

### Research Update:

## ING Bank And Groep Ratings Affirmed On Announced Sale Of ING Direct USA; Outlook Stable; Hybrids Upgraded To 'BBB-'

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## Research Update:

# ING Bank And Groep Ratings Affirmed On Announced Sale Of ING Direct USA; Outlook Stable; Hybrids Upgraded To 'BBB-'

## Overview

- ING Groep announced on June 16, 2011, that it is to sell ING Direct USA, part of its online banking arm, to Capital One.
- We are affirming our ratings on Netherlands-based ING Bank N.V. and ING Groep N.V.
- This partly reflects the fact that we had already factored the need for the group to execute this divestment--a requirement of the European Commission (EC)--into our ratings.
- The affirmation is also based on our view of a moderate impact of the sale on the group's business and financial profiles.
- At the same time, we are raising the ratings on hybrids of ING Groep and ING Verzekeringen to 'BBB-' from 'BB'. This reflects our view of decreasing risk of coupon deferral on the back of improving financial flexibility and the repayment to date of a large part of government capital; this action is not directly related to the announced sale of ING Direct USA.
- The stable outlook reflects our expectation of a resilient performance, supported by an improved economic backdrop.

## Rating Action

On June 24, 2011, Standard & Poor's Ratings Services affirmed its 'A+/A-1' and 'A/A-1' long- and short-term counterparty credit ratings on Netherlands-based ING Bank N.V. and ING Groep N.V. The outlook is stable. At the same time, we raised the ratings on hybrid instruments of ING Groep and ING Verzekeringen N.V. to 'BBB-' from 'BB'.

## Rationale

On June 16, 2011, ING Groep announced that it is to sell ING Direct USA to Capital One, for a total consideration of \$9 billion, \$6 billion of which will be paid in cash and the remainder in Capital One shares. The divestment was one of the main requirements of the European Commission (EC) restructuring. At end-March 2011, ING Direct USA had retail savings of around €57 billion, and residential mortgages of around €29 billion. The transaction is likely to complete by the end of the year, subject to regulatory approvals.

The ratings on ING Bank N.V. reflect its strong market position in its home market of the Benelux, good product and geographic diversity, strong rebound

in earnings since 2010, and its sound funding and liquidity. They also incorporate our view of potential for some execution risk and strategic distraction as the bank's sister insurance operations are being divested--another EC requirement--despite progress made so far in the separation process. Despite good internal capital generation capacity, we consider that financial flexibility in the short term remains hampered by the impending last tranche of government capital repayment. Our ratings on ING Groep now primarily reflect the strength of its banking operations and do not incorporate any benefits to the group from the diversification provided by owning banking and insurance operations.

We consider ING Bank to be of high systemic importance to The Netherlands, a jurisdiction that we believe displays supportive policies to its banking sector, and therefore uplift the rating by one notch above its stand-alone credit profile (SACP). The Dutch state provided specific support to the ING group in the form of a facility to transfer 80% of the risk attached to its Alt-A securities portfolio (the illiquid assets back-up facility or IABF), and a €10 billion Core Tier 1 securities injection. ING Groep N.V., the parent company of the bank, has repaid €7 billion to date and intends to complete the last tranche of repayment in the first half of 2012.

We consider the announced transaction to have a broadly neutral impact on the counterparty credit ratings. This partly reflects the fact that we had already factored the need for the group to execute this divestment into our ratings. However, in our view, the completion of the transaction will remove an element of uncertainty and push the group one step closer to complying with EC requirements.

At the same time, while significant in absolute terms, we consider that the amount of assets and liabilities considered by the transaction is moderate relative to the bank's overall balance sheet, and that the transaction only has a moderate impact on earnings generation. At end-March 2011, ING Direct USA represented about 12% of the bank's deposits and 5% of total lending. Although the operation's profitability has been improving over the past few quarters, we consider that the sale will only have a modest impact on the group's prospective performance over the next two years.

We expect the impact of the transaction on the group's risk exposure to be moderate. While the proportion of impaired loans in the U.S. mortgage book has historically been higher than the rest of ING's portfolio, asset quality has been on an improving trend over the past few quarters. We have assumed the benefits from the sale of the Alt-A portfolio to Capital One to be largely offset by the adjustments of the IABF with the Dutch government.

Finally, we observe the positive impact of this transaction on the bank's regulatory capital. Management estimates the sale could have a positive impact of close to 1% on ING Bank's end-2010 pro forma Core Tier 1 ratio. Based on our risk-adjusted capital (RAC) framework, we estimate the impact of the transaction to be more marginal. This largely reflects the fact that the Capital One stake will be risk-weighted at 1250% under our approach. We

continue to view the bank's capitalization as sound and expect a RAC ratio before diversification in excess of 8% at end-June 2012 after planned repayment of the last tranche of government capital.

The upgrade of the ratings on ING's hybrids reflects our view of decreasing risk of coupon deferral on the back of improving financial flexibility and significant progress to date in the repayment of government capital. This considers the group's sound prospective performance, supported by the bank's sharp rebound in profitability since 2010. It also takes into account our expectation that the group will be able to repay the last tranche of government capital in the first half of 2012 without impairing its capital position. At the same time, the notching, compared with the counterparty credit ratings on the holding company and ING Verzekeringen, factors in the absence of dividend payments and the fact that material aspects of the EC restructuring are yet to be completed.

## Outlook

The stable outlook on ING Bank is based on our expectation of a resilient performance, supported by an improved economic backdrop in 2011/2012, despite sluggish growth prospects domestically. Under our base case, we expect the bank to generate earnings in 2011 close to their 2010 level. The stable outlook on ING Groep reflects the outlook on ING Bank, in line with our rating approach for nonoperational holding companies.

While we consider that downside risk to the ratings has decreased since inception of the group restructuring, a downgrade could occur in the unlikely scenario where the bank's stand-alone financial profile were to weaken and we were also to expect the government to be unwilling to provide further support. Negative pressure could also arise if we saw signs of material franchise erosion as a result of strategic distraction or execution risk related to the separation of the insurance operations. We consider an upgrade of the ratings within the rating horizon as unlikely. However, the final repayment of the government capital securities, planned for early 2012, could lead us to align the bank's SACP with its counterparty credit rating if it also maintains its currently sound capitalization. This would reflect the removal of a material constraint to the bank's short-term financial flexibility.

## Related Criteria And Research

- Improved Market Conditions And Ongoing Restructuring Should Help Dutch Banks Exit From Government Support, March 29, 2011
- FI Criteria: Bank Rating Analysis Methodology Profile, March 18, 2004
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Analytical Approach To Assessing Nonoperating Holding Companies, March 17, 2009
- Hybrid Capital Handbook: 2008 Edition, Sept. 15, 2008

## Ratings List

### Ratings Affirmed

#### ING Bank N.V.

Counterparty Credit Rating	A+/Stable/A-1
Certificate Of Deposit	A+/A-1
Senior Unsecured	A+
Subordinated	A
Commercial Paper	A-1

#### ING Groep N.V.

Counterparty Credit Rating	A/Stable/A-1
Senior Unsecured	A

#### Internationale Nederlanden (U.S.) Funding Corp.

Counterparty Credit Rating	--/--/A-1
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#### Aetna Services Inc.

Senior Unsecured*	A
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#### ING (US) Funding LLC

Commercial Paper	A-1
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#### ING Bank (Australia) Ltd.

Senior Unsecured**	A+
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#### ING Bank of Canada

Subordinated**	A
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#### Lion Connecticut Holdings Inc.

Senior Unsecured*	A
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### Upgraded

	To	From
ING Capital Funding Trust III Preferred Stock	BBB-	BB
ING Groep N.V. Junior Subordinated	BBB-	BB
ING Verzekeringen N.V. Subordinated	BBB-	BB

\*Guaranteed by ING Groep N.V. \*\*ING Bank N.V. N.B.--This does not include all ratings affected.

### Additional Contact:

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