Fitch Ratings

Banks
Universal Commercial Banks
Netherlands

ING Groep N.V.

Update

Key Rating Drivers

Robust Company Profile: ING Groep N.V.'s ratings are supported by its leading franchise in retail and commercial banking in the Benelux region and adequate diversification in selected countries. The bank's resilient and diversified business model emphasises lending operations with moderate exposure to volatile businesses, and a sound record of earnings generation. The ratings also reflect ING's sound capital ratios and balanced funding profile.

Downside Risks Persist: ING has enough rating headroom to absorb the deterioration in financial performance due to the economic fallout from the coronavirus crisis. The Negative Outlook reflects the downside risks to Fitch Ratings' baseline scenario, as pressure on the ratings would increase substantially if the economic recovery we expect is weaker or delayed.

Moderate Pressure on Asset Quality: We expect asset quality to deteriorate moderately but the four-year average Stage 3 loan ratio to remain below 3% in the next two years due to good sector and geographic diversification as well as sound underwriting. Cyclical corporate exposures (oil & gas, aviation, leisure – about 3% of loans including guarantees and letters of credit at end-March 2021), and SMEs and medium-sized corporate borrowers (about 12%) with modest financial flexibility present downside risks to asset quality.

Gradual Recovery in Profitability: ING's operating profitability declined sharply in 2020 due to high loan impairment charges (LICs), which, at 43bp, were about two times higher than the group's 25bp through-the-cycle average. The operating profit/risk-weighted assets (RWAs) ratio should revert to pre-crisis levels of about 2% in the next 12 to 18 months as LICs normalise and operating efficiency measures materialise.

Revenue pressure from the low interest rates will continue, although this will be cushioned by low-cost funding from the ECB and negative charging of retail deposits.

Sound Capitalisation: The group's risk-weighted capital ratios are sound. The common equity Tier 1 (CET1) ratio was at 15.5% at end-March 2021, or 300bp above the group's long-term target of about 12.5%, post-Basel IV implementation.

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 the 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: Its operating company, ING Bank N.V., has a Long-Term Issuer Default Rating (IDR; AA-/Negative) one notch above its Viability Rating (VR; a+). 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

Weaker Financial Profile: We would downgrade ING's ratings if its impaired loan ratio is higher than 3% over a prolonged period, or if the operating profit/RWAs does not revert to 2% as expected under our assumptions, combined with a material decrease in the CET1 ratio below 15% on a sustained basis. ING's IDRs could also be downgraded in the event of a significant build-up of double leverage at the holding company, although this is not our base case.

Outlook Back to Stable: Fitch would revise the Outlook to Stable if economic conditions normalise and ING's financial performance is in line with our baseline expectations.

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	NF
Sovereign Risk	
Long-Term Foreign- and Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign- and Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Moment of Reckoning Approaching for Western EU Banks' Loan Moratoria (April 2021)

Benelux Banks: Recovery to Pre-Pandemic Profitability Levels Unlikely Before 2022 (April 2021)

Large European Banks Quarterly Credit Tracker - 4Q20 (March 2021)

ING Groep N.V. (October 2020)

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Related Issuer Ratings

Rating Level	ING Bank N.V.	ING Belgium NV/SA
Long-Term Foreign-Currency IDR	AA-	AA-
Short-Term Foreign-Currency IDR	F1+	F1+
Derivative Counterparty Rating	AA-(dcr)	AA-(dcr)
Viability Rating	a+	a-
Support Rating	5	1
Support Rating Floor	NF	-
Outlook	Negative	Negative

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 is 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 driven by institutional support from its parent, ING Bank. We use ING Bank's uplifted Long-Term IDR as the anchor rating for ING Belgium 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.

Fitch considers ING Belgium to be core to ING Bank's retail strategy and franchise in the Benelux region. It is highly integrated within its parent in terms of management and operations. In addition, we believe there is considerable reputation risk for ING Bank if ING Belgium defaults. In our view, ING Bank has sufficient capital resources and flexibility outside ING Belgium, including access to capital at the holding company, to provide support in case of need.

Debt Rating Classes

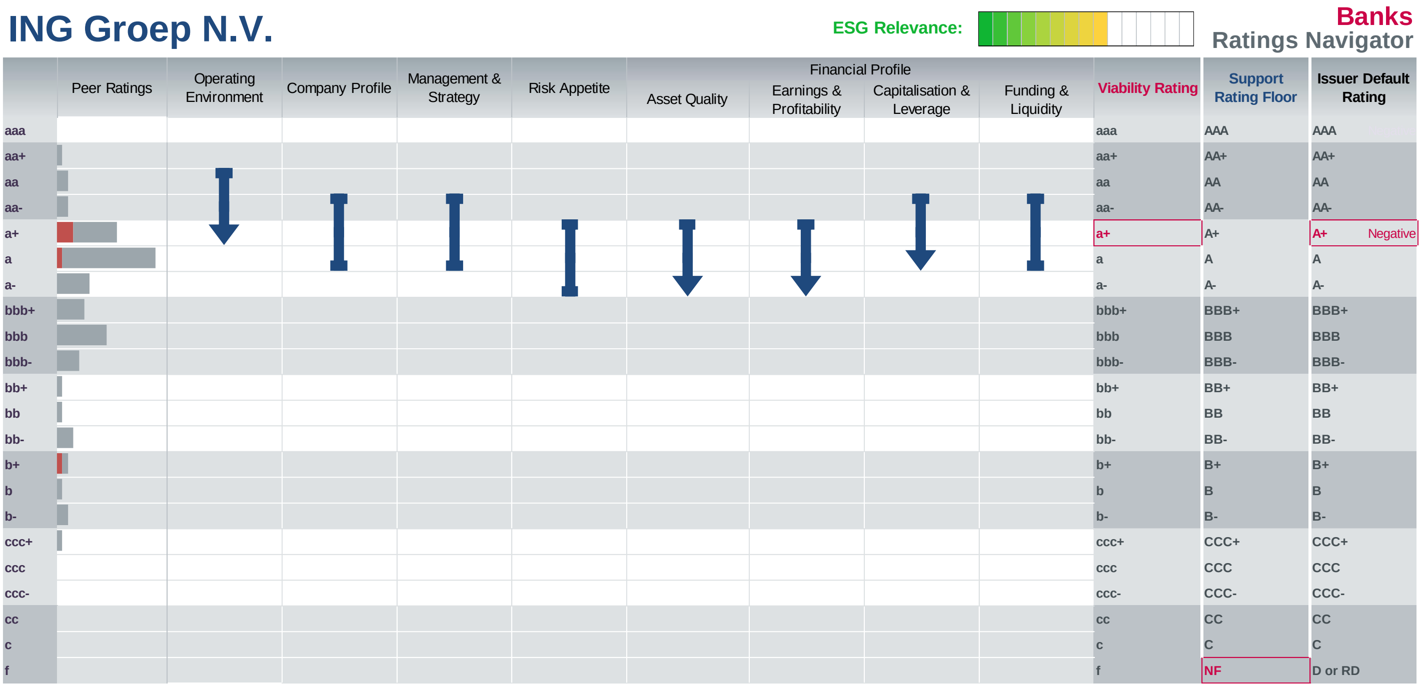
Rating Level	ING Groep N.V.	ING Bank N.V.
Deposits Rating		AA-/F1+
Senior unsecured debt	A+/F1	AA-/F1+
Tier 2 debt	A-	A-
Additional Tier 1 notes	BBB	

Source: Fitch Ratings

ING and ING Bank's senior unsecured debt is rated in line with their respective IDRs. ING Bank's deposits are rated 'AA-'/ 'F1+ as deposits rank pari passu with senior preferred debt and derivatives claims in the Netherlands.

The Tier 2 debt issued by these entities is rated two notches below their VRs, in line with the baseline notching for this type of debt and reflecting poor recovery prospects. The additional Tier 1 notes are four notches below ING's VR reflecting poor recovery prospects of these securities (two notches) as well as the high risk of non-performance (two notches).

Ratings Navigator



Significant Changes

Profitability to Benefit from Declining LICs

ING's 1Q21 net income increased by 50% year-over-year to EUR1 billion supported by significantly lower LICs and revenue growth. In 2021, earnings should benefit from the normalisation of LICs.

ING has generated positive jaws in 1Q21 with revenue growth outpacing the 3% increase in operating costs excluding restructuring costs. The group's return on equity ratio (based on four-quarter rolling average and underlying income) of 5.4% and its cost/income ratio of 62% (excluding restructuring costs) are still some way off its long-term targets of 10%-12% and 50-52%, respectively. We expect ING to intensify cost-saving initiatives and operating costs should start declining in 2022. In the short term, restructuring costs arising from the optimisation of the group's operations will continue to weigh on costs.

Revenue in 1Q21 increased by about 4% on the year thanks to higher non-interest income, after declining for two successive quarters. Fee income, mainly from investment products and from daily banking services, increased by a healthy 9%. Fee generating business still represents a fairly moderate share of ING's total revenue of about 18% in 1Q21, but should increase in the medium term given the group's target growth rate of 5% to 10% a year.

Net interest income, the main revenue contributor, was flat as lower average lending volumes, pressure on liability margins and continued inflows of deposits offset the EUR233 million funding benefit from ECB's Targeted Longer-Term Refinancing Operations.

LICs decreased to a low 15bp of average gross loans in 1Q21 from 43bp in 2020. The EUR537 million release of provisions on Stage 1 and Stage 2 loans driven by a macro-economic model update was offset by a EUR593 million management overlay reflecting uncertainty related to the pandemic and an expected delay in credit losses. We expect LICs to be close to their long-term average in 2021.

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

New Long-Term CET1 Ratio Target

In 3Q20, ING lowered its fully loaded long-term CET1 ratio target by 1pp to about 12.5% (about 200bp above its current Supervisory Review and Evaluation Process requirement). This was due to structural reduction in capital requirements and a manageable 50bp-60bp CET1 ratio reduction from the expected regulatory RWAs inflation. The bank is unlikely to materially reduce its CET1 ratio in the near term given still high risks from the pandemic and uncertainty about the economic recovery.

Summary Financials and Key Ratios

	31 Mar 2021	31 Mar 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
	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	4,119	3,513	13,711	14,194	14,018
Net fees and commissions	1,001	854	3,011	2,868	2,798
Other operating income	393	335	1,152	1,127	1,484
Total operating income	5,513	4,702	17,874	18,189	18,300
Operating costs	3,438	2,932	10,701	10,352	9,908
Pre-impairment operating profit	2,075	1,770	7,173	7,837	8,392
Loan and other impairment charges	261	223	2,675	1,120	656
Operating profit	1,814	1,547	4,498	6,717	7,736
Other non-operating items (net)	-98	-84	-689	117	-898
Tax	516	440	1,246	1,954	2,027
Net income	1,199	1,023	2,563	4,880	4,811
Other comprehensive income	n.a.	n.a.	-1,590	684	-474
Fitch comprehensive income	1,199	1,023	973	5,564	4,337
Summary Balance Sheet					
Assets					
Gross loans	731,038	623,488	603,332	616,175	596,421
- of which impaired	15,007	12,799	13,497	11,477	11,102
Loan loss allowances	6,783	5,785	5,779	4,590	4,491
Net loans	724,255	617,703	597,553	611,585	591,930
Interbank	36,386	31,033	20,495	26,193	23,736
Derivatives	2,863	2,442	30,821	23,951	24,774
Other securities and earning assets	238,361	203,293	166,019	163,771	182,420
Total earning assets	1,001,865	854,471	814,888	825,500	822,860
Cash and due from banks	132,144	112,703	111,087	53,202	49,987
Other assets	16,059	13,696	11,300	13,042	14,183
Total assets	1,150,068	980,870	937,275	891,744	887,030
Liabilities					
Customer deposits	736,602	628,233	609,642	574,433	555,812
Interbank and other short-term funding	99,774	85,095	125,062	77,874	89,567
Other long-term funding	122,558	104,527	85,570	122,294	123,434
Trading liabilities and derivatives	107,858	91,990	34,827	34,508	40,143
Total funding	1,066,791	909,845	855,101	809,109	808,956
Other liabilities	17,638	15,043	13,365	14,904	15,984
Preference shares and hybrid capital	n.a.	n.a.	13,150	13,069	10,355
Total equity	65,639	55,982	55,659	54,662	51,735
Total liabilities and equity	1,150,068	980,870	937,275	891,744	887,030
Exchange rate		USD1 = EUR0.85288	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, ING Groep N.V.

Summary Financials and Key Ratios

	31 Mar 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.0	1.5	2.1	2.5
Net interest income/average earning assets	1.7	1.6	1.7	1.7
Non-interest expense/gross revenue	62.4	60.1	57.1	54.6
Net income/average equity	7.4	4.6	9.1	9.5
Asset quality				
Impaired loans ratio	2.1	2.2	1.9	1.9
Growth in gross loans	3.3	-2.1	3.3	3.1
Loan loss allowances/impaired loans	45.2	42.8	40.0	40.5
Loan impairment charges/average gross loans	0.2	0.4	0.2	0.1
Capitalisation				
Common equity Tier 1 ratio	15.5	15.5	14.6	14.5
Tangible common equity/tangible assets	5.6	5.8	5.9	5.6
Basel leverage ratio	4.6	4.8	4.6	4.4
Net impaired loans/common equity Tier 1	14.6	16.3	14.5	14.5
Funding and liquidity				
Loans/customer deposits	99.2	99.0	107.3	107.3
Liquidity coverage ratio	140.0	137.0	127.0	123.0
Customer deposits/funding	69.3	72.5	71.9	69.9
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, ING Groep N.V.

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.

Environmental, Social and Governance Considerations

FitchRatings **ING Groep N.V.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ING Groep N.V. has 5 ESG potential rating drivers

- ING Groep 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 right-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 some of the main 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 ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

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.