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## INVESTORS SERVICE

### CREDIT OPINION

11 April 2017

#### Update

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#### RATINGS

##### ING Groep N.V.

Domicile	Amsterdam, Netherlands
Long Term Debt	Baa1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Not Assigned
Type	Not Assigned
Outlook	Not Assigned

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.

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## ING Groep N.V.

Update following rating affirmation at Baa1

### Summary Rating Rationale

ING Groep is the parent company of ING Bank N.V. (ING Bank; A1/A1 stable; baa1), the largest Dutch bank by assets (EUR 845 billion at December 2016) and one of the largest financial institutions in Europe and globally.

ING Groep's Baa1 long-term senior unsecured debt rating reflects primarily its most significant subsidiary ING Bank's sound credit fundamentals, notably its (1) resilient profitability, based on a diversified business mix, (2) its low asset risk, despite exposures to sensitive market segments as part of its diversified wholesale banking operations, and (3) its sound liquidity profile. For further details on ING Bank's baseline credit assessment (BCA), please refer to the related Credit Opinion. ING Groep's senior unsecured rating also reflects our Loss Given Failure (LGF) analysis which concludes that there is a moderate risk of loss due to the structural subordination of ING Groep's senior debt to that of ING Bank in a resolution scenario, which results in no LGF uplift. Furthermore we consider the probability of government support to ING Groep's senior unsecured debt to be low. We believe that the Dutch government's support would likely be provided only to the operating entity ING Bank given the risks its failure would pose to financial stability, which results in no uplift either. Consequently ING Groep's senior unsecured debt rating is in line with ING Bank's BCA of baa1.

### Credit Strengths

- » ING Bank's profitability is strong and has been resilient over the last few years, due to a balanced business mix across products, business lines and geographies.
- » Asset risk is low, despite the fact that the generally well diversified wholesale banking business includes exposures to sensitive activities (e.g. oil and commodity finance) and geographies (e.g. Ukraine and Turkey).
- » ING Bank's liquidity and funding profile is sound, despite reliance on confidence-sensitive market funding, which is mitigated by lengthening debt maturities and group-wide asset and liability management.

### Credit Challenges

- » Moderate growth prospects in the economies where the bank operates challenge ING Bank's profitability.
- » Low interest rates in the EU exert pressure on the bank's net interest margin.

## Rating Outlook

The stable outlook reflects our expectations that ING Bank's profitability will resist to pressure from low interest rate over the next 12-18 months, while asset risk will remain low and the capital position will continue to strengthen. It also incorporates our expectation that bail-in-able debt buffers will increase as ING Groep announced in November 2016 that compliance with TLAC/MREL requirements will be achieved through structural subordination. However, additional protection provided by the increased buffers will primarily benefit to ING Bank's senior creditors and depositors.

## Factors that Could Lead to an Upgrade

ING Groep's ratings would likely be upgraded as a result of an upgrade of ING Bank's BCA. We could upgrade ING Bank's baa1 BCA if a material improvement in the operating environment in the EU countries to which it is mostly exposed were to lead to substantially improved asset risk and higher profitability levels. A strengthening capital position and a reduction in reliance on wholesale funding could also be positive for the BCA.

ING Groep's senior unsecured debt rating could also be upgraded if the holding company were to issue higher than expected amounts of long-term debt and/or junior instruments, other factors being equal.

## Factors that Could Lead to a Downgrade

Conversely, ING Groep's ratings could be downgraded as a result of a downgrade of ING Bank's BCA. The latter could be downgraded as a result of an unexpected deterioration of asset risk and profitability or a lower than expected capital position.

## Key Indicators

Exhibit 1

### ING Groep N.V. (Consolidated Financials) [1]

	12-16 <sup>2</sup>	12-15 <sup>2</sup>	12-14 <sup>2</sup>	12-13 <sup>2</sup>	12-12 <sup>2</sup>	Avg.
Total managed assets (EUR thousand)	818,049,994	977,890,991	964,337,999	91,058,487,988	1,166,190,998	-8.5 <sup>3</sup>
Total managed assets (USD thousand)	862,840,029	1,062,278,397	1,166,900,206	1,458,534,976	1,537,496,372	-13.4 <sup>3</sup>
Pretax Preprovision profits / Average Managed Assets (%)	0.8	0.8	0.7	0.5	0.5	0.7 <sup>4</sup>
Net Income / Average Managed Assets (%)	0.6	0.5	0.3	0.3	0.3	0.4 <sup>4</sup>
24 Month Coverage (%)	44.8	41.9	22.5	25.2	27.3	32.3 <sup>4</sup>
Secured Debt / Gross Tangible Assets (%)	-	-	-	0.0	0.5	0.3 <sup>4</sup>
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	5.8	4.6	4.7	4.0	4.0	4.6 <sup>4</sup>
Problem Loans / Gross Loans (Finance) (%)	2.4	2.2	3.2	2.9	2.6	2.7 <sup>4</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] IFRS [3] Compound Annual Growth Rate (%). Any interim period amounts presented are assumed to be fiscal year end amounts for calculation purposes [4] Simple average of periods presented

Source: Moody's Financial Metrics

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.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Detailed Rating Considerations

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

ING Groep holds a strong position in wholesale and retail banking. It also has a solid universal banking franchise in Belgium and Germany, where it operates through its local subsidiaries ING Belgium SA/NV (A1/A1 stable; baa1) and ING DiBa AG (A2 stable, a2), respectively. In April 2016, the group has completed the divestment of its insurance operations by the sale of its remaining 14.1% stake in NN Group N.V. (a holding company which absorbed the former ING Verzekeringen in 2014), in accordance with European Commission's decision on State aid of 2009, amended in November 2012 and November 2013. As a result, ING Groep has become a "pure" bank holding company, with stakes limited to the group's banking activities.

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 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.

In the context of the Group's resolution strategy, which is driven by the Bank Recovery and resolution Directive (BRRD), ING announced, in November 2016, that ING Groep will be the group's designated resolution entity. This single-point of entry strategy has been approved by the European Single Resolution Board (SRB) in January 2017. This will allow the group to issue senior unsecured and subordinated debt instruments qualifying for the European minimum requirement of own funds and eligible liabilities (MREL) and Financial Stability Board (FSB)'s total loss-absorbing capacity (TLAC) at the holding company.

In a resolution scenario, the securities issued by ING Groep would be structurally subordinated to the debt obligations of ING Bank, as the latter must be serviced first in case of insolvency or resolution before the funds can be up streamed to the holding company. ING Groep intends to issue at least EUR 16 billion of senior unsecured debt eligible to MREL and TLAC over the next 2-3 years from the holding. These instruments will replace existing senior unsecured debt issued by ING Bank and maturing over the next two years. In addition, ING Bank issued in April 2016, EUR 1 billion of Tier 2 bonds with an issuer substitution option through exchange to ING Groep Tier 2 bonds until April 2018. All these elements will allow the group to comply with its TLAC requirement ahead of 2019.

As of December 2016, ING Groep held a capital surplus of EUR 6.2 billion, putting its 14.2% Basel 3 fully-applied CET 1 ratio 1.6 percentage point above ING Bank's own CET 1 ratio of 12.6%. The difference between the bank and the group ratios stems from the accumulated reserves and the profit retention policy at the group level. ING Groep has accumulated positive reserves from retained earnings and the sale of its insurance subsidiaries (Voya and NN Group) which were not distributed to shareholders and kept within the group in the perspective of future regulatory requirements (SREP, TLAC and MREL). Although part of this excess capital can be distributed to shareholders in the future, we do not expect this to happen in the short run as this surplus can help the group absorb the impact of upcoming regulatory changes. Nevertheless, both ING Groep and ING Bank's CET 1 ratios currently stand above the minimum requirement of 11.75% to be applied in 2019.

## Notching Considerations

### LOSS GIVEN FAILURE AND ADDITIONAL NOTCHING

ING Groep (together with its subsidiary ING Bank) is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider to be an Operational Resolution Regime. We assume a residual tangible common equity at failure of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits (amounting to 26% of total deposits), a 5% run-off in preferred deposits, and assign a 25% probability of deposits being preferred to senior unsecured debt. These are in line with our standard assumptions.

Our LGF analysis indicates a moderate loss-given-failure for ING Groep's senior unsecured debt leading to no uplift from ING Bank's Adjusted BCA.

For subordinated debt issued by ING Groep our LGF analysis indicates a high loss-given-failure, which result in a negative adjustment, which result in a rating one notch below ING Bank's BCA. As regards junior subordinated debt and preference shares, we also incorporate additional downward notching to reflect coupon suspension risk ahead of failure, of one and two notches, respectively.

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

**GOVERNMENT SUPPORT**

We consider the probability of government support to ING Groep's senior unsecured debt to be low as such support would likely be provided only to the operating entity in order to maintain its critical functions and mitigate risks to financial stability. Similarly, for junior securities, the probability of government support is low, and, as such, the ratings for these instruments do not include any related uplift.

## Ratings

Exhibit 2

Category	Moody's Rating
<b>ING GROEP N.V.</b>	
Outlook	Stable
Senior Unsecured	Baa1
Subordinate -Dom Curr	Baa2
Jr Subordinate -Fgn Curr	Baa3 (hyb)
Jr Subordinate -Dom Curr	Baa3 (hyb)
Pref. Stock	Baa3 (hyb)
Pref. Stock Non-cumulative	Ba1 (hyb)
Pref. Shelf Non-cumulative	(P)Ba1
<b>ING BANK A.S. (TURKEY)</b>	
Outlook	Negative
Bank Deposits -Fgn Curr	Ba2/NP
Bank Deposits -Dom Curr	Ba1/NP
NSR Bank Deposits	Aa1.tr/TR-1
Baseline Credit Assessment	b1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
<b>ING BANK N.V., TOKYO BRANCH</b>	
Outlook	Positive
Bank Deposits	A1/P-1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Commercial Paper -Dom Curr	P-1
<b>ING BANK N.V.</b>	
Outlook	Positive
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured	A1
Subordinate	Baa2
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1
<b>ING BANK N.V., SYDNEY BRANCH</b>	
Outlook	Positive
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured -Dom Curr	A1
Commercial Paper	P-1
Other Short Term	(P)P-1
<b>ING DIBA AG</b>	
Outlook	Stable
Bank Deposits	A2/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
<b>ING BANK N.V. (SINGAPORE)</b>	
Outlook	Positive
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured	A1
<b>ING BANK EURASIA</b>	
Outlook	Stable
Bank Deposits -Fgn Curr	Ba2/NP
Bank Deposits -Dom Curr	Baa3/P-3
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured -Dom Curr	Baa3

**ING GROENBANK N.V.**

Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured MTN -Dom Curr	(P)A1
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Investors Service

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