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Research Update:

Netherlands-Based ING Bank 'A/A-1' Ratings Affirmed On Government Support And ALAC Review; Outlook Stable

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Overview

- We believe the prospect of extraordinary government support for Dutch banks is now uncertain in view of the country's well-advanced and effective resolution regime.
- We are therefore removing the one notch of uplift for government support that we had previously incorporated in the long-term counterparty credit ratings on ING Group's core operating subsidiary ING Bank N.V. and the bank's core subsidiary ING Belgium.
- We consider that ING Group has already built up some additional loss-absorbing capacity (ALAC), but is unlikely to increase its ALAC above our 5% threshold within a four-year projection period.
- However, we also recognize a strengthening of ING Bank's intrinsic creditworthiness, namely its capital position, and we have raised the stand-alone credit profile (SACP) by one notch to 'a' from 'a-'.
- We are therefore affirming our 'A/A-1' long- and short-term counterparty credit ratings on ING Bank, and our 'A-/A-2' long- and short-term counterparty credit ratings on the non-operating holding company, ING Groep.
- We raised by one notch the issue ratings on subordinated and hybrid capital instruments issued by these entities, in line with the upward revision of the SACP.
- The stable outlook reflects our expectation that the group's financial profile will continue to strengthen, benefiting from a more supportive economic environment and a recovering Dutch property market, and that the bank will not depart from its conservative capital management.

Rating Action

As previously announced on Dec. 2, 2015, Standard & Poor's Ratings Services has affirmed its long- and short-term counterparty credit ratings on Netherlands-based ING Bank N.V. at 'A/A-1' and ING Groep N.V. at 'A-/A-2'. The outlook on both entities is stable.

We raised by one notch the issue ratings on subordinated and hybrid capital instruments issued by these entities.

In addition, we affirmed the ratings on ING Bank (Australia) Ltd., the U.S.-based broker/dealer ING Financial Markets, LLC, and ING Bank N.V. (Dublin Branch).

Rationale

We believe that the prospect of extraordinary government support for the Dutch banking sector is now uncertain following the expected full implementation of the EU Bank Recovery and Resolution Directive, including bail-in powers, from Jan. 1, 2016. We do not completely exclude the possibility of such support and we consider that systemically important Dutch institutions, such as ING Group, face several more years of structural and balance sheet reforms to address their "resolvability" (mitigating the systemic impact if they fail).

Nevertheless, we believe the Dutch government's ability and willingness to provide support is lower and less predictable under the enhanced resolution framework. We have therefore reclassified the tendency of the Dutch government to support private sector commercial banks as "uncertain" under our criteria, and removed the one notch that we previously included for government support in the long-term counterparty credit rating on the group's core operating entities ING Bank, ING Belgium, and ING Financial Markets, LLC, as well as in our ratings on ING Bank's Dublin branch.

We view the Dutch resolution regime as "effective" under our additional loss-absorbing capacity (ALAC) criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

However, we have not included notches in the long-term rating on ING Bank under our additional ALAC criteria because we believe ING Bank's ALAC ratio is unlikely to exceed our 5% threshold over a four-year projection period.

We calculate that ING Bank's ALAC was about 1.5% of Standard & Poor's risk-weighted assets at year-end 2014 (excluding excess total adjusted capital). We include in this assessment the group's eligible Tier 1 and Tier 2 capital instruments that were issued under Dutch and English law or have defined principal write-down triggers. We believe these issues have capacity to absorb losses without triggering a default on senior obligations. We consider that the ALAC ratio is likely to remain within the 2.0%-3.0% range over our projection period as more jurisdictions implement resolution regimes we deem "effective" under our criteria and the group refinances maturing and callable Tier 2 instruments.

We extended the projection period to four years because we believe The Netherlands is in an extended regulatory transition period in which banks will progressively build larger buffers of loss-absorbing capacity.

We have revised upward the SACP for ING to 'a' from 'a-' on the back of the group's capital building efforts. Importantly, we note management's clear statements to maintain the relatively conservative group risk appetite and strong capital position and we anticipate that this stance will prove enduring. Consequently, we believe that our projected risk-adjusted capital

(RAC) ratio for ING Bank will remain in the 10%.0-10.5% range over the next 18-24 months.

The group intends to complete its divestment in NN Group in an orderly manner, ultimately by the end of 2016. Thereafter, we understand that ING Group will consist of banking operations only. The group estimated that, adjusted for full divestment of NN Group shares, the ING Group's pro forma fully loaded common equity Tier 1 (CET1) ratio would have been 12.8% on Sept. 30, 2015, which represents a capital surplus in excess of €4.8 billion over the bank's CET1 (excluding an interim €2.2 billion profit). Indeed, on Sept. 30, 2015, the bank estimated its Basel III fully loaded core Tier 1 ratio at 11.3%, compared with a minimum internal target of 10%. This ratio remained stable compared with that at year-end 2014 because of the group's decision to manage its capital surplus at the holding company level.

We assume that the group will maintain at least an equivalent buffer. We understand that this buffer is intended to absorb any forthcoming regulatory requirement but also to deliver an attractive return to shareholders. Consequently, we only incorporated two thirds of this buffer in our RAC ratio calculation. Our projections also take into account ING Groep's issuance in April 2015 of US\$2.25 billion of fixed-rate reset perpetual additional Tier 1 capital notes, which contributed to a 50 basis point (bp) increase of our pro forma RAC ratio at year-end 2014. Other key assumptions are:

- 3%-5% annual growth in lending and credit risk-weighted assets in 2015-2016;
- A 1%-3% increase in upfront costs as a result of information technology projects being implemented;
- A small additional improvement in the net interest margin over time;
- Further gradual decrease in loan impairment charges in 2015 and 2016;
- 10% annual phasing out of the "old style" Tier 1 hybrids that are subject to CRR/CRD IV grandfathering rules and currently included in total adjusted capital, with no replacement hybrids assumed at this stage; and
- A 40% pay-out ratio at the group level, effective from 2015.

We assess ING Bank N.V., its banking subsidiary ING Belgium, and the U.S.-based broker/dealer ING Financial Markets LLC as "core" members of the group under our criteria. We therefore align our ratings on those core entities with the 'a' group credit profile. We also continue to view ING Australia as a high strategically important subsidiary of the group.

We affirmed the 'A-/A-2' ratings on ING Groep, the group's nonoperating holding company.

We raised by one notch the issue credit ratings on the hybrid capital instruments issued by the group (either ING bank or ING Groep) because they are notched down from the SACP.

Outlook

The stable outlook on ING Group reflects our view that the group's financial profile will continue to steadily strengthen, benefiting from a more supportive economic environment and a recovering Dutch property market. We expect the continuation of the group's medium-term strategy, including the execution of its publicly stated financial roadmap, will support internal capital generation and the maintenance of strong capital adequacy metrics, including a projected RAC ratio before diversification remaining sustainably above 10% in the next 18 to 24 months. It also reflects our view that the group's risk appetite will remain contained and growth initiatives limited to known areas and territories.

We could lower our rating on ING Bank if the bank's projected RAC ratio trended downward below 10% because of a more aggressive growth of risk assets than we expect, which could result from a large acquisition, or faster expansion in emerging markets. We could also lower the ratings if asset quality metrics were to deteriorate significantly.

We see very limited potential for a rating upgrade in the medium term. We could raise our rating on ING Bank if it built a sizable buffer of ALAC in the next three to four years, for instance because of the bank changing its policy regarding the targeted level of subordinated debt issued.

Ratings Score Snapshot

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

Related Criteria And Research

Related Criteria

- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Group Rating Methodology, Nov. 19, 2013
- Ratings Above The Sovereign-Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct. 24, 2013
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Commercial Paper I: Banks, March 23, 2004

Related Research

- Most European Bank Ratings Affirmed Following Government Support And ALAC Review, Dec. 2, 2015
- Credit FAQ: How Standard & Poor's Applied Its Government Support And ALAC Criteria To European Banks In December 2015, Dec. 2, 2015
- Netherlands-Based ING Bank Outlook Revised To Stable On Strengthening Capital; 'A/A-1' Ratings Affirmed, June 8, 2015
- Standard & Poor's To Conclude Its Review Of Systemic Support For Remaining EU Banks By Early December 2015, Oct. 1, 2015
- Government And ALAC Support Ratings Uplift For Systemically Important European Banking Groups, Oct. 1, 2015
- How The Regulatory Reform Process Could Reshape Banks' Business Models And Affect Issuer Ratings, Aug. 18, 2014
- Standard & Poor's Takes Various Rating Actions On European Banks

Following Government Support Review, April 29, 2014

Ratings List

Ratings Affirmed

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

ING Bank (Australia) Ltd.
ING Groep N.V.
Counterparty Credit Rating A-/Stable/A-2

ING Bank N.V.
Senior Unsecured A
Certificate Of Deposit A-1
Commercial Paper A-1

ING (US) Funding LLC(1)
Commercial Paper A-1

ING (US) Issuance LLC(1)
Senior Unsecured A

ING Groep N.V.
Senior Unsecured A-

Upgraded	To	From
ING Bank N.V. Subordinated	BBB+	BBB
ING Capital Funding Trust III(2) Preferred Stock	BB+	BB
ING Groep N.V. Junior Subordinated	BB+	BB
Junior Subordinated	BB	BB-

(1)Guaranteed by ING Bank N.V.

(2)Guaranteed by ING Groep N.V.

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