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

Fitch Ratings-London-24 February 2017: Fitch Ratings has affirmed ING Bank NV's Long-Term Issuer Default Rating (IDR) at 'A+' and Viability Rating 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.

In addition, Fitch has assigned 'A+(dcr)' Derivative Counterparty Ratings (DCRs) to ING Bank, ING Group NV and ING Belgium as part of its roll-out of DCRs to significant derivative counterparties in western Europe and the US. DCRs are issuer ratings and express Fitch's view of banks' relative vulnerability to default under derivative contracts with third-party, non-government counterparties.

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's 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 ING Group, 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 Group and the Bank. ING Group's fully loaded common equity Tier 1 (CET1) ratio stood at 14.2% at end-2016 compared with 12.6% at ING Bank. The reported leverage ratio (4.8% at ING Group at end-2016, 4.2% at ING Bank) is sound in a European context.

ING Bank's operating profitability is underpinned by its vast Benelux franchise coupled with geographic diversification resulting in consistently solid earnings generation. The bank has managed to protect its net interest margin despite low interest rates. We expect margin pressure to increase gradually since the room for further funding cost cuts has diminished in light of already very low rates paid on customer deposits. However, we expect sound operating profitability to be maintained as continued cost focus and low loan impairment charges offset these pressures.

The bank's impaired loans/gross loans ratio (2.4% at end-2016) is in line with similarly rated European peers', reflecting a large and well-performing mortgage loan book and a diversified wholesale banking book. Asset quality is underpinned by the bank's product and geographical diversification, resulting in low volatility of loan losses through the cycle. Fitch expects asset quality to remain resilient in 2017, supported by relatively benign economic conditions in the bank's main markets and by low interest rates, which reduce the borrowers' debt servicing burden.

The stable funding profile reflects ING Bank's strong franchises 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) requirements.

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'.

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.

ING Bank's Tier 2 notes that allow the issuer to exchange these notes for similar instruments issued by its parent (ING Group), are notched off the lower of ING Bank's and ING Group's VRs, which act as anchor ratings.

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 (an additional three notches).

SUBSIDIARY AND AFFILIATED COMPANY
Fitch considers ING Belgium as a core subsidiary of ING Bank. This opinion is based on Belgium being a home market to ING Bank, a high level of management and operational integration, ING Bank's full ownership and the considerable reputation risk for the parent in the event of a subsidiary's default. We also believe that ING Bank has sufficient capital resources and flexibility outside ING Belgium, including access to capital in ING Group, to be able to provide support in case of need. As a result ING Belgium's Long-Term IDR is equalised with ING Bank's.

DCRS
A DCR has been assigned to ING Bank, ING Group and ING Belgium due to their significant derivatives activity. The DCRs are at the same level as the Long-Term IDRs because under Dutch and Belgian legislation, derivative counterparties have no preferential status over other senior obligations in a resolution scenario.

SUPPORT RATINGS AND SUPPORT RATING FLOORS
The Support Ratings of '5' and Support Rating Floors 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 (BRRD) and the Single Resolution Mechanism (SRM) 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.

RATING SENSITIVITIES
IDRS, VRS, DCRS AND SENIOR DEBT
The ratings are underpinned by our expectation that capital buffers held at the group level will be maintained, while revenues and cost efficiency will continue to gradually improve. Setbacks to these expectations would be negative for the rating. 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, a further 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. While not Fitch's expectation, ING Group's ratings are also sensitive to a build-up of double leverage at the holding 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.

SUPPORT RATINGS AND SUPPORT RATING FLOORS
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.

The rating of ING Bank's Tier 2 notes that allow exchange for similar instruments issued by ING Group is sensitive to changes in ING Bank's VR or any notching of ING Group's VR below that of its main operating company.

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.

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: assigned at 'A+(dcr)'
Long-term senior unsecured debt rating affirmed at 'A+'
Short-term senior unsecured debt 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: assigned at 'A+(dcr)'
Long-Term senior unsecured debt rating affirmed at 'A+'
Short-Term senior unsecured debt rating 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: assigned at 'A+(dcr)'

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