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

Fitch Ratings-London-13 November 2018: Fitch Ratings has affirmed ING Bank N.V.'s Long-Term Issuer Default Rating (IDR) at 'A+' and Viability Rating (VR) at 'a+'. The Outlook on the Long-Term IDR is Positive. 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

ING BANK'S IDRS AND SENIOR DEBT

The Positive Outlook on ING Bank's Long-Term IDR reflects Fitch's expectation that ING Bank will, over the next 12-18 months, build up a buffer of junior debt that could be made available to protect the bank's reference liabilities (senior third-party creditors) from default, in case of failure. Fitch estimates that such debt buffers, including senior notes downstreamed from ING Group N.V. in a subordinated manner, in excess of 10% of risk-weighted assets (RWAs), would most likely be sufficient to restore the bank's viability without hitting senior third-party creditors.

Our expectation is based on the bank's need to meet the minimum requirement for own funds and eligible liabilities (MREL), set at EUR91 billion or 29% of end-2016 group RWAs. The group has adopted a single-point-of-entry resolution strategy, with ING Group being the resolution entity. All MREL instruments, including senior debt, will be issued at group level and downstreamed to ING Bank as junior-ranked instruments to third-party senior creditors. Fitch expects that the group will downstream holding company senior instruments to ING Bank as non-preferred senior notes once Dutch legislation permits (which we expect by end-2018).

In case of failure, we have assumed that the intervention point for ING Group would be about its current minimum common equity Tier 1 (CET1) requirement of 6.25% (Pillar 1 and Pillar 2, excluding the capital conservation and the systemic risk buffers). We have also assumed that ING Group would need to meet its total minimum capital requirements immediately after a resolution action, which on a fully loaded basis, including the capital conservation and systemic risk buffers, currently amounts to 15.25%. Taking also into account additional undisclosed Pillar 2 guidance as well as a 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.

At end-September 2018, the combined buffer of qualifying junior debt and senior debt issued by the holding company amounted to EUR26.8 billion, or 8.5% of group RWAs.

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'.

ING BANK'S VR

ING Bank's VR reflects its robust and diverse company profile, which underpins its solid and stable financial metrics, and strong execution of its strategy. The ratings are also underpinned by a significant capital buffer kept at ING Group level and Fitch's view that capital will be fungible, in case of need. The ratings 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 15.2% at end-September 2018, compared with 13.3% at ING Bank. The Group's fully loaded CET1 ratio was a healthy 14%. The reported fully loaded Group leverage ratio was also reasonable at 4.2%.

Revenue generation is underpinned by the bank's vast Benelux franchise coupled with geographic diversification. Operating profitability is sound, with annualised operating profit/RWAs of 2.5% in 9M18. Resilient earnings generation has helped the bank absorb the EUR775 million fine (about half of 3Q18 net income) imposed for significant shortcomings in the execution of customer due diligence and anti-money laundering (AML) policies over the 2010-2016 period. The bank has been implementing a know-your-customer/AML enhancement programme aimed at mitigating the identified issues since 2017. We do not expect the related costs to be a burden on profitability as most of them have already been taken into account in reported numbers.

The bank's Stage 3 loans/gross loans ratio (1.9% at end-September 2018) 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. ING Bank has a subsidiary in Turkey and is, therefore, exposed to the volatility of the Turkish operating environment. However, the exposure is moderate (EUR13.3 billion at end-September 2018 or about a quarter of Group's equity) and reducing in euro terms, and its quality has so far remained adequate (End-September 2018 Stage 3 ratio: 2.3%, out of which 67% covered by loan loss allowances). Fitch expects asset-quality metrics to remain sound in 2019 on the back of favourable 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 buffer of high-quality liquid assets (EUR132 billion at end-September 2018) further mitigates refinancing risk.

ING GROUP
ING Group's Long-Term IDR and VR are aligned with the VR of the main operating entity, ING Bank. ING Bank is the only significant asset of ING Group and, therefore, in our view, the risk of default of ING Group is highly correlated with the risk of failure of ING Bank. ING Group's ratings also reflect the absence of double leverage at the holding company level. The Short-Term IDR of ING Group maps to the lower of the two options for the 'A+' Long-Term IDR and is aligned with Short-Term IDR of ING Bank.

SUBSIDIARY AND AFFILIATED COMPANY
ING Belgium's Long-Term IDR is equalised with the VR of ING Bank since we believe that there is an extremely high probability that ING Belgium will be supported, if needed. Fitch considers ING Belgium, which is ING Bank's wholly owned subsidiary, to be core to ING Bank's retail strategy and franchise and to be highly integrated within its parent in terms of management and operations. In addition, we believe there is considerable reputation risk for the parent in the event of a subsidiary's default. In our view, 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.

DERIVATIVE COUNTERPARTY RATINGS
The Derivative Counterparty Ratings (DCRs) 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 (AT1) 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).

RATING SENSITIVITIES
ING BANK'S IDRS AND SENIOR DEBT
We will likely upgrade ING Bank's IDRs and senior debt ratings once the bank has built a buffer of junior and holding company senior debt in excess of 10% of RWAs, provided that debt issued by ING Group is downstreamed into the bank in a subordinated manner.

ING BANK'S VR
ING Bank's VR will likely come under pressure in case its capitalisation, taking into account capital held at the Group level, weakens or if its earnings materially deteriorate, either as a result of sharp impairment charges or failure to achieve cost efficiency targets. 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 management. Given the high VR, an upgrade is unlikely.

ING GROUP
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

SUBSIDIARY AND AFFILIATED COMPANY
ING Belgium's ratings are primarily sensitive to changes in ING Bank's VR. ING Belgium's Long-Term IDR could be aligned with the Long-Term IDR of ING Bank if the group pre-positions a large buffer of junior debt in the subsidiary, and provided we continue to view it as highly integrated.

DERIVATIVE COUNTERPARTY RATINGS
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.

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.

AT1 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.

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'
AT1 securities: affirmed at 'BBB-'

ING Bank N.V.
Long-Term IDR: affirmed at 'A+'; Outlook Positive
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'

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
Bank Rating Criteria (pub. 12 Oct 2018)
https://www.fitchratings.com/site/re/10044408

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