FitchRatings

25 Oct 2019 | Affirmation

Fitch Affirms ING Group at 'A+'; Outlook Stable

Fitch Ratings-Paris/London-25 October 2019:

Fitch Ratings has affirmed ING Group N.V.'s Long-Term Issuer Default Rating (IDR) at 'A+' and Viability Rating (VR) at 'a+'. Fitch has also affirmed the 'AA-' Long-Term IDR and the 'a+' VR of ING Bank. The Outlooks on the Long-Term IDRs are Stable. 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

VRS, ING GROUP'S IDRS AND SENIOR DEBT

Fitch assesses the group on a consolidated basis as ING Bank, the group's main operating company, is ING Group's only significant asset and the probabilities of default of the two entities are highly correlated. ING Group acts as the holding company for the group and its VR is equalised with the VR of ING Bank. The group is regulated on a consolidated basis, there is no double leverage at the holding company level, liquidity is managed centrally and the fungibility of capital between the holding company and the bank is high, in our view.

ING Bank's and ING Group's VRs reflect the group's leading franchise in retail and commercial banking in the Benelux region complemented by adequate diversification in selected countries, sound and stable asset quality and earnings, solid consolidated capital ratios and balanced funding profile.

Asset quality is sound and resilient through the cycle due to geographical diversification, a significant share of low-risk residential mortgage loans on the balance sheet and diversified corporate lending. The bank's Stage 3 loans/gross loans ratio of 1.7% at end-June 2019 compares well with similarly rated European peers'. Fitch expects asset quality metrics to remain broadly stable in the short term as economies in the group's main markets continue to grow, albeit at a slower pace. We believe that potential pressure from exposures to less stable economies (particularly Turkey) and commodities-related industries (such as oil and gas) should remain contained thanks to loan book diversification.

ING Group has a moderate credit exposure to Turkey (about 20% of the Group's equity) through its local subsidiary. Despite an unstable operating environment coupled with Turkish lira depreciation, the asset quality remained adequate with a Stage 3 ratio of 3.6% at end-June 2019, 53% covered by loan loss allowances.

ING Group's strong and stable operating profitability is underpinned by product and geographic diversification coupled with a focus on traditional commercial banking. Operating profitability is sound, with annualised operating profit/RWAs of 2.2% in 1H19. Fitch expects low-for-longer interest rates, higher compliance-related expenses and the eventual normalisation of loan impairment charges to pressure earnings. This pressure should be at least partly mitigated by moderate loan growth, focus on increasing net fees and commissions through targeted growth in the number of customers who bank mainly with ING, and more disciplined pricing.

ING Group's Fitch Core Capital ratio was 16.2% at end-June 2019, and its fully loaded common equity Tier 1 (CET1) ratio was a healthy 14.5%. Leverage is reasonable, as measured by the regulatory leverage ratio (4.3% at end-June 2019) and tangible common equity/tangible assets (5.9%). The group's guidance for the CET1 ratio under Basel III end-game rules is around 13.5%. We believe that the potential introduction of floors on risk weights for Dutch mortgage loans from late 2020 proposed by the Dutch central bank should be manageable and would impact ING Group less than its peers given its lower relative exposure to Dutch mortgage lending. The proposals do not increase end-state capital requirements for Dutch banks but rather partially bring forward the impact of the Basel III end-game rules which would have been subject to a long phase-in otherwise.

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 (EUR136 billion at end-June 2019) further mitigates refinancing risk.

ING Group's 'F1' Short-Term IDR is the baseline option mapping to a Long-Term IDR of 'A+' and reflects our assessment of the group's funding and liquidity score of 'a+'. ING Group's senior unsecured debt is rated in line with the IDRs as we view the probability of default on senior unsecured obligations as the same as the probability of default of the issuer.

ING BANK'S IDRS AND SENIOR DEBT

ING Bank's Long-Term IDR and senior debt is one notch above the bank's VR since 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 one-notch uplift reflects the bank's significant and sustainable 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, either under a resolution process or as part of a private-sector solution (i.e. distressed debt exchange) to avoid a resolution action.

Without such a private sector solution, we would expect a resolution action being taken on ING Group when it breaches minimum capital requirements. We assume the intervention point would be about its current minimum CET1 requirement of 6.25% of risk-weighted assets (Pillar 1 and Pillar 2, excluding the capital conservation and the systemic risk buffers). Fitch believes that ING Group would need to meet its total minimum capital requirements immediately after a resolution action, which currently amounts to 15.25%, including capital conservation and systemic risk buffers. 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.

We expect the buffer to be sustainable. 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, are issued at group level and downstreamed to ING Bank as junior-ranked instruments to third-party senior creditors.

At end-June 2019, the combined buffer of qualifying junior debt and senior debt issued by the holding company amounted to EUR36.5 billion, or 11.5% of group RWAs.

The Short-Term IDR of 'F1+' is the only option mapping to a 'AA-' Long-Term IDR under Fitch's criteria.

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 if needed.

Fitch has used ING Bank's VR rather than its Long-Term IDR as the anchor rating for ING Belgium. This is because of the uncertainty that senior creditors of ING Belgium will benefit from junior debt buffers kept at the parent level since ING Bank has so far not been required to downstream MREL into its material subsidiaries. This is also reflected in the 'F1' Short-Term IDR of ING Belgium, which is the baseline option mapping to the 'A+' Long-Term IDR.

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 definitive preferential status over other senior obligations in a resolution scenario.

SUPPORT RATINGS AND SUPPORT RATING FLOORS

ING Group's and ING Bank's 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 the group 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

VRS, ING GROUP'S IDRS AND SENIOR DEBT

ING Group's and ING Bank's VRs will likely come under pressure in case the group's capitalisation weakens or if its earnings materially deteriorate, potentially as a result of sharp impairment charges. Downward pressure on the VRs would also most likely result from significantly increased risk appetite in higher-risk markets or sectors, or less prudent liquidity management. An upgrade is unlikely in the near term and would require a significant improvement in the bank's financial metrics.

ING Group's IDRs are sensitive to changes in its VR. Although not Fitch's expectation, they could also come under pressure in case of a significant build-up of double leverage at the holding company. ING Group's senior debt ratings are sensitive to changes in its IDRs.

ING BANK'S IDRS AND SENIOR DEBT

The ratings are sensitive to changes in ING Bank's VR. The ratings are also sensitive to a material reduction of the combined buffer of junior and holding company senior debt, in particular should it fall below 10% of RWAs. The notching is also sensitive to changes in assumptions on the resolution intervention point and post-resolution capital needs, and the development of resolution planning more generally.

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.

Public Ratings with Credit Linkage to other ratings

ING Belgium's Long-Term IDR is driven by potential support from ING Bank.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on ING Group, either due to their nature or the way in which they are being managed by LBP. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

ING Belgium; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1
; Support Rating; Affirmed; 1
; Derivative Counterparty Rating; Affirmed; A+(dcr)
ING Group N.V.; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1
; Viability Rating; Affirmed; a+
; Support Rating; Affirmed; 5
; Support Rating Floor; Affirmed; NF
; Derivative Counterparty Rating; Affirmed; A+(dcr)
----senior unsecured; Long Term Rating; Affirmed; A+
----subordinated; Long Term Rating; Affirmed; BBB-
----subordinated; Long Term Rating; Affirmed; A
----senior unsecured; Short Term Rating; Affirmed; F1
ING Bank N.V.; Long Term Issuer Default Rating; Affirmed; AA-; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1+
; Viability Rating; Affirmed; a+
; Support Rating; Affirmed; 5
; Support Rating Floor; Affirmed; NF
; Derivative Counterparty Rating; Affirmed; AA-(dcr)
----subordinated; Long Term Rating; Affirmed; A

----senior unsecured; Long Term Rating; Affirmed; AA-

----senior unsecured; Short Term Rating; Affirmed; F1+

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Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

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