Creditreform Bankrating

ING Groep N.V. (Group)

Creditreform Rating
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Rating object	Rating information		
ING Groep N.V. (Group)	**Long Term Issuer Rating:** A	**Short Term:** L2	**Outlook:** Stable

Creditreform ID:	1178852
Incorporation:	1991
(Main-) Industry:	Banks
Management:	Ralph Hamers CEO, chairman Executive Board ING Group and chairman of the Management Board Banking Koos Timmermans CFO, member Executive Board ING Group and vice-chairman Management Board Banking Steven van Rijswijk CRO, member Executive Board ING Group and Management Board Banking

Rating of Bank Capital and Unsecured Debt Instruments:

Senior Unsecured	Tier 2	Additional Tier 1
A	BBB	BB+

Prepared on:	**23 February 2018**
Monitoring until:	withdrawal of the rating
Publication:	**5 March 2018**
Rating type:	**unsolicited**
Rating system(s):	bank ratings; rating of bank capital and unsecured debt instruments
Rating history:	www.creditreform-rating.de

Contents

SWOT-Analysis

Strengths

+ Global systemically important bank and largest financial institute in the Netherlands
+ Remarkable earnings figures and consistently strong profitability
+ Steadily increasing operating income
+ Diversified business model (geographically and by business sector)
+ Continuous process of digital transformation
+ Global network provides competitive advantage
+ Sufficient equity and capital ratios

Weaknesses

- Interest income dependency
- Moderate growth opportunities in core markets

Opportunities / Threats

+ Lending business in Eastern Europe and Asia
+ Further growth through the "Think Forward" strategy

+/- High proportion of operating income in the Netherlands and Belgium

- Uncertainty regarding the geopolitical environment (e.g. Turkey, Ukraine and Russia)
- Low-interest policy of the ECB puts pressure on profitability
- Increasing banking regulation leads to rising costs

Analysts
Daniel Keller
Lead-Analyst

Philipp J. Beckmann
Co-Analyst / Senior Analyst

Company Overview

ING Groep N.V. (hereafter ING) is a non-operating holding company headquartered in Amsterdam. The group acts as a parent company for various banks, entities and subsidiaries worldwide, whereby the ING Bank N.V. is the most significant asset and the best known subsidiary as well as the largest financial institute in the Netherlands in terms of total assets. As ING is one of the global systemically important banks (G-SIB), the bank must therefore comply with additional regulatory requirements. ING was founded in 1991 by a merger between the insurance company Nationale-Nederlanden and the banking company NMB Postbank Group. With 51,943 employees (average in 2016), the Group serves approximately 35.8 million customers and had total assets of €845 billion in 2016.

In April 2016, ING has finalized the program to divest of all its insurance and investment management businesses as part of the restructuring agreement with the European Commission, which began in 2009 as a result of received state aid. Due to that ING transformed from a diversified financial services company into a standalone bank holding.

ING has a presence in more than 40 countries and operates primarily in Europe as well as in North America, South America, The Middle East, Asia and Australia. The group is divided into four business lines. “Retail Benelux” contributes roughly 40% to the groups operating income and is responsible for the retail banking business of private customers in the Netherlands, Belgium and Luxembourg. However, the business line “Retail Challengers & Growth Markets” contributes roughly 27% to ING´s operating income and is primarily responsible for retail banking business among others in Germany, Australia, Poland, Turkey, and some business units in Asia. The business line “Wholesale Banking” represents roughly 32% of ING´s operating income and serves business clients or organizations with tailored financial products. The “Corporate Line Banking” is a reflection of capital management activities and certain expenses that are not allocated to the banking businesses and therefore contributed only 0.3% to ING´s operating income.

ING is currently pursuing the “Thinking Forward” strategy, launched already in March 2014. According to this, ING aims to improve its relationship to its customers, develop and use data analytics to serve customer needs, increase the pace of innovation to keep up with the transformation of banking (includes also partner with outside parties such as Fintechs), and to think beyond traditional banking to develop new services and business models (e.g. one globally scalable platform) to keep up with the digital disruption of the banking industry. This strategy reflects in a growing number of customers, a leading position in digital banking, reduced operating costs and ongoing investments in the digital transformation to even accelerate its “Thinking Forward” strategy.

The operating income of the ING Group by geographical regions can be found in chart 1 below:

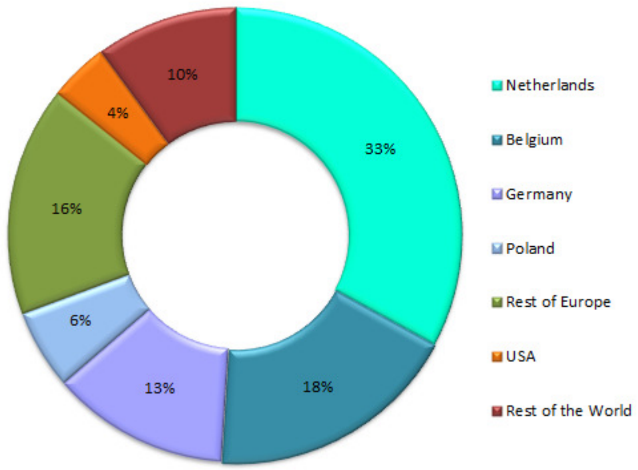

Chart 2: Income of the ING Groep N.V. by geographical regions in 2016

The principal subsidiaries, investments in associates and joint ventures of the ING Group can be found in chart 2 below:

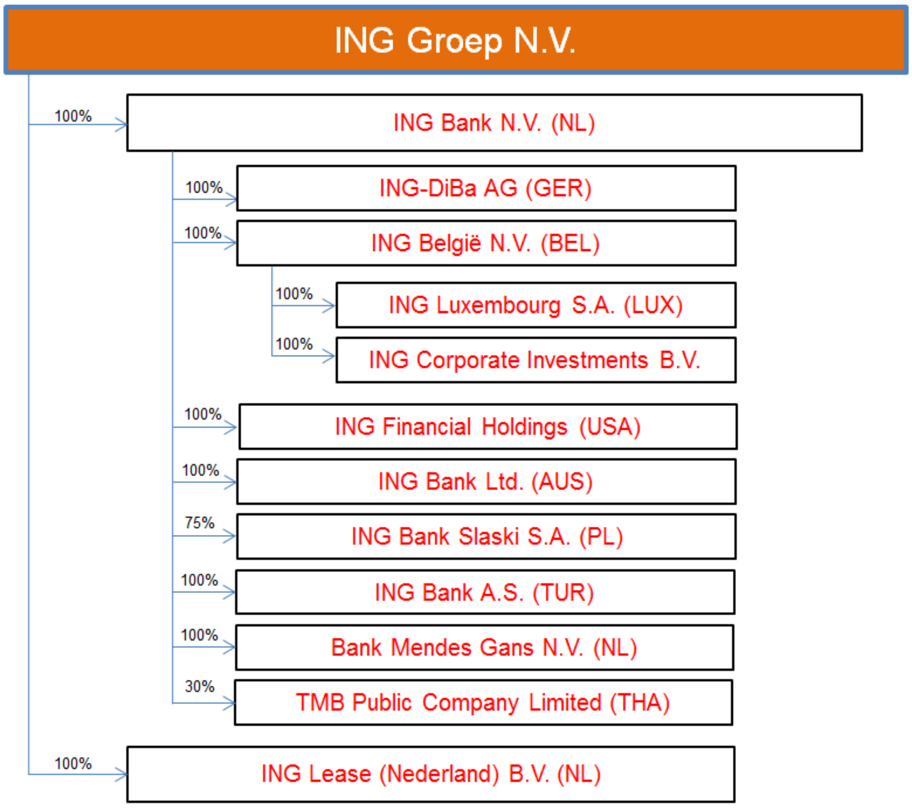

Chart 2: Principal subsidiaries, investments in associates and joint ventures of the ING Groep N.V.

Business Development

Profitability

ING´s operating income amounted to €17.3 billion in 2016 and increased by 3.5% in a year-over-year comparison (€583 million). Net interest income contributed the major share to operating income, accounting for 76.6%, and increasing by 5.4% compared to the previous year (€680 million), on the one hand due to ING´s higher net interest margin YOY, and on the other hand based on an increase in customer lending (see paragraph asset situation and asset quality for explanation) and decreased interest expenses for customer deposits. Fees and commissions accounted for 14% of operating income, increasing by 5% (€115 million) YOY, mainly due to higher income from funds transfer. At 7.6%, net trading income contributed the lowest share of the three main drivers of operating income, but decreased by 10.8% YOY (-€159 million). The volatility in this position is mainly caused by changes in fair value of derivatives relating to fair value hedges and other non-trading derivatives. Another significant income item is non-interest income, which decreased by 19% YOY (-€36 million) and is made up of a number of small items which are insignificant on their own. According to ING´s preliminary disclosed results for the year 2017, ING expects a stable growth of its operating income, in particular due to higher interest income and commission income.

Operating expenses amounted to €9.475 billion in 2016, increasing slightly by 2% in a year-over-year comparison (€176 million). Personnel expenses accounted for 53.2% of total expenses in 2016, increasing marginally by 1.3% YOY (€67 million). The decline in personnel costs from 2014 to 2015 is a result of a new collective labor agreement in the Netherlands leading to reduced rights to future benefits and impacts the item “Pension and other staff-related benefits” costs. Other expense was the second largest expense item in 2016, accounting for 22.9% of operating expenses and increasing by 10% YOY (€204 million) due to expanded regulatory costs (e.g. contributions to the Deposit Guarantee Schemes and Single Resolution Fund) of €225 million. By contrast, tech & communications expense, accounting for 8.3% of ING´s operating expense in 2016, decreased by 2.6% YOY (-21€ million). Other provisions remained largely unchanged YOY. However, the relatively high amount in this position in the year 2014 is due to an increase in reorganization provision which is the result of a reduction of workforce in the retail business in the Netherlands and Belgium. The other remaining operating expense items remained roughly unchanged YOY and accounted for only a small portion of the total expenses. According to ING´s preliminary disclosed results for the year 2017, ING expects an increase of its operating expenses which will principally offset the increase in ING´s operating income.

ING operating results amounted to €7.815 billion in 2016, increasing by 5.5% (€408 million) in comparison to the previous year. Asset write-downs, however, decreased by 27.2% YOY (-€411 million) as a result of decreased loan loss provisions in particular in the retail banking business line in the Netherlands and Germany as well as in the Wholesale Banking business line due to improved macroeconomic conditions. Moreover, the bank generated nonrecurring revenues (most important the disposal of the Visa Europe Limited shares of €163 million) and nonrecurring expenses in the amount of €1.032 billion. The nonrecurring expenses comprising a pre-tax redundancy provision for the intended workforce reductions related to the intended digital transformation program. Due to the aforementioned one-off effects, the pre-tax result amounted to €5.9 billion in 2016.

After tax deductions and the addition of revenues through discontinued operations (in particular the disposal of shares in April 2016 of NN Group N.V. – ING´s final step in the program to divest all of its insurance and investment management businesses as part of the restructuring agreement with the European Commission) the net profit amounted to €4.7 billion, thus increasing by 7% YOY (€313 million). ING´s negative values for discontinued operations in the previous years are a result of a net loss of further sale and de-consolidation of the NN Group and Voya Financials (an American financial, retirement, investment and insurance company based in the USA). According to ING´s preliminary disclosed results, ING expects a stable growth of its net profit in 2017.

A detailed group income statement for the years 2013 – 2016 can be found in figure 1 below:

Income Statement	2013	%	2014	%	2015	%	2016	%
Income (€000)								
Net Interest Income	*11,701,000	76.5%	12,304,000	80.0%	12,561,000	75.2%	13,241,000	76.6%
Net Fee & Commission Income	*2,204,000	14.4%	2,293,000	14.9%	2,318,000	13.9%	2,433,000	14.1%
Net Insurance Income	NA	0.0%	0	0.0%	0	0.0%	0	0.0%
Net Trading Income	*483,000	3.2%	501,000	3.3%	1,473,000	8.8%	1,314,000	7.6%
Equity Accounted Results	*150,000	1.0%	138,000	0.9%	95,000	0.6%	70,000	0.4%
Dividends from Equity Instruments	*94,000	0.6%	36,000	0.2%	63,000	0.4%	71,000	0.4%
Rental Revenue	*23,000	0.2%	6,000	0.0%	4,000	0.0%	4,000	0.0%
Lease and Rental Revenue	*1,000	0.0%	5,000	0.0%	2,000	0.0%	2,000	0.0%
Other Noninterest Income	*170,000	1.1%	95,000	0.6%	191,000	1.1%	155,000	0.9%
Operating Income	***15,290,000**	**100%**	**15,378,000**	**100%**	**16,707,000**	**100%**	**17,290,000**	**100%**
Expenses (€000)								
Depreciation and Amortisation	*579,000	5.2%	576,000	5.8%	598,000	6.4%	517,000	5.5%
Personnel Expense	*4,920,000	44.2%	5,788,000	58.6%	4,972,000	53.5%	5,039,000	53.2%
Occupancy & Equipment	*206,000	1.9%	239,000	2.4%	281,000	3.0%	310,000	3.3%
Tech & Communications Expense	*774,000	7.0%	764,000	7.7%	809,000	8.7%	788,000	8.3%
Marketing and Promotion Expense	*404,000	3.6%	405,000	4.1%	418,000	4.5%	404,000	4.3%
Other Provisions	*222,000	2.0%	469,000	4.7%	165,000	1.8%	157,000	1.7%
Other Expense	*4,018,000	36.1%	1,639,000	16.6%	2,056,000	22.1%	2,260,000	23.9%
Operating Expense	***11,123,000**	**100%**	**9,880,000**	**100%**	**9,299,000**	**100%**	**9,475,000**	**100%**
Operating Profit & Impairment (€000)								
Pre-impairment Operating Profit	***4,167,000**		**5,498,000**		**7,408,000**		**7,815,000**	
Asset Writedowns	NA		1,682,000		1,508,000		1,097,000	
Net Income (€000)								
Nonrecurring Revenue	NA		195,000		399,000		217,000	
Nonrecurring Expense	NA		304,000		127,000		1,032,000	
Pre-tax Profit	NA		**3,707,000**		**6,172,000**		**5,903,000**	
Income Tax Expense	*1,037,000	NA	971,000	26.2%	1,637,000	26.5%	1,618,000	27.4%
Discontinued Operations	NA		-1,296,000		-122,000		441,000	
Net Profit	***3,810,000**		**1,440,000**		**4,413,000**		**4,726,000**	

*Values of the year 2013 are reported values of the annual report 2014 by the ING Group.

Figure 1: Group income statement
(Source: S&P Global Market Intelligence and ING Groep N.V.)

Due to increased income in 2016, ING´s earnings ratios improved in a year-over-year comparison.

The values for ROAA, ROAE and RoRWA increased significantly in comparison to the previous year and are currently at a relatively high level. Moreover, ING outperforms the peer group earning ratios with its values and was even able to improve its position in 2016 while the majority of the values of the peer group deteriorated in the same year. By contrast, ING´s net interest margin is merely the average of the peer group; however, ING was able to improve its net interest margin clearly YOY while the peer group's average of the net interest margin remained unchanged. ING´s cost-income ratios are both below peer group average. Moreover, ING was even able to improve both of them in comparison to the previous year. The large drop in the cost income ratio from 2014 to 2015 is mainly due to ING´s cutting its personnel expenses, as mentioned above. According to ING´s preliminary disclosed results, ING expects a further improvement of its key earnings figures with the exception of cost income ratios in 2017.

Overall, ING´s earnings ratios are at a very satisfying level and are the best performers in any of the areas analyzed.

The development of the key earnings figures for the years 2013 - 2016 is detailed as follows:

Income Ratios (%)	2013	%	2014	%	2015	%	2016	%
Return on Average Assets (ROAA)	NA	NA	NA	NA	0.40	NA	0.51	0.11
Return on Equity (ROAE)	NA	NA	NA	NA	8.21	NA	9.51	1.31
RoRWA	NA	NA	NA	NA	1.42	NA	1.49	0.07
Net Interest Margin	NA	NA	NA	NA	1.24	NA	1.46	0.22
Cost income Ratio ex. Trading	NA	NA	66.41	NA	61.04	-5.37	59.31	-1.73
Cost income Ratio	*58.70	NA	64.25	5.55	55.66	-8.59	54.80	-0.86
Change in %-Points								

*Values of the year 2013 are reported values of the annual report 2014 by the ING Group.

Figure 2: Group key earnings figures
(Source: S&P Global Market Intelligence and ING Groep N.V.)

Asset Situation and Asset Quality

ING´s financial assets accounted for 98% of total assets in 2016 and decreased significantly by 16% in a year over year comparison (-€160.7 billion).
The main reason for this is a change in ING´s accounting policy in 2016 regarding the offsetting of financial assets and financial liabilities according to the International Accounting Standards (IAS) 32 for financial instruments. In particular, IAS 32 prescribes that a financial asset and a financial liability shall be offset when there is a legally enforceable right to set off as well as an intention to settle on a net basis simultaneously (IAS 32.42). Hence, ING changed its accounting policy and practice in 2016, and as a result performs physical transfers of cash balances of certain clients subject to cash pooling arrangements into a single netting account on a period-end basis to evidence the intention to settle net. This change in accounting policy is accounted for retrospectively and leads to a drop in financial assets and liabilities from 2016. Comparative amounts are adjusted accordingly up to the year 2014. The change in the accounting policy has an impact on the following ING items: loans and advances to customers, total assets, customer deposits and total liabilities. However, this policy change has no impact on ING´s consolidated statements of profit or loss. Given the scale of the impact on the balance sheet, more detailed information in the annual report would have been desirable to better assess these effect.
Primarily due to the aforementioned event, ING´s net loans to customers decreased by 19.5% in a year-over-year comparison. As a result of the adjustment due to the change in accounting policy, net loans to customers increased by €163.5 billion in 2015 and by 185.8 billion and 2014 respectively. Without the one-off effects, ING would record a small increase in customer loans YOY, which will continue in 2017 according to the preliminary results. Total securities represent the second largest share of total assets, accounting for 18.2%, decreasing by 8.4% in comparison to the previous year (-€14 billion) due to ING´s

reduction in trading assets. The balance sheet item “cash and cash equivalents” accounted for 5.6%, declining by 8.5% YOY (-€4.4 billion) as a result of a reduced amount of cash held at central banks.
The large amount of assets held for sale in 2014 are mainly related to divestments of the subsidiary NN Group, the associate ING Vysya and the available-for-sale investment of Voya.

The group’s total assets amounted to €845 billion in 2016, decreasing by 16% YOY due to the aforementioned events (€160 billion). Corresponding to the preliminary results 2017, ING´s total assets will remain roughly at the same level.

The development of assets of ING for the years 2013 - 2016 is shown in detail in the following.

Assets (€000)	2013	%	2014	%	2015	%	2016	%
Cash and Cash Equivalents	*56,328	0.0%	49,352,000	4.2%	51,446,000	5.1%	47,002,000	5.6%
Net Loans to Customers	*531,655,000	49.2%	703,279,000	59.7%	700,807,000	69.7%	563,660,000	66.7%
Total Securities	*306,437,000	28.4%	188,543,000	16.0%	167,387,000	16.7%	153,432,000	18.2%
Financial Assets	***838,148,328**	**78%**	**994,371,000**	**84%**	**985,127,000**	**98%**	**824,418,000**	**98%**
Equity Accounted Investments	NA	0.0%	953,000	0.1%	962,000	0.1%	1,141,000	0.1%
Other Investments	NA	0.0%	0	0.0%	0	0.0%	0	0.0%
Insurance Assets	NA	0.0%	0	0.0%	0	0.0%	0	0.0%
Noncurrent Assets HFS & Discontinued Ops	NA	0.0%	165,617,000	14.1%	2,224,000	0.2%	75,000	0.0%
Tangible and Intangible Assets	*1,841,000	0.2%	3,835,000	0.3%	3,671,000	0.4%	3,551,000	0.4%
Tax Assets	NA	0.0%	1,434,000	0.1%	1,136,000	0.1%	1,314,000	0.2%
Total Other Assets	*21,569,000	2.0%	12,447,000	1.1%	12,113,000	1.2%	14,582,000	1.7%
Total Assets	**1,080,624,000**	**100%**	**1,178,657,000**	**100%**	**1,005,233,000**	**100%**	**845,081,000**	**100%**

*Values of the year 2013 are reported values of the annual report 2014 by the ING Group.

Figure 3: Development of assets
(Source: S&P Global Market Intelligence and ING Groep N.V.)

Although ING´s NPL ratio increased year-over-year (from 2.19% to 2.41%), it is still at a good level in the peer group comparison. However, the peer group was able to catch up and improve its NPL ratio on average. ING´s NPL/RWA ratio was also notably lower than that of the peer group, improving in a year-over-year comparison; the improvement of the peer group, however, was somewhat stronger. The potential problem loans/NPL ratio deteriorated tremendously YOY, while the same ratio of the peer group remained largely on the same level. This development is mainly due to ING´s revision of the forbearance policy (which resulted in increased forborne assets) and due to higher potential problem loans especially in the Netherlands and the rest of Europe in the wholesale banking segment. ING´s reserved/impaired loans ratio increased slightly over the previous years; however, this ratio is below average in the peer group comparison. The net-write-offs/risk-adjusted assets ratio improved slightly by 0.08 percentage points YOY and is below peer group average. The groups RWA/assets ratio increased by 5.25 percentage points YOY and is now lower than the average of the peer group. This is due to a lower decline in RWA relative to total assets, which is indicates an increased risk.

According to ING´s preliminary disclosed results of the year 2017, ING shows solid performance and is able to improve in all of the mentioned ratios of asset quality.

The development of asset quality of the years 2013 - 2016 is detailed as follows:

Asset-Quality (%)	2013	%	2014	%	2015	%	2016	%
Non Performing Loans (NPL) / Loans	* 2.99	NA	2.40	-0.59	2.19	-0.21	2.41	0.23
NPL / RWA	*5.64	NA	5.62	-0.02	4.77	-0.85	4.33	-0.45
Potential Problem Loans / NPL	NA	NA	23.62	NA	26.90	3.28	58.26	31.37
Reserved / Impaired Loans	NA	NA	35.46	NA	37.66	2.20	38.08	0.42
Net Write-offs / Risk-adjusted Assets	NA	NA	NA	NA	0.52	NA	0.44	-0.08
Risk-weighted Assets/ Assets	*26.14	NA	25.51	-0.63	31.95	6.44	37.19	5.25
Change in %-Points								

*Values of the year 2013 are reported values of the annual report 2014 by the ING Group.

Figure 4: Development of asset quality
(Source: S&P Global Market Intelligence and ING Groep N.V.)

Refinancing and Capital Quality

ING´s financial liabilities accounted for 97% of total liabilities in 2016 and decreased by 17.7% (€167 billion) YOY due to the aforementioned change in ING´s accounting policy regarding offsetting of financial assets and liabilities. Total deposits from customers correspond to 70.7% of financial liabilities and decreased by 20.1% (€141.7 billion) YOY, also as a result of the change in accounting policies. However, excluding this one-off effect, ING recorded a slight increase in customer deposits by approximately €22.2 million YOY (+4%). Moreover, this growth in customer deposits is set to continue in 2017, according to ING´s preliminary disclosed results of the year 2017. Total debt, as the second largest item of financial liabilities, accounting for 17.1%, decreased by 12.4% YOY (€19.3 billion). This development is mainly attributable to a reduction in long term maturity bonds (€ 9.1 billion) and a decrease in certificates of deposit (€6.5 billion). Derivative liabilities dropped by 5.1% YOY (€2.3 billion) whereas total deposits from banks fell by 5.5% YOY (€ 1.8 billion). Securities sold, not yet purchased decreased by 47% YOY (€1.798 billion). The increase of 210% (€1 billion) in other provisions is mainly due to an additional reorganization provision of €1,032 million for the intended workforce reductions as a result of the digital transformation program. ING´s equity base is on peer group average; however, it increased by 1.2 percentage points in comparison to the previous year, while the peer group's average remained largely unchanged YOY. According to ING´s preliminary results for the year 2017, ING will increase its equity amount slightly.

The development of refinancing and capitalization in the years 2013 - 2016 is detailed as follows:

Liabilities (€000)	2013	%	2014	%	2015	%	2016	%
Total Deposits from Banks	*27,200,000	2.6%	29,999,000	2.7%	33,813,000	3.5%	31,964,000	4.0%
Total Deposits from Customers	*474,312,000	46.1%	707,834,000	63.2%	703,437,000	73.5%	561,664,000	70.7%
Total Debt	NA	0.0%	164,313,000	14.7%	155,251,000	16.2%	135,900,000	17.1%
Derivative Liabilities	NA	0.0%	54,059,000	4.8%	45,160,000	4.7%	42,834,000	5.4%
Securities Sold, not yet Purchased	NA	0.0%	4,658,000	0.4%	3,773,000	0.4%	1,975,000	0.2%
Other Financial Liabilities	NA	0.0%	0	0.0%	0	0.0%	0	0.0%
Total Financial Liabilities	***860,104,000**	**84%**	**960,863,000**	**86%**	**941,434,000**	**98%**	**774,337,000**	**97%**
Insurance Liabilities	NA	0.0%	0	0.0%	0	0.0%	0	0.0%
Unit-Linked Insurance and Investment Contr.	NA	0.0%	0	0.0%	0	0.0%	0	0.0%
Tax Liabilities	NA	0.0%	1,310,000	0.1%	1,233,000	0.1%	1,465,000	0.2%
Noncurrent Asset Retirement Obligations	NA	0.0%	777,000	0.1%	596,000	0.1%	608,000	0.1%
Other Provisions	NA	0.0%	1,017,000	0.1%	964,000	0.1%	2,028,000	0.3%
Total Other Liabilities	*21,623,000	2.1%	13,142,000	1.2%	12,536,000	1.3%	16,244,000	2.0%
Total Liabilities	**1,028,128,000**	**95.1%**	**1,119,241,000**	**95.0%**	**956,763,000**	**95.2%**	**794,682,000**	**94.0%**
Total Equity	***53,189,000**	**4.9%**	**59,416,000**	**5.0%**	**48,470,000**	**4.8%**	**50,399,000**	**6.0%**
Total Passiva	**1,081,317,000**	**100%**	**1,178,657,000**	**100%**	**1,005,233,000**	**100%**	**845,081,000**	**100%**
Deposits from Customers Growth*	NA	NA	NA	NA	-0.62	NA	-20.15	-19.53
Change in %-Points								

*Values of the year 2013 are reported values of the annual report 2014 by the ING Group.

Figure 5: Development of refinancing and capital adequacy
(Source: S&P Global Market Intelligence and ING Groep N.V.)

ING´s regulatory equity increased in 2016 in comparison to the previous year. The CET1 ratio improved by 1.2 percentage points YOY and is now slightly below the average of the peer group; however, ING was able to catch up. The groups Tier 1 ratio improved by almost 1.9 percentage points YOY and is likewise now at the peer group average. This extends to the total capital ratio as well, which increased by 2.4 percentage points year-over-year. Moreover, ING improved its leverage ratio by 0.4 percentage points YOY and was thereby able to catch up to the peer group´s average as well. In addition, ING meets already the regulatory requirements of 3% for this ratio which will be binding from 2018. According to ING´s Q4/2017 presentation, ING will increase its CET1 ratio, whereas the Tier 1 ratio and the total capital ratio, as well as the leverage ratio, will deteriorate slightly in 2017.

The development of capital ratio for 2013 - 2016 is shown in detail in the following:

Capital (€000)	2013	%	2014	%	2015	%	2016	%
Total Capital	*59,844,000	NA	43,834,000	-26.75	54,325,000	23.93	60,765,000	11.85
Total Risk-weighted Assets	*282,503,000	NA	300,648,000	6.42	321,135,000	6.81	314,325,000	-2.12
Capital Ratios (%)								
Core Tier 1 Ratio	*11.72	NA	13.49	1.77	12.94	-0.55	14.15	1.21
Tier 1 Ratio	*13.53	NA	13.49	-0.04	14.45	0.97	16.34	1.89
Total Capital Ratio	*16.46	NA	14.58	-1.88	16.92	2.34	19.33	2.42
Leverage Ratio	NA	NA	3.40	NA	4.40	1.00	4.80	0.40
Fully Loaded: Common Equity Tier 1 Ratio	NA	NA	10.48	NA	12.70	2.22	14.18	1.48
Fully Loaded: Tier 1 Ratio	NA	NA	12.38	NA	14.75	2.37	16.63	1.88
Fully Loaded: Risk-weighted Capital Ratio	NA	NA	15.53	NA	17.45	1.92	19.68	2.24
Total Equity/ Total Assets	*4.83	NA	5.04	0.21	4.82	-0.22	5.96	1.14
Change in %-Points								

*Values of the year 2013 are reported values of the annual report 2014 by the ING Group.

Figure 6: Development of capital ratios
(Source: S&P Global Market Intelligence and ING Groep N.V.)

Due to ING´s bank capital and debt structure as well as its status as a G-SIB, the group's senior unsecured debt instruments have not been notched down in comparison to the long term issuer rating. However, ING´s Tier 2 capital rating is three notches below the long term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology. Additional tier 1 capital is rated five notches below the long term issuer rating, reflecting a high bail-in risk in case of resolution.

Liquidity

ING´s interbank ratio remained largely constant at 90.2% in the reporting year 2016. The peer group's interbank ratio was lower, however, decreasing in a year-over-year comparison. The LTD ratio of ING was almost balanced and is consistent with the average of the peer group. Regarding the LCR, the ING has not published any exact figures in its annual report; however, the group mentioned that its LCR ratio is above 100% and thus fulfills the regulatory requirement of 70% in the year 2016.

The development of the liquidity ratios for the years 2013 - 2016 is detailed as follows:

Liquidity (%)	2013	%	2014	%	2015	%	2016	%
Liquidity Coverage Ratio	NA	NA	NA	NA	NA	NA	100.00	NA
Interbank Ratio	NA	NA	123.73	NA	88.69	-35.05	90.28	1.60
Loan to Deposit (LTD)	* 112.09	NA	99.36	-12.73	99.63	0.27	100.36	0.73
Change in %-Points								

*Values of the year 2013 are reported values of the annual report 2014 by the ING Group.

Figure 7: Development of liquidity
(Source: S&P Global Market Intelligence and ING Groep N.V.)

Conclusion

Overall, ING can look back on 2016 as another solid year of performance. Significant key figures remained largely at a good level. Moreover, ING is able to deal with the low interest rate environment in Europe, increasing its income over the previous year's continuously. Furthermore, ING clearly benefits from its investments in digital transformation and from its diversified business model across Europe and the rest of the world. In addition, ING expects another solid and stable year of performance for 2017 as well, according to the preliminary results of the fiscal year 2017.

ING achieved outstanding operating income results in the 2016 fiscal year which it was even able to boost YOY. According to ING´s preliminary results 2017, the group continues to improve its profitability in the year fiscal year 2017. One the one hand, ING has managed to improve its operating income consistently in the past years, while on the other hand the group has largely been able to keep its operating expenses at the same level despite the additional expenses of digital transformation.

The asset quality of ING is satisfying in 2016; however, some key figures deteriorated in comparison to the previous year. In terms of asset quality, the peer group was able to catch up to ING in 2016. Looking ahead at 2017, ING is expected to improve its asset quality. Remarkable is ING's low NPL ratio, which has been consistently better than the average of the peer group over the previous years. This reflects ING´s well-diversified business model and its operations primarily in the economically strong European countries.

On the liabilities side, ING recorded a stable development which is expected to be continued in 2017 according to its preliminary results for 2017. Taking into account the impact of the change to its accounting policy, ING was even able to increase the deposits from customers as the major item of the liabilities side. In addition, ING improved its equity ratio as well as its regulatory capital ratios in comparison to the previous year and was thereby able to catch up to the peer group's average. Moreover, ING meets all regulatory requirements in this area. Furthermore, the liquidity situation of ING is satisfactory.

In the near future, growing regulation, ongoing digitization, and the ECB's low interest rate policy pose a general challenge for the banking landscape. However, the ECB has already announced that it will cut back its bond-buying program in 2018. It remains to be seen whether an interest rate reversal will follow thereafter. In particular, a rapid increase in the interest rates goes hand-in-hand with an interest rate adjustment risk for banks, which have adjusted to long-term low interest rates.

In a scenario analysis, ING´s rating developed significantly better in the best-case scenario and slightly worse in the "worst case" scenario. The ratings of bank capital and (preferred) senior unsecured debt would behave similarly due to our rating mechanics. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

Ratings Detail

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Short-Term / Outlook **A** / **L2** / **Stable**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Tier 1 (AT1): **BB+**
Tier 2 (T2): **BBB**
'preferred senior unsecured debt: **A**

Ratings Detail and History

Ratings		
Bank Capital and Debt Instruments		
'preferred' senior unsecured	23 February 2018	A
Tier 2	23 February 2018	BBB
Tier 1	23 February 2018	BB+
Bank Issuer Rating History		
LT Issuer / Short-Term / Outlook	23 February 2018	A / L2 / Stable

Figure 8: Ratings Detail and History

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third parties for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by S&P Global Market Intelligence subject to a peer group analysis were 35 competing institutes.

The information and documents processed satisfied the requirements according to the rating system of Creditreform Rating AG published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for unsolicited bank ratings as well as the methodology for the rating of bank capital and unsecured debt instruments.

On 23 February 2018, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to ING Groep N.V. and the preliminary rating report was made available to it. There was no change in the rating score.

The rating is subject to one-year monitoring from the creation date (see cover sheet). Within this period, the rating can be updated. At the latest after one year, a follow-up is required to maintain the validity of the rating.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRAG) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy “Rating Committee,” all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. External service provider for aggregated data base
2. Website of the rated bank
3. Annual report
4. Abridged version of the annual report

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The “Basic data” information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the “Basic data” card as a “Rating action”; first release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade or downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data“ information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

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Creditreform Rating AG

Contact information

Creditreform Rating AG
Hellersbergstraße 11
D-41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627

E-Mail info@creditreform-rating.de
www.creditreform-rating.de

CEO: Dr. Michael Munsch

Chairman of the Board: Prof. Dr. Helmut Rödl
HR Neuss B 10522