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Research Update:

ING Bank Upgraded To 'A+' On Resilient Performance And Strengthening Bail-In-Able Buffer; Outlook Stable

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Overview

- We believe that ING Group's resolution strategy, capital policy, and funding plan will result in a sizable buffer protecting the senior creditors of the main operating bank ING Bank. We consider the quantum of bail-inable securities will likely meet our threshold for receiving a notch of uplift.
- We also consider that ING Bank, the main operating entity of the ING Group, will continue to display resilient performance and that internal capital generation will accompany the expected growth of risk assets and higher margins.
- As a result, we are raising our long-term ratings on ING Bank and other core operating subsidiaries to 'A+' from 'A', and affirming our 'A-1' short-term ratings. We are also upgrading the group's highly strategic subsidiary ING Bank (Australia) Ltd. to 'A/A-1' from 'A-/A-2', and affirming our 'A-/A-2' ratings on ING Groep N.V., the nonoperating holding company. The unsupported group credit profile (GCP) remains at 'a'.
- We removed our issuer ratings on all rated entities and the associated issue ratings from "under criteria observation," after having completed our criteria review for ING.
- The stable outlook on all these entities reflects our view that the group's financial profile will continue to strengthen and display strong capital adequacy metrics and risk-adjusted profitability.

Rating Action

On July 26, 2017, S&P Global Ratings raised its long-term counterparty credit ratings on ING Group's core subsidiaries--ING Bank N.V., ING Belgium S.A./N.V., and ING Financial Markets LLC--to 'A+' from 'A'. We affirmed our 'A-1' short-term ratings.

Additionally, we upgraded the group's highly strategic subsidiary ING Bank (Australia) Ltd. to 'A/A-1'from 'A-/A-2'.

At the same time, we affirmed our 'A-/A-2' ratings on ING Groep N.V., the non-operating holding company (NOHC).

The outlook on all the long-term ratings is stable.

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Furthermore, we removed the "under criteria observation" (UCO) designation added on July 20, 2017, to our ratings on ING group rated entities (see " Financial Institution Ratings Placed Under Criteria Observation After Risk-Adjusted Capital Framework Criteria Published," published on RatingsDirect), following the publication of the risk-adjusted capital (RAC) framework criteria update on that day, having now completed our criteria review for ING group rated entities.

Rationale

The upgrade reflects our expectation that in the coming two years ING Group will build a sizable buffer of bail-in-able debt protecting its bank's senior creditors, while maintaining strong capital adequacy metrics thanks to resilient financial performance, supportive internal capital generation, and a broadly similar risk profile. We view positively the group's well-articulated digital strategy, which builds on years of experience and a pioneering approach to internet banking, and its clear focus on growth as a commercial bank in a given set of geographies and segments where it already operates.

We believe that ING Group's preferred resolution strategy, capital policy, and funding plan will strengthen its loss-absorbing capacity, and we are therefore adding a notch of additional loss-absorption capacity (ALAC) into our assessment of the group credit profile (GCP). The unsupported GCP remains at 'a'. Although we estimate that this ALAC buffer was close to 3.5% at the end of 2016, we believe that it will range between 5.5% and 6.0% of S&P Global Ratings' risk-weighted assets (RWAs) by end-2018, and remain at least in this range thereafter, depending on the continuation of this issuance strategy from the NOHC. The first issuance took place in March 2017 for €5.25 billion. We consider that this plan is credible because it is needed to comply with total loss-absorption capacity (TLAC) requirements and minimum requirement for own funds and eligible liabilities (MREL), and it is based on the recycling of senior unsecured debt issued by the main operating bank and maturing over the 2017-2022 period for a total amount of €38.7 billion. In our view, in order to execute this strategy, ING Group also benefits from an established presence in financial markets globally.

Our forecast of ING Group's ALAC also takes into account the maintenance of a relatively stable buffer of subordinated instruments, of about €9 billion, with a decreasing portion of instruments issued by ING Bank, and an increasing portion of instruments issued by ING Group, since the latter is the designated single point of entry for the group in resolution.
We have raised our ALAC threshold for a notch of uplift by 25 basis points, to 5.25% of S&P Global Ratings' RWAs, to reflect the possibility, although uncertain at this stage, that ING Bank will face prepositioning requirements in its material subsidiaries. This approach is aligned with our current method for other banking groups that operate through multiple international operating entities.

We estimate that our RAC ratio before adjustment for ING Group stood at 11.0%

at end-2016 under our updated RAC framework, and we project that it will be in the 10.5%-11.0% range during the next two years, based on the following assumptions:

- 5% annual growth in lending, with more active credit growth in markets outside the Benelux region that display higher growth potential. We also expect the portion of nonmortgage loans to increase slightly, mainly in corporate lending. We therefore expect S&P Global Ratings' RWAs will increase more rapidly by about 6% annually.
- A resilient net interest margin over time, resulting from the higher-margin lending strategy.
- Broadly stable operating expenses as investments in digital transformation are gradually offset by efficiency gains.
- Stable loan impairment charges in 2017 and 2018.
- The maintenance of a buffer of about €7 billion of additional tier 1 instruments eligible for inclusion in our total adjusted capital, assuming the replacement of "old style" Tier 1 hybrids that are subject to grandfathering.
- A slightly increasing dividend per share, in line with ING Bank's guidance.

We cannot exclude that ING Bank will make an acquisition in the next two years, but we expect any link-up to be relatively small and opportunistic, as the group's strategic focus is on organic growth and digital integration. That said, we assume that any acquisition would be payable out of generated earnings during the period. Like peers, ING Bank is exposed to litigation risks. Our baseline scenario does not factor in material litigation costs. We believe that given its pay-out ratio, the group has enough financial flexibility to adjust in case of need.

This year we have changed our approach in calculating the RAC ratio. We no longer forecast the RAC ratio using ING Bank's perimeter but rather ING Group's perimeter. This is because, with the completion in April 2016 of the multi-year restructuring plan agreed with the European Commission, the two business perimeters have now fully converged. In addition, ING Group is lead regulated entity as per feedback from the European Central Bank, and the group's strategy is to issue hybrid capital instruments from the NOHC, the designated single point of entry under the group preferred resolution strategy.

We continue to view ING Bank N.V., ING Belgium, and ING Financial Markets as core to the group. We also maintained the highly strategic status of ING Bank (Australia) Ltd. Given our views on the group status of these rated entities, and our assessment of ING Group's GCP as 'a+' now, including one notch of ALAC, compared to 'a' previously, we have raised our ratings on these entities by one notch.

We affirmed our ratings on the NOHC, given that we rate this entity one notch lower than the unsupported GCP, which remains unchanged at 'a'. The same reasoning applies to the issue ratings on subordinated and hybrids debts, which we affirmed.

Outlook

The stable outlook on the core entities forming the ING Group reflects our view that the group's financial profile will continue to steadily strengthen, benefiting from a resilient economic environment in Europe and the continuation of the group's medium-term strategy, which, based on the group's publicly stated financial roadmap, will support internal capital generation and the maintenance of strong capital adequacy. As a result, we expect ING Group's projected RAC ratio before diversification will remain sustainably above 10.5% in the next 18-24 months. It also reflects our view that the group's risk appetite, in particular credit growth outside of the bank's core markets, will remain contained and growth initiatives limited to known areas and territories. Finally, we expect ING Group to execute its planned €15 billion issuance of senior unsecured debt out of its NOHC in 2017 and 2018, and adapt further if needed.

We could lower our ratings on the group entities if the group's projected RAC ratio trended downward, below 10%, because of a more rapid growth of riskier assets than we currently expect, which could result from faster expansion into emerging markets, or acquisitions, or if the issuance of ALAC-eligible instruments would fall short of our expectations because of tighter capital and funding policies.

We see limited upside on our ratings in the next two years. We could raise our ratings on group entities if we were to observe materially improving conditions in several countries where the group operates, or if, along with a strengthening capital position and sound growth management, the group displays a supportive loss experience given the nature of its business mix.

Ratings Score Snapshot

ING Bank N.V.

	To	From
Issuer Credit Rating	A+/Stable/A-1	A/Stable/A-1
SACP	a	a
Anchor	bbb+	bbb+
Business Position	Strong (+1)	Strong (+1)
Capital and Earnings	Strong(+1)	Strong(+1)
Risk Position	Adequate (0)	Adequate (0)
Funding	Average (0)	Average (0)
and Liquidity	Adequate	Adequate
Support	(+1)	(0)
ALAC Support	(+1)	(0)
GRE Support	(0)	(0)

Group Support	(0)	(0)
Sovereign Support	(0)	(0)
Additional Factors	(0)	(0)

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Financial Institution Ratings Placed Under Criteria Observation After Risk-Adjusted Capital Framework Criteria Published , July, 20, 2017
- The Application Of Key Aspects Of The Risk-Adjusted Capital Framework Criteria, July 20, 2017
- Calibrating The Risk-Adjusted Capital Framework, July 20, 2017
- RFC Process Summary: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- Credit FAQ: What's Behind S&P Global Ratings' Risk-Adjusted Capital Framework Update, July 20, 2017
- ING Bank (Australia) Ltd., July 19, 2017
- The Resolution Story For Europe's Banks: A Job Not Yet Half Done, So Plenty More Work To Come, April 5, 2017
- ING Bank N.V., Dec. 28, 2016

Ratings List

Upgraded; Ratings Affirmed

	To	From
ING Bank N.V.		
ING Financial Markets, LLC		
ING Belgium S.A./N.V.		
ING Bank N.V. (Dublin Branch)		
Counterparty Credit Rating	A+/Stable/A-1	A/Stable/A-1
ING Bank N.V.		
Certificate Of Deposit	A+/A-1	A/A-1

Upgraded

	To	From
ING Bank (Australia) Ltd.		
Counterparty Credit Rating	A/Stable/A-1	A-/Stable/A-2
ING Bank N.V.		
Senior Unsecured	A+	A
ING (US) Issuance LLC		
Senior Unsecured[1]	A+	A

Ratings Affirmed

ING Groep N.V.	
Counterparty Credit Rating	A-/Stable/A-2
Senior Unsecured	A-
Subordinated	BBB
Junior Subordinated	BB
Junior Subordinated	BB+
ING Bank N.V.	
Subordinated	BBB
Subordinated	BBB+
Commercial Paper	A-1
ING (US) Funding LLC	
Commercial Paper[1]	A-1
ING Capital Funding Trust III	
Preferred Stock[2]	BB+

[1]Guaranteed by ING Bank N.V.
[2]Guaranteed by ING Groep N.V.

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