FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms ING Groep N.V. at 'A+'; Outlook Stable

Tue 15 Nov, 2022 - 11:34 AM ET

Fitch Ratings - Paris - 15 Nov 2022: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDRs) of ING Groep N.V. (ING) at 'A+' and of 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

Business Profile Drives Ratings: ING's ratings are driven by the group's strong franchise in retail and wholesale banking in the Benelux region, diversified business model, moderate risk appetite, and sound through-the-cycle asset quality and earnings. The ratings are underpinned by the well-balanced funding profile. ING's ratings also balance the bank's current sound capitalisation with comparatively low medium-term target for its regulatory capital ratios compared with similarly rated peers.

Leading Franchise in Key Markets: ING's stable universal business model, well-entrenched market position in retail and wholesale banking in the Benelux region, with good pricing power and geographic diversification, particularly in neighbouring countries, underpin the bank's credit profile. ING's retail focus and limited exposure to capital markets activities result in sound and recurrent revenue generation through the cycle.

Moderate Risk Appetite: ING's moderate risk appetite is supported by sound and conservative underwriting standards focused on secured lending, centralised credit and market risk controls.

Sound Asset Quality: ING's low-risk business model, sound underwriting and well-diversified and secured lending underpin the bank's sound asset quality. ING's impaired loans ratio has been consistently below that of the large Dutch banks, and has proven resilient through previous credit cycles. Fitch expects impaired loans to increase from a sound starting point, given the weaker economic environment affecting mainly SME and corporate borrowers. However, the impaired loans ratio should remain below 3% of gross loans by end-2023.

Business Profile Supports Earnings: ING's sound earnings generation reflects its strong franchise in retail and corporate banking in the Benelux region, limited exposure to volatile businesses, and diversification into selected markets with growth potential. Despite benefiting from higher interest rates, we expect operating profit/risk-weighted assets (RWAs) in 2023 will be in line with the current four-year average of 2.1%. This is due to weakening lending growth, above historical average loan impairment charges and some cost inflation. ING's 2022 earnings have been affected by material one-offs, partly linked to the current macroeconomic context and will therefore be below the bank's long-term average.

Weaker Risk-weighted Capital Ratios: The group's risk-weighted capital ratios are sound and compare adequately with similarly rated peers. ING's common equity Tier 1 (CET1) ratio of 14.7% at end-September 2022 decreased materially by 119bp compared with end-2021, due to higher RWAs, mostly due to the introduction of a risk-weight floor on Dutch residential mortgage loans by the Dutch Central Bank, and distribution of excess capital. We expect ING to gradually steer its CET1 ratio towards its target of about 12.5% by 2025 (under Basel III end-game rules), through further capital distributions, which is a lower level than most other 'a+' rated peers.

Stable Funding Profile: The group's funding profile reflects a strong franchise in some deposit-rich jurisdictions, such as Belgium and Germany. Its wholesale funding maturities are reasonably spread over time, and the group's ample buffer of high quality liquid assets further mitigates refinancing risk.

Ratings Reflect Consolidated Group: Fitch assesses the group on a consolidated basis as ING Bank, the group's 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 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 level, and liquidity is managed centrally. We view the fungibility of capital between the holding company and the bank as high.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

We could downgrade ING Bank's and ING's IDRs and VRs if there was a material deterioration in asset quality with the impaired loan ratio increasing above 3% over a prolonged period, or if the operating profit/RWAs ratio durably declines below 2%. Rating pressure would also arise if convergence to the targeted CET1 ratio is more rapid than anticipated, reflecting more aggressive capital distributions, in particular if it is not accompanied by stronger operating profitability as expected in the group's strategic plan.

An adverse change in ING's risk appetite could be negative for the ratings, for example if the contribution of more volatile activities or countries with lower rated operating environments to ING's earnings grows rapidly.

ING's IDRs and VR could also be downgraded in case of 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' IDRs and VRs 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'S SHORT-TERM IDR

ING's Short-Term IDR of 'F1' is the lower of the two options mapping to a Long-Term IDR of 'A+' and reflects our assessment of the group's funding and liquidity score of 'a+'.

ING BANK'S IDRs, SENIOR UNSECURED DEBT AND DEPOSIT RATINGS

ING Bank's Long-Term IDR and senior unsecured debt are 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. 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.

The one-notch uplift reflects the bank's significant and sustainable buffer of junior debt that could be made available to protect its senior third-party creditors from default in case of failure, either in resolution or as part of a private sector solution (i.e. distressed debt exchange).

We expect the buffer to be sustainable. Our expectation is based on the bank's need to meet the end-state minimum requirement for own funds and eligible liabilities (MREL), set at 28.68% of RWAs starting 1 January 2024. The group has adopted a single-point-of-entry resolution strategy, and ING Groep is the resolution entity. All MREL instruments, including senior unsecured debt, are issued at group level and downstreamed to ING Bank as junior-ranked 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 under Fitch's criteria.

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.

ING'S AND ING BANK'S DERIVATIVE COUNTERPARTY RATINGS

We rate the Derivative Counterparty Ratings (DCRs) of ING Bank and ING at the same level as the entities' respective Long-Term IDRs because under Dutch legislation, derivative counterparties have no definitive preferential status over other senior obligations in resolution.

ING'S AND ING BANK'S SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The subordinated Tier 2 debt securities issued by ING Bank and ING are notched down twice from the respective VRs, reflecting baseline notching for this type of debt under Fitch's criteria.

Additional Tier 1 (AT1) instruments issued by ING are rated four notches below its VR. The notching reflects 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).

No Government Support Factored into Ratings

ING's and ING Bank's Government Support Ratings (GSR) 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 issuer's Long-Term IDRs and to the funding and liquidity score.

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 Bank and ING 's subordinated Tier 2 debt and ING's AT1 instruments are sensitive to changes in their issuers' respective VRs.

In addition, the ratings of ING's AT1 instruments could also 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 (INGFM)

INGFM's Short-Term IDR of 'F1+' is equalised with that of its parent, ING Bank, because we see 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 INGFM's strategic importance as part of ING Bank's international wholesale-banking franchise.

In our opinion, any required support for INGFM would most likely be immaterial relative to its parent's ability to provide it. INGFM accounted for about 3% of ING Bank's total assets and equity at end-2021.

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 covered under 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.

VR ADJUSTMENTS

There are no adjustments to any of the implied Key Rating Drivers nor to the implied VR.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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. 31 Jan 2022) (including rating assumption sensitivity)

Bank Rating Criteria (pub. 07 Sep 2022) (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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Structured Finance: Covered Bonds   Non-Bank Financial Institutions   Structured Finance

Banks   North America   Europe   United States   Netherlands