

## 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)'

#### Contact:

##### Primary Analyst

Bjorn Norrman

Senior Director

+44 20 3530 1330

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

##### Secondary Analyst

Konstantin Yakimovich

Director

+44 20 3530 1789

##### Committee Chairperson

Olivia Perney Guillot

Senior Director

+33 1 44 29 91 74

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

#### Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016)

<https://www.fitchratings.com/site/re/891051>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB

SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://WWW.FITCHRATINGS.COM/SITE/REGULATORY). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001