FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms ING Groep NV at 'A+'; Outlook Stable

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Fitch Ratings - Paris - 16 Oct 2024: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDRs) of ING Groep N.V. (ING) at 'A+' and ING Bank N.V. (ING Bank) at 'AA-'. The Outlooks are Stable. Fitch has also affirmed ING's and ING Bank's Viability Ratings (VRs) at 'a+'.

A full list of rating actions is below.

KEY RATING DRIVERS

Diversified and Leading Benelux Franchise: ING's ratings are driven by the group's strong franchise in retail and wholesale banking in the Benelux region, supporting resilient profitability, which is consistent with similarly-rated Western European banks. The ratings are also supported by a well-balanced funding profile, strong profitability and conservative risk profile. The ratings also consider the bank's medium-term common equity Tier 1 (CET1) capital ratio target, which is low compared with some similarly-rated peers.

Ratings Reflect Consolidated Group: Fitch assesses the group on a consolidated basis, as ING Bank N.V., the main operating company, is ING's only significant asset, and the failure risk of the two entities is substantially the same. ING acts as the holding company for the group, and its VR is equalised with ING Bank's VR. The group is regulated on a consolidated basis, there is no double leverage at the holding company, and liquidity is managed centrally. We view the fungibility of capital between the holding company and the bank as high.

Strong Business Profile: ING's business profile focuses on retail banking in Benelux, where it benefits from strong franchises, with profitable diversification in Germany and in Eastern Europe. ING's retail bank is efficient and supported by advanced digitalisation and high client satisfaction. Corporate and investment banking focused on lending and low-risk products adds further diversification to ING's stable and diverse universal banking business model.

Low Risk Profile: ING's risk profile incorporates prudent underwriting standards and tight risk controls. The loan book is well-diversified by products, and more importantly by geography to highly rated operating environments. The portfolio is skewed towards retail and commercial banking (about 70% of total loans) with low-risk residential mortgage loans accounted for about 50% of the loan book. Exposure related to cyclical industries and volatile countries is moderate and under control, resulting in resilient asset quality. Interest rate risks are well managed.

Sound Asset Quality: ING's low-risk business model, strict underwriting, as well as well-diversified and secured lending, underpin its sound asset quality. The impaired loans ratio has proved resilient, remaining slightly below 2% since 2020. Fitch forecasts the ratio to be broadly stable at around 2% in 2024-2025 given the weaker economic environment, which mainly affects corporate borrowers. This would still be lower than the average of largest European banks.

Robust, Improved Earnings: ING's sound earnings generation benefits from its strong Benelux and German franchise in retail and corporate banking, limited exposure to volatile businesses, and diversification into selected markets with growth potential. Profitability has benefited from higher interest rates as the deposit margin increased significantly.

We expect the operating profit/risk-weighted assets (RWAs) to have peaked in 2023 at 3.3%. It should subsequently stabilise at about 3% over 2024-2025, which would be meaningfully above the bank's long-term average of about 2%. Deposit margin pressure from 2H24 should be mitigated by higher fee income, lending margin and business volumes.

Sound CET1 Ratio to Reduce: We expect ING to gradually steer its CET1 ratio towards its target of around 12.5% by end-2025 (under Basel III end-game rules) through further capital distributions, which is lower than most other 'a+' rated peers. Despite this, the group's risk-weighted capital ratios are underpinned by sound and regular profit generation. The CET1 ratio was still reasonably high at 14% at end-June 2024 (deducting the ongoing share buy-back of EUR2.5 billion), having decreased by a manageable 70bp since end-2023, as internal capital generation and contained RWAs growth mitigated large capital distributions.

Stable Funding Profile: ING benefits from solid local deposit franchises in its major retail and commercial operations. This resulted in a good loans/deposits ratio of slightly below 100% at end-June 2024. Its funding is diversified and it has strong access to a large investor base through diversified wholesale funding sources. The group's liquidity is sound, with high-quality liquid assets amounting to about 20% of total assets, and largely covering short-term and long-term funding maturing within a year.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

An adverse change in ING's risk appetite, leading to a material deterioration in asset quality, with the impaired loans ratio increasing above 3% over a prolonged period could be negative for the ratings. This could occur, for example, if the contribution of more volatile activities or countries with lower-rated operating environments to ING's earnings grows rapidly, outpacing the contribution of highly-rated operating environments.

Rating pressure would also arise if the group were to operate with a lower CET1 ratio than that targeted. A durable decline of the operating profit/RWAs ratio to below 2%, could also be ratings negative, all else equal.

ING's IDRs and VR could also be downgraded should there be a significant build-up of double leverage at the holding company, although this is not Fitch's expectation.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of both entities' ratings is unlikely in the short term, and would require a material improvement in the group's business profile from higher business diversification and enhanced franchises in mature markets outside Benelux, which would lead to further improvement in profitability, coupled with stronger asset quality and capitalisation metrics, in line with 'aa' category assessments under Fitch's criteria.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

ING Bank's Long-Term IDR and long-term senior unsecured debt are rated 'AA-', which is one notch above the bank's VR, because Fitch believes the risk of default on senior obligations, as measured by the Long-Term IDR, is lower than the risk of the bank failing, as measured by its VR. The group adopts a single-point-of-entry resolution strategy with bail-in as the preferred resolution tool. ING Groep N.V. is the resolution entity, which meets the group's minimum requirements for own funds and eligible liabilities (MREL). All MREL instruments, including senior unsecured debt, are issued by the holding company and downstreamed to ING Bank as junior-ranking instruments to third-party senior debt.

ING Bank's Short-Term IDR of 'F1+' is the only option mapping to a 'AA-' Long-Term IDR. ING Bank's long-term and short-term deposit ratings are at 'AA-' and 'F1+' as deposits rank pari passu with senior preferred debt and derivatives claims in the Netherlands. The Derivative Counterparty Ratings (DCRs) of ING Bank and ING are at the same level as the entities' Long-Term IDRs because under Dutch legislation, derivative counterparties have no definitive preferential status over other senior obligations in resolution.

The subordinated Tier 2 debt securities issued by ING are notched down twice from its VR, reflecting baseline notching for this type of debt under Fitch's criteria. ING's additional Tier 1 (AT1) instruments are rated four notches below its VR, reflecting poor recoveries of these securities given their deep subordination (two notches) as well as incremental risk of non-performance relative to the VR due to fully discretionary coupons (two notches). Our assessment is based on the bank operating with a CET1 ratio that is comfortably above maximum distributable amount thresholds, and our expectation that this will continue.

Government Support Ratings (GSRs)

ING's and ING Bank's GSRs of 'No Support' reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that ING or ING Bank becomes non-viable. The EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that requires senior creditors participating in losses, if necessary, instead of, or ahead of, a bank receiving sovereign support.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

ING's and ING Bank's Short-Term IDRs are primarily sensitive to the Long-Term IDRs and to the funding and liquidity score.

ING Bank's and ING's senior debt ratings and ING Bank's deposit ratings are primarily sensitive to changes in the IDRs. In addition, ING Bank's and ING's DCRs could be upgraded in case of a change in legislation giving preference to derivative counterparties over senior obligation in a resolution scenario.

The ratings of ING 's subordinated Tier 2 debt and AT1 instruments are sensitive to changes in the VR. In addition, the ratings of ING's AT1 instruments could be downgraded if we see a heightened risk that capital cushions above the mandatory coupon omission triggers could fall below 100bp. The ratings of the AT1 securities are also sensitive to changes in Fitch's assessment of the probability of the notes' non-performance risk relative to the risk captured by ING's VR.

An upgrade of the GSR would require a higher propensity of sovereign support. While not impossible, the BRRD makes this highly unlikely.

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

ING Financial Markets LLC's (INGFM) Short-Term IDR of 'F1+' is equalised with that of its parent, ING Bank, because in Fitch's view, there is an extremely high probability of extraordinary support from ING Bank, if required. INGFM is a broker based in the US and offers various financial services for ING Bank's corporate and institutional clients.

Fitch believes ING Bank has a strong willingness to provide support to INGFM because a default of INGFM would entail considerable reputational risk for the parent, given the single-point-of-entry resolution group. We also take into consideration INGFM's high integration with the parent and its strategic importance as part of ING Bank's international wholesale-banking franchise. We believe any required support for INGFM would most likely be immaterial relative to its parent's ability to provide it. INGFM accounted for about 4% of ING Bank's total assets at end-2023.

In the support assessment, we use ING Bank's Long-Term IDR (one notch above its VR of 'a+' due to a significant and sustainable buffer of junior debt) as the anchor rating in assessing its ability to support its US subsidiary. We believe that INGFM's senior creditors could benefit from junior debt buffers raised by its parent. This is because INGFM is included in the single-point-of-entry resolution strategy for ING.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

INGFM's Short-Term IDR is sensitive to ING Bank's Short-Term IDR. It is also sensitive to adverse changes in our assessment of ING Bank's propensity to support its US subsidiary, which we do not expect in the medium term. As the Short-Term IDR is at the highest possible level, it cannot be upgraded.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

INGFM's Short-Term IDR is driven by support available from ING Bank.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
ING Financial Markets LLC	ST IDR	F1+	Affirmed	F1+
ING Groep N.V.	LT IDR	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
	ST IDR	F1	Affirmed	F1
	Viability	a+	Affirmed	a+
	DCR	A+(dcr)	Affirmed	A+(dcr)
	Government Support	ns	Affirmed	ns
senior unsecured	LT	A+	Affirmed	A+
subordinated	LT	A-	Affirmed	A-
subordinated	LT	BBB	Affirmed	BBB

senior unsecured	ST	F1	Affirmed	F1

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 17 Jan 2024) (including rating assumption sensitivity)

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

ING Financial Markets LLC	EU Issued, UK Endorsed
ING Groep N.V.	EU Issued, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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