ING Groep N.V.

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1
Derivative Counterparty Rating	A+(dcr)
Viability Rating	a+
Support Rating	5
Support Rating Floor	No Floor

Sovereign Risk

Long-Term Foreign- and Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks/Watches

Long-Term Foreign-Currency IDR	RWN
Viability Rating	RWN
Derivative Counterparty Rating	RWN
Sovereign Long-Term Foreign-and Local-Currency IDR	Stable

Key Rating Drivers

Near-Term Rating Pressure: The Rating Watch Negative (RWN) reflects that ING Groep N.V. (ING) has moderate rating headroom in the context of the coronavirus outbreak. The group's exposure to cyclical sectors might lead to an uptick in impaired loans that would weaken the sound operating profitability and solid capital ratios.

Asset Quality to Deteriorate: Fitch Ratings expects impaired loans to rise, driven by SMEs and mid-corporate borrowers, and sectors such as oil and gas, shipping and transportation. Stage 3 loans ratio remained sound at 1.8% at end-March 2020. Loan impairment charges (LICs) increased to about 43bp (annualised) of gross loans in 1Q20, including 13bp management overlay, and additional provisions on a few defaulted large commercial loans and on the US reserve-based oil exposure. Residential mortgage loans should keep performing well.

Weakened Earnings Outlook: Operating profitability will decline in the medium term. ING is highly reliant on net interest income (about three-quarters of revenue) due to its focus on traditional commercial banking. Revenue was already pressured by the low interest-rate environment before the coronavirus outbreak. We believe weaker business volumes in retail and corporate banking and above historical average LICs will exacerbate the pressure on earnings. LICs will remain above the through-the-cycle average of 25bp in 2020.

Downside Risk to Capitalisation: Risk-weighted capital ratios are sound and underpin the group's ratings. ING's fully loaded common equity Tier 1 (CET1) ratio decreased by about 60bp to 14% between end-2019 and end-March 2020 mainly on the implementation of the revised definition of default and foreign-currency exchange impact and a drop in revaluation reserves resulting from the capital markets dislocation in March 2020.

We expect capital ratios to be affected by higher risk-weighted assets (RWA) resulting from credit risk migration and weaker earnings generation.

Stable Funding, Strong Liquidity: The stable funding profile reflects a strong franchise in some deposit-rich jurisdictions, such as Belgium and Germany, and ready access to wholesale markets. Wholesale funding maturities are reasonably spread over time and the group's ample liquidity buffer further mitigates refinancing risk.

ING Bank N.V. Notched Up: ING Bank's Long-Term Issuer Default Rating (IDR; AA-/RWN) is one notch above its Viability Rating (VR; a+/RWN). Fitch believes external senior creditors benefit from resolution funds ultimately raised by the holding company and designated to protect ING Bank's creditors in a group failure scenario.

Rating Sensitivities

Sustained Deterioration in Financial Profile: We expect to resolve the RWN in the near term, when the impact of the outbreak on ING's credit profile becomes more apparent. The ratings are primarily sensitive to the risks arising from the coronavirus outbreak.

The ratings could be downgraded if there is evidence of a marked increase in impaired loans coupled with a significant deterioration in operating profitability. A sustained decline of the CET1 ratio would also be a trigger for a downgrade.

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Global Economic Outlook: Crisis Update May 2020 - Coronavirus Shock Broadens (May 2020)

Coronavirus Leads to Rating Actions on Seven Dutch Banks (April 2020)

Coronavirus Rating Impact: Western European Banks (April 2020)

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Other Issuing Entities

Rating level	ING Bank N.V.	ING Belgium NV/SA
Long-Term IDR	AA-/RWN	AA-/RWN
Short-Term IDR	F1+/RWN	F1+/RWN
Viability Rating	a+/RWN	-
Support Rating	5	1
Support Rating Floor	No Floor	-
Derivative Counterparty Rating	AA-(dcr)/RWN	AA-(dcr)/RWN

Source: Fitch Ratings

Fitch assesses the group on a consolidated basis. ING Bank, the main operating company, is ING's only significant asset, and the probabilities of default of the two entities are highly correlated. ING acts as the holding company and its VR is equalised with that 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.

ING Belgium NV/SA's Long-Term IDR is one notch above ING's VR because its external senior creditors will benefit from resolution funds raised by the bank's ultimate parent, ING, and designed to protect its senior creditors in a group failure scenario. This is because ING Belgium is a material foreign subsidiary of ING Bank, the main operating entity of ING, which also benefits from a one-notch uplift on its Long-Term IDR.

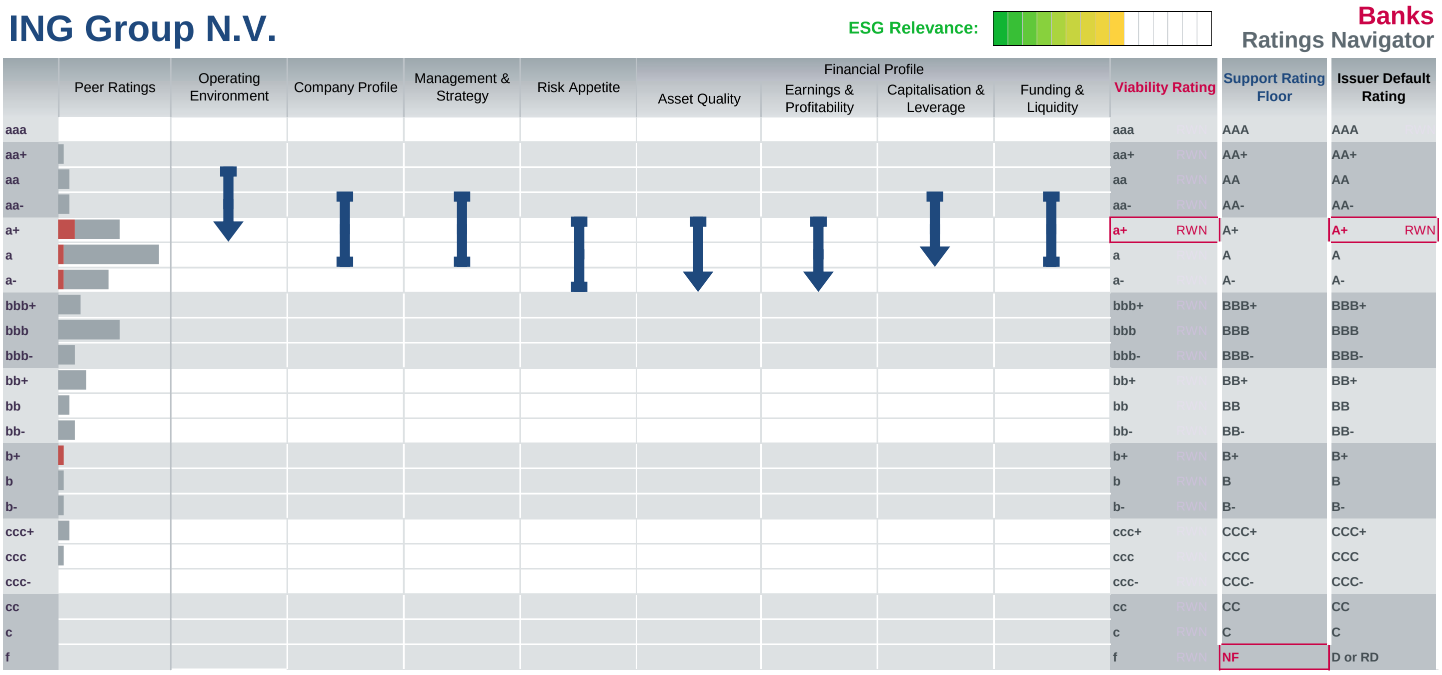
Debt Rating Classes

Rating level	ING Group N.V.	ING Bank N.V.
Senior unsecured	A+/RWN/F1	AA-/RWN/F1+/RWN
Tier 2 subordinated debt	A-/RWN	A-/RWN
Additional Tier 1 notes	BBB/RWN	

Source: Fitch Ratings

ING's and ING Bank's senior unsecured debt is rated in line with their respective IDRs. The Tier 2 subordinated debt issued by these entities is rated two notches below their VRs, reflecting the higher-than-average loss severity of this type of debt. The additional Tier 1 notes are four notches below ING's VR reflecting the higher-than-average loss severity risk of these securities (two notches) as well as the high risk of non-performance (two notches).

Ratings Navigator



Significant Changes

Operating Environment Revised to Negative

Fitch has revised its outlook for ING's operating environment to negative from stable to reflect the economic and financial market fallout from the coronavirus outbreak in economies where ING operates. Fitch expects the eurozone GDP to contract by 8% in 2020 followed by a rebound of about 4% in 2021. Fitch's baseline scenario sees the health crisis contained by 2H20, leading to a recovery as lockdowns are removed and policy stimulus takes effect. However, there are downside risks in the event of a second wave of infections and a resumption of lockdown measures.

ING's three largest markets are in the Netherlands (about 26% of 2019 profit before tax), Belgium (about 11%) and Germany (about 20%). Government support measures for private sectors are sizeable relative to the GDP, particularly in the Netherlands and Germany and moderate in Belgium. We expect these measures to mitigate the impact of the direct coronavirus-related losses on the bank's financial metrics in these markets.

The Dutch government has voted for a large fiscal package accounting for about 10% of GDP, which should partly cushion the impact on the banks' asset quality. It includes government guarantees on new bank loans for companies, wage subsidies and support to self-employed workers and a temporary tax suspension.

The policy response to the coronavirus pandemic will adversely affect governments' public debt ratios. This has not lead to a negative rating action so far on the Dutch sovereign (AAA/Stable; affirmed in April 2020), but it has contributed to the change of the Outlook on the Belgium sovereign's 'AA-' rating to Negative from Stable.

Bar Chart Legend

Vertical bars – VR range of Rating Factor
Bar Colors – Influence on final VR
- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Summary Financials and Key Ratios

	31 Mar 20		31 Dec 19	31 Dec 18	31 Dec 17
	3 months - 1st quarter	3 months - 1st quarter	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	3,836	3,501	14,194	14,018	13,794
Net fees and commissions	858	783	2,868	2,798	2,710
Other operating income	249	227	1,127	1,484	977
Total operating income	4,942	4,511	18,189	18,300	17,481
Operating costs	3,104	2,833	10,352	9,908	9,829
Pre-impairment operating profit	1,838	1,678	7,837	8,392	7,652
Loan and other impairment charges	724	661	1,120	656	682
Operating profit	1,114	1,017	6,717	7,736	6,970
Other non-operating items (net)	n.a.	n.a.	117	-898	298
Tax	362	330	1,954	2,027	2,281
Net income	753	687	4,880	4,811	4,987
Other comprehensive income	n.a.	n.a.	684	-474	-1,772
Fitch comprehensive income	753	687	5,564	4,337	3,215
Summary balance sheet					
Assets					
Gross loans	691,948	631,569	616,175	596,421	578,629
- Of which impaired	12,559	11,463	11,477	11,102	12,481
Loan loss allowances	5,476	4,998	4,590	4,491	4,515
Net loans	686,473	626,571	611,585	591,930	574,114
Interbank	36,153	32,998	26,193	23,736	24,174
Derivatives	2,646	2,415	23,951	24,774	29,675
Other securities and earning assets	223,461	203,962	163,771	182,420	178,830
Total earning assets	948,732	865,946	825,500	822,860	806,793
Cash and due from banks	69,920	63,819	53,202	49,987	21,989
Other assets	16,346	14,920	13,042	14,183	17,434
Total assets	1,034,999	944,685	891,744	887,030	846,216
Liabilities					
Customer deposits	642,234	586,193	574,433	555,812	539,799
Interbank and other short-term funding	50,297	45,908	77,874	89,567	80,468
Other long-term funding	154,975	141,452	122,294	123,434	104,340
Trading liabilities and derivatives	107,030	97,691	34,508	40,143	42,956
Total funding	954,537	871,244	809,109	808,956	767,563
Other liabilities	19,886	18,151	14,904	15,984	19,279
Preference shares and hybrid capital	n.a.	n.a.	13,069	10,355	8,253
Total equity	60,576	55,290	54,662	51,735	51,121
Total liabilities and equity	1,034,999	944,685	891,744	887,030	846,216
Exchange rate		USD1 = EUR0.91274	USD1 = EUR0.89015	USD1 = EUR0.873057	USD1 = EUR0.83382

Source: Fitch Ratings, Fitch Solutions, ING

Summary Financials and Key Ratios

	31 Mar 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.2	2.1	2.5	2.3
Net interest income/average earning assets	1.7	1.7	1.7	1.7
Non-interest expense/gross revenue	62.8	57.1	54.6	56.5
Net income/average equity	5.0	9.1	9.5	9.8
Asset quality				
Impaired loans ratio	1.8.	1.9	1.9	2.2
Growth in gross loans	2.5	3.3	3.1	1.7
Loan loss allowances/impaired loans	43.6	40.0	40.5	36.2
Loan impairment charges/average gross loans	0.4	0.2	0.1	0.1
Capitalisation				
Common equity Tier 1 ratio	14.0	14.6	14.5	14.7
Tangible common equity/tangible assets	5.7	5.9	5.6	5.9
Basel leverage ratio	4.3	4.6	4.4	4.7
Net impaired loans/common equity Tier 1	13.8	14.5	14.5	17.5
Funding and liquidity				
Loans/customer deposits	107.7	107.3	107.3	107.2
Liquidity coverage ratio	127.0	127.0	123.0	n.a.
Customer deposits/funding	67.5	71.9	69.9	72.2
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, ING

Key Financial Metrics – Latest Developments

Resilient Mortgage Loans, Exposure to Cyclical Sectors

ING's Stage 3 loans ratio at 1.8% at end-March 2020 was sound, but we expect higher inflows into Stage 3 loans starting 2Q20. The increase in Stage 2 loans was moderate to 6.6% from 6% between end-2019 and end-March 2020. Inflows into Stage 2 were cushioned by the different government support measures and the credit repayment moratorium granted by ING in most countries where it operates. Also, loans under moratorium are not automatically classified as Stage 2.

Residential mortgage loans accounted for about 47% of gross loans at end-March 2020 and have historically performed strongly (Stage 3 loans ratio was 1.1%). The average loan-to-value ratio on the book was at a good level at 60% at end-March 2020 providing a large cushion against potential housing price corrections. We expect mortgage loans performance to be resilient as most retail borrowers could benefit from the different government support schemes and from the credit repayment deferrals provided by ING.

We believe ING's exposure to SME borrowers (about 14% of gross loans at end-March 2020) and to commodities and trade-related industries (about 1.5x the group's CET1 capital at end-2019) present downside risks to asset quality. The exposure to oil and gas is notable at EUR34.7 billion at end-March 2020. However, only a marginal amount of the oil-related exposure (10% of CET1 capital at end-March 2020) is sensitive to price changes, providing some cushion against expected asset deterioration. The Stage 3 loans ratio in the oil-related exposure was 2.4% at end-March 2020.

Profitability Pressure from Higher LICs

We expect revenue, which is principally depended on net interest income, to be affected by weaker lending volumes from private individuals and corporates and persistently low interest rates. However, continued price discipline on loans, credit demand from SMEs under state guaranteed schemes and higher fees from client trading activities could offset some of the revenue pressure in 2020. Growth of operating costs should be modest, but higher LICs will reduce profitability. It will be difficult for the group to reach its financial targets in the short term.

The LICs/average loans ratio was about 43bp (annualised) in 1Q20, which is notably above the thorough-the-cycle average of 25bp and not far away from the 50bp peak reached in 2009.

The group's net income decreased by around 40% in 1Q20 due to the surge in LICs (+219% or almost 40% of pre-impairment operating profit) from very low levels in 1Q19, while revenue was resilient. About two-thirds of LICs were recorded in corporate banking and one-fifth in Belgian retail (includes SME activities). ING's underlying return on equity (based on four-quarter rolling average) decreased to 8.4%, below its target of 10%-12%.

Downside Risk on Capitalisation

We expect risk-weighted capital ratios to decline in the near term driven by RWA growth from credit risk migration, negative fair-value adjustments and weaker earnings generation. ING could increase its CET1 ratio by about 50bp if it decided to cancel the 2019 dividend, which was suspended until October 2020.

ING has a sufficient buffer above the minimum requirements, which was revised downwards to 10.5% from 11.8% at end-2019 after the reduction of the systemic risk buffer in the Netherlands and the removal of the countercyclical buffer in several countries. ING aims to have a CET1 ratio of 13.5% under Basel III 'end-game' rules.

Good Funding Mix, Stable Liquidity

The stable funding profile is supported by strong franchises in deposit-rich markets, such as Belgium and Germany, offsetting the structural deposit shortage in the Netherlands. Customer deposits were about 70% of ING's funding mix at end-March 2020. Wholesale debt maturities are reasonably well spread and short-term funding accounted for about 11% of funding at end-March 2020. The buffer of high-quality liquid assets was ample at EUR136 billion or about 14% of total assets at end-March 2020.

Sovereign Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			A+ to A-
Actual country D-SIB SRF			NF
Support Rating Floor:			**NF**
Support Factors	**Positive**	**Neutral**	**Negative**
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)		✓	
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support			✓
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

ING's Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign in the event that ING 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.

An upgrade of the Support Rating or upward revision of the Support Rating Floor would be contingent on a positive change in the Dutch sovereign's propensity to support its banks. We believe this is highly unlikely, though not impossible.

Environmental, Social and Governance Considerations

FitchRatings **ING Group N.V.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ING Group N.V. has 5 ESG potential rating drivers
- ING Group N.V. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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, either due to their nature or the way in which they are being managed by ING.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.