

Rating Action: Moody's affirms ING Bank's A1 long-term ratings and changes outlooks to positive from stable

Global Credit Research - 17 Mar 2017

London, 17 March 2017 -- Moody's Investors Service, ("Moody's") today affirmed ING Bank N.V. (ING Bank)'s long-term deposit and senior unsecured debt ratings of A1 and changed its outlooks on these instruments to positive from stable. The rating agency also affirmed the senior unsecured debt rating of ING Groep N.V. (ING Groep), ING Bank's parent company, at Baa1 with a stable outlook. The bank's intrinsic financial strength (expressed by its baseline credit assessment, or BCA) has also been affirmed at baa1, together with the other ratings of ING Bank: its short-term rating of Prime-1, its subordinated debt rating of Baa2 and its Counterparty Risk (CR) Assessments of Aa3 (cr)/Prime-1(cr). The agency also affirmed ING Groep's subordinated, junior subordinated, and preferred stock ratings of Baa2, Baa2(hyb)/Baa3(hyb) and Baa3(hyb) respectively.

A full list of ratings is provided towards the end of this press release.

RATINGS RATIONALE

The change in ING Bank's senior unsecured debt and deposit outlook to positive, from stable, primarily reflects the likely evolution of the group's liability structure following the expected issuance of senior unsecured and subordinated debt by holding company ING Groep over the next two years. The group has adopted a so-called single point of entry approach to resolution with the result that it will issue substantial new debt from ING Groep. This debt will be structurally subordinated to ING Bank's own senior unsecured debt and deposits in a resolution scenario and would, therefore, be eligible for the group's Minimum Requirement for own funds and Eligible Liabilities (MREL) and Total Loss-Absorbing Capacity (TLAC) buffers.

In January 2017, the European Single Resolution Board (SRB) approved ING Group as the single point of entry. From now on, all external TLAC/MREL-eligible debt will be issued by ING Groep, including additional Tier 1, Tier 2 and senior unsecured debt. In February 2017, ING Groep issued EUR 750 million of Tier 2 instruments and has given notice to exchange EUR 1 billion of ING Bank Tier 2 into ING Groep Tier 2 instruments in April 2017. On 2 March 2017, ING Groep also issued a first EUR 1.5 billion tranche of senior unsecured debt. ING Groep intends to recycle amortizing ING Bank senior unsecured debt, of which EUR 19 billion is maturing in 2017 and 2018, into ING Groep senior unsecured debt.

This additional buffer of senior unsecured and subordinated debt issued from the holding company will provide additional subordination to ING Bank's deposits and senior unsecured debt under Moody's anticipated waterfall of payments in resolution, reducing their probability of loss. Under the rating agency's Advanced Loss Given Failure framework, this would eventually result in additional uplift of ING Bank's senior unsecured debt and deposit, with Preliminary Rating Assessments three notches above the bank's BCA, up from two currently, before the end of 2018.

The affirmation of ING Bank's BCA reflects its strong profitability, based on a diversified business mix, its low asset risk, despite some exposures to sensitive activities (e.g. oil and commodity finance) and geographies (e.g. Ukraine and Turkey) as part of its diversified wholesale banking operations, and its sound liquidity profile. While ING Bank's capital position is not one of the strongest amongst Benelux peers, it is commensurate with its risk profile and has increased regularly over the last years. These elements are reflected in ING Bank's BCA and adjusted BCA of baa1.

ING Bank's long-term deposit and senior unsecured debt ratings of A1 continue to reflect both this BCA and its current liability structure, resulting in very low loss-given-failure and two notches of uplift from the adjusted BCA. These ratings also incorporate Moody's view that there is a moderate probability of government support for these instruments, resulting in a further one-notch uplift.

WHAT COULD CHANGE THE RATING UP/DOWN

The outlook on ING Bank's deposit and senior unsecured debt ratings is positive, reflecting our expectation that increased volumes of subordinated and senior unsecured debt to be issued at the holding company level will likely improve the bank's creditors position in a resolution scenario.

ING Bank's baa1 BCA could also be upgraded if a material improvement in the operating environment of the countries where the bank is mostly exposed were to lead to substantially improved asset risk and higher profitability. A strengthened capital position and a reduction in reliance on wholesale funding could also be positive for the bank's BCA. A positive change in ING Bank's BCA would likely affect all ratings.

Conversely, ING Bank's BCA could be downgraded as a result of a deteriorating asset risk and profitability or a lower than expected capital position. A negative change in ING Bank's BCA would likely affect all ratings.

LIST OF AFFECTED RATINGS

Issuer: ING Bank N.V.

..Affirmations:

-Long-term Counterparty Risk Assessment, affirmed Aa3(cr)
-Short-term Counterparty Risk Assessment, affirmed P-1(cr)
-Long-term Bank Deposits, affirmed A1, outlook changed to Positive from Stable
-Short-term Bank Deposits, affirmed P-1
-Senior Unsecured Regular Bond/Debenture, affirmed A1, outlook changed to Positive from Stable
-Senior Unsecured Medium-Term Note Program, affirmed (P)A1
-Subordinate Regular Bond/Debenture, affirmed Baa2
-Subordinate Medium-Term Note Program, affirmed (P)Baa2
-Short-term Deposit Note/CD Program, affirmed P-1
-Commercial Paper, affirmed P-1
-Other Short Term, affirmed (P)P-1
-Adjusted Baseline Credit Assessment, affirmed baa1
-Baseline Credit Assessment, affirmed baa1

..Outlook Action:

-Outlook changed to Positive from Stable

Issuer: ING Groep N.V.

..Affirmations:

-Senior Unsecured Regular Bond/Debenture, affirmed Baa1, outlook Stable
-Senior Unsecured Medium-Term Note Program, affirmed (P)Baa1
-Subordinate Regular Bond/Debenture, affirmed Baa2
-Subordinate Medium-Term Note Program, affirmed (P)Baa2
-Junior Subordinated Regular Bond/Debenture, affirmed Baa2(hyb)/Baa3(hyb)
-Junior Subordinate Medium-Term Note Program, affirmed (P)Baa3
-Preferred Stock, affirmed Baa3 (hyb)
-Preferred Shelf Non-cumulative, affirmed (P)Ba1
-Preferred Stock Non-cumulative, affirmed Ba1(hyb)

..Outlook Action:

....Outlook remains Stable

Issuer: ING (US) Issuance LLC

..Affirmations:

....Backed Senior Unsecured Medium-Term Note Program, affirmed (P)A1

....Backed Senior Unsecured Regular Bond/Debenture, affirmed A1, outlook changed to Positive from Stable

..Outlook Action:

....Outlook changed to Positive from Stable

Issuer: ING (U.S.) Funding LLC

..Affirmations:

....Backed Commercial Paper, affirmed P-1

..Outlook Action:

....No Outlook assigned

Issuer: ING Bank N.V. (Singapore)

..Affirmations:

....Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Senior Unsecured Regular Bond/Debenture, affirmed A1, outlook changed to Positive from Stable

..Outlook Action:

....Outlook changed to Positive from Stable

Issuer: ING Bank N.V., Sydney Branch

..Affirmations:

....Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Senior Unsecured Regular Bond/Debenture, affirmed A1, outlook changed to Positive from Stable

....Senior Unsecured Medium-Term Note Program, affirmed (P)A1

....Commercial Paper, affirmed P-1

....Other Short Term, affirmed (P)P-1

..Outlook Action:

....Outlook changed to Positive from Stable

Issuer: ING Bank N.V., Tokyo Branch

..Affirmations:

....Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)
...Long-term Bank Deposits, affirmed A1, outlook changed to Positive from Stable
...Short-term Bank Deposits, affirmed P-1
...Commercial Paper, affirmed P-1
..Outlook Action:
...Outlook changed to Positive from Stable

Issuer: ING Groenbank N.V.

..Affirmations:
...Long-term Counterparty Risk Assessment, affirmed Aa3(cr)
...Short-term Counterparty Risk Assessment, affirmed P-1(cr)
...Senior Unsecured Medium-Term Note Program, affirmed (P)A1
...Other Short Term, affirmed (P)P-1
..Outlook Action:
...No Outlook assigned

Issuer: ING Capital Funding Trust III

..Affirmation:
...Backed Preferred Stock Non-cumulative, affirmed Ba1(hyb)
..Outlook Action:
...No Outlook assigned

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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Laurent Le Mouel
Vice President - Senior Analyst
Financial Institutions Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Nicholas Hill
MD - Banking
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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