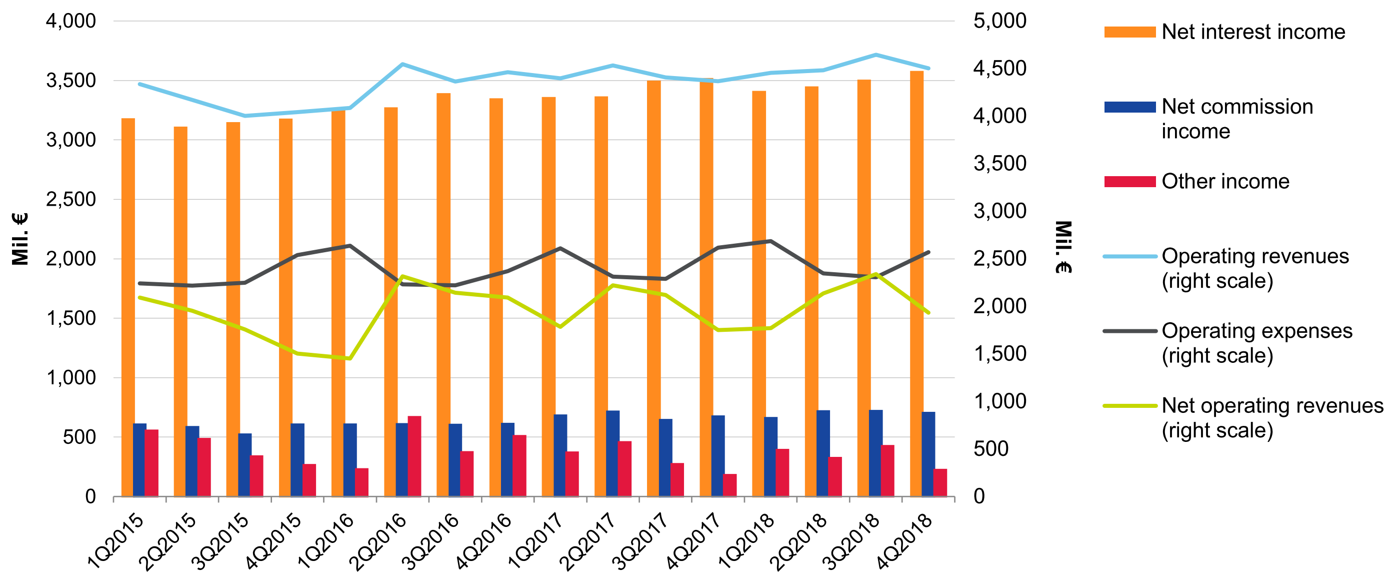
Business position: A pan-European bank with a cost-efficient digital banking model

ING's business position is supported by its focused medium-term strategy and position as a leading pan-European universal bank, with good brand name recognition, supportive product and geographic diversity, and established and expanding digital capabilities under a cost-efficient model. With assets exceeding €850 billion at end-2018, ING is one of the top-10 financial services group in Europe.

ING's revenue stream is fairly recurrent, due to the dominance of interest and commission income, largely from the retail banking franchise (see chart 2). ING's focus is on expanding its base of 38.4 million individual customers, with a specific emphasis on increasing the number of primary relationships to more than 14 million by 2020 from 12.5 million at end-2018. ING has been an innovator and early adopter of digital banking capabilities. It displays a highly efficient digital banking model in developed retail markets, which represents a key part of the bank's strategy. This is especially clear for retail deposit collection and, increasingly, assets. Maintaining the first-mover competitive advantage is a challenge. The two main axes of the strategy revolve around converging banking platforms, especially between the Netherlands and Belgium, and a distribution strategy centered around an omnichannel approach focusing on mobile banking.

Chart 2

ING Reports Good Recurrence Of Revenues



Sources: ING, S&P Global Ratings.

Starting as a large global bancassurance group in the 1990s, ING divested all of its insurance and investment businesses in the aftermath of the financial crisis and exited its ING Direct operations in the U.S., Canada, and the U.K. The group enjoys good geographic diversification, mainly in low-risk countries. There is a clear delineation of territories where ING intends to expand its presence, from core historical markets in the Benelux region (Belgium, the Netherlands, and Luxembourg) where it enjoys a leading position, to those in which it operates more as a challenger, mainly in neighboring European countries or selected emerging markets with growth potential (table 2). ING is also present in more than 40 countries through its wholesale banking international network, supporting corporations that do business globally. ING is a leading global player in structured finance. Transaction services and financial market activities contribute to the diversification of wholesale banking revenues. Apart from acquisitions in the financial technology sector, we cannot rule out external growth in the banking business, but we believe that it would only involve small-size operations and in regions where the group operates.

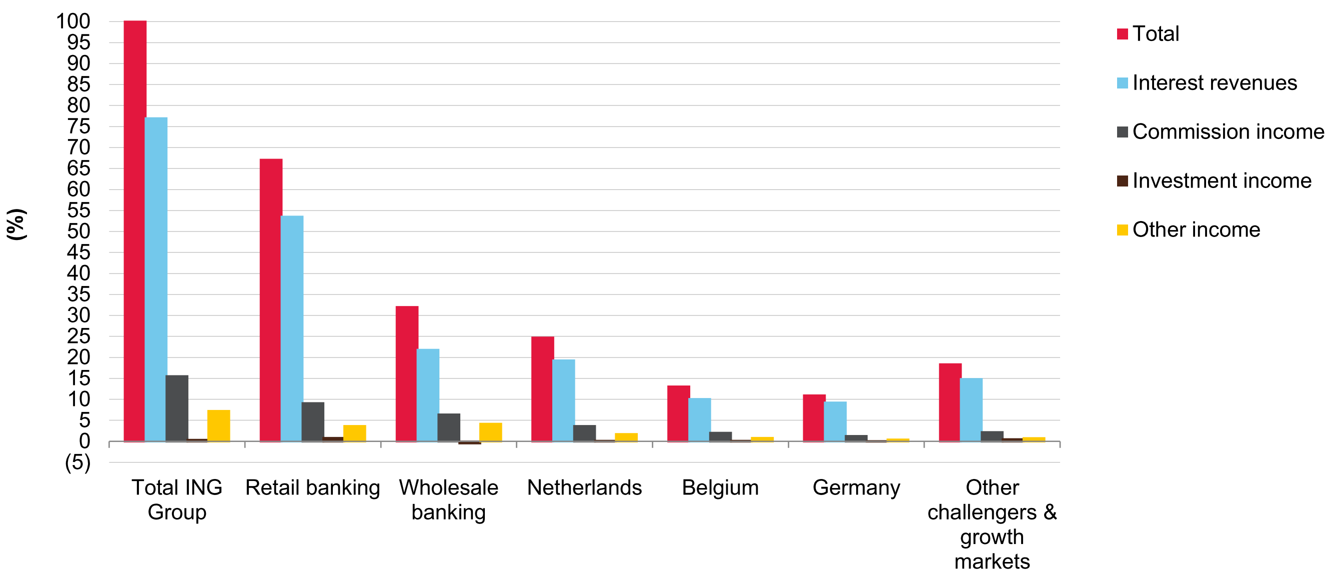
Table 2

ING's Strategic Geographic Focus	
Market leaders	The Netherlands, Belgium, and Luxembourg. All three are low-risk markets with high household wealth. ING is the largest Netherlands-based banking group, and the second-largest by domestic assets. It is one of the top two lenders to Dutch large corporates and the third-largest bank in Belgium.
Challengers	Germany, Austria, Czech Republic, Spain, Italy, France, and Australia. ING Bank has grown to become one of the largest retail banks in Germany.
Growth markets	Poland, Turkey, Romania, complemented by stakes in banks in Thailand and China. These higher-risk markets still form a low proportion of the group's exposure, but this is rising modestly.

Sources: ING, S&P Global Ratings.

Chart 3

ING's 2018 Revenues By Products, Segments, And Geography

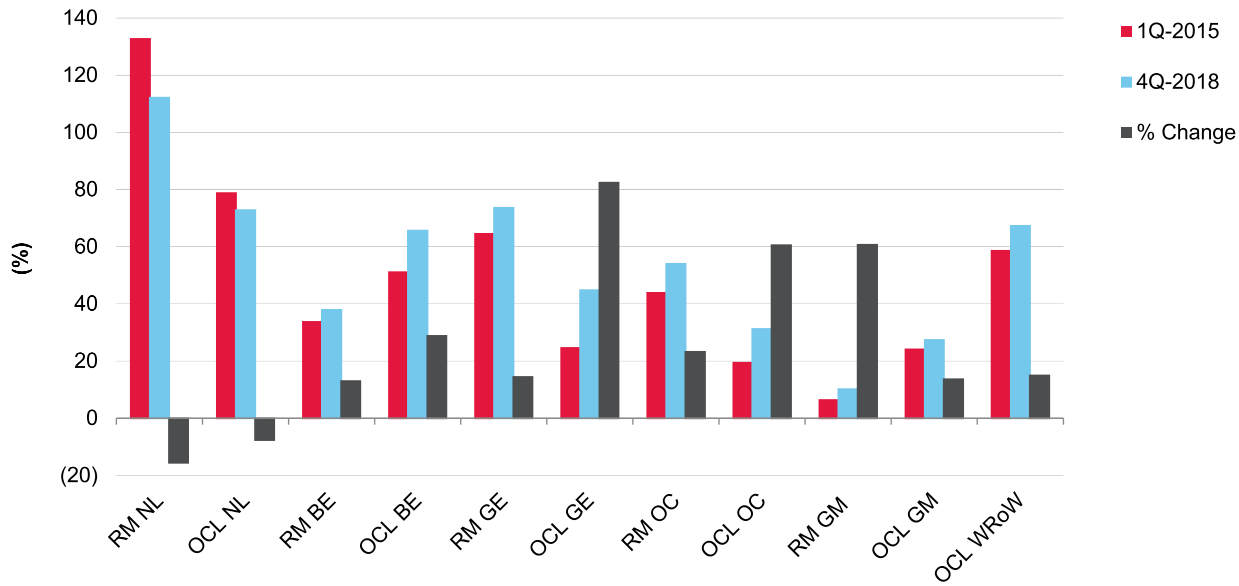


Source: S&P Global Ratings.

We note ING's objective to increase net interest income in the current low-interest-rate environment by targeting higher lending growth outside of its core historical market, the Benelux region, which is, in our view, generally safer than many other countries where it operates. ING also intends to continue expanding into lending that is higher margin than typical domestic mortgage lending, targeting small and midsize enterprises, consumer lending, and corporate clients. This move has been visible in recent years (see chart 4), but we expect the bank will maintain conservative underwriting standards while expanding into these areas and that growth will slow in coming quarters, especially in wholesale banking. The execution of this strategy, combined with active management of funding costs, explains the resilience of ING's net interest margin, which is broadly stable despite the lower interest rates, a trend we believe will continue in the next two years.

Chart 4

A Look At ING's Strategy To Rebalance Its Loan Portfolio (Q1-2015 versus Q4-2018)



Source: ING, S&P Global Ratings. RM: retail mortgages; OCL: other customer lending; NL: Netherlands; BE: Belgium; GE: Germany; OCL: other challengers; GM: growth markets; WrOW: wholesale and rest of the world.

ING's rated peers include domestic peers like Rabobank, which has a stronger foothold in the Netherlands, and ABN AMRO, which has a strong international presence in the energy, commodities, and transportation business. We also consider as relevant peers large Belgian, U.K., and French banks, such as BPCE, Société Générale Crédit Agricole, Lloyds Banking Group, and KBC, which combine a solid retail franchise and other commission generating business, such as asset management or insurance activities.

Table 3

ING Business Position					
	--Year-ended Dec. 31--				
(%)	2018	2017	2016	2015	2014
Total revenues from business line (mil. €)	18,178	17,773	17,982	16,845	15,658
Commercial banking/total revenues from business line	32.75	32.88	31.51	31.61	28.08
Retail banking/total revenues from business line	66.75	66.73	65.57	66.65	69.61
Return on equity	9.28	9.79	9.53	8.09	2.58

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

We view ING's capital position as a rating strength. We expect that it will continue to improve, because additional capital is needed to adapt to the forthcoming Basel reform of capital adequacy calculation. ING estimates that the expected negative impact of this reform would represent about 2% of ING Groep's common equity tier 1 (CET1) capital ratio by 2027, all else being equal (using static year-end 2017 data). ING Groep's fully loaded CET1 ratio was 14.5% at end-2018. ING aims to maintain a CET1 ratio of around 13.5% under the Basel IV framework.

Under the 2018 Supervisory Review and Evaluation Process (SREP), ING Groep is due to comply with a CET1 ratio of 11.8% by year-end 2019 (unchanged compared to the 2017 SREP). The maximum distributable amount (MDA) restriction level was set at a CET1 ratio of 11.8% for 2019. As of Dec. 31, 2018, the buffer to the 2018 MDA restriction level was an ample €13 billion, or 4.1 % of the bank's regulatory risk-weighted assets (RWA), and respectively €24 billion and 7.5% for the buffer to the 7.0% CET1 equity conversion trigger.

We forecast a RAC ratio of 10.25%-10.75% by end-2020. The difference between our RAC ratio and the regulatory tier-1 ratio mostly results from the higher risk weights we apply to retail and corporate credit exposures.

We see ING Groep as the lead regulated entity. ING Groep is also the designated single point of entry under ING's preferred resolution strategy. Hybrid capital instruments are now all issued by the NOHC.

We base our forecast RAC ratio on the following assumptions for 2019:

- Annual lending growth of 3%-5%, lower than in 2017 and 2018 given the expectation of a more volatile environment;
- A resilient net interest margin over time, as pressure from low interest rates is being partially offset by higher-margin lending;
- A low loan impairment charge in 2019 at around 15-20 bps of customer loans, increasing moderately with the expected normalization of the cost of risk after years of low impairments in Europe;
- Internal capital generation of about €2.0 billion-€2.5 billion per year, assuming resilient earnings in the €4.5 billion-€5.5 billion range. In our forecast, we factor in a dividend payout in the 55%-60% range.

Our base-case scenario does not factor in a large acquisition or material litigation costs. We believe that with its dividend payout, ING has enough financial flexibility to adjust its capital position if necessary.

ING Groep calculated its leverage ratio at 4.4% as of Dec. 31, 2018, meeting its internal target of above 4.0%.

We view ING's profitability as adequate compared with peers', with core earnings to adjusted assets at 0.6% at year-end 2018. The bank displays a superior cost-efficiency ratio (55% at year-end 2018 by our measure) compared with peers', Nordic ones excluded, largely thanks to low-cost digital retail distribution channels. The bank's ambition to further diversify its lending portfolio by geography and sector will support the resilience of its net interest margin. So far, ING has been able to lower client saving rates in many countries. We believe that the repricing of retail deposits will be limited, due to some local constraints, like a floor of 11 bps in Belgium.

Despite improving underlying results, 2018 results were impacted by a €775 million payment for litigation settlement in third-quarter 2018 (see risk position below), which was higher than we expected. We do not expect other similar one-offs due to litigation risk in the next two years. Apart from lower revenues from core countries, compensated by stronger revenues in other markets, which reflects ING's strategy, two segments within wholesale banking were loss making in the fourth quarter of 2018: Bank Treasury and Other (negative €169 million before tax in fourth-quarter) and Financial Markets (negative €73 million before tax in fourth-quarter). The losses due to adverse market conditions were limited thanks to ING's limited investment banking business activities. Market conditions in early 2019 were more favorable, but 2019 will likely be a more challenging year for corporate and investment banking activities in our views.

We regard the quality of capital as satisfactory because it largely consists of core equity. The amount of hybrid capital instruments included in our total-adjusted-capital metric and the numerator of the RAC ratio amounted to less than 15% at year-end 2018.

Table 4

ING Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Tier 1 capital ratio	16.2	16.4	16.63	14.75	12.38
S&P Global Ratings' RAC ratio before diversification*	N.A.	10.2	10.6	9.1	8.9
S&P Global Ratings' RAC ratio after diversification*	N.A.	11.7	12.4	11.6	11.3
Adjusted common equity/total adjusted capital	89.27	89.25	84.24	85.13	89.06
Net interest income/operating revenues	76.93	77.59	75.58	75.31	79.57
Fee income/operating revenues	15.5	15.33	13.89	13.9	14.83
Market-sensitive income/operating revenues	0.33	4.19	8.66	7.07	3.85
Noninterest expenses/operating revenues	54.77	55.52	60.59	55.91	57.85
Preprovision operating income/average assets	0.94	0.93	0.82	0.8	0.63
Core earnings/average managed assets	0.61	0.58	0.52	0.48	0.28

N.A.--Not available. RAC--Risk-adjusted capital. RAC ratio for year-end 2016 and thereafter reflects updated criteria, published in 2017. *S&P Global Ratings' RAC ratio for ING Bank until 2015, ING Group thereafter.

Table 5

ING Groep N.V. Risk-Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Credit risk					
Government and central banks	115,723	7,905	7	3,902	3
Of which regional governments and local authorities	152	112	74	9	6
Institutions and CCPs	74,601	14,470	19	22,836	31
Corporate	302,413	138,648	46	253,835	84
Retail	330,394	72,496	22	108,671	33
Of which mortgage	294,295	8,386	3	82,498	28
Securitization§	6,476	628	10	7,955	123
Other assets†	17,383	14,454	83	21,115	121

Table 5

ING Groep N.V. Risk-Adjusted Capital Framework Data (cont.)					
Total credit risk	846,990	248,600	29	418,314	49
Credit valuation adjustment					
Total credit valuation adjustment	--	2,754	--	9,691	--
Market risk					
Equity in the banking book	3,983	4,050	102	4,069	102
Trading book market risk	--	4,675	--	6,838	--
Total market risk	--	8,725	--	10,906	--
Operational risk					
Total operational risk	--	40,093	--	32,867	--
		Basel III RWA		**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	--	309,893	--	471,778	100
Total diversification/concentration adjustments	--	--	--	(61,442)	(13)
RWA after diversification	--	309,893	--	410,336	87
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments	--	50,729	16.4	48,175	10.2
Capital ratio after adjustments‡	--	50,729	--	48,175	11.7

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes deferred tax assets (DTAs) not deducted from ACE. ‡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, 2017, S&P Global.

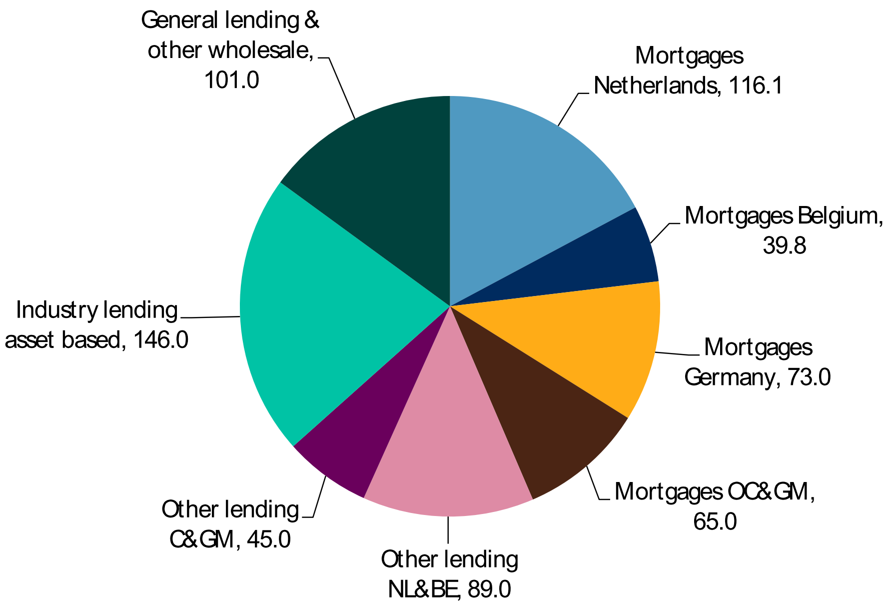
Risk position: A diversified loan portfolio and a contained risk appetite

In our view, ING's risk profile benefits from good diversification of exposures, mostly in relatively low-risk countries--with a risk appetite that we consider to be broadly comparable across markets--and the generally sound asset quality of its retail and corporate portfolios. However, there are some pockets of risk, legal and compliance, inherent to a diversified banking model and wide geographic reach.

Among Dutch banks, ING is the only large institution for which the Dutch market does not account for the majority of lending exposure. Despite its large exposure to residential mortgage loans (just under 50% of gross customer lending at end-December 2018), we consider the bank's risk exposures well diversified by sector. In addition, ING's residential mortgage portfolio is well diversified by geography (see chart 5). We expect the average loan to value on residential mortgages to continue decreasing because of supporting property price dynamics in the markets where ING has a material mortgage loan book (Netherlands, Belgium, Germany and Australia).

Chart 5

ING's Breakdown Of Customer Lending At End-2018 (Bil. €)

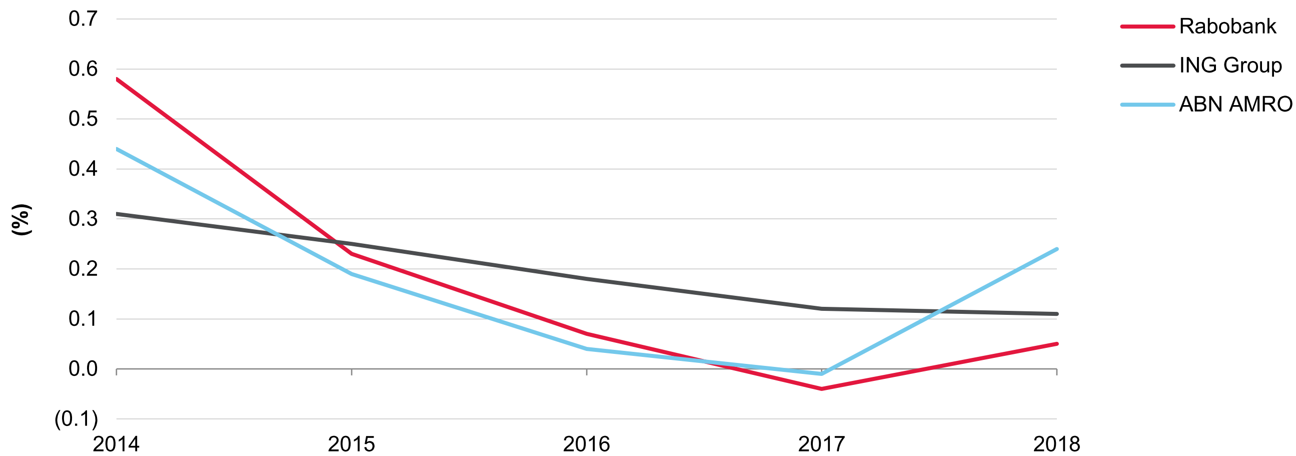


Source: ING Group, S&P Global Ratings. Customer lending refers to lending credit outstanding. OC&GM--Other challengers and NL&BE--Netherlands and Belgium. C&CM--Challenger and Growth Markets.

ING has a sound track record of cost of risk in its core retail and corporate banking portfolios. The cost of risk peaked in 2013 at 43 bps of customer loans because of the weaker economic environment, then gradually reduced to precrisis levels of 10 bps-12 bps in 2017-2018. ING's loss experience has been, on average, less volatile than peers', due to its more diversified portfolio. More recently, economic recovery in the Netherlands has been slightly less beneficial for ING than for other more concentrated domestic peers. We expect a higher level of impairment charges in 2019 after years of relatively low charges.

Chart 6

Evolution of ING's Cost Of Risk Compared With Peers'

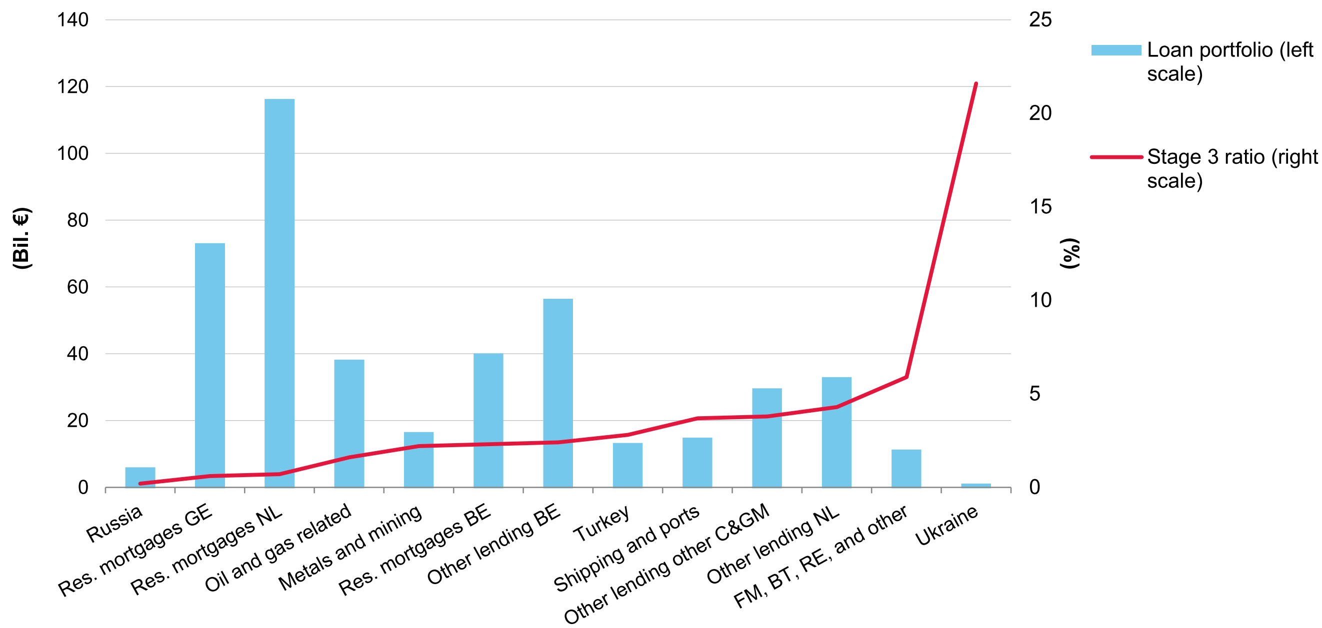


Source: S&P Global Ratings.

ING's nonperforming loans (NPLs), measured as the total amount of stage 3 loans under IFRS9, reduced to 1.5% of total loans at year-end 2018 from 1.8% as of Jan. 1, 2018 (versus an NPL ratio of 1.9% at end-2017 under the former IAS 39 accounting standard). Coverage of stage 3 loans by loan impairment allowances was 34% at end-2018, which is lower than that of many European peers, but reflects the asset-based nature of a large part of its loan exposure. The distribution of nonperforming exposures broadly follows that of the loan book. ING regularly communicates on parts of its loan book that have less favorable risk metrics as part of its quarterly reports.

Chart 7

Asset Quality Metrics For ING's Main Loan Portfolios



Sources: ING, S&P Global Ratings. GE--Germany. NL--Netherlands. BE--Belgium.
C&GM--Challengers and growth markets. FM--Financial markets. BT--Bank treasury. RE--Real estate.

ING maintains a high-quality portfolio of liquid assets, which amounted to €135.6 billion as of year-end 2018 (including €124 billion of level I assets). This portfolio predominantly comprises exposure to governments, sub-sovereign supranationals and agencies, and covered bonds. Exposure to speculative-grade (rated 'BB+' or lower) counterparties is marginal. In our view, other market risks are relatively modest, reflecting the moderate scale of ING's financial market activities. The overnight value at risk for the trading portfolio is low, averaging about €6 million during 2017 and peaking at €12 million during the fourth quarter of 2018. ING operates primarily in low-risk countries, but the bank is active in some emerging markets economies like Russia and Turkey, which are riskier. The exposure at default (EAD) for these two countries is below 2% of group's EADs though.

Like its peers, ING is exposed to litigation risks. In September 2018, ING announced its agreement with the Dutch authorities to pay a total amount of €775 million. The settlement follows the authorities' investigation of due-diligence shortcomings at ING's banking operations in the Netherlands regarding requirements for client onboarding and the prevention of money laundering and corrupt practices. This matter was also resolved with the U.S. Securities and Exchange Commission without further payments or conditions. ING's Group CFO and board member also stepped down as a result. The amount paid was higher than we were expecting, but did not alter materially the group's financial trajectory in our view. We are not aware of any other material pending litigation. We expect that ING, like its peers, will remain exposed to litigation and other legal risks due to the diverse mix of its global businesses and the evolving regulatory environment.

Table 6

ING Risk Position

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	3.0	1.7	4.8	4.0	2.0
Total diversification adjustment/S&P Global Ratings' RWA before diversification*	N.A.	(13.0)	(14.5)	(21.3)	(21.5)
New loan loss provisions/average customer loans	0.1	0.1	0.2	0.3	0.3
Gross nonperforming assets/customer loans + other real estate owned§	1.7	3.3	3.8	3.6	4.0
Loan loss reserves/gross nonperforming assets	44.0	24.6	24.1	29.7	28.7

RWA--Risk-weighted assets. N.A.--Not available. *RAC ratio for ING Bank until 2015, ING Groep thereafter. §International Financial Reporting Standard 9 Stage 3 loans to average customer loans starting end-2018.

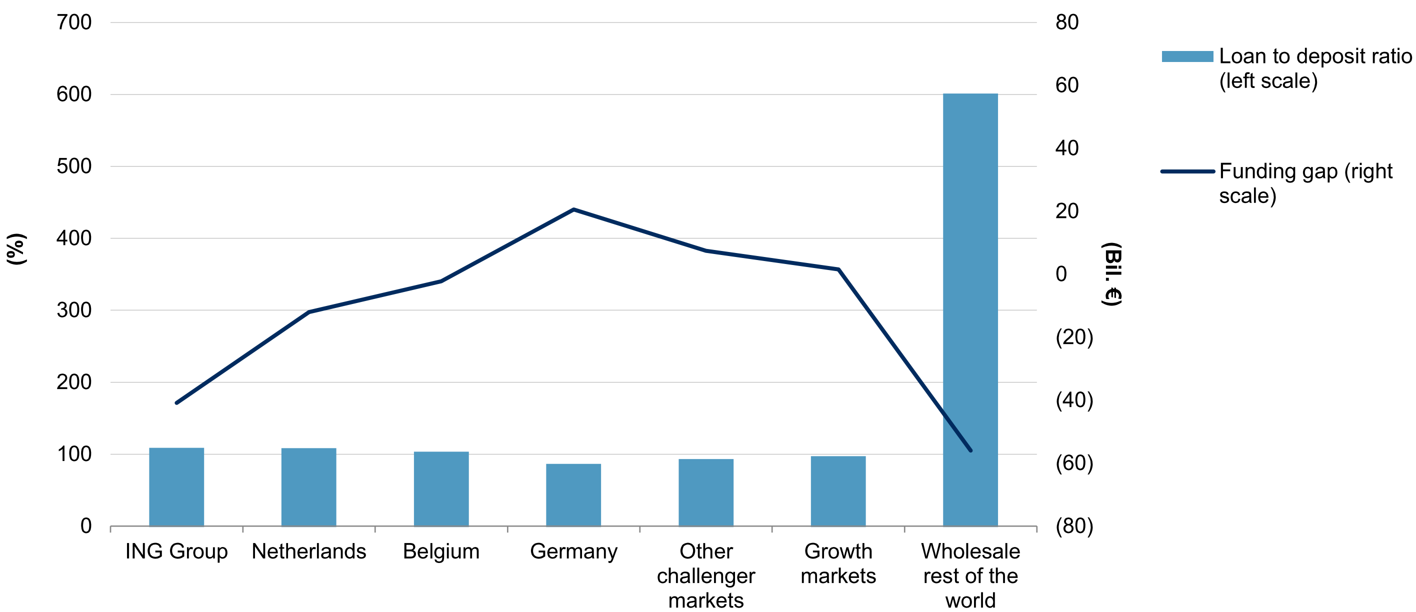
Funding and liquidity: Funding supported by large retail deposit base, despite some wholesale funding reliance by domestic operations

We consider ING's funding to be supported by a large and granular retail deposit base, despite some wholesale funding reliance for domestic operations.

The bank benefits from less reliance on wholesale funding compared with several peers, in particular in France and Scandinavia. It reported a consolidated loan-to-deposit ratio of 106.4% at year-end 2018, which compares favorably with the Dutch banking system average and ratios of other large domestic peers. This is partly attributable to its deposit-rich digital banking franchise. In the meantime, this capacity makes it challenging to find a good match of acceptable lending opportunities in each jurisdiction (see chart 8).

Chart 8

ING's Geographic Funding Gap



Source: ING, S&P Global Ratings.

We consider the bank's wholesale funding base to be relatively diverse, and observe that the maturity profile has lengthened. ING Bank has a €30 billion external Dutch covered bond program, with about €20 billion of bonds outstanding as of Dec. 31, 2018, about one-third of its long-term debt. The cover pool comprises prime residential mortgage loans.

ING participated in the targeted longer-term refinancing operations (TLTRO) with €10.7 billion in 2016 and €7 billion in 2017, maturing in 2020 and 2021, respectively. Given ING's good access to wholesale market and the amount of debt to be refinanced, we don't believe that it will represent a major challenge for ING, assuming that the European Central Bank (ECB) does not offer some sort of substitute. Total debt issued in 2018 was €25.3 billion, above the total amount of debt to be refinanced in 2020 and 2021, including TLTRO parts and other maturing long-term debt.

We believe that ING 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, has supported the improvement in our broad liquid assets to short-term wholesale funding ratio to 1.6x at year-end 2017 from 0.8x year-end 2010. Structural liquidity has also been enhanced through internal securitizations, the majority of which are eligible for repurchase agreements with the ECB in a liquidity stress scenario. The bank estimates its liquidity coverage ratio (12-month moving average) at 123% at year-end 2018.

Table 7

ING Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2018e**	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	68.46	72.71	69.61	69.7	69
Customer loans (net)/customer deposits	106.42	106.36	107.78	105.4	105.6
Long-term funding ratio	81.98	85.5	82.65	83.4	82.9
Stable funding ratio	109.96	106.56	106.19	106.9	105.5
Short-term wholesale funding/funding base	19.24	15.57	18.66	17.6	18.1
Broad liquid assets/short-term wholesale funding (x)	1.56	1.58	1.29	1.5	1.5
Net broad liquid assets/short-term customer deposits	15.93	12.6	7.97	13.4	13.2
Short-term wholesale funding/total wholesale funding	59.8	55.65	59.4	56.4	56.9

*Data relating to ING Bank until 2015, ING Group thereafter. e--Estimate.

External support: The buffer of additional loss absorption is growing with the issuance of senior holdco debt

In our view, ING has high systemic importance in the Netherlands due to its leading retail and wholesale banking 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 a rating uplift for possible future Dutch government support. However, we view the Dutch resolution regime as effective under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns, following a bail-in of eligible liabilities.

As a Global Systemically Important Bank, ING is expected to comply with the TLAC defined by the Financial Stability Board. ING currently assumes that its TLAC requirement will stand at 23.5% of RWA at Jan. 1, 2022, at the NOHC level, which includes the requirement to comply with the Dutch regulator's phased-in systemic risk buffer of 3% of RWA. Given ING Groep's current total capital adequacy ratio (18.4% as of Dec. 31, 2018) and the amount of long-term senior debt maturing over until 2022, which will be replaced with TLAC-eligible instruments, ING believes it has ample flexibility to comply with the expected requirements. There is also a common expectation that the MREL requirement will stand higher than TLAC. Since early 2017, ING has clarified the use of the NOHC's as the issuing entity for regulatory purposes. ING Groep has started to issue senior debt, which ranks junior to senior debt issued by ING Bank. ING Groep issued €6.2 billion in 2017 and €11.5 billion in 2018. Total amount of senior debt issued at the holding company level so far represented about 4% of regulatory RWAs (€17.7 billion) at end 2018, and tier-2 instruments provide an additional layer of about 2% of RWAs. ING intends to issue about €7 billion to €9 billion of senior debt at the hold company level in 2019.

Given these regulatory requirements, we include a notch of uplift in the long-term rating on ING Bank because we believe ING Bank's ALAC ratio will stay above our threshold of 5% of S&P Global Ratings' RWA. We estimate the ALAC buffer stood at 4.5% of RWA at year-end 2017.

Rated entities: Branches, core entities, and highly strategic subsidiaries

We rate ING Groep one notch lower than the UGCP to reflect its status as a NOHC.

We rate ING Bank's branch in Dublin in line with our ratings on ING Bank because we consider its creditworthiness equal to that of the parent bank.

We consider that ING Belgium S.A./N.V. comfortably meets our criteria to be classified as a core subsidiary of ING Bank. It represents a material portion of the ING's total assets, in a strategic neighboring country with a highly integrated business model. We rate ING Belgium in line with the supported group credit profile (GCP) because, given its size and location in the eurozone, we consider that it would be part of a group resolution scenario.

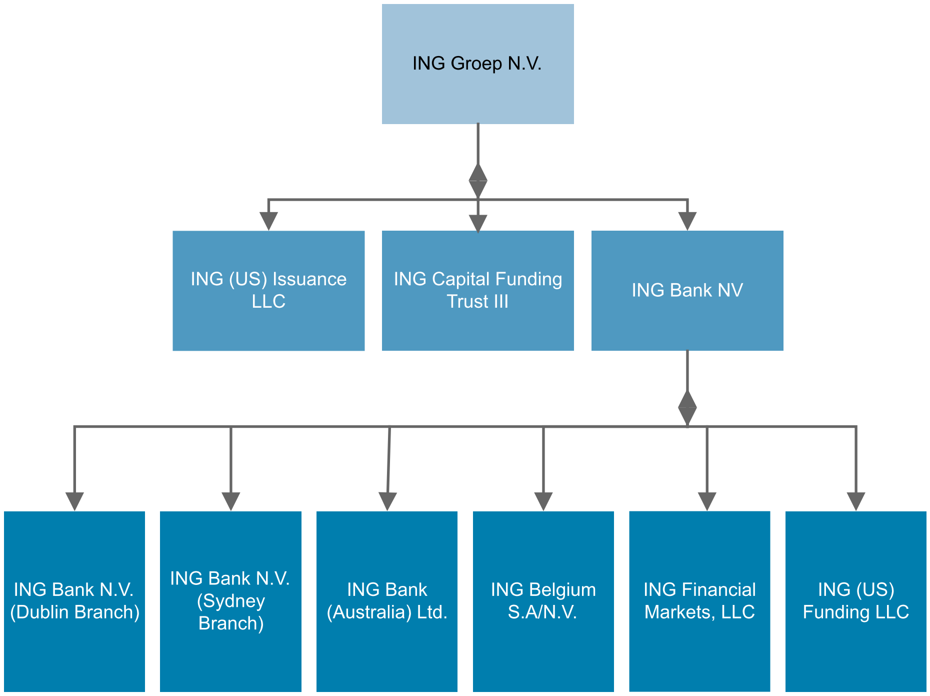
The ratings on U.S. broker dealer ING Financial Markets, LLC (ING FM) also reflect our view of its core group status as the hub for ING's U.S. financial markets and corporate business, which we think is critical for ING's global strategy. Given this strategic positioning and interconnectedness with the rest of the group, we notch ING FM from the supported GCP.

We classify ING Bank (Australia) Ltd. as a highly strategic subsidiary. This reflects, among other factors, the close alignment between its activities and the rest of the group, and sound performance to date. ING Bank Australia is relatively small compared with the rest of the group, with assets totaling €36 billion and about 5% of ING's total capital. We notch ING Bank Australia from the supported GCP, given its interconnectedness with the rest of the group, despite the absence of a resolution regime in Australia.

Chart 9

Simplified Overview Of ING Group Structure

(Issuing entities and rated operating banks)



Source:

How we rate the 2015 $2.25 billion AT1 instrument issued by ING Groep

We derive our 'BB' rating on ING Groep's $2.25 billion AT1 instrument issued in 2015 and 2016 by deducting notches from the 'a' UGCP as follows:

- One notch for contractual subordination;
- Two notches because of the notes' Tier 1 regulatory capital status;
- One notch because the notes' documentation contains a contractual conversion clause;
- One notch related to a going-concern conversion trigger (when the CET1 ratio falls below 7%). We expect the distance to the trigger will remain within 301 bps-700 bps; and
- One notch because the notes are issued by a NOHC.

We note that ING Groep's CET1 ratio stood at 14.5% at end-2018. We note that the distance to a 7% CET1 ratio was larger than 700 bps at end-2018, but we don't believe that this distance will be maintained in the future based on the updated CET1 public ambition of around 13.5%, which takes into account the expected impact of Basel IV.

Additional rating factors:None

There are no additional rating factors.

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- The Top Trends Shaping European Bank Ratings In 2019, Feb 28, 2019
- ING Bank (Australia) Ltd., July 30, 2018
- Banking Industry Country Risk Assessment: The Netherlands, June 11, 2018

Ratings Detail (As Of March 12, 2019)	
ING Groep N.V.	
Issuer Credit Rating	A-/Stable/A-2
Junior Subordinated	BB
Junior Subordinated	BB+
Senior Unsecured	A-
Short-Term Debt	A-1
Short-Term Debt	A-2
Subordinated	BBB
Issuer Credit Ratings History	
08-Jun-2015	A-/Stable/A-2
29-Apr-2014	A-/Negative/A-2
02-Dec-2013	A-/Stable/A-2
Sovereign Rating	
Netherlands	AAA/Stable/A-1+
Related Entities	
ING Bank (Australia) Ltd.	
Issuer Credit Rating	A/Stable/A-1
ING Bank N.V.	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Certificate Of Deposit	
Local Currency	A-1
Commercial Paper	
Local Currency	A-1
Senior Secured	AAA/Stable
Senior Unsecured	A+
Senior Unsecured	A-
Short-Term Debt	A-1
Subordinated	BBB
Subordinated	BBB+
ING Bank N.V. (Dublin Branch)	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
ING Bank N.V. (Sydney Branch)	
Senior Unsecured	A+
ING Belgium S.A./N.V.	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
ING Financial Markets, LLC	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1

*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.