MOODY'S
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Credit Opinion: ING Bank N.V.

Global Credit Research - 18 Jan 2016

Amsterdam, Netherlands

Ratings

Category	Moody's Rating
Outlook	Stable
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	P-1
Other Short Term	(P)P-1
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
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
ING Bank Eurasia	
Outlook	Stable
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
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)

Contacts

Analyst	Phone
Laurent Le Mouel/Paris	33.1.53.30.10.20
Guillaume Lucien-Baugas/Paris	
Nicholas Hill/Paris	
Erwan Audigou/London	44.20.7772.5454

Key Indicators

ING Bank N.V. (Consolidated Financials)[1]

	[2]**6-15**	[2]**12-14**	[2]**12-13**	[3]**12-12**	[3]**12-11**	**Avg.**
Total Assets (EUR million)	**860,749.0**	**800,084.0**	**765,313.0**	**834,433.0**	**961,572.0**	[4]**-2.7**
Total Assets (USD million)	**959,051.8**	**968,144.1**	**1,054,556.9**	**1,100,109.4**	**1,248,259.8**	[4]**-6.4**
Tangible Common Equity (EUR million)	**32,686.0**	**31,839.5**	**29,910.2**	**30,998.5**	**32,007.2**	[4]**0.5**
Tangible Common Equity (USD million)	**36,418.9**	**38,527.5**	**41,214.6**	**40,868.2**	**41,550.0**	[4]**-3.2**

Problem Loans / Gross Loans (%)	--	3.2	3.1	2.7	2.3	[5]**2.8**
Tangible Common Equity / Risk Weighted Assets (%)	10.6	10.7	9.9	11.1	9.7	[6]**10.4**
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	--	44.6	44.2	40.9	36.2	[5]**41.5**
Net Interest Margin (%)	1.5	1.6	1.5	1.4	1.5	[5]**1.5**
PPI / Average RWA (%)	2.8	2.2	2.2	1.8	2.0	[6]**2.4**
Net Income / Tangible Assets (%)	0.6	0.6	0.4	0.5	0.5	[5]**0.5**
Cost / Income Ratio (%)	50.7	57.9	56.4	63.4	60.1	[5]**57.7**
Market Funds / Tangible Banking Assets (%)	31.7	30.0	29.3	34.4	35.7	[5]**32.2**
Liquid Banking Assets / Tangible Banking Assets (%)	33.9	29.5	28.0	22.6	22.1	[5]**27.2**
Gross loans / Due to customers (%)	106.6	107.1	108.4	118.8	121.5	[5]**112.5**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel III - fully-loaded or transitional phase-in & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

On 28 May 2015, we upgraded the long-term senior unsecured debt and deposit ratings of ING Bank to A1 from A2 and affirmed the bank's baa1 standalone baseline credit assessment (BCA), the Baa2 subordinated debt rating and its Prime-1 short-term rating. Concurrently, we assigned a Counterparty Risk (CR) Assessment of Aa3(cr)/Prime-1(cr) to the bank.

We also downgraded the long term senior unsecured debt rating for ING Groep to Baa1 from A3, 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 the high-trigger contingent capital notes to Ba1(hyb) from Ba2(hyb).

This action concludes the review on the ratings for ING Bank and ING Groep initiated on 17 March 2015, following the implementation of our new bank rating methodology, particularly the Advanced Loss Given Failure (LGF) analysis - which provides a two-notch uplift to the bank's long-term deposit and senior unsecured ratings - partly offset by a reduction in systemic support uplift to one notch, following our re-assessment of government support for European banks.

ING Bank is the second-largest Dutch bank by total assets and one of the largest financial institutions in Europe and globally. The current baa1 BCA reflects the bank's (1) strong franchise in the Benelux region and Germany, which is rooted in a robust retail presence; (2) good degree of geographical diversification provided mainly by its ING Direct franchise and the global Commercial Banking network; (3) sound profitability; (4) adequate capital position; and (5) sound liquidity. These strengths are partly offset by the downside to asset risk caused by the still challenging, albeit improving, operating environment in the EU countries where ING Bank is an active player.

RATING DRIVERS

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

- Profitability has been resilient to challenging economic conditions and is picking up again;

- Wholesale funding is high, mitigated by lengthening debt maturities and group-wide asset-liability management strategy;

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

- Asset quality is improving with the recovering Dutch economy, but exposures to riskier market segments remain material;

- Large volume of deposits and senior debt resulting in deposit ratings benefiting from a very low loss-given-failure, leading to a two-notch uplift from the BCA;

- Moderate probability of government support given its systemic nature, resulting in a one-notch uplift for long-term deposits and senior unsecured debt.

RATING OUTLOOK

The outlook is stable on ING Bank's long-term deposit and senior unsecured debt ratings.

WHAT COULD CHANGE THE RATING - UP

We could upgrade ING Bank's baa1 BCA if a material improvement in the operating environment in the EU countries to which ING Bank is mostly exposed were to lead to substantially improved asset risk 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 ratings.

ING Bank's long-term debt and deposit ratings could also be upgraded if the holding company ING Groep were to issue a significant amount of long-term debt and/or junior instruments, other factors being equal.

WHAT COULD CHANGE THE RATING - DOWN

ING Bank's ratings could be downgraded as a result of a lower BCA, for example in case of higher-than-expected deterioration of the bank's credit fundamentals.

DETAILED RATING CONSIDERATIONS

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

ING BANK HAS A LEADING FRANCHISE IN THE NETHERLANDS, BELGIUM, GERMANY AND IN SOME OTHER KEY MARKETS

ING Bank has a robust franchise in the core retail and corporate banking of the regions in which it operates. The bank has preserved good pricing power and steady earnings generation capacity both in the markets where it is a leading player (i.e., retail Benelux and Germany) and in those where it is a second-league player with strong expertise in niche areas (i.e., ING Direct, commercial banking). The Netherlands is ING Bank's home market, where it holds a strong position in both commercial banking (with a 20%-30% share in the SME and mid-size corporate market segments) and retail banking (about 20% market share).

ING Bank also has a solid universal banking franchise in Belgium through ING Belgium (LT deposits A1; BCA baa1), which ranks fourth in the local market with market shares of 17%-18%. ING Belgium also consolidates the activities of ING Luxembourg (unrated), which is a wholly owned subsidiary involved in the local retail, corporate and private banking businesses.

ING Bank's retail banking operations contribute to around 60% of the bank's results and display a good degree of geographical diversification. ING Bank maintains significant presence in Australia, France, Germany, Italy and Spain through its ING Direct franchise, where its market share is smaller in comparison with its two home markets but in which the bank is, nevertheless, a lead provider of internet banking and mobile banking services. The bank's position is particularly strong in Germany where it operates through ING DiBa, which accounts for more than half of total deposits gathered through ING Direct. Furthermore, ING Bank has significant presence in Poland, Turkey and Romania, which management consider as growth markets.

ING Bank's commercial banking business accounts for around 40% of the bank's earnings. Activities undertaken within this business line include financial markets, structured finance (i.e., corporate credit including energy, transport and infrastructure, specialised financing, trade and export finance), general lending, payment and cash management, factoring, working capital financing and real estate. ING Bank has maintained a leadership position in these business segments in both Benelux and Central & Eastern Europe, whilst it also has a network in Asia and the Americas.

PROFITABILITY HAS BEEN RESILIENT TO CHALLENGING ECONOMIC CONDITIONS AND IS PICKING UP AGAIN

ING Bank's recurring profitability has remained robust in 2012-2013, despite deterioration in its asset quality profile, and is picking up again in the improving macroeconomic environment. The bank's recurring earnings base has proven resilient and operating efficiency is good, as indicated by a cost-to-income ratio of 56%, in September 2015. Cost of risk has trended down in recent quarters and we expect that the improved loan performance, underpinned by a sustained recovery in the Dutch economy, will continue to support low credit costs in the coming quarters.

Recurring earnings have remained relatively steady over the past three years. Interest income, which accounts for 75%-80% of the bank's total underlying income, has remained fairly stable despite margin pressure on savings, higher funding costs (as a result of lengthening of the duration of wholesale funding), and lower returns from the investment portfolio (following de-risking operations). In addition, the protracted low interest rate environment exerts sustained negative pressure on interest margins, which ING Bank mitigates by deposit repricing (where possible) and originating new lending at higher margins.

The average Net Income / Tangible Banking Assets for the last 3 years of 0.5% corresponds to a Profitability score of baa2, which we adjust upwards by one notch to baa1 to take into account the relatively high degree of diversification of its earnings.

WHOLESALE FUNDING IS HIGH, MITIGATED BY LENGTHENING DEBT MATURITIES AND GROUP-WIDE ASSET-LIABILITY MANAGEMENT STRATEGY

Despite a sizeable deposit book, ING Bank's reliance on wholesale funding remains high, reflecting the structural features of the Dutch banking system. However, we consider that the ongoing efforts deployed by the bank over the past few years to mitigate this weakness have proven successful. These measures included (1) the lengthening of the maturity profile of its wholesale funding to reduce refinancing risk; (2) the use of the excess funding available in those foreign cash-rich subsidiaries to fund more constrained entities through an active group-wide asset-liability management strategy; and (3) the increase in the volume of deposits in the Netherlands. This is reflected in the assigned score of baa2 for Funding Structure, which factors in the elevated reliance on wholesale funding (as indicated by a Market Funds / Tangible Banking Assets ratio of 30%), partly offset by the good quality of its deposit base and term structure of its wholesale funding maturity profile.

Combined with the effects of moderate loan growth, the bank's improved funding profile has contributed to a stronger liquidity profile. Like other Dutch banks, ING Bank must comply with a minimum Liquidity Coverage Ratio (LCR) of 100% since October 2015. The bank has also significantly improved the liquidity at ING Bank N.V., the Dutch parent company, which, on a standalone basis, used to have the largest customer funding gap within the group, albeit reducing. Another positive feature of the bank's balance sheet is the relatively low asset encumbrance, which leaves sufficient amount of loans available to be packaged into central bank eligible securitizations, if required.

The overall sound liquidity and funding position of the bank is reflected in the baa2 combined score for Liquidity, which we assign to ING Bank.

CAPITAL IS ADEQUATE TO THE BANK'S RISK PROFILE AND PROVIDES SATISFACTORY LOSS ABSORPTION CAPACITY

ING Bank reported a fully-loaded Common Equity Tier 1 (CET1) ratio of 11.3% at end-September 2015, an increase from 10.0% at end-2013. This increase was mainly driven by earnings retention but was partly offset by the negative impact from the introduction of Basel III through CRD IV and the Capital Requirement Regulation (CRR) in Europe, the payment of the dividend to the group and the effect of the discontinuation of the staff defined benefits pensions plan. Overall, we consider that the bank's capital base, together with its earnings power, provides it with a satisfactory loss absorption capacity.

The bank's Tangible Common Equity / RWA ratio of 10.6% at end-September 2015 is expected to continue to increase, mainly driven by earnings retention. This correspond to a Capital score of baa2, which we adjust to baa1 to reflect that the bank's creditors could benefit from the capital surplus of around EUR7 billion (pro-forma) at end-September 2015 at the level of ING Groep, which we only expect to be returned to shareholders over the medium to long term. We also note that the bank's leverage ratio, according to the EU Delegated Act, was 3.9% in September 2015, a measure of nominal leverage weaker than many of its global peers, reflecting the relatively large portion of mortgages in its loan book.

ASSET QUALITY IS IMPROVING, WITH THE RECOVERING DUTCH ECONOMY, BUT EXPOSURES TO RISKIER SEGMENTS REMAIN MATERIAL

ING Bank's exposure to the Dutch economy is much smaller than its closest peers, owed to the high degree of geographical diversification of its operations (international exposure represents around 60% of its loan book). As a consequence, ING Bank was less affected than its Dutch peers by deterioration in its asset quality between 2011 and 2014, which was driven by a weak operating environment in the Netherlands. The bank's credit cost increased to 39 basis points (bps) of average customer lending, at year-end 2013, slightly lower than the Dutch major banks' average of 46 bps, at the same date. Loan loss provisions have abated since then to set up at 29 bps in September 2015, a low 20% of pre-provision income. We expect credit cost to stabilize at a low level over the outlook horizon, as the domestic economy recovers and no major deterioration of economic conditions is expected in other bank's markets.

The bank's exposure to riskier segment remains material, though, but its capital buffer and capital-generation capacity are sufficient to withstand those risks. Real Estate Finance portfolio represented around 65% of the bank's Tier 1 capital at end-2014, with the largest concentration in the Netherlands (59%), Spain (9%) and Italy (6%). The cost of risk on this portfolio dropped to 22 bps in 2014 from 135 bps in 2013 and 125 bps for full-year 2012 while the NPL ratio decreased to 8.1% at end-2014 from 10.7% at year-end 2013 and 7.5% at year-end 2012..

Credit costs related to the bank's Dutch residential mortgage book was 11 bps of gross loans in June 2015, a reduction from December 2014 (13 bps). The cost of risk for residential mortgages is low by European standards but we note that the Dutch market has some characteristics, including very high loan-to-value ratios and the high proportion of bullet loans (a historically tax-driven feature), which render ING Bank, like other Dutch retail banks, vulnerable to a more severe deterioration in the macroeconomic environment. However, measures introduced in 2013, by the Dutch government to limit the tax deductibility of interests paid on mortgages and progressively decrease the maximum loan-to-value of mortgage loans contain loss risks.

ING Bank has limited exposures to countries that are experiencing geopolitical issues. Outstanding exposures to Russia have been reduced by EUR1.6 billion, to EUR5.7 billion, in September 2015 and present a strong quality, with a NPL ratio of 3%. At the same date, total outstanding exposures to Ukraine amounted to EUR1.2 billion, with a high NPL ratio of 55%; these exposures are adequately provisioned, with a coverage ratio increased to 57%, from 51% in June 2015. Finally, the bank's exposure to the oil and gas industry amounted to EUR27 billion in September 2015, but 84% are not directly exposed to oil price risk and loan loss on the remaining 16% is limited.

We assign an Asset Risk score of baa1 to ING Bank, which reflects the good asset quality profile of the bank but it is constrained by its still large (albeit declining) concentration to the CRE sector.

ING BANK'S BCA IS SUPPORTED BY ITS STONG+ MACRO PROFILE

The `Strong+' Macro Profile for ING Bank is mainly driven by its exposure to the Netherlands, accounting for around 30% of its total economic exposures. Dutch banks benefit from operating in a wealthy and developed country with a very high degree of economic, institutional and government financial strength as well as very low susceptibility to event risk. The main risks to the banking system stem from the households sector, which has high leverage due to substantial amount of mortgage debt that exceeds 100% of GDP. However, we also consider that Dutch households have substantial amounts of savings, which are partly locked in their pensions.

The Dutch banking system is highly reliant on wholesale funding, which we consider a credit weakness. Compared to other European countries, it has a relatively low stock of bank deposits because of the incentives offered to Dutch households to invest large portions of their savings in pension funds.

NOTCHING CONSIDERATIONS

LOSS GIVEN FAILURE AND ADDITIONAL NOTCHING

We apply our Advanced Loss Given Failure (LGF) analysis to ING Bank (and the broader ING Groep) because it is 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, 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.

Under these assumptions, ING Bank's deposits are likely to face very low loss-given-failure, due to the loss absorption provided by subordinated debt (amounting to 6% of tangible banking assets in failure) and, potentially, by senior unsecured debt (about 9% of tangible banking assets) should deposits be treated preferentially in a resolution, as well as the volume of deposits themselves, amounting to 10% of tangible banking assets in failure. This results in a two-notch uplift from the bank's BCA, to a2. For ING Bank's senior unsecured debt, our LGF analysis also shows a low loss-given-failure resulting from a combination of its own volume and the amount of debt subordinated to it. This also results in a two-notch uplift from the BCA, to a2.

For the holding company ING Groep's senior unsecured debt, our LGF analysis shows a high loss-given-failure as a result of the combination of its own volume and the amount of debt subordinated to it, based on our assumption that in a resolution, this debt will absorb losses before the senior unsecured debt at the operating bank. This results in no uplift from ING Bank's BCA of baa1.

For junior securities issued by ING Bank and 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. The resulting notching is set out below.

GOVERNMENT SUPPORT

The implementation of BRRD has led us to reconsider the potential for government support to benefit certain creditors. We now expect moderate probability of government support for ING Bank's junior deposits and senior unsecured debt, resulting in a one-notch additional uplift.

For ING Groep's senior unsecured debt, we now consider the probability of support from the state to be low and therefore we no longer expect to include uplift for government support. This is because such support would only be likely to be provided to the operating entity, to be able to maintain its critical functions and mitigate risks to financial stability, from its failure.

For junior securities, we continue to believe that the probability of government support is low, and, as such, the ratings for these instruments do not include any related uplift.

COUNTERPARTY RISK ASSESSMENT

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessment is positioned at Aa3(cr)/Prime-1(cr). The CR Assessment, prior to government support, is positioned three notches above the Adjusted BCA of baa1, based on the cushion against default provided to the senior obligations represented by the CR Assessment by subordinated instruments amounting to about 25% of Tangible Banking Assets.

The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

The CR Assessment also benefits from one notch of government support, in line with our support assumptions on deposits and senior unsecured debt. This reflects our view that any support provided by governmental authorities to a bank which benefits senior unsecured debt or deposits is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, consistent with our view that governments are likely to seek to maintain such operations as a going-concern in order to reduce contagion and preserve a bank's critical functions.

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.

Rating Factors

ING Bank N.V.

Macro Factors	
Weighted Macro Profile	**Strong +**

Financial Profile

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.2%	a3	←→	baa1	Quality of assets	Sector concentration
Capital						
TCE / RWA	10.6%	baa2	↑	baa1	Nominal leverage	Expected trend
Profitability						
Net Income / Tangible Assets	0.5%	baa2	←→	baa1	Earnings quality	Other
Combined Solvency Score		baa1		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	30.0%	baa2	←→	baa2	Deposit quality	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	29.5%	a3	←→	baa1	Intragroup restrictions	Encumbrance
Combined Liquidity Score		baa1		baa2		

Financial Profile	**baa1**

Qualitative Adjustments	**Adjustment**
Business Diversification	0
Opacity and Complexity	0
Corporate Behavior	0
Total Qualitative Adjustments	**0**

Sovereign or Affiliate constraint	Aaa
Scorecard Calculated BCA range	**a3 - baa2**
Assigned BCA	**baa1**
Affiliate Support notching	**0**
Adjusted BCA	**baa1**

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency rating	Foreign Currency rating
Deposits	2	0	a2	1	A1	A1
Senior unsecured bank debt	2	0	a2	1	A1	A1
Dated subordinated bank debt	-1	0	baa2	0	Baa2	Baa2

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MOODY'S
INVESTORS SERVICE

and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.
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