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Credit Opinion: ING Groep N.V.

Global Credit Research - 24 Jan 2014

Amsterdam, Netherlands

Ratings

Category	Moody's Rating
Outlook	Negative
Senior Unsecured -Dom Curr	A3
Subordinate MTN -Dom Curr	(P)Baa3
Jr Subordinate -Fgn Curr	Ba1 (hyb)
Jr Subordinate -Dom Curr	Ba1 (hyb)
Pref. Stock	Ba1 (hyb)
ING Bank A.S. (Turkey)	
Outlook	Negative(m)
Bank Deposits	Baa3/P-3
NSR Bank Deposits -Dom Curr	A1.tr/TR-1
Bank Financial Strength	D-
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	baa3
ING Bank N.V., Tokyo Branch	
Outlook	Negative
Bank Deposits	A2/P-1
Commercial Paper -Dom Curr	P-1

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Key Indicators

ING Groep N.V.[1]

	2012	2011	2010	2009	2008	2007	2006
Total Assets (EUR Mil.)	1,168,632	1,279,228	1,247,110	1,163,643	1,331,663	1,312,510	1,226,307
Shareholders' Equity (EUR Mil.)	57,688	50,440	46,633	39,778	28,928	39,531	41,215
Net Result Before Minority Interests (EUR Mil.)	4,003	5,853	2,916	(1,053)	(766)	9,508	8,033
Double Leverage (ING Groep)	112%	114%	114%	117%	124%	115%	113%
Total Leverage (Insurance operations)	31.9%	39.8%	46.6%	52.0%	76.3%	51.9%	52.4%

[1] Information based on IFRS financial statements

Opinion

SUMMARY RATING RATIONALE

ING Groep is the main holding company of the group and parent company of ING Bank N.V. (A2 negative; C-/baa1 negative), ING Verzekeringen N.V. ("ING Insurance", Baa2 negative) and ING U.S., Inc. (Baa3 stable). As a result of the decision to divest the entire insurance operations, ING Groep will become a pure bank holding

company with its interests limited to ING's banking activities. Therefore, ING Groep's senior and subordinated ratings reflect our standard notching for bank holding companies relative to ING Bank's ratings.

ING Groep's A3 senior unsecured debt rating reflects the global franchise and the credit strengths of its banking operating entities, but also our view that the group's profitability will continue to be pressured as a result of the overall economic slowdown and fragile financial market conditions. The rating also reflects the strong systemic support available to the group as well as the structural subordination of the creditors of the holding company to the creditors of the operating companies.

ING Groep is currently one of the major providers of banking and insurance services in the Benelux region; the group ranks among the leaders in both retail and commercial banking and life insurance in the Netherlands, and third in commercial banking in Belgium (ING Belgium SA/NV; A2 negative; C-/BCA baa1 negative). Through the operating entities owned by ING U.S., Inc., the group also has a strong market share in insurance in the US, where it maintained top rankings in the retirement services arena and a good position in life insurance (ING Life Insurance and Annuity Company and ING USA Annuity and Life Insurance Company, both A3 insurance financial strength rating).

The divesting process of the insurance operations agreed with the European Commission (EC) -- initially announced in 2009 and amended in November 2012 and November 2013 -- is now well advanced. As a result of the IPO of ING U.S., Inc. launched in May 2013, followed by a second tranche in October 2013, the group's stake in the US company has fallen to 57%. ING Groep will also divest ING Verzekeringen -- the holding company of all ING Groep's European and Japanese insurance operations --, and expect to launch the IPO in 2014. The bulk of the group's other insurance operations have been sold.

For further discussion of the credit fundamentals of ING Groep's most significant subsidiaries, namely ING Bank N.V., ING Verzekeringen and ING US, Inc., please refer to their respective credit opinions.

Rating Drivers

- ING Bank has leading franchises in key markets

- Profits remain sound despite increased credit costs

- ING Bank's high reliance on wholesale funding is mitigated by on-going efforts to lengthen debt maturities and deploy balance-sheet integration strategy

- ING Bank's capital provides satisfactory loss absorption capacity

- Deteriorating operating environment in the Netherlands weighs on ING Bank's asset quality

- Progress achieved in the separation between banking and insurance activities and the sale process of insurance operations

Rating Outlook

The outlook on ING Groep's A3 senior and Baa3 subordinated ratings is negative, reflecting the negative outlook on ING Bank's ratings.

ING Groep's hybrid securities' Ba1(hyb) and B1(hyb) ratings continue to reflect our view that, given the restructuring of the group, there is still some risk of coupon deferral on these securities. The B1(hyb) rated non-cumulative hybrid security continues to have a positive outlook, reflecting the possibility of upward ratings pressure when the execution risk deriving from the group's restructuring process diminishes. The current rating is not sensitive to a downgrade of ING Groep's senior rating. On the other hand, The Ba1(hyb) rated cumulative hybrid securities have a negative outlook, reflecting the negative outlook of the group's senior rating, as a lowering of the latter would trigger a downgrade of the Ba1(hyb) rating.

What Could Change the Rating - Up

There is currently no upward pressure on ING Groep's long-term senior ratings as upgrades of ING Bank's senior ratings are unlikely in the near term. Any upward pressure on ING Bank's BFSR is unlikely to result in an upgrade of the bank's long-term debt and deposit ratings given the high support assumptions currently factored into the ratings and more generally against the background of a longer-term uncertain support environment for European banks.

What Could Change the Rating - Down

Downward ratings pressure on ING Groep's ratings could result from a downgrade of ING Bank's ratings, which could itself be triggered by (1) a significant deterioration in the macro-economic environment beyond our current expectations, leading to higher credit losses, and margins/earnings pressure; (2) a reappraisal of ING Bank's reliance on wholesale funding in the context of an increasingly fragile funding environment; and (3) weaker-than-expected franchise value or capital because of the current restructuring of the ING Groep; or (4) a re-assessment of systemic support currently factored into the ratings.

Developments that could lead to a wider notching between ING Groep's rating and ING Bank's rating would include (1) an increase in the holding company's double leverage/significant parent indebtedness; and/or (2) a multi-notch downgrade or series of downgrades for the rating of the bank to the lower range of investment-grade ratings; and/or (3) higher than expected risks and costs related to the sale of insurance operations.

Capital Structure and Liquidity

The group has historically had an integrated treasury and capital management strategy, whereby perpetual hybrid securities were raised via direct issuance of the 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 operations according to their needs. However, as ING Groep will sell its insurance activities, ING Verzekeringen is expected to become increasingly autonomous.

At end-September 2013, the double leverage of ING Groep was approximately 106% as per our estimate, down from 112% at year-end 2012. This ratio is calculated as the ratio between capital investments in subsidiaries and shareholders' equity, where hybrids are included in both the numerator and denominator. It is based on pro-forma figures reported by ING Groep as at the end of Q3 2013. ING intends to use the proceeds of the divestments of ING U.S., Inc and its residual stake in SulAmerica to repay the double leverage at the holding company, which seems feasible based on ING U.S., Inc.'s share price achieved in the second tranche of the entity's IPO in October 2013.

On 6 November 2013, ING Groep announced that it reached an agreement with the EC, which brought additional changes to the revised timeline for the divestment of its insurance operations agreed in November 2012. Under the new timeline, ING Groep will have to sell 50% of its European and Japanese insurance operations before year-end 2015, whereas previously, the EC had required the divestment of the group's Asian insurance operations by the end of 2013. In practice, this allows ING Groep to divest its Japanese operations together with its European operations through ING Verzekeringen's planned public offering. We consider that this decision is credit positive for ING Groep as it facilitates the divestment of the Japanese operations, which otherwise may have been difficult to sell on a standalone basis due to the risks related to its closed blocked VA business, This measure reinforces our view that the group has a reasonable timeline to complete the sale of its remaining insurance and investment management operations in compliance with the EC requirements and without resorting to a forced sale of the assets. For more details on the agreement, please see Moody's Credit Focus ING Bundles Its Japanese and European Insurance Operations, a Credit Negative for ING Verzekeringen dated 11 November, 2013.

ING Groep's capital still includes EUR1.5 billion residual state aid. In November 2012, ING Groep reached an agreement with the EC to set the repayment schedule of the then remaining state aid in four equal tranches of EUR1.125 billion until May 2015, including the 50% associated premium. The first two tranches were repaid on 26 November 2012 and 6 November 2013 respectively. The other tranches are expected to be fully up-streamed from ING Bank. We believe the phased repayment will give ING Bank sufficient time to retain earnings and consolidate its capital, while continuing to comply with Basel III.

The subordinated debt issued by ING Groep N.V. are perpetual securities. Hence, the refinancing risk only relates to senior debt. Approximately EUR5.3 billion senior debt of ING Groep was outstanding at end-September 2013 but none of them mature before 2015.

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