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 were not solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope assigns a rating of BBB, with Stable Outlook, to the above-referenced perpetual AT1 contingent convertible capital securities issued by ING Groep NV. The ratings are based on the following:

- Senior unsecured debt (eligible for 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. 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.

Please also refer to Scope's Bank Capital Instruments Rating Methodology published in May 2018 for more details.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 15.06.2017. For further information on the last rating action and regulatory information please click here.

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Issuer credit profile

The issuer rating of AA- for ING Bank NV (ING) is driven by its strong, resilient retail and commercial banking franchise in the Benelux region. Furthermore, ING continues to be at the forefront of direct retail banking operations in several important markets, including Germany. Our view on management's ability to focus on customer experience, enhancing the omnichannel approach and automating back office processes, together with the successful delivery on other targets in the context of the 'Think Forward' strategy, also underpin the rating. Meanwhile, with management now focused on executing the second phase of its strategic plan, we remain cautious with respect to potential risks arising from the group's growth strategy in its non-core geographies.

Summary terms

Issuer	ING Groep N.V.
Issue Date	**April 2015**
Amount	USD 1bn
Coupon	• 6.00% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y mid-market USD swap rate plus 4.445% • Payable semi-annually
Format	Perpetual Additional tier 1 contingent convertible capital securities, callable on 16 April 2020 and every five years thereafter
ISIN	US456837AE31

Issue Date	April 2015
Amount	USD 1.25bn
Coupon	• 6.50% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y mid-market USD swap rate plus 4.446% • Payable semi-annually
Format	Perpetual Additional Tier 1 contingent convertible capital securities, callable on 16 April 2025 and every five years thereafter
ISIN	US456837AF06

Issue Date	November 2016
Amount	USD 1bn
Coupon	• 6.875% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y mid-market USD swap rate plus 5.124% • Payable semi-annually
Format	Perpetual Additional Tier 1 contingent convertible capital securities, callable on 16 April 2022 and every five years thereafter
ISIN	XS1497755360

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if coupon payments on all own funds instruments a) would exceed the Distributable Items of the issuer; or b) would cause the Maximum Distributable Amount (MDA) then applicable to the issuer to be exceeded. Cancellation is also subject to the competent supervisory authority's decision.
Principal Loss Absorption	• If the Group CET1 ratio falls below the trigger level, the issuer must convert the securities into ordinary shares • Resolution authorities may reduce the principal amount of the notes to zero on a permanent basis or convert the notes into CET1 capital at the point of non-viability (PONV) or in any case in the context of regulatory bail-in.
Trigger for Principal Loss Absorption	Consolidated group CET1 < 7% on a transitional basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

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 make distributions in relation to securities ranking pari passu with or junior to the instruments in question (i.e. distributing dividends on ordinary shares). However, the Terms & Conditions of the notes state the issuer's intention to consider the relative ranking of AT1s in the priority of claims when exercising this right. We also note that, 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.

Furthermore, coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) or if payments exceed the MDA. The MDA is calculated if the issuer does not meet its combined buffer requirement.

Available Distributable Items

In 2017 ING's Available Distributable Items stood at ca. EUR 43bn.

Combined Buffer Requirement (CBR)

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) when the combined buffer requirement (CBR) is not met. The CBR comprises the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable. The MDA needs to be calculated if banks supervised by the ECB do not meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR.

By 2019, ING Group CET1 requirement relevant for distribution restrictions will be 11.8%, the Tier 1 requirement will be 13.3% and the total capital requirement will be 15.3%. This assumes that the Pillar 2 requirement of 1.75% does not change, the capital conservation buffer and the DNB systemic buffer are fully phased in and the countercyclical capital buffer increases to 0.06%, driven by the buffers on exposures in the UK and Hong Kong.

As of Q1 2018, ING Group's CET1 ratio stood at 14.3% both on a transitional and fully-loaded basis, 390 bps above the 2018 requirement.

The management intends to maintain a CET1 ratio above 13.5% (170 bps on prevailing requirement), which includes the Pillar II Guidance (undisclosed) and takes into account the impact of Basel IV and the targeted review of internal models.

Table 1: Distance to Combined Buffer Requirement

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**9.0%**	**10.4%**	**11.8%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	1.50%	2.25%	3.00%
- Countercyclical	0.02%	0.05%	0.06%
Pillar 2 CET1 requirement	1.75%	1.75%	1.75%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
ING Group N.V. CET1, transitional (%)	14.7%	14.3%	Target > 13.5%
Distance to CET1 requirement incl. CBR (%)	**5.7%**	**3.9%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**17.6**	**12.0**	
ING Group NV Tier 1, transitional (%)	16.2%	15.9%	
Required Tier 1 incl. CBR (%)	10.5%	11.9%	13.3%
Distance to Tier 1 requirement incl. CBR (%)	**5.7%**	**4.0%**	
ING Group NV total capital, transitional (%)	18.5%	18.5%	
Required total capital, incl. CBR (%)	12.5%	13.9%	15.3%
Distance to total capital requirement incl. CBR (%)	**6.0%**	**4.6%**	
RWAs (EUR bn)	310	312	

Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is equity conversion.

The rated securities have one trigger:

- Consolidated group CET1 < 7% on a transitional basis

Pursuant to the terms and conditions of the notes, full conversion into shares will take place if the trigger level is breached, i.e. if the consolidated group transitional CET1 ratio falls below the 7% threshold.

Distance to trigger

ING Group reported a CET1 ratio of 14.3% as of Q1 2018, both on a transitional and fully-loaded basis, EUR 22.7bn above the trigger level.

Table 2: Distance to trigger

	2017	Q1 2018	2019
Trigger level	7.0%	7.0%	7.0%
ING Group NV CET1, transitional (%)	14.7%	14.3%	Target > 13.5%
Distance to trigger (%)	**7.7%**	**7.3%**	
Distance to trigger (EUR bn)	**23.9**	**22.7**	

Based on EUR 310bn of RWAs at YE 2017 and EUR 312bn as of Q1 2018. Source: Company data, Scope Ratings

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