ING-DiBa AG Mortgage Covered Bonds
Covered Bonds / Germany

Definitive Ratings

<table>
<thead>
<tr>
<th>Cover Pool</th>
<th>Ordinary Cover Pool Assets</th>
<th>Covered Bonds</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>€3,940,876,321</td>
<td>Residential Mortgage Loans</td>
<td>€1,235,000,000</td>
<td>Aaa</td>
</tr>
</tbody>
</table>

The ratings address the expected loss posed to investors. Moody’s ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

Transaction Summary

Moody’s has assigned a definitive long-term rating of Aaa to the covered bonds issued under the mortgage covered bond programme (Hypothekenpfandbriefe or covered bonds) of ING-DiBa AG (ING-DiBa or the issuer). The covered bonds are full recourse to the issuer.

If the issuer becomes insolvent, the covered bondholders would have priority claims over a pool of assets (cover pool). As of 30 September 2013, the assets in ING-DiBa’s cover pool amounted to €3.9 billion. The cover pool only consists of residential mortgages; in addition, 1.8% of the cover pool assets are so-called “further cover assets” (Weitere Deckungswerte).

The covered bonds are governed by the German Pfandbrief Act (Pfandbriefgesetz). There are several strengths in the German Pfandbrief legislation, which include inter alia, the regulatory requirement for the issuer to maintain 2% over-collateralisation on a stressed present-value basis. The issuer is also required to cover potential liquidity gaps over the next 180 days, i.e., the liquidity-matching requirements between payments expected to be received under the cover pool assets and the payments due under the outstanding covered bonds.

In summary, among others things, the rating takes into account the following factors:

» The credit strength of the issuer (A2 negative, C/a3 negative);¹
» The German legal framework for Pfandbriefe;
» The credit quality of the cover pool, which is reflected by the collateral score of 5.0% (or 3.0% excluding systemic risk), which is better than the average collateral score of other mortgage Pfandbriefe rated by Moody’s;
» Over-collateralisation in the cover pool, which currently is 219.1% on a nominal, and 251.4% on a net present value basis (unstressed). The minimum over-collateralisation that is consistent with a Aaa rating is 11.5%.
The current covered bond ratings rely on over-collateralisation over and above the minimum legal requirements by the German Pfandbrief Act. Based on the data as of 30 September 2013, 11.5% of over-collateralisation is sufficient to maintain the current covered bond rating. This shows that our analysis relies on over-collateralisation that is not in committed form.

As is the case with other covered bonds, Moody’s considers the transaction to be linked to the issuer’s credit strength, particularly from a default probability perspective. If the issuer’s credit strength deteriorates, all other variables being equal, the rating of the covered bonds should be expected to come under pressure.

In case of deterioration of the issuer rating or the pool quality, the issuer would have the ability, but not the obligation, to increase the over-collateralisation in the cover pool. Failure to increase the level of over-collateralisation under these circumstances could lead to negative rating actions.

The principal methodology used in rating the issuer’s covered bonds is “Moody’s Approach to Rating Covered Bonds”, published in July 2012. Other methodologies and factors that may have been considered in the rating process can also be found on the Moody’s website. On 19 September 2013, we published a Request for Comment (RFC). In the RFC, we propose an adjustment to the anchor point we use in our covered bond analysis. If the revised Credit Rating Methodology is implemented as proposed, the Credit Ratings of the covered bonds may be affected. Please refer to our Request for Comment, titled “Approach to Determining the Issuer Anchor Point for Covered Bonds” for further details regarding the implications of the proposed Credit Rating Methodology changes on Moody’s Credit Ratings. In addition, Moody’s publishes a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at www.moodys.com/SFQuickCheck.

**Opinion**

**Strengths of the Transaction**

**Issuer:**

The covered bonds are full recourse to ING-DiBa AG (A2 negative, C/a3 negative).

**The German legal framework:**

The covered bonds are governed by the German Pfandbrief Act. There are a number of strengths in the German Pfandbrief legislation; these include inter alia the following:

- Under the terms of the German legislation, the issuer is regulated and supervised by the Financial Supervisory Authority of Germany (Bundesanstalt für Finanzdienstleistungsaufsicht, or BaFin).
- If the issuer becomes insolvent, the covered bondholder will have priority claims over a pool of assets (the cover pool).
- The Pfandbrief Act sets out strict eligibility criteria for assets in the cover pool. The ordinary cover pool assets - either residential or commercial mortgage loans - are subject to a conservative evaluation of property values (lending value or Beleihungswert), and covered bonds can only be issued against 60% of this lending value.
- A minimum 2% stressed present value over-collateralisation must be maintained at all times.
- The issuer is also required to cover potential liquidity gaps over the next 180 days, i.e., liquidity-matching requirements between payments expected to be received under the cover pool assets and payments due under the outstanding covered bonds.
- An independent cover pool monitor (Treuhänder) is responsible for monitoring various operations with respect to the cover pool.

**Credit Quality of the Cover Pool:**

- The covered bonds are supported by a cover pool. The cover pool comprises residential mortgage loans, which represent 98.2% of the cover pool assets, the remainder being substitute assets. The credit quality of the cover pool is reflected in the collateral score of 5%.
- All loans are fixed rate, and 93.7% of the loans are amortising with a fixed annuity.
- The income of each borrower has been independently verified; the income of each borrower restricts the amount that can be lent based on an affordability calculation.

**Refinancing Risk:**

- There is a well-established and deep market for German Pfandbriefe.
- The liquidity-matching requirements for the next 180 days also reduce refinancing risk.

**Market Risks:**

- The over-collateralisation of 2% on a stressed present value basis has to be maintained in stressed market conditions, e.g., movements of the yield curve and – if applicable – changes in the relevant exchange rates. ING-DiBa opted for
the so-called “dynamic approach”. This includes a parallel movement of the interest-rate curve by at least 100 basis points in order to meet mandatory stress tests requirements.

» As all cover assets and covered bonds are denominated in Euro, there is no currency mismatch between the cover pool assets and the covered bonds outstanding.

De-Linkage:
Following an issuer default,3 the covered bondholders will benefit from a cover pool administrator (Sachwalter) that acts independently from the insolvency administrator of the issuer. Furthermore, if BaFin deems it necessary, the Sachwalter may be appointed before an issuer event of default.

Weaknesses and Mitigants

Issuer:
As with most covered bonds, until issuer default, the issuer can materially change the nature of the programme. For example, new assets may be added to the cover pool, new covered bonds issued with varying promises and new hedging arrangements entered into. These changes could impact the credit quality of the cover pool as well as the overall market risks. Mitigants: (1) The covered bondholders have a direct claim on the issuer; and (2) the requirements and controls imposed by the German Pfandbrief Act. This Act sets out rules detailing which assets qualify as ordinary cover assets for Hypothekenpfandbriefe. In addition, Moody’s will monitor the cover pool. If the quality of the collateral deteriorates below a certain threshold, the issuer would have the ability, but not the obligation, to increase the level of over-collateralisation in the cover pool. Failure to increase the level of over-collateralisation following a deterioration of the cover pool could lead to negative rating actions.

» The loans have an average seasoning which is lower than that of other comparable covered bond programmes backed by German residential mortgage loans. This is coupled with high average LTVs and a high remaining life of the loans. Mitigant: We would expect the seasoning and LTVs to improve over time. In any case, Moody’s modelling takes into account these characteristics. Furthermore, the German Pfandbrief Act imposes a 60% LTV threshold.

» The vast majority of the loans are originated through independent advisors. Mitigants: (1) The credit decision remains with the issuer for all loans; (2) the issuer has implemented processes to mitigate negative selection or fraud; and (3) more generally, the full recourse of the covered bondholders against the issuer.

» The valuation of the properties is based on a computer model (automated valuation model or AVM) rather than on valuations by professional valuers. Mitigants: (1) The lower of the purchase price and the valuation from the AVM is used for LTV purposes; (2) The AVM used by the issuer has been certified to provide values according to the “Regulation on the Determination of the Mortgage Lending Value” (Beleihungwertermittlungsverordnung). Furthermore, ING-DiBa updates and back-tests the valuation on an ongoing basis.

Credit Quality of the Cover Pool:

» As of 30 September 2013, the cover pool has the following concentrations: (1) all mortgage loans in the cover pool are secured on properties in Germany; and (2) the majority of the borrowers are located in the North-Rhine Westphalia (22.4%), Bavaria (13.0%) and Hesse (12.2%). These facts increase the probability of significant losses. Mitigant: Our collateral score model takes into account, inter alia, the impact of borrower, regional and country concentrations.

» As with most covered bonds in Europe, there are few restrictions on the future composition of the cover pool, hence substitution risk exists. Mitigants: The quality of the cover pool will be protected by the requirements of the German Pfandbrief Act. This Act sets out rules detailing which assets qualify as ordinary cover assets for Hypothekenpfandbriefe. In addition, Moody’s will monitor the cover pool. If the quality of the collateral deteriorates below a certain threshold, the issuer would have the ability, but not the obligation, to increase the level of over-collateralisation in the cover pool. Failure to increase the

Refinancing Risk:
Following an issuer default, covered bondholders – in order to achieve timely principal payment – may need to rely on proceeds being raised through the sale of, or borrowing against, assets in the cover pool. Following an issuer default, the market value of these assets may be subject to high volatility. Mitigants: (1) The credit strength of the issuer (the stronger the credit of the issuer, the lower the chance of being exposed to this risk; (2) the depth of the German Pfandbrief market; (3) the high level of support provided to Pfandbriefe in Germany; (4) the granularity of the pool and the standardised underwriting; and (5) we have used stressed refinancing margins in its modelling.

The remaining life of the assets is longer than in other covered bond programmes with more seasoned pools. Mitigants: The good credit quality of the issuer makes the occurrence of issuer default less likely in the near future.

Market Risk:
As with most covered bonds, there is potential for exposure to market risk. For example, following issuer default, covered bondholders may be exposed to interest-rate risk, which could
arise from the different payment promises and durations made on the cover pool and the covered bonds. **Mitigant:** The requirement that the value of the cover pool has to exceed the stressed present value of the total of outstanding covered bonds issued against the cover pool by at least 2% (over-collateralisation). We understand that the programme will be run without currency mismatches between the cover pool assets and the covered bonds outstanding.

**Liquidity:**
The programme does not benefit from any designated source of liquidity if cash flow collections are interrupted. **Mitigants:** The strengths of the German Pfandbrief Act, which include (1) the alternatives given to the cover pool administrator (*Sachwalter*) for raising funds against the cover pool; (2) the minimum 2% over-collateralisation on a stressed present value basis; and (3) the liquidity matching requirements for the next 180 days.

**Time Subordination:**
After issuer default, later-maturing covered bonds are subject to time subordination. Principal cash collections may be used on a first-come, first-served basis, paying earlier-maturing covered bonds before later-maturing covered bonds. This could lead to over-collateralisation being eroded before any payments are made to later-paying covered bonds.
## Structure Summary

<table>
<thead>
<tr>
<th><strong>Issuer:</strong></th>
<th>ING-DiBa AG (A2 negative, C/a3 negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Covered Bond Type:</strong></td>
<td>Mortgage Covered Bonds (Hypothekenpfandbriefe)</td>
</tr>
<tr>
<td><strong>Issued under Covered Bonds Law:</strong></td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Applicable Covered Bonds Law:</strong></td>
<td>German Pfandbrief Act</td>
</tr>
<tr>
<td><strong>Main Originator(s):</strong></td>
<td>ING-DiBa AG</td>
</tr>
<tr>
<td><strong>Main Servicer(s):</strong></td>
<td>ING-DiBa AG</td>
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<tr>
<td><strong>Intra group Swap Provider:</strong></td>
<td>n/a</td>
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<tr>
<td><strong>Monitoring of Cover Pool:</strong></td>
<td>Cover pool monitor (Treuhand), mandatory by operation of the Pfandbrief Act</td>
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<tr>
<td><strong>Trustees:</strong></td>
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<tr>
<td><strong>Timely Payment Indicator (TPI):</strong></td>
<td>High</td>
</tr>
<tr>
<td><strong>TPI Leeway:</strong></td>
<td>2 notches</td>
</tr>
</tbody>
</table>

## Covered Bonds Summary

| **Total Covered Bonds Outstanding:** | €1,235,000,000 |
| **Currency of Covered Bonds:** | Euro (100%) |
| **Extended Refinance Period:** | No |
| **Principal Payment Type:** | Hard bullet (no extension period) |
| **Interest Rate Type:** | Variable rate covered bonds (12.1%), fixed rate covered bonds (87.9%) |

## Collateral Summary

| **Size of Cover Pool:** | €3,940,876,321 |
| **Main collateral type in Cover Pool:** | Residential mortgages (98.2%) and further cover assets (1.8%) |
| **Main Asset Location:** | Germany |
| **Loans Count:** | 52,296 |
| **Main Currency of Cover Assets:** | Euro (100%) |
| **WA Current LTV:** | 98.3% (on an un-indexed basis) |
| **WA Seasoning:** | 32 months |
| **WA Remaining Term:** | 185 months |
| **Interest Rate Type:** | Fixed rate assets (100%) |
| **Current Over-Collateralisation:** | 219.1% on a nominal, and 251.4% on a non-stressed present value basis |
| **“Committed” Over-Collateralisation:** | 2% (mandatory minimum over-collateralisation based on stressed present value calculation required by the German Pfandbrief Act) |
| **Collateral Score:** | 5.0% |
| **Collateral Score excl. systemic risk:** | 3.0% |
| **Cover Pool Losses:** | 16.1% |
| **Further details:** | See Appendix 1 |
| **Pool Cut-off Date:** | 30 September 2013 |
Structural and Legal Aspects

Hypothekenpfandbriefe governed by the Pfandbrief Act

ING-DiBa’s covered bonds (Hypothekenpfandbriefe) are governed by the German Pfandbrief Act. No specific structural feature is envisaged by ING-DiBa’s covered bond programme.


Moody’s Rating Methodology

The approach used by Moody’s for rating covered bond transactions is detailed in our Rating Methodology. The impact of the credit strength of the issuer, quality of the collateral and market risks are considered below.

Credit Strength of the Issuer

The covered bondholders have full recourse to ING-DiBa AG (A2 negative, C/a3 negative). The issuer is a bank incorporated in Germany and regulated by the German regulator for financial institutions. As a fully owned subsidiary of ING Bank N.V. (A2 negative, C-/baa1 negative), ING-DiBa is part of the ING group. For more information on ING-DiBa and other entities of the ING group, see “Related Research”.

The Credit Quality of the Cover Pool

As of 30 September 2013, residential mortgage loans accounted for 98.2% of the cover pool assets. The remainder of the cover pool assets are so-called “further cover pool assets”, which are in the case of this programme debt of German Federal States.

The cover pool assets total €3.941 billion and back €1.235 billion of covered bonds. This translates into an over-collateralisation of 219.1% on a nominal basis and 251.4% on a non-stressed present value basis.

All loans in the cover pool are currently performing, no loan is in arrears for more than 6 months. The German Pfandbrief legislation ensures that for all eventualities, the 60% LTV threshold calculation takes any prior ranking mortgages into consideration; i.e., under the German Pfandbrief Act, only the loan parts within the first 60% LTV threshold are eligible for the cover pool, even if there are prior-ranking land charges over the property that serve as security for the mortgage loan in the cover pool. The LTV of mortgage loans are based on a conservative evaluation of property values according to the German Pfandbrief legislation (lending value or Beleihungswert).

For further information on the cover pool, see Appendix 1. For further information on the income underwriting and valuation see Appendix 2.

Residential Mortgages

ING-DiBa is restricting its banking business to a very narrow product range including residential mortgage loans. Within its mortgage business, ING-DiBa further restricted itself to residential mortgage lending to borrowers living in Germany and to properties located in Germany.

All properties, which are serving as security for the mortgage loans, are located in Germany, of which most of those loans are located in North Rhine-Westphalia, Bavaria and Hessen. The vast majority of the loans are annuity loans.

The vast majority of origination is conducted through independent brokers, which are either part of the group/the issuer, or external. ING-DiBa implemented a broad range of controls that aim to optimise the efficiency of origination. Further controls are implemented to limit negative selection of borrowers and potential exposure to fraud by any party. ING-DiBa only accepts fully documented loans, therefore an independent verification of income is a prerequisite for the release of funds. The credit decision is made by credit officers who are employees of ING-DiBa, but separate from the relevant broker. Important steps taken during the credit process by these employees include: the verification of the results of the scoring model and documentation including proof of income. Credit bureau checks are a mandatory step of this credit process; borrowers with a negative flag are rejected. In addition, the credit officers of ING-DiBa have no power to override the results calculated by the scoring system in the case of a rejected borrower.

ING-DiBa has decided to not include loans in the cover pool that exceed €400,000. For loans below €400,000, the regulation that prescribes the procedure to determine the property value for the use in the context of Pfandbrief issuance (lending value) allows the use of AVMs without the involvement of a valuer. ING-DiBa uses a model developed by Sprengnetter for its valuations. This model has been certified for use to determine the lending value. The Sprengnetter model is updated regularly; Moody’s understands that these updates take into consideration data points provided by valuers that Sprengnetter certifies.

We view the following characteristics of the residential mortgages loans as credit positive:

» All loans are first ranking and fixed rate.

» The vast majority of the cover pool assets are amortising loans.
The issuer does not include loans to its employees in the cover pool. We regard the following portfolio characteristics of the residential mortgage loans as credit negative:

» The vast majority of loans have been conducted through independent brokers rather than direct channels of ING-DiBa.
» The valuation of the properties exclusively relies on an AVM; however, all properties are inspected at origination and a report of such inspection is provided to ING-DiBa.
» As common in the German market, limited information was provided on junior ranks.

Summary Collateral Analysis: Collateral Score

The factors discussed in the Residential Mortgages section have been incorporated into Moody’s analysis. The result of the cover pool analysis is the collateral score. Moody’s calculates a collateral score based on the credit quality of the cover pool assets as described above. In addition, the collateral score published in this report reflects all adjustments made; this number therefore includes the cushion built in to address the factors described above.

More generally, Moody’s calculates the collateral score using a scoring model for the residential mortgages in the cover pool. Moody’s analysis takes into account inter alia the impact of concentration on borrower, regional and country levels, as well as the different types of properties securing the loan.

For this transaction, the collateral score of the current pool is 5.0% (or 3.0% excluding systemic risk), which is better than the average collateral score of EMEA mortgage covered bonds rated by Moody’s (see Moody’s Related Research: “Moody’s Global Covered Bonds Monitoring Overview: Q2 2013”, published in October 2013).

Other Credit Considerations

Legal risks for assets located outside Germany

In the event of the issuer’s insolvency, Moody’s believes that cover pool assets located outside Germany are less protected against claims of other creditors of the issuer than assets located in Germany. In particular Moody’s has identified and analysed the following scenarios:

» Claims against borrowers located outside Germany or loans not governed by German law: In the case of loans not governed by German law, the borrower may be allowed to exercise set-off, thereby reducing the amount payable by that borrower. Mitigants: All mortgage loans and the “further cover assets” are located in Germany. Therefore, it is unlikely that there are claims of the borrowers in the pool against the insolvency estate of the issuer that can be set-off against amounts payable under the assets in the cover pool.

» Loans to borrowers located outside the European Economic Area (EEA): In addition to the above-mentioned risk, Moody’s understands that these cover pool assets may not be available to the covered bondholders on a priority basis, because other (unsecured) creditors of the issuer may successfully access the assets in the cover pool. This may – for example, due to secondary proceedings being commenced under the respective domestic law – result in a lower recovery. Mitigants: Currently, the cover pool contains loans exclusively in Germany.

Substitution risks are mitigated by the German Pfandbrief Act

As with most covered bonds in Europe, there are few restrictions or limitations on the future composition of the cover pool. This may have the effect of creating substitution risk. Mitigants to substitution risk, which should protect the quality of the cover pool over time, include:

» Requirements of the German Pfandbrief Act: for example, covered bonds may only be issued against mortgages with an LTV up to 60% of the lending value.
» The cover pool composition will be monitored.
» If the quality of the collateral deteriorates below a certain threshold, the issuer would have the ability, but not the obligation, to increase the over-collateralisation in the cover pool in order to support the current rating. Failure to increase the level of over-collateralisation following a deterioration of the collateral could lead to negative rating actions.

Refinancing Risk

Following an issuer default, when the “natural” amortisation of the cover pool assets alone cannot be relied on to repay principal, Moody’s assumes that funds must be raised against the cover pool at a discount if covered bondholders are to receive timely principal payment. If the portion of the cover pool that is potentially exposed to refinancing risk is not contractually limited, Moody’s expected-loss analysis typically assumes that this amount exceeds 50% of the cover pool.

After an issuer default, the market value of these assets may be subject to certain volatility. Examples of the stressed refinancing margins we use for different types of prime-quality assets are published in our Rating Methodology (see Related Research: “Moody’s Approach to Rating Covered Bonds”, published in July 2012).
Aspects of this covered bond programme that are refinancing-positive include:

» The German Pfandbrief Act: The Sachwalter has the ability to sell all or part of the cover pool, with or without all or parts of the liabilities attached.

» The depth of the German market and the high level of support provided to Pfandbriefe in Germany, refinancing risk is perceived as lower than in most other jurisdictions. In the modelling of this transaction, Moody’s has used refinance margins for mortgage loans that are lower than the refinance margins used for mortgage loans in most other jurisdictions.

» The issuer is also required to cover potential liquidity gaps over the next 180 days, i.e., the liquidity-matching requirements between payments expected to be received under the cover pool assets and the payments due under the outstanding covered bonds.

Aspects of this covered bond programme that are refinancing-negative include:

» The programme does not benefit from any contractual provisions to allow for an extension of a principal refinancing period.

» All covered bonds issued under this programme have a hard-bullet repayment schedule, with no extension period.

» As a result of the low seasoning, the cover pool has a comparably high weighted-average life.

Market Risk

As with the majority of European covered bonds, there is potential for interest-rate and currency risks. For example, following issuer default, covered bondholders may be exposed to interest-rate risk, which could arise from the different payment promises and durations made on the cover pool and the covered bonds.

EXHIBIT 1
Overview Assets and Liabilities

<table>
<thead>
<tr>
<th></th>
<th>Assets (%)</th>
<th>Liabilities (%)</th>
<th>WAL Assets (Years)</th>
<th>WAL Liabilities (Years)</th>
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<tbody>
<tr>
<td>Fixed rate</td>
<td>100.0%</td>
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<td>15.1</td>
<td>4.1</td>
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<tr>
<td>Variable rate</td>
<td>0.0%</td>
<td>12.1%</td>
<td>n/a</td>
<td>7.3</td>
</tr>
</tbody>
</table>

WAL = weighted-average life
n/a = not applicable

As of the date of this report, ING-DiBa has not entered any swaps into the cover pool register. Moody’s understands that there are no plans to change this in the near future.

Aspects specific to this covered bond programme that are market-risk positive include:

» The exposure to market risk is reduced by the mandatory present value cover test stipulated by the German Pfandbrief Act.

» The absence of currency risk.

» The German Pfandbrief legislation requires Pfandbrief issuers to regularly run stress tests regarding interest rate and foreign exchange rate risks. We understand that ING-DiBa opted for the ‘dynamic’ stress test to meet mandatory stress tests requirements.

Aspects specific to this covered bond programme that are market-risk negative include:

» A potential sale of fixed-rate assets (in order to meet due payments on covered bonds following issuer default) could lead to a crystallisation of mark-to-market losses caused by interest-rate movements upon issuer default; almost all the cover pool assets are fixed rate.

» WAL of assets is longer than for other mortgage covered bonds. Such difference is a result of the currently low seasoning of the pool and can therefore be expected to disappear over time as the pool builds up.

In the case of issuer insolvency, we currently do not assume that the special cover pool administrator (Sachwalter) will always be able to efficiently manage any natural hedge between the cover pool and the covered bonds. Therefore, following issuer default, our Covered Bond Model separately assesses the impact of increasing and decreasing interest rates on the expected loss of the covered bonds, taking the path of interest rates that leads to the worst result. The interest and currency stressed rates used over different time horizons are published in our Rating Methodology (see Related Research: “Moody’s Approach to Rating Covered Bonds”, published in July 2012).

Linkage

All covered bonds are linked to the issuer of the covered bonds. The covered bonds will therefore come under rating stress if the issuer’s credit strength deteriorates. Reasons for this include:

» Refinancing risk: Following issuer default, if principal receipts from collections of the cover pool are not sufficient to meet the principal payment on a covered bond, funds may need to be raised against the cover pool. However, the fact that the issuer has defaulted may negatively impact the ability to raise funds against the cover pool.

» The exposure to decisions made by the issuer in its discretion as manager of the covered bond programme. For
example, before an issuer default, the issuer may add new assets to the cover pool, issue further bonds and enter new hedging arrangements. These actions could negatively impact the value of the cover pool.

» More generally, by the incorporation of the strength of the issuer in accordance with Moody’s rating methodology.

As a result of this linkage, the probability of default of the covered bonds may be higher than expected for a senior unsecured debt with the same rating. However, Moody’s primary rating target is the expected loss, which also takes severity of loss into account; in this case it is consistent with the covered bond rating.

Moody’s Timely Payment Indicator (TPI) assess the likelihood that timely payments will be made to covered bondholders following an issuer default. This indicator determines the maximum rating a covered bond programme can achieve with its current structure, while allowing for the addition of a reasonable amount of over-collateralisation.

Aspects to this covered bond programme that are TPI-positive include:

» The high level of support provided to Pfandbriefe in Germany.

» German Pfandbrief legislation, including:
  - At the time of the declaration of the issuer’s bankruptcy - or earlier if BaFin considers it necessary - a cover pool administrator (Sachwalter) will take over management responsibility of the covered bond programme.
  - The Sachwalter will act independently from the issuer’s insolvency administrator. The presence of an independent cover pool administrator may reduce potential conflicts of interest between the covered bondholders and other creditors.
  - The issuer must cover potential liquidity gaps over the next 180 days; i.e., liquidity-matching requirements between payments expected to be received under the cover pool assets and the payments due under the outstanding covered bonds.

» Set-off: The German Pfandbrief Act excludes the right to set off for loans registered made under German law and located in Germany.

» The credit quality of the cover pool assets, which is reflected by the collateral score of 5.0%.

Aspects to this covered bond programme that are TPI-negative include:

» All covered bonds outstanding have a bullet repayment at maturity, without any extension period for the repayment of the bonds.

» The covered bond programme does not benefit from any designated source of liquidity if cash flow collections are interrupted.

» Commingling risk: Upon the appointment of the Sachwalter, Moody’s understands that the Sachwalter has a priority claim on all cash flows stemming from the cover pool assets. However, these cash flows have to be separated from other cash flows to the issuer before they can be used to make payments to covered bondholders.

We have assigned a TPI of High to this transaction in line with the majority of other mortgage covered bonds issued under the German Pfandbrief Act.

Based on the current TPI of High, the TPI Leeway for this programme is two notches, therefore the issuer rating would need to be downgraded to Baa2 before the covered bonds are downgraded, all other variables being equal.

Monitoring

The issuer is expected to deliver certain performance data to Moody’s on an ongoing basis. In the event that this data is not made available to Moody’s, Moody’s ability to monitor the ratings may be impaired. This could negatively impact the ratings or, in some cases, Moody’s ability to continue to rate the covered bonds.
Appendix 1: Cover Pool Information

Residential Mortgage Loans

<table>
<thead>
<tr>
<th>Overview</th>
<th>Specific Loan and Borrower characteristics</th>
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<tbody>
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<td>Asset Type</td>
<td>Residential</td>
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<tr>
<td>Asset balance:</td>
<td>3,869,876,321</td>
</tr>
<tr>
<td>Average loan balance:</td>
<td>73,999</td>
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<tr>
<td>Number of loans:</td>
<td>52,296</td>
</tr>
<tr>
<td>Number of borrowers:</td>
<td>46,021</td>
</tr>
<tr>
<td>Number of properties:</td>
<td>46,395</td>
</tr>
<tr>
<td>WA Remaining Term (in months):</td>
<td>32</td>
</tr>
<tr>
<td>WA Seasoning (in months):</td>
<td>185</td>
</tr>
<tr>
<td>Details on LTV</td>
<td>WA current LTV (**): 98.3%</td>
</tr>
<tr>
<td>Valuation type:</td>
<td>Lending Value</td>
</tr>
<tr>
<td>LTV threshold:</td>
<td>60%</td>
</tr>
<tr>
<td>Junior ranks:</td>
<td>n/d</td>
</tr>
<tr>
<td>Prior ranks:</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

(*) Based on original property valuation
(**) Refers to borrowers with previous missed payments, borrowers with a previous personal bankruptcy or borrowers with record of court claims against them at time of origination
(***) This “other” type refers to loans directly to Housing Co-operatives and to Professional Landlords
n/d : information not disclosed by issuer

EXHIBIT 2
Balance per LTV-band

EXHIBIT 3
Cover Pool Composition

EXHIBIT 4
Seasoning

EXHIBIT 5
Interest Rate Type
**Main country Regional Distribution**

All cover pool characteristics are actual levels (rather than assumed levels) based on reports from ING-DiBa.
Appendix 2: Income Underwriting and Valuation

Below is a description of income underwriting and property valuation procedures provided by the issuer.

### 1. Income Underwriting

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is income always checked?</td>
<td>Yes</td>
</tr>
<tr>
<td>Does this check ever rely on income stated by borrower (&quot;limited income verification&quot;)?</td>
<td>No</td>
</tr>
<tr>
<td>Percentage of loans in cover pool that have limited income verification</td>
<td>0%</td>
</tr>
<tr>
<td>If limited income verification loans are in the cover pool, describe what requirements lender has in place for these loans.</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Does income in all cases constrain the amount lent (for example, through some form of Income Sufficiency Test (&quot;IST&quot;).</td>
<td>Yes</td>
</tr>
<tr>
<td>If not, what percentage of cases are exceptions?</td>
<td>No exceptions</td>
</tr>
</tbody>
</table>

For the purposes of any IST:

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are checks made to ensure that income after tax is sufficient to cover both interest and principal?</td>
<td>Yes</td>
</tr>
<tr>
<td>If so, over what period is it assumed principal will be paid (typically on an annuity basis)? Any exceptions?</td>
<td>Payment of interest and principal typically on an annuity basis, which determines the duration of the loan. Residential mortgage loans have a duration of up to 35 years.</td>
</tr>
<tr>
<td>Does the age of the borrower constrain the period over which principal can be amortised?</td>
<td>No</td>
</tr>
<tr>
<td>Are any stresses made to interest rates when carrying out the IST? If so, when and for what type of products?</td>
<td>No</td>
</tr>
<tr>
<td>Are all other debts of the borrower taken into account at point loan made?</td>
<td>Yes</td>
</tr>
<tr>
<td>How are living expenses of the borrower calculated? And what is the stated maximum percentage of income (or income multiple if relevant) that will be relied on to cover debt payments (specify if income is pre- or post-tax).</td>
<td>The issuer has established a calculation grid for living expenses of the household, which takes into consideration; for example, the number of persons living in the household.</td>
</tr>
</tbody>
</table>

**Other comments**: None

### 2. Valuation

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are valuations based on market or lending values?</td>
<td>In order to determine the eligible loan volume for the cover pool, the lending value according to German lending value regulation (or Beleihungswert) has to be used. During the credit process the market value of the property will also be calculated and taken into consideration.</td>
</tr>
<tr>
<td>Are all or the majority of valuations carried out by external valuers (with no direct ownership link to any company in the Sponsor Bank group)?</td>
<td>No, desktop valuations are made by qualified staff according to § 24 para 1 BelWertV, legal requirements for ‘retail loans’ (Kleindarlehen &lt; €400.000). In accordance with § 24 para 2 BelWertV, an external valuer values a random sample of 2% of the quarterly loans taken into the mortgage registry on a regular basis.</td>
</tr>
<tr>
<td>How are valuations carried out when external valuers not used?</td>
<td>Valuations are made by qualified staff according to § 24 para 1 BelWertV, legal requirements for ‘retail loans’ (Kleindarlehen &lt; €400.000) via an external collateral value calculation tool.</td>
</tr>
<tr>
<td>What qualifications for external valuers require?</td>
<td>External valuers have to have a professional background as real-estate appraisers. In addition, appraisers have recognised certificates according to DIN EN ISO/IEC 17024 (market standard in Germany).</td>
</tr>
<tr>
<td>What qualifications do internal valuers require?</td>
<td>N/A - no internal valuers are used.</td>
</tr>
<tr>
<td>Do all external valuations include an internal inspection of a property?</td>
<td>No</td>
</tr>
<tr>
<td>Any exceptions?</td>
<td>None</td>
</tr>
<tr>
<td>Do all internal valuations include an internal inspection of a property?</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Any exceptions?</td>
<td>None</td>
</tr>
<tr>
<td>Other comments</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>
Moody's Related Research

For a more detailed explanation of Moody’s approach to this type of transaction as well as similar transactions please refer to the following reports:

Rating Methodologies:
» Approach to Determining the Issuer Anchor Point for Covered Bonds, September 2013 (SF342448)
» Moody’s Approach to Rating Covered Bonds, July 2012 (SF291041)

Special Reports:
» Germany – Legal Framework Covered Bonds, September 2013 (SF327227)
» Moody’s Global Covered Bonds Monitoring Overview: Q2 2013, October 2013 (SF343998)
» Assessing Swaps as Hedges in the Covered Bond Market, September 2008 (SF142765)
» European Covered Bond Legal Frameworks: Moody’s Legal Checklist, German Translation, January 2006 (SF67969)
» European Covered Bond Legal Frameworks: Moody’s Legal Checklist, December 2005 (SF66418)

Credit Opinion:
» ING DiBa AG

Performance Overview
» ING DiBa - Mortgage Covered Bonds

Announcements:
« Moody’s updates on non-EEA assets in German and Austrian covered bond transactions, 13 April 2010
« Moody’s updates on status of non-EEA assets in Austrian and German Covered Bond transactions, 29 June 2009

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.
The ratings shown are ING DiBa AG’s deposit rating, its standalone bank financial strength rating/baseline credit assessment and the corresponding rating outlooks.

See “Germany – Legal Framework Covered Bonds”, published September 2013.

Issuer default is defined as removal from the cover pool of (i) support provided by entities within the issuer, (ii) ancillary activities of the issuer (i.e. those not related to the cover pool) and (iii) usually, management functions of the issuer.

“Moody’s Approach to Rating Covered Bonds”, published in July 2012 (see Related Research).

The collateral score can be seen as the amount of risk-free enhancement required to protect a Aaa rating from otherwise unsupported assets – therefore, the stronger the credit quality of the collateral, the lower the collateral score. This only considers the credit deterioration of the assets and ignores any risk from refinancing and market risk (see Rating Methodology “Moody’s Approach to Rating Covered Bonds”, published in July 2013 (see Related Research)).

Please see Press Release “Moody’s updates on status of non-EEA assets in Austrian and German Covered Bond transactions”, June 2009.


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