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Credit Opinion: ING Groep N.V.

Global Credit Research - 19 Dec 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 Eurasia	
Outlook	Negative(m)
Bank Deposits	Baa2/P-2
NSR Bank Deposits -Dom Curr	Aaa.ru/--
Bank Financial Strength	D
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	baa2

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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

ING Groep N.V. (ING Groep) is the ultimate holding company of the ING group and the parent company of the

main subgroups, namely ING Bank N.V. (deposits A2 negative; BFSR C- stable / BCA baa1), NN Group N.V. (issuer rating Baa2 negative) and Voya Financial Inc. (debt rating Baa3 positive). As a result of the ongoing divestment of the group's insurance operations, ING Groep will ultimately become a `pure' bank holding company, with interests limited to the group's banking activities. As such, the ratings of ING Groep's senior and subordinated debt are positioned one notch below those of ING Bank, in line with our current standard notching for bank holding companies.

ING Groep is the largest financial group by total assets in the Netherlands (EUR991 billion at end-September 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; deposits A2 negative; BFSR C- stable / BCA baa1) and Germany (where it operates through its local subsidiary ING DiBa AG; A2 negative; BFSR C stable / BCA a3). 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 reduced its stake in Voya Financial Inc. to around 19%, and that of NN Group N.V. (a holding company which absorbed the former ING Verzekeringen earlier this year) to 68%.

On 18 December 2014, we affirmed ING Groep's A3 rating, following the affirmation of ING Bank's A2 long-term and deposit ratings and its Prime-1 short-term ratings, which in turn resulted from the affirmation of the bank's C- BFSR. This reflects our view that ING Bank's risks and business profile remain compatible with the current rating levels, despite the challenges that it faces along with the other Dutch and European banks in the current weak operating environment. ING Groep's A3 long-term ratings and ING Bank's A2 long-term ratings continue to carry a negative outlook reflecting our view of declining systemic support. However, we changed the outlook on the C- BFSR of ING Bank to stable from negative to reflect that a high degree of geographical diversification of its operations is positive for the bank's asset quality profile and profitability, which have both been resilient against the backdrop of a difficult operating environment in the Netherlands.

For a further discussion of the credit fundamentals of ING Groep's most significant subsidiaries, namely ING Bank N.V. and NN Group N.V., please refer to their 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 credit costs 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

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

Rating Outlook

The outlook of all ratings of ING Groep is negative, in line with that on the ratings of ING Bank (and on the supported ratings of many large European banks), from which ING Groep's ratings are derived.

The negative outlook on the long-term ratings of ING Bank is driven by by the recent adoption of the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) regulation in the EU. In particular, the adoption of the BRRD/SRM package reflects that, with the legislation underlying the new resolution framework now in place and the explicit inclusion of burden-sharing with unsecured creditors as a means of reducing the public cost of bank resolutions, the balance of risk for banks' senior unsecured creditors has shifted to the downside. Although our support assumptions are unchanged for now, there is an increased probability that our assumptions will be revised downwards to reflect the new framework. For further details, please refer to our Special Comment: "Reassessing Systemic Support for EU Banks", published on 29 May 2014.

What Could Change the Rating - Up

The negative outlook on the ratings of ING Groep (which are derived from those of ING Bank) indicates that upgrades are unlikely over the next 12 months. However, some upwards rating pressure could develop on the ratings of ING Bank 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 ratings.

What Could Change the Rating - Down

Downward pressure on ING Groep's ratings could result from the lowering of ING Bank's C- BFSR (BCA baa1), which in turn could be trigged by higher-than-expected deterioration in its credit fundamentals, a weakening in its intrinsic creditworthiness, and/or if we were to downgrade The Netherlands's sovereign rating. In addition, a downward revision of our current assumptions of systemic support - which may arise in the context of the new EU resolution package - could also have negative implications for the A3 long-term ratings of ING Groep.

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 ING Bank to the lower range of investment-grade ratings.

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 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 is further progressed.

At end-September 2014, the double leverage of ING Groep was approximately 106% (our calculation), down from 108% at end-2013 and 112% at end- 2012. We calculate this metric using the pro-forma figures disclosed by ING Groep as the ratio between capital investments in subsidiaries and shareholders' equity, where hybrids are included in both the numerator and denominator. ING intends to use the proceeds of the divestments of Voya Financial Inc. and NN Group N.V. to repay the double leverage at the holding company. At end-September 2014, the group's net core debt was EUR1.5 billion. Repayment of the state aid of EUR1 billion was made on 7 November 2014 from the group. The net proceeds from the 13 November 2014 additional sale of Voya shares were around EUR1.1 billion. The pro-forma double leverage - when taking into account both transactions - remained around EUR1.5 billion. Management has indicated that the combined market value of its stakes in NN Group and Voya Financial amounted to EUR7.9 billion at end-September 2014, corresponding to a net value surplus of around EUR6.4 billion. This surplus reduces to EUR5.4 billion when taking into account the full repayment of the state aid of EUR1 billion the group made on 7 November 2014.

The group has yet to indicate how the net surplus (after the full disposal of the insurance activities and repayment of debt) will be employed. In our view, this amount could be (1) returned to shareholders, (2) injected in ING Bank; or (3) used to finance growth. It is also unclear at this stage whether ING Groep will remain the holding company for ING Bank in the context of the implementation of the BRRD or will be dismantled.

We note that the disposal of the remaining group's insurance operations will have to be completed by 2016 but we expect the full divestment to be achieved well ahead of this deadline. We also note that the group repaid the residual state aid of EUR1.025 billion on 7 November 2014 (in the form of repayment of Tier 1 securities), following the positive conclusion of the ECB's comprehensive assessment. We consider this as a positive development for ING Groep and a key milestone in its fully recovery despite the correspondent reduction in Tier 1 capital within the group, whose capitalisation remains adequate in our view.

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 http://www.moodys.com for the most updated credit rating action information and rating history.

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