MOODY'S INVESTORS SERVICE

Credit Opinion: ING Groep N.V.

Global Credit Research - 16 Jun 2015

Amsterdam, Netherlands

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured -Dom Curr	Baa1
Subordinate MTN -Dom Curr	(P)Baa2
Jr Subordinate -Fgn Curr	Baa3
Jr Subordinate -Dom Curr	Baa3
Pref. Stock	Baa3
Pref. Stock Non-cumulative	Ba1
Pref. Shelf Non-cumulative	(P)Ba1
ING Bank A.S. (Turkey)	
Outlook	Negative(m)
Bank Deposits	Baa3/P-3
NSR Bank Deposits	A1.tr/TR-1
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	baa3
ING Bank Eurasia	
Outlook	Negative
Bank Deposits -Fgn Curr	Ba2/NP
Bank Deposits -Dom Curr	Baa3/P-3
NSR Bank Deposits	Aaa.ru/--
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	baa3

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Key Indicators

ING Groep N.V.[1]

	2013	2012	2011	2010	2009	2008	2007
Total Assets (EUR Mil.)	1,080,624	1,168,632	1,279,228	1,247,110	1,163,643	1,331,663	1,312,510
Shareholders' Equity (EUR Mil.)	52,843	57,688	50,440	46,633	39,778	28,928	39,531
Net Result Before Minority Interests (EUR Mil.)	3,439	4,003	5,853	2,916	(1,053)	(766)	9,508
Double Leverage (ING Groep)	108%	112%	114%	114%	117%	124%	115%

[1] Information based on IFRS financial statements

Opinion

SUMMARY RATING RATIONALE

On 28 May 2015, we downgraded ING Groep N.V.'s (ING Groep) long-term senior unsecured debt rating to Baa1 from A3 and upgraded its senior subordinated programme rating to (P)Baa2 from (P)Baa3, its junior subordinated debt rating to Baa3(hyb) from Ba1(hyb) and the rating on its high-trigger contingent capital notes to Ba1(hyb) from Ba2(hyb).

This concludes the review on the ratings for ING Groep, initiated on 17 March 2015, following the implementation of our new bank rating methodology, particularly the advanced Loss Given Failure (LGF) analysis and the elimination of government support uplift for this bank holding company, following our re-assessment of government support for European banks.

ING Groep is the ultimate holding company of the ING group and the parent company of the main legal entities, namely ING Bank N.V. (long-term deposits A1; LT senior unsecured A1; BCA baa1), and NN Group N.V. (issuer rating Baa2 stable). As a result of the ongoing divestment of the group's insurance operations (held within NN Group), ING Groep will become a `pure' bank holding company by the end of 2016, with stakes limited to the group's banking activities.

ING Groep is the largest financial group by total assets in the Netherlands (EUR993 billion at end-2014), where it holds a strong position in commercial and retail banking. It also has a solid universal banking franchise in Belgium (where it operates through its local subsidiary ING Belgium SA/NV (LT deposits A1; BCA baa1) and Germany (where it operates through its local subsidiary ING DiBa AG). The group has made steady progress on the divestment of its insurance operations - initially agreed with the European Commission in 2009 and amended in November 2012 and November 2013 - and sold its residual stake in Voya Financial Inc. and reduced that of NN Group N.V. (a holding company which absorbed the former ING Verzekeringen in 2014) to around 38%.

For further details on the credit fundamentals of ING Groep's most significant subsidiaries, namely ING Bank N.V. and NN Group N.V., please refer to the respective Credit Opinions.

Rating Drivers

- ING Bank has a leading franchise in the Netherlands, Belgium, Germany and in some other key markets

- Profitability has remained sound despite elevated cost of risk in recent years

- High reliance on wholesale funding mitigated by management's ongoing efforts to lengthen debt maturities and to implement a group-wide asset-liability management strategy

- Capital is adequate to the bank's risk profile and provides satisfactory loss absorption capacity

- Still challenging, albeit improving, operating environment in the Netherlands weighs on the ING Bank's asset quality

Rating Outlook

The outlook is stable on ING Groep's senior unsecured debt rating.

What Could Change the Rating - Up

We might upgrade ING Bank's baa1 BCA (from which the ratings of ING Groep are ultimately derived) if a material improvement in the operating environment in the Netherlands and indeed in the rest of Europe, to which ING Bank is mostly exposed, were to lead to substantially improved asset quality and higher profitability levels. A reduction in reliance on wholesale funding could also be positive for the BCA. A positive change in ING Bank's BCA would likely affect all its ratings and those of ING Groep.

ING Groep's long-term senior unsecured debt ratings could also be upgraded if the group were to increase significantly its outstanding long-term senior unsecured holding company debt and/or junior instruments, other factors being equal.

What Could Change the Rating - Down

Downward pressure on ING Groep's senior unsecured ratings could develop if the standalone credit assessments of ING Bank were to reduce, for example reflecting a deterioration in the banks' asset quality, profitability and/or capital. ING Groep's senior unsecured debt ratings could also be downgraded as a result of a reduction in the stock of the outstanding junior securities.

DETAILED RATING CONSIDERATIONS

The financial data in the following sections are sources from ING Groep's financial statements unless otherwise stated.

CAPITAL STRUCTURE AND LIQUIDITY

ING Groep has historically had an integrated treasury and capital management strategy, whereby perpetual hybrid securities were raised via direct issuance at the level of the ultimate holding company (ING Groep) or via dedicated funding vehicles (such as ING Capital Funding Trust III) guaranteed by ING Groep. Conversely, lower Tier-2 capital or subordinated debt was raised directly from the main banking or insurance subsidiaries, according to their needs. However, NN Group has become increasingly autonomous from the rest of the group from a capital and funding viewpoint, as the disposal of the remaining group's insurance activities has progressed.

With the disposal of the residual stake in Voya in March 2015, the double leverage resulting from the group's net core debt of EUR1.5 billion at end-2014, was completely eliminated. In addition, the group repaid residual state-aid of EUR1 billion on 7 November 2014.

We expect the group to return the net surplus of around EUR6.6 billion at end-March 2015 (pro-forma fo full disposal of the insurance activities, repayment of debt and payment of the 2015 dividend) over the medium to long term.

We note that the disposal of the remaining group's insurance operations has to be completed by 2016 under the terms of the group's agreement with the Dutch state and the European Commission, but we expect the full divestment to be achieved well ahead of this deadline.

NOTCHING CONSIDERATIONS

LOSS GIVEN FAILURE AND ADDITIONAL NOTCHING

We apply our advanced Loss Given Failure (LGF) analysis to ING Groep and ING Bank because these entities are domiciled in the Netherlands, which we consider as an operational resolution regime, following the implementation of the EU Bank Resolution and Recovery Directive (BRRD). Our standard assumptions, which are applied to ING Bank and ING Groep, assume: (1) residual tangible common equity at failure of 3% of tangible banking assets, (2) losses post-failure of 8% of tangible banking assets, (3) junior wholesale deposits of 26% of the bank's total deposit book, (4) a 25% run-off in junior wholesale deposits, (5) a 5% run-off in preferred deposits, and (6) a 25% probability of deposits being preferred to senior unsecured debt.

For the holding company ING Groep's senior unsecured debt, our LGF analysis shows a moderate loss-given-failure resulting from the combination of its own volume and the amount of debt subordinated to it. This results in a Preliminary Rating Assessment in line with ING Bank's BCA or baa1.

For dated subordinated debt issued by ING Groep our LGF analysis confirms a high level loss-given-failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity. We also incorporate additional notching for junior subordinated and preference share instruments reflecting coupon suspension risk ahead of failure. This results in a Preliminary Rating Assessment one notch below ING Bank's baa1 BCA, at baa2.

Please refer to the Credit Opinion for ING Bank, for further details on our LGF analysis.

GOVERNMENT SUPPORT

The implementation of BRRD has led us to reconsider the potential for government support to benefit certain creditors. We now expect low probability of government support for ING Groep's senior unsecured debt rating (to be noted that ING Groep has not historically issued senior usecured debt from the holding company), resulting in no uplift for support to the PRA, in line with our view that holding company creditors could bear losses in resolution and are unlikely to be provided any financial relief from the government. For other junior securities, we continue to believe the probability of government support to be low, and, as such, the ratings for these instruments do not include any related uplift.

ABOUT MOODY'S BANK RATINGS

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment.

When read in conjunction with our research, a fulsome presentation of our judgment 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.

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