FITCH AFFIRMS ING BANK AT 'A+' & ING GROUP AT 'A'; OUTLOOKS NEGATIVE

Fitch Ratings-London/Paris-31 October 2013: Fitch Ratings has affirmed ING Bank N.V.'s (ING Bank) Long-term Issuer Default Rating (IDR) and Support Rating Floor (SRF) at 'A+' and ING Group's Long-term IDR and SRF at 'A'. The Outlook on both Long-term IDRs is Negative. At the same time, the agency has affirmed ING Bank's Viability Rating (VR) at 'a'. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS - IDRS, SRFs AND SENIOR DEBT
ING Bank and ING Group's IDRs and senior debt ratings are at their SRFs of 'A+' and 'A' respectively. The SRFs reflect Fitch's expectation that there is an extremely high probability that the Dutch state (AAA/Negative) will support these institutions, given their systemic importance to the domestic economy and financial system.

ING Group is the holding group for ING Bank and ING's insurance operations. Its SRF and Long-term IDR are currently notched down once from ING Bank's, indicating Fitch's view that although still extremely high, the probability that the holding company will receive support is slightly weaker than the bank's, given that support could flow to the bank directly.

RATING SENSITIVITIES - IDRS, SRFs AND SENIOR DEBT
ING Bank and ING Group's IDRs, SRFs and senior debt ratings are sensitive to a change in Fitch's assumptions about the on-going availability of extraordinary sovereign support to both entities. Changes in assumptions could be driven by a change either in the sovereign's ability (for example, triggered by a downgrade of the Netherlands' sovereign rating) or in its perceived willingness to provide such support. The Negative Outlook on ING Bank's and ING Group's Long-term IDRs mirrors that on the Dutch sovereign.

In Fitch's view, there is a clear intention ultimately to reduce implicit state support for financial institutions in the EU, as demonstrated by a series of legislative, regulatory and policy initiatives. On 11 September 2013, the agency commented on its approach to incorporating support in its bank ratings in light of evolving support dynamics for banks worldwide (see 'Fitch Outlines Approach for Addressing Support in Bank Ratings', 'Bank Support: Likely Rating Paths' and 'The Evolving Dynamics of Support for Banks' available at www.fitchratings.com).

ING Bank's and ING Group's IDRs, senior debt ratings and SRs would be downgraded and the SRFs revised down if Fitch concluded that potential sovereign support had weakened relative to its previous assessment. Given that ING Bank's VR is at 'a', any support-driven downgrade of the bank's Long-term IDRs and senior debt ratings would be limited to one notch. In such a scenario, ING Group's Long-term IDRs would likely be notched from the IDR of its main operating entity (ING Bank) in line with Fitch's methodology and thus, any downgrade would also be limited to one notch.

KEY RATING DRIVERS - VR
ING Bank's VR continues to reflect its strong franchise (mostly in the Benelux), which supports income generation and deposit-gathering capacities. Its geographical diversification in operations (around 40% of its loan book is to Dutch customers, the remainder being largely focused on strong European countries) means that the bank is less dependent on the health of its domestic economy than other large Dutch banks. This is positive for the VR given that the Netherlands has been in recession for seven successive quarters and Fitch expects that more than minimal growth prospects will take some time to come through.

Signs of stabilisation have appeared in various Dutch macroeconomic indicators from Q313 (stabilisation in housing price decrease and unemployment rate increase, reduction in companies' bankruptcies, less negative consumer and producer confidence) which, if continued, should lead to a gradual, albeit weak, recovery of the economy. Despite the recent performance of the Dutch economy, Fitch believes its underlying fundamentals remains strong.

Fitch believes loan impairment charges (LICs) have peaked but will remain at high levels for full year 2013. LICs should gradually reduce throughout 2014 but Fitch does not expect any decrease to be material due to lag effects of the recent weak economic conditions. Nevertheless, ING Bank's operating performance has remained acceptable given the stage of the economic cycle thanks to solid and resilient income streams from the bank's healthy franchise. This supports ING Bank's 'through-the-cycle' creditworthiness.

The quality of the bank's customer loan book has deteriorated unevenly, with the worst hit asset classes being Dutch SMEs (6% of total loan book at end-June 2013, 6.4% NPL ratio at the same date) and commercial real estate (5% and 10.4%, respectively). The Dutch mortgage loan book (26%, 1.6%) has so far remained fairly resilient and should remain so under Fitch's current assumptions. Although the low coverage of the bank's total impaired loans by allowances (36.4% at end-June 2013) is explained by a largely collateralised loan book, it is lower than most peers and leaves the bank reliant on collateral values in times where asset prices have generally declined. Consequently, unreserved impaired loans represented 29.2% of the bank's equity at end-June 2013.

Wholesale funding reliance remains but is lower on a consolidated basis than at other Dutch banks, as ING Bank benefits from the geographical diversification of its operations. ING Bank has addressed local regulators' caution around large cross-border flow of domestic deposits to foreign parent banks by transferring assets to deposit-rich entities (largely 'match-funding' domestic commercial banking assets with local retail funding). Access to capital markets has been resilient. ING Bank's liquidity position remains good despite liquidity not being fully fungible within the group.

Aided by deleveraging, capitalisation notably improved, a necessary move ahead of the repayment of residual state aid (EUR3.375bn including repayment premium, including the EUR1.125bn to be repaid on 6 November 2013) and increased capital requirements from Basel III/CDR IV regulations. Taking these and the proportion of unreserved impaired loans into account, but also the expected internal capital generation, Fitch still views ING Bank's capitalisation as good relative to other large European banks.

RATING SENSITIVITIES - VR

ING Bank's VR is sensitive to any significant setback in the gradual economic improvement envisaged for the Netherlands or materially higher effective or anticipated stress in the eurozone, notably in Spain and Italy (EUR32bn and EUR21bn of exposures at end-June 2013, i.e. 90% and 60% of equity, respectively). Investor sentiment turning against the bank or any marked reduced prudence in liquidity management would also be detrimental to its VR given ING Bank's funding reliance on capital markets.

Although not expected by Fitch, conclusions from the ECB's Asset Quality Review that resulted in a material drop in ING Bank's capitalisation (such as requirements to materially increase the risk weighting for the Dutch mortgage book or improve the coverage of impaired loans) could be detrimental for the bank's VR.

RATING DRIVERS AND SENSITIVITIES - GOVERNMENT-GUARANTEED DEBT

ING Bank's state-guaranteed debt securities are rated 'AAA', reflecting the sovereign Dutch guarantee and so are sensitive to any change in the Netherlands' rating.

KEY RATING DRIVERS AND SENSITIVITIES - SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The subordinated Tier 2 debt securities issued by ING Bank are notched from the bank's VR, in accordance with Fitch's criteria, and their ratings are hence broadly sensitive to the same factors as those that would affect ING Bank's VR. The subordinated debt securities are rated one notch below the bank's VR to reflect above average loss severity of this type of debt when compared to average recoveries.

The rating assigned to the preference shares issued by ING Group is notched off the company's implicit intrinsic creditworthiness reflecting the structural subordination of ING Group to ING Bank as its holding company. The preference shares are rated four notches below this implicit creditworthiness to reflect higher loss severity risk of these securities when compared with average recoveries (two notches) as well as high risk of non-performance (an additional two notches). The rating assigned to the preference shares is hence broadly sensitive to the same factors as those that would affect ING Bank's VR

SUSBIDIARY AND AFFILIATED COMPANY KEY RATING DRIVERS AND SENSITIVITIES

Fitch considers ING Belgium as a 'core' subsidiary of ING Bank. This opinion derives from Belgium being a 'home' market to ING Bank's core businesses, high level of management and operational integration, full ownership and the considerable reputation risk that would entail a default of ING Belgium for its parent. As such and in line with the agency's criteria 'Rating FI Subsidiaries and Holding Companies', ING Belgium's Long-term IDR is equalised with ING Bank's.

ING Belgium International Finance S.A. (ING Belgium IF) is a Luxembourg-based funding vehicle fully-owned by ING Belgium and the ratings assigned to the debt securities issued by the vehicle are aligned with ING Belgium's IDR, based on Fitch's belief that there is an extremely high probability of support from ING Belgium if required. This belief is evidenced by the fact that ING Belgium guarantees the securities issued by ING Belgium IF.

ING Belgium IF's senior debt rating is sensitive to any change in ING Belgium's IDR which, in turn, is sensitive to any change in ING Bank's IDR.

RATING DRIVERS AND SENSITIVITIES - SENIOR DEBT NATIONAL RATING

The 'AAA(tha)' National Rating assigned to ING Bank Thai baht (THB)'s senior unsecured bonds is based on ING Bank's Long-Term IDR, which is higher than Thailand's Long-Term local currency IDR of 'A-'/Stable; hence, the rating on these bonds is aligned with 'AAA(tha)', the highest rating on Thailand's National Rating scale. Given ING Bank's 'a' VR, the National Rating is not directly vulnerable to a weakening of potential state support but could be if this was combined with a downgrade of the VR.

The rating actions are as follows:

ING Group
Long-term IDR: affirmed at 'A'; Outlook Negative
Short-term IDR: affirmed at 'F1'
Support Rating: affirmed at '1'
Support Rating Floor: affirmed at 'A'
Senior unsecured debt rating affirmed at 'A'/'F1'
Subordinated perpetual preference shares (US456837AC74): affirmed at 'BB+'

ING Bank
Long-term IDR: affirmed at 'A+'; Outlook Negative
Short-term IDR: affirmed at 'F1+'
Viability Rating: affirmed at 'a'

Support Rating: affirmed at '1'
Support Rating Floor: affirmed at 'A+';
Subordinated debt: affirmed at 'A-'
Senior unsecured notes: affirmed at 'A+/F1+'
Short-term senior unsecured notes: affirmed at 'F1+'
Market-Linked notes: affirmed at 'A+emr'
National long-term unsecured debt: affirmed at 'AAA(tha)'
Commercial paper affirmed at 'A+/F1+'
Dutch government guaranteed securities: affirmed at 'AAA'/'F1+'

ING Belgium
Long-term IDR: affirmed at 'A+'; Outlook Negative
Short-term IDR: affirmed at 'F1+'
Support Rating: affirmed at '1'

ING Belgium International Finance
Market-linked notes: affirmed at 'A+emr'
Senior unsecured notes: affirmed at 'A+'

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Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 15 August 2012', 'Assessing and Rating Bank Subordinated and Hybrid Securities', dated 5 December 2012, 'Rating FI Subsidiaries and Holding Companies' dated 10 August 2012, 'Evaluating Corporate Governance' dated 12 December 2012 and 'National Ratings Criteria', dated 19 January 2011 are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686181
Assessing and Rating Bank Subordinated and Hybrid Securities
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=695542
Rating FI Subsidiaries and Holding Companies
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=679209
Evaluating Corporate Governance
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=694649
Bank Support: Likely Rating Paths
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715001
The Evolving Dynamics of Support for Banks
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715000