

FITCH UPGRADES ING BANK AND ING GROUP TO 'A+'; OUTLOOK STABLE

Fitch Ratings-London-14 April 2016: Fitch Ratings has upgraded ING Bank N.V.'s Long-term Issuer Default Rating (IDR) to 'A+' from 'A', Viability Rating (VR) to 'a+' from 'a', and affirmed the bank's Short-term IDR at 'F1'. The Outlook on the Long-term IDR is Stable.

The ratings of ING Bank's parent, ING Groep NV, are aligned with its main operating company and have been upgraded as a result. A full list of rating actions is available at the end of this rating action commentary.

The ratings actions are part of a periodic portfolio review of major Benelux banking groups rated by Fitch.

KEY RATING DRIVERS

IDRS, SENIOR DEBT AND VRS

The upgrade reflects ING Bank's solid and stable financial metrics, strong execution of its strategy, and our expectation that the stable and gradually improving earnings will be maintained. Fitch's expectation that higher capital ratios will be targeted, and that capitalisation in the bank will be converging with that in the group, also underpins the upgrade. The high ratings, however, mean further upgrades are now unlikely.

The ratings are driven by the strong franchise of ING Bank - a leading bank in the Benelux and with a reasonable presence in other EU countries - a diverse business model, supporting resilient earnings generation, and its balanced funding profile. The ratings also factor in the bank's moderate impaired loans ratio.

A strong and diverse company profile underpins ING Bank's resilient operating performance. Slow growth in the eurozone and generally low interest rates weigh on performance, but falling loan impairment charges (LICs) and strong cost focus mitigate the pressure.

The funding profile is supported by ING Bank's strong franchises in some deposit-rich jurisdictions, such as Belgium and Germany. To supplement its funding, ING Bank also regularly taps the wholesale market, to which it has ready access. Its wholesale funding maturities are reasonably spread over time, and the bank's ample liquidity buffer further mitigates refinancing risk.

ING Bank's impaired loan ratio is in line with similarly rated European peers', and Fitch believes impaired loans will gradually reduce in 2016 and 2017. Reserves for impaired loans remain low relative to peers, although ING Bank has a track record of prudent collateral management and LICs exceeding write-offs.

Capitalisation is solid and in line with similarly rated eurozone peers. The bank's capital ratio target has been relatively modest compared with many peers, although additional capital is held at ING Group level, providing additional buffers in case of need. We now believe group capital will largely be retained, and that as the remaining parts of ING Group's insurance businesses are divested, capitalisation in the bank and the group will be converging.

The Short-term IDR of 'F1' maps to the lower of the two options for the 'A+' Long-term IDR. While Fitch believes ING Bank's funding and liquidity is solid, it is not outperforming similarly rated peers'.

ING Group's ratings are aligned with those of the main operating entity ING Bank. This is driven by no double leverage remaining at the holding company as well as high fungibility of capital between the holding company and the bank, and regulatory focus on the group as a consolidated entity.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The subordinated Tier 2 debt securities issued by ING Bank are notched down from the bank's VR, in accordance with Fitch's criteria. The subordinated debt securities are rated one notch below the bank's VR to reflect the higher-than-average loss severity of this type of debt.

ING Bank's Tier 2 notes (ISIN: XS1394764929) that allow the issuer to substitute these notes for similar instruments issued by its parent (ING Group), are notched off the lower of ING Bank's and ING Group's VRs, which act as anchor ratings.

The rating of the additional Tier 1 instruments issued by ING Group is rated five notches below its VR. The notching reflects higher loss severity risk of these securities compared with senior unsecured debt (two notches) as well as high risk of non-performance (an additional three notches).

SUPPORT RATING AND SUPPORT RATING FLOOR

The Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that ING Bank becomes non-viable. The EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) for eurozone banks provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

SUBSIDIARY AND AFFILIATED COMPANY

Fitch considers ING Belgium as a core subsidiary of ING Bank. This opinion is based on Belgium being a home market to ING Bank, a high level of management and operational integration, ING Bank's full ownership and the considerable reputation risk for the parent in the event of a default of ING Belgium. We also believe that ING Bank has sufficient capital resources and flexibility outside ING Belgium, including access to capital in ING Group, to be able to provide support in case of need. As a result ING Belgium's Long-term IDR is equalised with ING Bank's.

RATING SENSITIVITIES

IDRS, SENIOR DEBT AND VRs

Downward pressure on ING Bank's ratings would most likely result from significantly increased risk appetite in higher-risk markets or sectors, or less prudent liquidity or capital management.

Today's upgrade factors in our expectation that earnings will continue their gradual improvement, and that capitalisation in the bank would converge with the higher level held in the group. Setbacks to these expectations would be rating-negative. Given the high VR, a further upgrade is unlikely.

SUPPORT RATING AND SUPPORT RATING FLOOR

An upgrade of the Support Rating or upward revision of the Support Rating Floor would be contingent on a positive change in the Dutch sovereign's propensity to support its banks. While not impossible, this is highly unlikely, in Fitch's view.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid capital are all notched down from the ING Bank's or ING Group's VRs in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably. Their ratings are primarily sensitive to a change in the respective anchor VR.

The rating of ING Bank's Tier 2 notes that allow for substitution to similar instruments issued by ING Group is sensitive to changes in ING Bank's VR or any notching of ING Group's VR below that of its main operating company.

Additional Tier 1 securities issued by ING Group are also sensitive to Fitch changing its assessment of the probability of their non-performance risk relative to the risk captured in ING Group's VR.

The rating actions are as follows:

ING Group

Long-term IDR: upgraded to 'A+' from 'A'; Outlook Stable

Short-term IDR: affirmed at 'F1'

Viability Rating: upgraded to 'a+' from 'a'

Support Rating: affirmed at '5'

Support Rating Floor: affirmed at 'No Floor'

Long-term senior unsecured debt rating upgraded to 'A+' from 'A'

Short-term senior unsecured debt rating affirmed at 'F1'

Additional Tier 1 securities (US456837AE31, US456837AF06): upgraded to 'BBB-' from 'BB+'

ING Bank

Long-term IDR: upgraded to 'A+' from 'A'; Outlook Stable

Short-term IDR: affirmed at 'F1'

Viability Rating: upgraded to 'a+' from 'a'

Support Rating: affirmed at '5'

Support Rating Floor: affirmed at 'No Floor'

Subordinated debt: upgraded to 'A' from 'A-'

Long-term senior unsecured debt rating upgraded to 'A+' from 'A'

Short-term senior unsecured debt rating affirmed at 'F1'

Commercial paper upgraded to 'A+/'F1' from 'A/'F1'

Market linked notes: upgraded to 'A+(emr)' from 'A(emr)'

ING Belgium

Long-term IDR: upgraded to 'A+' from 'A'; Outlook Stable

Short-term IDR: affirmed at 'F1'

Support Rating: affirmed at '1'

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Applicable Criteria
Global Bank Rating Criteria (pub. 20 Mar 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501

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