

FITCH TAKES ACTION ON DUTCH BANKS ON SOVEREIGN SUPPORT REVIEW

Fitch Ratings-London-19 May 2015: Fitch Ratings has downgraded three Dutch banks' Support Ratings (SRs) to '5' from '1' and revised their Support Rating Floors (SRFs) to 'No Floor' from 'A+'. The affected banks are ABN AMRO Bank NV (ABN AMRO), ING Bank NV (ING Bank), and Rabobank Group (Rabobank).

At the same time, the agency has downgraded SNS Bank NV's (SNS Bank) SR to '5' from '2' and revised its SRF to 'No Floor' from 'BBB+'.

A full list of rating actions is available at the end of this rating action commentary.

The rating actions are in conjunction with Fitch's review of sovereign support for banks globally, which the agency announced in March 2014. In line with its expectations announced in March last year and communicated regularly since then, Fitch believes legislative, regulatory and policy initiatives have substantially reduced the likelihood of sovereign support for US, Swiss and European Union commercial banks. As a result, Fitch believes that, in line with our SR definition of '5', extraordinary external support while possible can no longer be relied upon for Dutch Banks.

As a result of the revision to the SRFs, the Long-term Issuer Default Ratings (IDRs) of all banks subject to this review are now driven by their standalone creditworthiness as expressed by their respective Viability Ratings (VRs).

ING Bank's Long-term IDR and senior debt ratings have been downgraded to 'A' from 'A+'. The Long-term IDR of its parent, ING Group NV, has been affirmed at 'A' and is now aligned with its main operating company. The Outlooks on both Long-term IDRs are now Stable. ING Bank's VR has been affirmed at 'a' and Fitch has published a VR for ING Group NV, also at 'a'.

ABN AMRO's Long-term IDR and senior debt ratings have been downgraded to 'A' from 'A+'. The Outlook is Stable. Its VR has been affirmed at 'a'.

SNS Bank's Long-term IDR has been downgraded to 'BBB' from 'BBB+'. The Outlook is Stable. SNS Bank's VR has been affirmed at 'bbb'.

Rabobank's other ratings are unaffected by today's rating action.

The ratings actions are also part of a periodic portfolio review of the Benelux banking groups rated by Fitch.

KEY RATING DRIVERS - ING BANK'S AND ING GROUP'S IDRS, VRS AND SENIOR DEBT
ING Bank's VR reflects the bank's strong franchise and diverse business model (mostly in the Benelux), which supports resilient earnings generation, and its balanced funding profile. The VR also factors in the bank's moderate impaired loans and modest coverage ratios, which result in a higher proportion of unreserved impaired loans relative to its equity base than similarly rated peers.

A strong and diverse company profile underpins ING Bank's resilient operating performance. While slow growth in the eurozone as well as general low interest rates are likely to weigh on performance, reducing loan impairment charges (LICs) and cost focus will mitigate the pressure. ING Bank's funding profile is also supported by its 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.

ING Bank's impaired loans ratio is in line with similarly rated European peers', and Fitch expects impaired loans to have peaked in 2014. Provisions for impaired loans remain low relative to peers, leaving equity potentially sensitive to collateral values, although the bank has a track record of LICs exceeding write-offs. Capitalisation is solid and compares adequately with similarly rated eurozone peers, although lags some more highly rated northern European banks.

ING Group's VR, and consequently Long-term IDR, are aligned with those of its core subsidiary ING Bank. Greater clarity on the group structure after its insurance divestments, and elimination of double leverage, particularly drive the ratings. The notching on ING Group's implied standalone strength, previously one notch below that of ING Bank, has been removed.

RATING SENSITIVITIES - ING BANK'S AND ING GROUP'S IDRS, VRS AND SENIOR DEBT
Downward pressure on ING Bank's VR, while not expected, would most likely result from a significantly increased risk appetite in higher-risk markets or sectors, or less prudent liquidity or capital management. Capital is also vulnerable to collateral valuations given the fairly modest reserve coverage of impaired loans compared with peers.

Given the current high rating, upside potential is limited, and any upgrade would likely be contingent on the improvements in profitability being sustained driving solid internal capital generation, while maintaining a conservative risk appetite and strong asset quality.

Given that ING Group's VR is aligned with that of ING Bank, it is 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. Should ING Group commence significant senior unsecured issuance in the form of total loss absorbing capacity (TLAC) debt, the gradual build-up of an additional buffer for the operating bank's senior creditors could affect the relative positions of creditors of the holding company and of the operating bank.

KEY RATING DRIVERS - ABN AMRO'S IDRS, VR AND SENIOR DEBT

ABN AMRO's VR reflects the bank's strong Dutch franchise, complemented by its growing international private banking and energy, commodities and transportation franchises, providing it with resilient revenue generation. The VR also takes into account the bank's continued focus on maintaining a moderate risk profile, and expected gradual improvements of asset quality. Reliance on wholesale funding markets is also factored into the ratings.

ABN AMRO's profitability is in line with that of similarly rated European peers, although it has been affected by elevated LICs since 2010. Fitch expects profitability to improve somewhat in 2015 as continued cost focus and LICs fall as the economy recovers, mitigating pressures from low interest rates. The resilient revenue generation, combined with limited loan growth and a low dividend payout ratio since 2010, have supported internal capital generation. Capitalisation compares well with similarly rated peers, and ABN AMRO also has a significant buffer of junior debt.

The quality of ABN AMRO's loan book remains resilient, and performing residential mortgage loans make up the majority of the portfolio. Commercial real estate lending has been more severely affected by the Dutch recession, as evidenced in a materially higher impaired loans percentage, although this remains manageable for the bank.

RATING SENSITIVITIES - ABN AMRO'S IDRS, VR AND SENIOR DEBT

Downward pressure on ABN AMRO's VR, while not expected, would most likely result from a material deterioration in the bank's earnings generation or asset quality, affecting its capital or access

to/cost of wholesale funding. Given the current high rating, particularly considering the limited geographical diversification, upside potential is limited.

KEY RATING DRIVERS - SNS BANK'S IDRS, VR AND SENIOR DEBT

SNS Bank's VR reflects the bank's company profile, including its geographical and product concentration and limited franchise - particularly compared with its larger domestic peers. Its focus on Dutch retail mortgage lending, and limited risk appetite outside this area, will support asset quality. The separation from its insurance sister companies should not have a material impact on the bank's franchise or ratings.

Asset quality is satisfactory, although impaired loans represent a fairly material proportion of gross loans, particularly for a predominantly Dutch mortgage lender. Fitch expects improving asset quality ratios over time, reducing the bank's capital sensitivity to collateral values (unreserved impaired loans represented a significant 40% of equity at end-2014). Nonetheless, SNS Bank's risk-weighted capital ratios are strong and leverage is fairly moderate.

SNS Bank is predominately deposit-funded, although the bank still depends on access to debt markets to fund part of its loan book. As such, maintaining its focus on liquidity to mitigate refinancing risks is important. Fitch believes SNS Bank's smaller franchise means more competitive pricing in deposits is more crucial than its larger peers should the bank need to raise additional funding; however, Fitch expects SNS Bank to maintain reasonable access to deposits, in case of need.

Earning generation capacity is satisfactory, but reliant on a single market and dependent on net interest income given its business model. Fitch expects operating profitability to be sound in 2015, but for LICs to continue to dent performance.

RATING SENSITIVITIES - SNS BANK'S IDRS, VR AND SENIOR DEBT

SNS Bank's ratings incorporate Fitch's expectation of improving asset quality, maintained strong capitalisation, and sound liquidity stemming from gradually improved leverage from retained earnings. As such, there is limited upside potential for SNS Bank's VR within the constraints of its company profile.

SNS Bank's VR would be sensitive to increased risk appetite, particularly if that would worsen asset quality and capitalisation in the longer term. Given that the bank still depends on wholesale markets to fund part of its loan book, reduced liquidity buffers or significant shortening of maturities would also be rating-negative.

KEY RATING DRIVERS AND SENSITIVITIES - SUPPORT RATING AND SUPPORT RATING FLOOR

The SRs and SRFs reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign in the event that any of the above mentioned banks become non-viable. In Fitch's view, the EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) for eurozone banks are now sufficiently progressed to 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.

In the EU, BRRD has been effective in member states since 1 January 2015, including minimum loss absorption requirements before resolution financing or alternative financing (eg, government stabilisation funds) can be used. Full application of BRRD, including the bail-in tool, is required from 1 January 2016.

Any upgrade to the SRs or upward revision to the SRFs would be contingent on a positive change in the sovereign's propensity to support its banks. While not impossible, this is highly unlikely in Fitch's view.

KEY RATING DRIVERS AND SENSITIVITIES - ING BANK'S SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The subordinated Tier 2 debt securities issued by ING Bank are notched down from the bank's VR, in accordance with Fitch's criteria. The subordinated debt securities are rated one notch below the bank's VR to reflect above-average loss severity of this type of debt.

The implied upgrade of ING Group's VR has led to upgrades of ING Group's junior debt and hybrid instruments. The rating of the preference shares issued by ING Group is rated four notches below the group's VR. The notching reflects higher loss severity risk of these securities compared with average recoveries (two notches) as well as high risk of non-performance (an additional two notches).

The rating of the additional Tier 1 instruments issued by ING Group is rated five notches below the group's VR. The notching reflects higher loss severity risk of these securities compared with average recoveries (two notches) as well as high risk of non-performance (an additional three notches).

All the above-mentioned debt ratings are hence broadly sensitive to the same factors as those that would affect their respective issuers' VR.

KEY RATING DRIVERS AND SENSITIVITIES - ABN AMRO'S SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Upper Tier 2 debt and Tier 1 securities are rated three and four notches below ABN AMRO's VR, respectively, to reflect higher loss severity risk of these securities relative to average recoveries (one and two notches from the VR, respectively) as well as high risk of non-performance (an additional two notches for each debt security). The ratings are broadly sensitive to the same factors as those that would affect the bank's VR.

KEY RATING DRIVERS AND SENSITIVITIES - ING BANK'S SUBSIDIARIES AND AFFILIATED COMPANIES

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 default of ING Belgium. As a result ING Belgium's Long-term IDR is equalised with ING Bank's.

Fitch considers ING Bank Slaski as a strategically important subsidiary of ING Bank, although not core. Poland is considered a growth market by ING, although its limited franchise in the rest of central and eastern Europe (CEE) has resulted in ING Bank Slaski's Long-term IDR being one notch below ING Bank's. ING Bank Slaski's Long-term IDR is sensitive to changes in ING Bank's propensity and/or ability to support its Polish subsidiary. While not expected, any potential support-driven downgrade of ING Bank Slaski's Long-term IDR would be limited to one notch, at which point the Long-term IDR would be driven by the bank's 'bbb+' VR.

The ratings of the debt securities issued by Lion Connecticut Holdings Inc. (a US-based insurance holding company that is part of ING U.S. Inc., unrated) are aligned with ING Group's senior debt rating and reflect Fitch's belief that ING Group will meet its financial obligations arising from the guarantee it has extended to these securities. As the securities' ratings are aligned with ING Group's senior debt rating, changes to this rating would be reflected in the securities' ratings.

KEY RATING DRIVERS AND SENSITIVITIES - ABN AMRO'S SUBSIDIARY AND AFFILIATED COMPANY

ABN AMRO Funding LLC is a US-based funding vehicle fully-owned by ABN AMRO. The rating of the US commercial paper (CP) debt securities issued by the vehicle is aligned with ABN AMRO's Short-term IDR, based on Fitch's view that there is an extremely high probability of support from ABN AMRO if required. This view is underpinned by ABN AMRO's guarantees on the securities issued by ABN AMRO Funding LLC.

The rating of the US CP debt is therefore sensitive to changes in ABN AMRO's Short-term IDR.

KEY RATING DRIVERS AND SENSITIVITIES - SNS BANK'S SUBSIDIARY AND AFFILIATED COMPANY

SNS Reaal's Long-term IDR is aligned with that of its main operating company SNS Bank. The agreed sale of SNS Reaal's insurance operations (subject to conditions), which is expected to complete in 2H15, will be followed by a transfer of SNS Bank to the Dutch state. The latter is expected to remove double leverage from the holding company, which is currently moderate. Should the sale not complete as expected and/or double leverage increase further above 120%, the Long-term IDR of SNS Reaal may be notched down from that of SNS Bank.

KEY RATING DRIVERS AND SENSITIVITIES - RABOBANK'S AFFILIATED COMPANY

Fitch has downgraded Rabobank's central body, Cooperatieve Centrale Raiffeisen-Boerenleenbank BA's (Rabobank Nederland) SR to '5' from '1' and revised its SRF to 'No Floor' from 'A+' and subsequently withdrawn these ratings.

Before today's rating action, Fitch had taken the view that its expected sovereign support for Rabobank in case of need would have been channelled through its central institution, Rabobank Nederland, whose SR and SRF were the same as those of Rabobank. Now that Fitch no longer considers that sovereign support can be relied upon by the group, it is no longer meaningful to Fitch's coverage to maintain a SR and a SRF to Rabobank Nederland, hence the ratings have been withdrawn. Rabobank Nederland's IDRs are based on the mutual support mechanism within the group.

The rating actions are as follows:

ING Group

Long-term IDR: affirmed at 'A'; Outlook Stable

Short-term IDR: affirmed at 'F1'

Viability Rating: published at 'a'

Support Rating: downgraded to '5' from '1'

Support Rating Floor: revised to 'No Floor' from 'A'

Senior unsecured debt rating affirmed at 'A'/F1'

Subordinated perpetual preference shares (US456837AC74): upgraded to 'BBB-' from 'BB+'

Additional Tier 1 securities (US456837AE31, US456837AF06): upgraded to 'BB+' from 'BB'

ING Bank

Long-term IDR: downgraded to 'A' from 'A+'; Outlook Stable

Short-term IDR: downgraded to 'F1' from 'F1+'

Viability Rating: affirmed at 'a'

Support Rating: downgraded to '5' from '1'

Support Rating Floor: revised to 'No Floor' from 'A'

Subordinated debt: affirmed at 'A-'

Senior unsecured notes: downgraded to 'A'/F1' from 'A+'/'F1+'

Short-term senior unsecured notes: downgraded to 'F1' from 'F1+'

Commercial paper downgraded to 'A'/F1' from 'A+'/'F1+'

Market linked notes (XS1144264667, XS1170271479, XS1202919806): downgraded to 'A(emr)' from 'A+(emr)'

Thai Baht senior unsecured bonds due 2016: 'AAA(tha)' unaffected

ING Bank Slaski

Long-term IDR: downgraded to 'A-' from 'A'; Outlook Stable

Short-term IDR: affirmed at 'F1'

Support Rating: affirmed at '1'

Viability Rating: 'bbb+' unaffected

ING Belgium

Long-term IDR: downgraded to 'A' from 'A+'; Outlook Stable

Short-term IDR: downgraded to 'F1' from 'F1+'

Support Rating: affirmed at '1'

Lion Connecticut Holdings Inc.

Senior unsecured debt securities guaranteed by ING group (US008117AG88, US008117AH61 and US008117AJ28): affirmed at 'A'

ABN AMRO

Long-term IDR: downgraded to 'A' from 'A+'; Outlook Stable

Short-term IDR: downgraded to 'F1' from 'F1+'

Viability Rating: affirmed at 'a'

Support Rating: downgraded to '5' from '1'

Support Rating Floor: revised to 'No Floor' from 'A'

Commercial paper: downgraded to 'F1' from 'F1+'

Long-term senior unsecured notes: downgraded to 'A' from 'A+'

Short-term senior unsecured notes: downgraded to 'F1' from 'F1+'

Subordinated debt: affirmed at 'A-'

Non-innovative Tier 1 subordinated debt (XS0246487457): affirmed at 'BBB-'

Upper Tier 2 subordinated debt (XS0244754254): affirmed at 'BBB'

ABN AMRO Funding USA LLC

Short-term senior unsecured notes: downgraded to 'F1' from 'F1+'

SNS Bank

Long-term IDR downgraded to 'BBB' from 'BBB+'; Outlook Stable

Short-term IDR downgraded to 'F3' from 'F2'

Support Rating: downgraded to '5' from '2'

Support Rating Floor: revised to 'No Floor' from 'BBB+'

Viability Rating: affirmed at 'bbb'

Senior debt: downgraded to 'BBB' from 'BBB+'

Commercial paper: downgraded to 'F3' from 'F2'

SNS REAAL

Long-term IDR: Downgraded to 'BBB' from 'BBB+'; Outlook Stable

Short-term IDR: downgraded to 'F3' from 'F2'

Support Rating: downgraded to '5' from '2'

Support Rating Floor: revised to 'No Floor' from 'BBB+'

Rabobank

Support Rating: downgraded to '5' from '1'

Support Rating Floor: revised to 'No Floor' from 'A+'

Rabobank Nederland

Support Rating: downgraded to '5' from '1'; withdrawn

Support Rating Floor: revised to 'No Floor' from 'A+'; withdrawn

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Additional information is available on www.fitchratings.com

Applicable criteria, Global Bank Rating Criteria, 20 March 2015, are available on
www.fitchratings.com.

Applicable Criteria and Related Research:

Global Bank Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501

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