Financial Institutions Ratings
ING Groep N.V. – AT1 rating report

Security Ratings

Outlook	Stable
6.00% USD 1bn perpetual AT1 contingent convertible securities	BBB
6.50% USD 1.25bn perpetual AT1 contingent convertible securities	BBB
6.875% USD 1bn perpetual AT1 contingent convertible securities	BBB

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates at BBB, with Stable outlook, ING Group's three Additional Tier 1 notes listed in the table above. For details on the rated instruments, see the following page. The ratings are based on the following considerations:

- Senior unsecured debt (eligible for MREL/TLAC): A+, Stable Outlook
- Minimum notches down from the senior unsecured debt rating: 4
- Additional notches: 0

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating and no longer the Issuer Rating (IR). Refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2017 for more details.

The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks. We believe no other factors warrant additional notching at this time.

Issuer credit profile

The Issuer Rating of AA- for ING Bank NV is driven by its strong and resilient retail and commercial banking franchise in the Benelux region. As well, ING continues to be at the forefront of direct retail banking operations in several important markets, including Germany. The bank has remained profitable despite restructuring, impairments on financial assets and elevated credit costs. At the same time, both the bank's funding profile and capital position have strengthened. With management now focused on executing the second phase of their strategic plan, we remain cautious in regards to potential risks of the group's growth strategies in its noncore geographies.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 15 June 2017. For further information on the last rating action and regulatory information please click here.

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Summary terms

Issuer	ING Groep N.V.
Issue date	**16 April 2015**
Amount	USD 1bn
Coupon	• 6.00% fixed until first call date (16/04/2020), then 5Y mid-market USD swap rate + 4.445% • Payable semi-annually
Format	• Perpetual Additional tier 1 contingent convertible capital securities, callable on April 2020 and every five years thereafter • Redeemable at the issuer's discretion after first call date or at any time following a regulatory or tax event, in either case subject to regulatory consent
ISIN	US456837AE31
Capital treatment	Additional Tier 1

Issue Date	16 April 2015
Amount	USD 1.25bn
Coupon	• 6.50% fixed until first call date (16/04/2025), then 5Y mid-market USD swap rate + 4.446% • Payable semi-annually
Format	• Perpetual Additional Tier 1 contingent convertible capital securities, callable on April 2025 and every five years thereafter • Redeemable at the issuer's discretion after first call date or at any time following a regulatory or tax event, in either case subject to regulatory consent
ISIN	US456837AF06
Capital treatment	Additional Tier 1

Issue Date	21 November 2016
Amount	USD 1bn
Coupon	• 6.875% fixed until first call date (16/04/2022), then 5Y mid-market USD swap rate + 5.124% • Payable semi-annually
Format	• Perpetual Additional Tier 1 contingent convertible capital securities, callable on April 2022 and every five years thereafter • Redeemable at the issuer's discretion after first call date or at any time following a regulatory or tax event, in either case subject to the competent authority consent
ISIN	XS1497755360
Capital treatment	Additional Tier 1

Main Risks	
Coupon cancellation	• Fully discretionary • Mandatory: (i) if distributable items are insufficient to pay coupons on these securities and future payments on other own funds items in the then current financial year or, (ii) if payment, aggregated with other distributions, would cause the MDA to be exceeded
Principal loss absorption	• Full conversion into ordinary shares upon trigger breach at conversion price • Upon determination of the relevant resolution authority, independently (at point of non-viability) or together with a resolution action
Trigger for principal loss absorption	Consolidated group CET1 < 7% on a transitional basis

Source: Prospectuses, Scope Ratings

Key risk: coupon cancellation

Coupon payments on the securities are fully discretionary and are subject to distribution restrictions.

In the event of coupon cancellation, ING might elect to pay interest or making distributions in relation to securities ranking pari passu with or junior to the instruments in object (i.e. distributing dividends on ordinary shares). However, the Terms & Conditions of the notes state the Issuer intention to consider the relative ranking of AT1s in the priority of claims when exercising such right. We also note how, during the inaugural AT1 roadshow in 2015, the management reminded that during the financial crisis, the Issuer continued to pay coupons on Tier 1 securities while dividend payments were suspended.

Available Distributable Items

Coupons are mandatorily cancelled if available distributable items (ADIs) are insufficient. As of YE2015, the ADIs of the issuer, ING Group, stood at EUR 36.3bn, ca. 80 times the 2015 distributions. In 2016 ADIs stood at EUR 38bn, whereas distributions increased only marginally. In our view, the lack of ADI will not limit the payment of coupons, even though the total distribution on Tier 1 capital relies on such amount.

Combined Buffer Requirement (CBR)

Restrictions on discretionary distributions apply when the Combined Buffer Requirement (CBR) is not met. In Opinion 2015/24 dated 18 December 2015, the EBA clarified the interaction between Pillar 1 and Pillar 2 capital requirements and the CBR. The buffers sit on top of Pillar 1 and Pillar 2 requirements and restrictions on distributions apply when CET1 capital falls below the buffers.

In November 2016 ING disclosed the ECB's decision regarding the Supervisory Review and Evaluation Process (SREP) for 2016, together with the regulator's decision to split the Pillar II in a "requirement" (P2R) and a "guidance" (P2G) component, of which only the former is relevant for the MDA calculation (while the latter was not disclosed by most banks).

ING Group's CBR is composed of a Capital Conservation Buffer of 2.5%, a Systemic Risk Buffer of 3%, both to be phased-in between 2016 and 2019 and a Countercyclical Capital Buffer, currently of 0.02%, related to exposures to Hong Kong, Sweden and Norway. The total requirement in 2017 is 9.02% and we estimate that by 2019 ING Group will have to maintain a CET1 ratio of 11.77%, a Tier 1 ratio of 13.3% and a Total Capital ratio of 15.3%. This assumes that various components of the combined buffer as well as the Pillar 2 requirement do not change.

As of Q1 2017 ING Group CET1 ratio stood at 14.5% both on a transitional and fully-loaded basis, 550 bps above the 2017 requirement. On top of Common Equity Tier 1, ING has Additional Tier 1 capital for 2.1% of RWAs and Tier 2 for 3.3%, on a fully-loaded basis, hence the Group capital ratios are comfortably above the Tier 1 and Total Capital requirements.

The management intends to maintain a CET1 ratio above the prevailing fully-loaded requirement plus a management buffer to include the Pillar 2 guidance. We deem ING Group capable of organic capital generation; moreover, we estimate that with the current common equity capital and capital securities buffer, the Group could withstand an increase in RWAs of ca. 23% (versus Q1 2017) before being at risk of breaching the 2019 CET1 ratio requirement, the more stringent according to our calculations.

Table 1: Distance to Combined Buffer Requirement

	2016	Q1 2017	2018	2019
Required CET1 associated with distribution restrictions:	10.26%	9.02%	10.40%	11.77%
Combined buffer (CBR)				
- Capital conservation	0.63%	1.25%	1.88%	2.50%
- Systemic	0.75%	1.50%	2.25%	3.00%
- Countercyclical	0.00%	0.02%	0.02%	0.02%
Pillar 2 CET1 requirement	4.38%	1.75%	1.75%	1.75%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%	4.50%
ING Group N.V. CET1, transitional (%)	14.1%	14.5%	target >10.40% + mgmt. buffer	target >11.77% + mgmt. buffer
Distance to CET1 requirement incl. CBR (%)	**3.9%**	**5.5%**		
Distance to CET1 requirement incl. CBR (EUR bn)	**12.2**	**17.0**		
ING Group NV Tier 1, transitional (%)	16.3%	16.5%		
Required Tier 1 incl. CBR (%)	11.8%	10.5%	11.9%	13.3%
Distance to Tier 1 requirement incl. CBR (%)	**4.6%**	**6.0%**		
ING Group NV total capital, transitional (%)	19.3%	19.8%		
Required total capital, incl. CBR (%)	13.8%	12.5%	13.9%	15.3%
Distance to total capital requirement incl. CBR (%)	**5.6%**	**7.3%**		
RWAs (EUR bn)	314	310		

Source: Company data, Scope Ratings

Key risk: principal loss absorption

Under the terms of the securities, there is full conversion into shares when the trigger level is breached, i.e. when the consolidated group transitional CET1 ratio falls below the 7% threshold.

Capital securities are also subject to Statutory Loss Absorption: the relevant authority can write-down or convert into equity or other debt instruments all or a portion of the principal amount. This could happen at the point of non-viability, i.e. independently from resolution, or together with resolution action.

Distance to trigger

ING Group reported a CET1 ratio of 14.5% as of Q1 2017, both on a transitional and fully-loaded basis, EUR 23.3bn above the trigger level.

Table 2: Distance to trigger

	2016	Q1 2017	2018	2019
Trigger level	7.0%	7.0%	7.0%	7.0%
ING Group NV CET1, transitional (%)	14.1%	14.5%	target >10.40%	target >11.77%
Distance to trigger (%)	**7.1%**	**7.5%**		
Distance to trigger (EUR bn)	**22.5**	**23.3**		

Based on EUR 314bn of RWAs at YE2016 and EUR 310bn as of Q1 2017. Source: Company data, Scope Ratings

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