MOODY'S
INVESTORS SERVICE

CREDIT OPINION
27 July 2021

Update

Rate this Research

ING-DiBa AG

Update following rating action and methodology revision

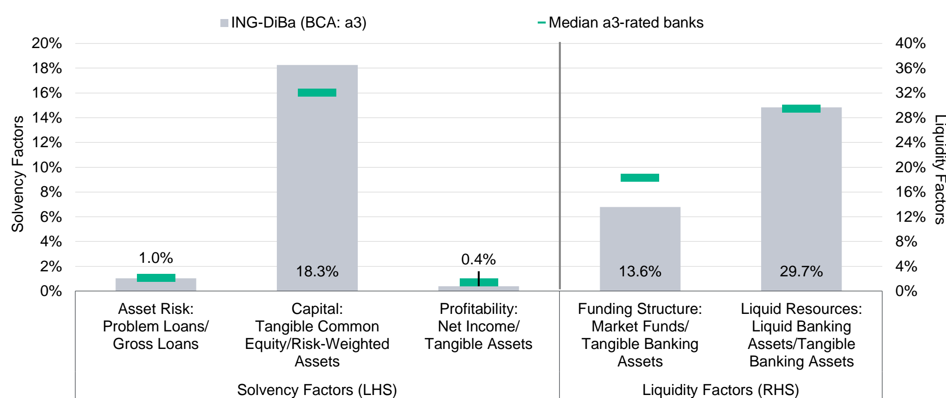
Summary

On 13 July, we affirmed ING-DiBa AG's (ING-DiBa) A2(stable) deposit ratings, the bank's Aa3 Counterparty Risk Ratings (CRRs) and P-1(cr) Counterparty Risk (CR) Assessment. At the same time, we downgraded ING-DiBa's Baseline Credit Assessment (BCA) and Adjusted BCA to a3 from a2 and its CR Assessment to Aa3(cr) from Aa2(cr).

ING-DiBa's A2 deposit ratings reflect the bank's a3 BCA and the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities, which results in a low loss given failure and one notch of uplift. ING-DiBa's ratings do not benefit from government support uplift because of its still-limited interconnectedness within the German banking sector and despite the market shares it has achieved.

ING-DiBa's a3 BCA is capped one notch above the BCA of its Dutch parent bank, ING Bank N.V. (ING Bank; Aa3/Aa3 stable, baa1[1]). This reflects the weaker credit strength of the parent bank and the financial, operational and branding links between the two entities. ING-DiBa's standalone credit profile reflects the bank's de minimis market funding reliance as an almost exclusively deposit-funded institution, its strong and improved capitalisation, and its generally very sound asset quality in a highly granular and secured residential mortgage lending book. It also incorporates expected net interest margin pressure and potentially rising risk provisions in a less benign credit environment, as well as potentially declining liquid resources.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

RATINGS

ING-DiBa AG

Domicile	Frankfurt am Main, Germany
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Bernhard Held, CFA +49.69.70730.973
VP-Sr Credit Officer
bernhard.held@moodys.com

Alexander Hendricks, CFA +49.69.70730.779
Associate Managing Director
alexander.hendricks@moodys.com

» Contacts continued on last page

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Credit strengths

- » A large deposit base that benefits the funding profile; de minimis dependence on market funds
- » Solid risk-weighted capitalisation
- » Low loan losses because the bank's asset risk profile is focused on lower-risk residential mortgages
- » Solid profitability, which benefits from standardised processes and progress in generating non-interest revenue

Credit challenges

- » Strong mortgage demand has led to an increase in the bank's exposure concentration to the German property market
- » Strong use of internal risk models to determine risk-weighted assets (RWA) leads to only moderate leverage metrics and will result in future regulatory RWA updrift
- » Net interest income remains under pressure because of the low interest rate environment
- » Tight integration into ING Groep N.V. (ING Groep; Baa1 stable[2]) limits the bank's ability to decouple from the lower credit strength of the parent

Outlook

The outlook on ING-DiBa's deposit ratings is stable, reflecting our expectations that the BCA of its ultimate parent ING Bank will remain unchanged and ING-DiBa's standalone creditworthiness will not weaken.

Factors that could lead to an upgrade

- » An upgrade of ING-DiBa's ratings could be prompted by a higher BCA and an increase in rating uplift resulting from our Advanced LGF analysis.
- » Upward pressure on ING-DiBa's a3 BCA remains subject to an improvement in ING Bank's baa1 BCA because we currently cap ING-DiBa's BCA one notch above its Dutch parent bank's BCA. If ING-DiBa's BCA was not constrained by the BCA of its parent bank, it could be upgraded if the bank were to further improve its already-sound capitalisation and reduce its leverage; further diversify its loan book without compromising on its asset quality; improve its profitability; and increase its liquid resources while maintaining very low dependence on market funding.
- » The ratings could also be upgraded if ING-DiBa were to issue additional debt externally or internally within ING Groep to provide a larger buffer for deposit holders and counterparty risk liabilities.

Factors that could lead to a downgrade

- » A downgrade of ING-DiBa's ratings could be triggered as a result of a downgrade of the bank's BCA and a higher loss given failure assumption from our Advanced LGF analysis.
- » ING-DiBa's BCA could be downgraded in the event of a weakening of the Dutch parent bank's credit profile, constraining its BCA further; a downgrade of ING-DiBa's financial profile because of an unexpected and more significant reduction in its regulatory capital ratios as a result of its diversification into wholesale lending assets, or through the parent bank reallocating capital within ING Groep; ING-DiBa's significantly higher dependence on confidence-sensitive market funding sources, especially in foreign currency; or increasing interdependencies between ING-DiBa and ING Groep.
- » Negative pressure on the deposit ratings could also arise from a lower relative deposit volume in favour of an increase in other instruments (for example, covered bonds or money market instruments) that rank above the deposits in our Advanced LGF analysis.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

ING Holding Deutschland GmbH (Consolidated Financials) [1]

	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	184.1	171.6	169.1	162.7	4.2[4]
Total Assets (USD Billion)	225.3	192.7	193.3	195.3	4.9[4]
Tangible Common Equity (EUR Billion)	8.9	8.3	7.8	7.4	6.4[4]
Tangible Common Equity (USD Billion)	10.9	9.3	8.9	8.9	7.0[4]
Problem Loans / Gross Loans (%)	1.0	0.6	0.7	0.7	0.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	18.3	16.8	16.6	16.7	17.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	13.2	8.8	10.0	10.1	10.5[5]
Net Interest Margin (%)	1.2	1.2	1.3	1.3	1.2[5]
PPI / Average RWA (%)	2.7	2.7	2.9	2.8	2.8[6]
Net Income / Tangible Assets (%)	0.4	0.5	0.5	0.5	0.5[5]
Cost / Income Ratio (%)	49.3	48.3	46.7	47.2	47.9[5]
Market Funds / Tangible Banking Assets (%)	13.6	11.1	11.0	11.2	11.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	29.7	24.8	26.2	28.5	27.3[5]
Gross Loans / Due to Customers (%)	83.9	85.5	83.9	85.5	84.7[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

As measured by its 9.5 million customers as of 31 December 2020, ING-DiBa is the third-largest retail bank in Germany (Aaa stable). In addition, the bank has built a growing presence in commercial banking in recent years, with operations being closely integrated into the global wholesale banking network of ING Groep.

As of 31 December 2020, ING-DiBa reported total consolidated assets of €190 billion and net customer loans of €122 billion, of which €79.7 billion were residential mortgages and €32 billion wholesale banking loans. The bank's asset base, which also included an investment portfolio in excess of €27 billion, was funded to a large extent by €145.6 billion of customer deposits.

On the retail side, ING-DiBa is a pure direct bank, mainly providing banking services in Germany, with a smaller presence in Austria. The bank focuses on residential mortgage lending and savings and current accounts, but its range of retail products and services also includes consumer loans, direct securities accounts and brokerage services.

In wholesale banking, ING-DiBa provides corporate lending and transaction services, structured finance and real estate finance, and financial markets products, such as hedges for currency, commodity and interest rate risk. The bank's wholesale customer base mostly comprises large German and Austrian corporates with revenue in excess of €250 million, as well as international investors, such as pension funds.

ING-DiBa is wholly owned by the Netherlands-based ING Groep, through ING Deutschland GmbH. ING Groep had more than 6,000 full-time-equivalent employees at ING-DiBa and its other German activities, including Interhyp AG, as of end of December 2020. The bank operates from its headquarters in Frankfurt and maintains branches in Hanover, Nuremberg and Vienna, as well as a representative office in Berlin.

ING-DiBa's Weighted Macro Profile is Strong+

ING-DiBa's Weighted Macro Profile is Strong+, at the same level as Germany's Macro Profile. Germany accounted for 63% of the total risk positions of ING-DiBa as of year-end 2020, 26% were related to other EU countries (19% stemmed from the Netherlands), and the remaining 11% were sourced from other international markets (2% from the US).

Recent developments

All G-20 countries sustained severe output losses in 2020, but the contraction in some economies was sharper than in others. We expect the pace of improvement to be asymmetric across countries. The recovery path is beset with uncertainty and will remain highly dependent on the development and distribution of vaccines, effective pandemic management and government policy support.

The European Central Bank (ECB) introduced a series of measures to help EU economies weather the widening effects of the pandemic, temporarily increasing banks' liquidity provisions and lowering regulatory capital and liquidity requirements. As part of these temporary measures, the ECB increased its targeted longer-term refinancing operations (TLTRO III) under more favourable terms, as well as its financial asset purchase programme, while refraining from lowering the ultralow interest rates. Overall, the package aims to help banks continue to finance companies and small and medium-sized enterprises (SMEs) suffering from the effects of the pandemic. The ECB's measures will provide limited relief for banks and their borrowers, and it will require continued significant fiscal policy measures by the EU and its member states to avert higher default rates in banks' lending books.

The Government of Germany launched a large stimulus package, and its support has been crucial for corporate borrowers in industries immediately hurt by the pandemic, such as the airlines, tourism, retail and shipping sectors, as well as smaller companies with weak liquidity and high leverage. The scale of the support package is unprecedented and is far larger than the support provided during the 2008-09 financial crisis. At the same time, the government made it easier to access its furlough scheme and extended it to a broader pool of workers, which will limit the spike in unemployment and the fall in domestic consumption. The measures, which are adapted to the evolution of the economic effects of the pandemic, add to Germany's already-expansionary fiscal policy stance, as well as to the automatic stabilisers that support household incomes when unemployment increases.

On 6 May, ING reported its financial results for the first quarter of 2021. The group's German operations, which are substantially equivalent to ING-DiBa, achieved a net result of €245 million, moderately above the result of Q1 2020 of €223 million.

The group's German operations continued to grow customer loans, both in the residential mortgages core product, where the outstanding loan volume increased by €1.0 billion during Q1 2021 to €81.3 billion, and even more so in wholesale banking, where outstanding volumes rose strongly to €33.6 billion as of 31 March from €30.8 billion as of year-end 2020 and helped the group meet loan growth requirements to get the full interest benefit under the ECB's 2020 TLTRO III programme.

The German operation's strong first-quarter profit was supported by very moderate loan loss provisioning needs of €13 million, at the same level as in Q1 2020. Against an industrywide trend towards higher regulatory costs in 2021, ING-DiBa's reported operating expenses of €330 million (Q1 2020: €339 million) benefited from a €9 million decline in such regulatory costs. The decline in operating expenses signals strong cost management discipline, as reflected in an improved cost-to-income ratio of 46.4% (Q1 2020: 50.1%) at a time when ING strongly grew its German workforce to 6,359 full-time-equivalent employees as of 31 March 2021 from 5,677 as of the end of Q1 2020. Net interest income remained broadly stable, and the bank's Q1 2021 revenue mainly benefited from the strongly improving net fee income of €150 million, up €40 million from Q1 2020.

Detailed credit considerations

Since 2018, consolidated financial disclosures are no longer prepared under IFRS accounting standards at the level of ING-DiBa, but instead at the level of its German parent, ING Holding Deutschland GmbH (ING Deutschland), which consolidates the results of the mortgage broker Interhyp AG and other entities, such as Lendico Deutschland GmbH, which has launched a digital lending offering for SMEs in Germany. Hence, we base the scorecard and the ratings of ING-DiBa on the financials of ING Deutschland[3] and display ING-DiBa's unconsolidated local GAAP key financial indicators for information purposes only.

High probability of joint resolution with ING Groep limits the level of ING-DiBa's BCA

We assign a BCA of a3 to ING-DiBa, one notch above the baa1 BCA of its parent ING Bank, reflective of ING-DiBa's strong ties to a parent with a weaker BCA.

ING-DiBa is a fully owned subsidiary of ING Bank and is linked to its parent through relevant financial, operational and branding ties. Based on our view that there is now a higher probability that ING-DiBa will be resolved in a unified manner alongside its Dutch parent, ING Bank N.V., we limit the scope for differences between the BCA of ING-DiBa and its parent and cap the BCA of ING-DiBa at a3, one notch above the BCA of its parent.

In parallel, we believe that ING-DiBa will issue ILAC in the form of junior senior unsecured instruments to its parent. In our advanced LGF analysis, this results in one notch of additional rating uplift for the bank's deposits and CRRs, reflecting the greater levels of protection afforded to the bank's senior creditors.

Because ING-DiBa acts as a standalone financial institution in the German market, the bank may benefit from a ring-fencing of its operations in the event of a resolution prompted by distress at the parent level. At the same time, the growing integration through the single point of entry approach for the group, the full ownership and the ties with the parent would pose important barriers to a swift sale or separation of ING-DiBa in such a scenario.

Low level of problem loans, but wholesale lending ramp-up has led to increased risk

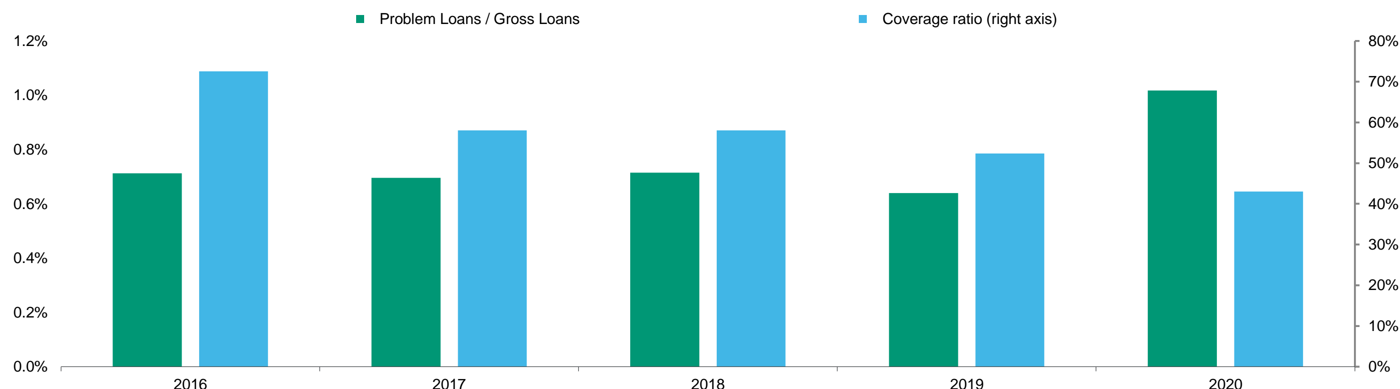
We assign an a3 Asset Risk score to ING-DiBa, three notches below the aa3 initial score, to take into account its considerable above-market-average loan growth in corporate and consumer lending, as well as the bank's asset risk concentrations. The assigned score is at the high end of the current Asset Risk score range for German banks.

In 2020, ING-DiBa's loan book increased by 2% to €122 billion. The loan book's concentration in residential mortgages remained high as retail mortgage lending rose by 6% to €79.7 billion, while consumer lending increased by 2% to €10 billion. In 2021, we expect ING-DiBa's longer-term growth in retail banking to be interrupted by the announced exit from its Austrian retail business, where ING-DiBa serves around 550,000 customers with 340 full-time-equivalent employees. ING-DiBa's total lending growth in recent years and, thus, its asset risk were mainly driven by the accelerated growth in the bank's corporate lending book, which more than doubled during 2015-18, but decreased by 10% in 2020, to €31.5 billion.

In recent years, ING-DiBa received a steady deposit inflow, and its position as one of Germany's largest retail deposit gatherers offers the bank a strong platform based on which it can strengthen its fee-generating business. In terms of its loan book, ING-DiBa aims to diversify away from its strong focus on German mortgage lending. While higher risk in nature, consumer and other nonmortgage lending will also improve asset diversification. However, more recently, strong client demand for residential mortgages has resulted in a continuous increase in portfolio concentration on this product.

Exhibit 3

ING-DiBa's problem loan ratio has declined, but unseasoned risks remain



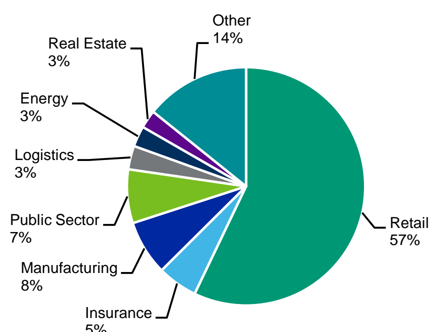
The problem loan ratio is per our definition.
Here and in further charts, the financials for 2018-20 refer to ING Deutschland, whereas up to 2017, they refer to ING-DiBa.
Sources: Company reports and Moody's Investors Service

Despite these pressure points, ING-DiBa's asset quality benefits from its still very modest presence in its recently initiated SME lending. This factor, along with the bank's prudent underwriting practices and a rigid termination process for nonperforming loans, will likely contain the increase in the bank's problem loan metrics upon the expiry of government support measures. The impaired loan ratio for ING-DiBa's residential mortgage portfolio was a low 0.5%, and for the riskier but much smaller consumer loan portfolio, it was a modest 3.5% as of year-end 2020. The impaired loan ratio on the €36.5 billion combined commercial and public-sector banking portfolio was also low at 1.5%, whereby most of the impaired loans were fully collateralised or guaranteed. ING-DiBa's intragroup exposures are contained within regulatory limits and are, to a large extent, collateralised.

Nonetheless, ING-DiBa's asset quality is becoming increasingly dependent on the performance of its newly acquired wholesale and consumer finance assets. Therefore, we have captured the bank's considerable loan growth in its commercial and consumer lending books, which results in partly unseasoned portfolios, in our assigned Asset Risk score of a3, three notches below the aa3 initial score.

Exhibit 4

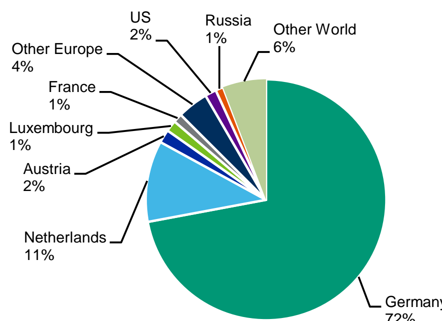
ING-DiBa's loan portfolio composition by segment based on year-end 2020 share in exposure



Source: Company reports

Exhibit 5

ING-DiBa's portfolio composition by country based on year-end 2020 share in exposure



Source: Company reports

Solid regulatory capitalisation

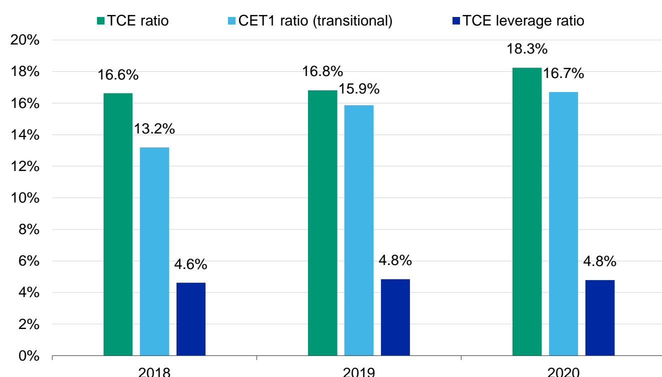
We assign an a1 Capital score, two notches below the aa2 initial score, to reflect our view that the tangible common equity (TCE) ratio will likely soften from the current levels, while the bank's leverage ratio also remains below five percent.

ING-DiBa's TCE ratio of 18.3% as of December 2020 improved from 16.8% as of December 2019. The delta between our 2020 TCE ratio of 18.3% and the CET1 ratio[4] of 16.7% mainly stems from the later regulatory recognition of €346 million of retained earnings and a regulatory deduction for the bank's IRBA shortfall of €203 million.

Exhibit 6

ING-DiBa substantially exceeds its capital requirements, but the leverage ratio remains below our requirement

Capital ratios at the level of ING Holding Deutschland

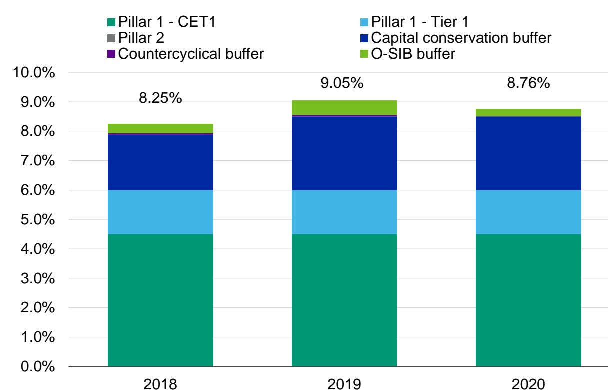


TCE = Tangible common equity (our calculation); CET1 = Common Equity Tier 1.

Sources: Company reports and Moody's Investors Service

Exhibit 7

ING-DiBa's Tier 1 capital requirements in detail



Source: Company reports

Overall, we expect ING-DiBa to remain comfortably capitalised because we assume that the bank will maintain sufficient flexibility to retain a portion of its annual profit, notwithstanding the automatic transfer of profit under a profit-and-loss transfer agreement with its holding company, ING Deutschland GmbH.

However, there is a potential risk that the parent bank, in the interest of optimising the group's capital allocation, may require ING-DiBa to upstream capital through dividends. However, we currently deem such a scenario unlikely.

The bank's leverage ratio (TCE/total assets) remained low at 4.8% as of 31 December 2020 and is reflected in a one-notch negative adjustment to our Capital score (the fully loaded regulatory leverage ratio was 4.1% as of year-end 2020). We have also factored in a further weakening of capitalisation levels that will likely result from investments in additional wholesale portfolios and Basel IV, leading us to assign an a1 Capital score, two notches below the aa2 initial score.

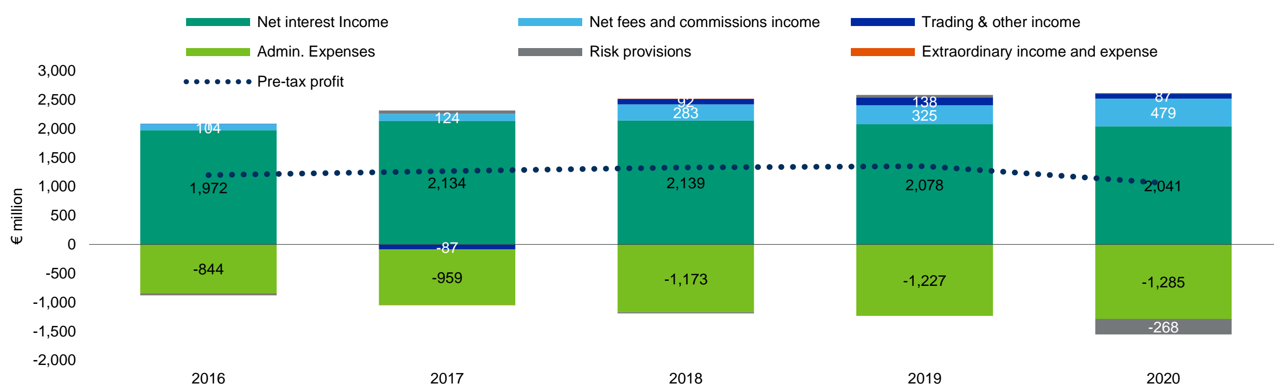
Profitability has remained sound, but higher risk provisions could somewhat lower returns

We assign a baa3 Profitability score, one notch above the ba1 initial score, reflecting ING-DiBa's strong efficiency and solid revenue generation in the current low interest rate environment, as well as our expectation of lower results because of a weak economic environment, reflecting both a higher cost of risk and slower new business growth.

Despite the challenges of the low interest rate environment, ING-DiBa achieved a pretax profit of €1,042 million in 2020 (down 23% from a year earlier). Even though net interest income dropped slightly by 2% to €2,041 million, this decline was offset by 47% higher fee and commission income of €479 million; however, other income decreased by 36% to €88 million (€138 million a year earlier). Other income was mainly the result of a €84-million gain from financial instruments recorded at fair value through profit and loss. The risk provision of €268 million was considerably higher in 2020, compared with the €40 million of release in the previous year. Administrative expenses increased by 3% to €667 million as of 31 December 2020 and there was a 9% increase in personnel expenses to €634 million (2019: €579 million).

Exhibit 8

ING-DiBa has strong earnings generation capacity despite the difficult low interest rate environment



Sources: Company reports and Moody's Investors Service

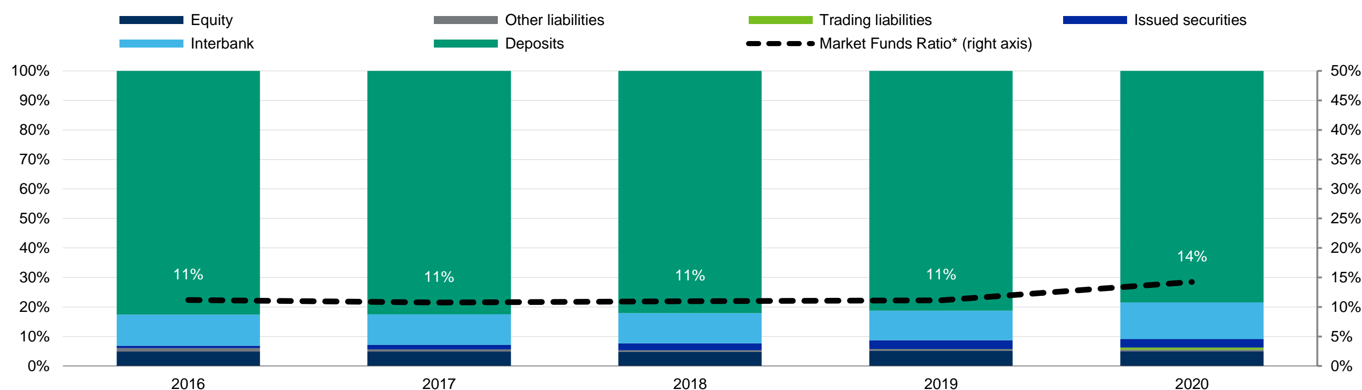
While ING-DiBa has now effectively reached the zero interest rate floor for deposits and margins in the retail business will likely contract in 2020 and beyond, the bank should be able to protect its top line through further loan volume growth and innovation in investment and insurance products, despite the challenges presented by the pandemic. Furthermore, the bank continues to further accelerate its level of digitalisation. Digitalisation strategies in retail banking aim at improving clients' digital and mobile experience, resulting in a further increase in the number of mobile users and stronger growth in the use of brokerage products. In SME lending, we expect additional growth via ING-DiBa's digital platform Lendico, supported by the collaboration with Amazon.com, Inc. (Amazon, A1 stable) that offers loans to eligible Amazon sellers with maturities of up to three years. Internally, the focus is to further increase process automation levels, which in turn will enable rising economies of scale of the growing franchise while maintaining some of the strongest efficiency metrics in the German retail banking market.

The funding profile benefits from a large deposit base; de minimis dependence on confidence-sensitive market funds

We assign a aa1 Funding Structure score, four notches above the a2 initial score, reflecting, inter alia, ING-DiBa's granular deposit base, as well as substantial parent and development bank pass-through funding, which we do not consider confidence-sensitive market funding.

As a primarily retail-funded institution, ING-DiBa's funding structure is a key credit strength. Given our forecast of growing retail savings in Germany and gradually rising demand for direct banking, we expect ING-DiBa's comfortable funding profile to remain robust throughout 2021 and beyond. The bank's Funding Structure score of aa1 reflects the fact that its modest amount of market funds largely consists of funds from development banks, parent bank funding and covered bonds. Parental funding mostly reflects repo transactions through which ING-DiBa accessed €10 billion in funds sourced under the ECB's TLTRO, a funding component we consider temporary in nature for the bank. The score also captures the high granularity of most of ING-DiBa's retail deposits, which we consider generally more stable than large institutional deposits.

Exhibit 9
ING-DiBa's stable and strong deposit-based funding
Composition of market funding sources



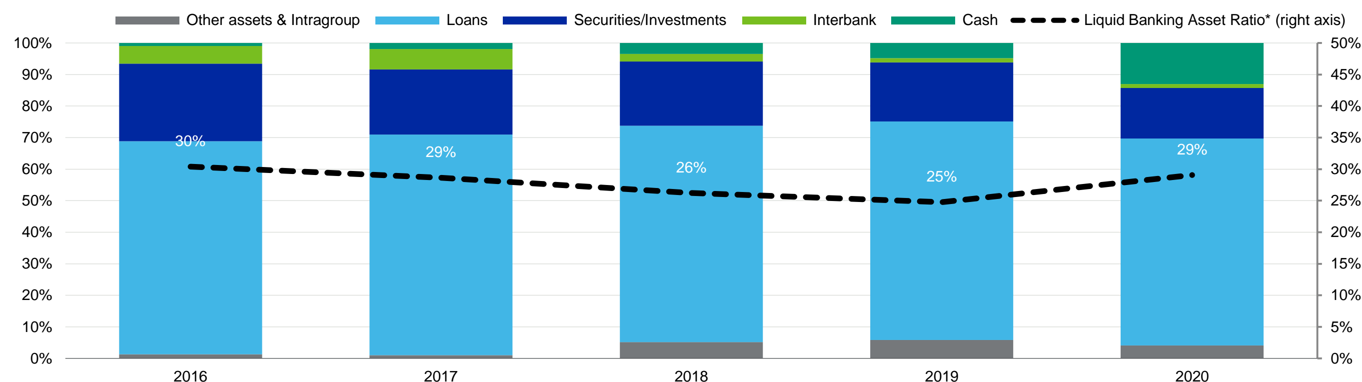
*Market funds ratio = market funds/tangible banking assets.
Sources: Company reports and Moody's Investors Service

In the context of capital optimisation, ING-DiBa sourced €1.4 billion of subordinated debt from ING Groep via ING Deutschland GmbH in 2020. We expect ING-DiBa to issue additional loss-absorbing instruments to its parent between 2021 and 2023 to ensure compliance with internal minimum requirements for own funds and eligible liabilities.

Comfortable liquidity position and largely unencumbered mortgage loan book

We assign a baa1 Liquid Resources score, one notch below the a3 initial score, taking into account asset encumbrance, as well as the over-collateralisation of the bank's cover pool.

Exhibit 10
ING-DiBa's liquid assets mostly represent the bank's investment portfolio
Composition of liquid assets



*Liquid banking assets ratio = liquid assets/tangible banking assets.
Sources: Company reports and Moody's Investors Service

As of year-end 2020, ING-DiBa's liquid resources were temporarily increased as a result of its indirect participation in the ECB's TLTRO III. The bank's year-end 2020 cash position increased to €24.2 billion, up from €8.2 billion in December 2019. Under its base case liquidity planning, ING-DiBa's liquidity will remain above €38 billion throughout 2021.

ING-DiBa comfortably meets the new CRR-based liquidity and funding requirements, as illustrated by its strong LCR and net stable funding ratio. In addition, the bank could use its largely unencumbered mortgage loan book to raise major secured funds at attractive rates.

ESG considerations

In line with our general view of the banking sector, ING-DiBa has a low exposure to environmental risks (see our environmental risk heat map[5] for further information).

For social risks, we also place ING-DiBa in line with our general view of the banking sector, which indicates a moderate exposure (see our social risk heat map[6]). This includes considerations in relation to the coronavirus pandemic, given the substantial implications for public health and safety and the severe and extensive economic shock the pandemic has caused across many sectors, regions and markets.

Governance[7] is highly relevant for ING-DiBa, as it is to all banks. We do not have any particular governance concerns for ING-DiBa, and we do not apply any corporate behaviour adjustment to the bank, largely because of the stability of its international strategy and constant execution. Nonetheless, corporate governance remains a key credit consideration and remains a subject of our ongoing monitoring.

Support and structural considerations

Affiliate support

ING-DiBa's Dutch parent bank, ING Bank, would likely support its German subsidiary in case of need. Therefore, we assume very high affiliate support for ING-DiBa in the event of need. However, this does not result in any rating uplift because ING-DiBa's BCA is higher than that of its ultimate parent.

We allow for a one-notch flexibility above the ultimate parent bank's BCA because, under the EU's Bank Recovery and Resolution Directive (BRRD), Europe's resolution regime may allow for the ring-fencing of strong and viable subsidiaries in the event of a resolution prompted by distress at the parent level.

Loss Given Failure (LGF) analysis

ING-DiBa is subject to the EU BRRD, which we consider an operational resolution regime. Therefore, we apply our Advanced LGF analysis, where we take into consideration the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution.

In our Advanced LGF analysis, we consider the results of both the formal legal position (pari passu or "de jure" scenario), to which we assign a 75% probability, and an alternative liability ranking, reflecting the resolution authority's discretion to prefer deposits over senior unsecured debt (full depositor preference or "de facto" scenario), to which we assign a 25% probability.

We further assume residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits and a 5% run-off in preferred deposits. These ratios are in line with our standard assumptions. In addition, we assume that only a very small percentage (10%) of the deposit base can actually be considered junior and qualify as bail-in-able under the BRRD.

We believe that ING-DiBa will issue ILAC in the form of junior senior unsecured instruments to its parent and this results in one notch of additional rating uplift for the bank's deposits and CRRs, reflecting the greater levels of protection afforded to the bank's senior creditors. Because we use private data provided by the bank to determine such future new issuance expectations of junior senior unsecured debt, we do not disclose the underlying volumes of the liability tranches included in our Advanced LGF analysis for ING-DiBa.

The results of our Advanced LGF analysis are:

» For deposits, rated A2, our LGF analysis indicates a low loss given failure, leading to a one-notch uplift from the a3 Adjusted BCA.

Government support

German banks operate in an environment of significantly weakened prospects for financial assistance from the government. We do not consider ING-DiBa to have high domestic systemic relevance, given the bank's low complexity and modest interconnectedness with the financial sector. Therefore, we do not include any rating uplift for support from the Government of Germany in our ratings for ING-DiBa.

Counterparty Risk Ratings (CRRs)

ING-DiBa's CRRs are Aa3/P-1

The CRRs are three notches above the Adjusted BCA of a3, reflecting the extremely low loss given failure from the volume of instruments, primarily junior deposits, which are subordinated to CRR liabilities in our Advanced LGF analysis.

Counterparty Risk (CR) Assessment

ING-DiBa's CR Assessment is Aa3(cr)/P-1(cr)

The bank's CR Assessment is three notches above the a3 Adjusted BCA, based on the buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments, primarily junior deposits. To determine the CR Assessment, we focus purely on subordination, taking no account of the volume of the instrument class.

Methodology and scorecard

Methodology

The principal methodology used in rating ING-DiBa is our Banks methodology, published in July 2021.

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 11

ING Holding Deutschland GmbH

MACRO FACTORS							
WEIGHTED MACRO PROFILE	STRONG +	100%					

FACTOR	HISTORIC RATIO	INITIAL SCORE	EXPECTED TREND	ASSIGNED SCORE	KEY DRIVER #1	KEY DRIVER #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.0%	aa3	↔	a3	Loan growth	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	18.3%	aa2	↔	a1	Nominal leverage	Expected trend
Profitability						
Net Income / Tangible Assets	0.4%	ba1	↔	baa3	Expected trend	Earnings quality
Combined Solvency Score		a1		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	13.6%	a2	↔	aa1	Extent of market funding reliance	Deposit quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	29.7%	a3	↔	baa1	Asset encumbrance	Additional liquidity resources
Combined Liquidity Score		a2		a1		
Financial Profile				a2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				-		
BCA Scorecard-indicated Outcome - Range				a2 - baa1		
Assigned BCA				a3		
Affiliate Support notching				0		
Adjusted BCA				a3		

Balance Sheet is not applicable.

DEBT CLASS	DE JURE WATERFALL		DE FACTO WATERFALL		NOTCHING		LGF NOTCHING GUIDANCE VS. ADJUSTED BCA	ASSIGNED LGF NOTCHING	ADDITIONAL NOTCHING	PRELIMINARY RATING ASSESSMENT
	INSTRUMENT VOLUME + SUBORDINATION	SUB-ORDINATION	INSTRUMENT VOLUME + SUBORDINATION	SUB-ORDINATION	DE JURE	DE FACTO				
Counterparty Risk Rating	-	-	-	-	-	-	-	3	0	aa3
Counterparty Risk Assessment	-	-	-	-	-	-	-	3	0	aa3 (cr)
Deposits	-	-	-	-	-	-	-	1	0	a2

INSTRUMENT CLASS	LOSS GIVEN FAILURE NOTCHING	ADDITIONAL NOTCHING	PRELIMINARY RATING ASSESSMENT	GOVERNMENT SUPPORT NOTCHING	LOCAL CURRENCY RATING	FOREIGN CURRENCY RATING
Counterparty Risk Rating	3	0	aa3	0	Aa3	Aa3
Counterparty Risk Assessment	3	0	aa3 (cr)	0	Aa3(cr)	
Deposits	1	0	a2	0	A2	A2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 12

Category	Moody's Rating
ING-DIBA AG	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)

Source: Moody's Investors Service

Endnotes

1 The ratings shown are ING Bank's deposit rating/senior unsecured rating and outlook, and its BCA.

2 The ratings shown for ING Groep represent holding company unsecured rating and outlook.

3 Throughout this report, we refer to ING-DiBa when mentioning the financials of ING Deutschland.

4 Since 2019, ING-DiBa's CET1 ratio has been based on IFRS accounting capital, replacing the previous local GAAP basis.

5 Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages and natural and human-made hazards (physical risks). Additionally, regulatory or policy risks, such as the impact of carbon regulation or other regulatory restrictions, including the related transition risks such as policy, legal, technology and market shifts, which could impair the evaluation of assets, are important factors. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

6 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and social trends, health and safety, and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are further social risks. Social trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology costs, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas translating into regulations that affect banks' revenue bases.

7 Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of the banks' financial profile. Further factors such as specific corporate behaviour, key-person risk, insider and related-party risk, strategy and management risk factors, and dividend policy may be captured in individual adjustments to the BCA, if deemed applicable. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. When credit quality deteriorates because of poor governance, such as a breakdown in controls resulting in financial misconduct, it can take a long time to recover. Governance risks are also largely internal rather than externally driven.

© 2021 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1287461

Contacts

Bernhard Held, CFA
VP-Sr Credit Officer

Vasil Mrachkov
Associate Analyst

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE