FITCH AFFIRMS ING BANK AT 'A+'; OUTLOOK STABLE

Fitch Ratings-London-24 November 2017: Fitch Ratings has affirmed ING Bank NV's Long-Term Issuer Default Rating (IDR) at 'A+' and Viability Rating (VR) at 'a+'. The Outlook on the Long-Term IDR is Stable. A full list of rating actions is at the end of this rating action commentary.

The rating actions are part of a portfolio review of major Dutch banking groups rated by Fitch.

KEY RATING DRIVERS

IDRS, VRS AND SENIOR DEBT

ING Bank's ratings reflect its solid and stable financial metrics, strong execution of its strategy, and a robust and diverse company profile. The ratings are underpinned by a significant capital buffer kept at ING Group level and Fitch's expectation that it will be maintained. The ratings also factor in ING Bank's gradually improving earnings, balanced funding profile and moderate impaired loans ratio.

ING Bank's capital ratios are moderate compared with similarly rated peers, but additional capital is held at the holding company, where the group is supervised and its capital targets are set. Fitch expects that this capital buffer will largely be retained, and that capital will be fungible between the holding company and the bank. ING Group's Fitch Core Capital ratio was 15.7% at end-September 2017, compared with 13.8% at ING Bank. The reported fully loaded group leverage ratio was 4.5%, a sound level in a European context.

Revenue generation is underpinned by the bank's vast Benelux franchise coupled with geographic diversification. The bank has protected its net interest margin despite low interest rates, although we expect margin pressure to increase gradually since the room for further cuts in deposit rates is limited. A continued focus on costs and low loan impairment charges are likely to offset this pressure. We expect profitability to strengthen over the rating horizon with the benefits of the cost-cutting measures gradually materialising.

The bank's impaired loans/gross loans ratio (2.2% at end-September 2017) is in line with similarly rated European peers', reflecting a large and well-performing mortgage loan book and diversified wholesale lending. Asset quality is underpinned by product and geographical diversification, resulting in low volatility of loan losses through the cycle. Fitch expects asset-quality metrics to further improve in 2018 on the back of stronger economic growth forecasts in the bank's main markets and continued low interest rates.

The stable funding profile reflects a strong franchise 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 Group is the designated resolution entity for the group. As a result, we expect a higher share of senior debt to be issued out of the holding company and downstreamed to the bank to meet the upcoming total loss-absorbing capacity (TLAC) and minimum requirement for eligible liabilities and own funds (MREL).

ING Group's ratings are aligned with those of the main operating entity ING Bank, which is its only significant asset. This is driven by the regulatory focus on the group as a consolidated entity and by high fungibility of capital between the holding company and the bank.

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 profile is sound, it is not outperforming similarly rated peers'.

DCRS

The Derivative Counterparty Ratings (DCR) of ING Bank, ING Group and ING Belgium have been affirmed at the same level as the banks' Long-Term IDRs because under Dutch and Belgian legislation, derivative counterparties have no preferential status over other senior obligations in a resolution scenario.

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 and the Single Resolution Mechanism 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.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

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

Additional Tier 1 instruments issued by ING Group are 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 (three notches).

SUBSIDIARY AND AFFILIATED COMPANY

ING Belgium's Long-Term IDR is equalised with that of ING Bank. Fitch considers ING Belgium to be core to ING Bank's retail strategy and franchise, to be highly integrated within its parent in terms of management and operations, and is fully owned. Fitch believes there is an extremely high probability of support for ING Belgium, if needed. In addition, we believe there is considerable reputation risk for the parent in the event of a subsidiary's default. ING Bank has sufficient capital resources and flexibility outside ING Belgium, including access to capital at the holding company, to be able to provide support in case of need.

RATING SENSITIVITIES

IDRS, VRS, AND SENIOR DEBT

The ratings are underpinned by our expectation that capital buffers held at the group holding level will be maintained, while profitability will continue to gradually improve. Setbacks to these expectations would be negative for the ratings. Downward pressure on ING Bank's ratings would also most likely result from significantly increased risk appetite in higher-risk markets or sectors, or less prudent liquidity or capital management. Given the high VR, an upgrade is unlikely.

Given that ING Group's VR is aligned with that of ING Bank, its ratings are sensitive to broadly the same factors as ING Bank's VR. ING Group's ratings are also sensitive to a build-up of double leverage at the holding company, although this is not Fitch's expectation.

The Long-term IDR of ING Bank and ING Belgium would be upgraded if ING Bank built a buffer of bail-inable debt that could be made available to protect third-party preferred senior obligations from default in case of failure, either under a resolution process or as part of a private-sector solution (ie distressed-debt exchange) to avoid a resolution action. Fitch estimates that a bail-inable buffer, including senior notes downstreamed from ING Group as junior-ranked instruments to third-party senior notes, including non-preferred senior debt, in excess of 10% of risk-weighted assets (RWAs) is likely to be sufficient to restore the bank's viability without hitting third party (preferred) senior creditors.

In case of failure, we have assumed that the intervention point for ING Bank would be around its current minimum common equity Tier 1 (CET1) requirement of 6.25% (Pillar 1 and Pillar 2, excluding the capital conservation (CCB) and the domestic systemic importance (DSIFI) buffers), and that ING Bank would need to meet its total minimum capital requirements immediately after a resolution action, which on a fully loaded basis, including the CCB and DSIFI buffers, currently amounts to 15.25%. Taking also into account additional undisclosed Pillar 2 guidance as well as potential risk-weight increase in a stress scenario, a qualifying junior debt buffer of 10% of RWAs would most likely be sufficient to restore the bank's viability without hitting third-party preferred senior creditors.

DCRS

The DCRs of ING Bank, ING Group and ING Belgium are sensitive to a change in the banks' Long-Term IDRs, or to a change in legislation giving preference to derivative counterparties over senior obligation in a resolution scenario.

SUPPORT RATING AND SUPPORT RATING FLOOR

Upgrades of the Support Ratings or upward revisions of the Support Rating Floors would be contingent on a positive change in the Dutch sovereign's propensity to support its banks. This is highly unlikely, in Fitch's view, although not impossible.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid capital instruments 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.

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.

SUBSIDIARY AND AFFILIATED COMPANY

ING Belgium's ratings are sensitive to changes in ING Bank's ratings. Although not expected, the ratings are also sensitive to weakening of ING Bank's propensity to provide support.

The rating actions are as follows:

ING Group

Long-Term IDR: affirmed at 'A+'; Outlook Stable
Short-Term IDR: affirmed at 'F1'
Viability Rating: affirmed 'a+'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Derivative counterparty rating: affirmed at 'A+(dcr)'
Long-term senior unsecured debt and programme ratings: affirmed at 'A+'
Short-term senior unsecured programme rating: affirmed at 'F1'
Subordinated debt: affirmed at 'A'

Additional Tier 1 securities (US456837AE31, US456837AF06, XS1497755360): affirmed at 'BBB-'

ING Bank
Long-Term IDR: affirmed at 'A+'; Outlook Stable
Short-Term IDR: affirmed at 'F1'
Viability Rating: affirmed 'a+'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Derivative counterparty rating: affirmed at 'A+(dcr)'
Long-Term senior unsecured debt and programme ratings: affirmed at 'A+'
Short-Term senior unsecured debt and programme ratings: affirmed at 'F1'
Subordinated debt: affirmed at 'A'
Commercial paper: affirmed at 'A+'/'F1'
Market-linked notes: affirmed at 'A+(emr)'

ING Belgium
Long-Term IDR: affirmed at 'A+'; Outlook Stable
Short-Term IDR: affirmed at 'F1'
Support Rating: affirmed at '1'
Derivative counterparty rating: affirmed at 'A+(dcr)'

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Applicable Criteria
Global Bank Rating Criteria (pub. 25 Nov 2016)
https://www.fitchratings.com/site/re/891051