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Ratings

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ING Groep N.V.

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ING Groep N.V.

UGCP	a	+	Support	+1	+	Additional Factors	0

Anchor	bbb+	
Business Position	Strong	+1
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA/--/A-1+
Holding Company ICR	A-/Stable/A-2

ICR--Issuer credit rating. UGCP--The unsupported group credit profile of the ING consolidated group, also reported as group stand-alone credit profile (Group SACP) in the text below. The holding company ICR shown applies to the nonoperating holding company, ING Groep N.V. The ICR shown applies to the operating bank, ING Bank N.V.

Major Rating Factors

Issuer Credit Rating
A-/Stable/A-2

Strengths:

- Leading positions in the Benelux markets and good geographic diversity.
- Well defined and executed strategy, with established digital approach to banking business.
- Clear financial roadmap supporting solid capital metrics.

Weaknesses:

- Continuous need to enhance non-financial risks framework and culture throughout the organization.
- Lower-for-longer interest-rate environment and regulatory levies pressuring net operating income.
- Balance-sheet adaptation to changes in regulation, as for peers.

Outlook

ING Groep N.V.

The stable outlook on ING Groep N.V. (ING Groep), the non-operating holding company (NOHC) of Netherlands-based ING Bank N.V., reflects S&P Global Ratings' view that the financial profile of the consolidated ING group (ING) will continue to stabilize. We believe the group's strategy will support the maintenance of strong capital adequacy. As a result, we expect our projected risk-adjusted capital (RAC) ratio before diversification will remain above 10% over the next 18-24 months. The outlook also reflects our view that ING's risk appetite for new credits outside its low-risk core markets will remain contained, and that growth initiatives will remain focused on known areas and territories.

We could lower our ratings if ING's capital position were to weaken on exposure to riskier assets developing more rapidly than we currently expect. This could result from, for example, faster expansion into emerging markets or material acquisitions. As an international group, ING is also exposed to a wide range of legal and compliance risks, which necessitates a particularly robust risk framework. If such risks were to continue to materialize, depending on the magnitude of impact, we could lower the rating.

We see limited upside for our ratings in the next two years. If we came to believe that ING had a lower credit risk profile than peers, given the nature of its business mix or higher capital generation capacity through the cycle compared with other 'A+' rated peers, we could consider an upgrade.

ING Bank N.V.

The stable outlook on ING Bank N.V. (ING Bank), the lead operating bank of the consolidated ING group (ING), reflects its stable Group SACP of 'a'. We also expect ING will continue to build its material buffer of bail-in-able debt, mainly through the issuance of senior unsecured debt by its NOHC.

We could lower the ratings on ING Bank if tighter financial planning resulted in the issuance of additional loss-absorbing capacity (ALAC)-eligible instruments falling short our expectations, or if the reinforcement of the group's non-financial risks framework and culture was lagging behind plans.

Given that we already factor in one notch of ALAC uplift into the ratings on the bank, a higher rating would depend on us revising upward our assessment of ING's Group SACP , a scenario we see as remote.

We do not assign outlooks to our issue ratings on bank's debt. That said, we expect our issue ratings on ING Bank's subordinated instruments to move in tandem with ING's Group SACP.

Rationale

ING's 'a' Group SACP ranks among the highest we assigned to large European banking groups. It reflects ING's leading franchise, in Benelux and Germany, as well as a coherent expansion strategy. We consider ING well placed to manage digital transformation. ING's balance-sheet has strengthened in recent years and is now expected to stabilize. We believe that our RAC ratio will stay above 10% in the coming years as a result of resilient internal capital generation and reasonable appetite for growth. ING's risk profile balances the benefits of the diversification of its loan book, its solid track record in retail and corporate lending, and its continuous need to enhance its non-financial risks framework. ING displays a funding profile in line with domestic peers'. It also displays adequate liquidity underpinned by its large retail deposit base, and a sound liquidity buffer.

ING ranks among the 30 global systemically important banks identified by the Financial Stability Board. With assets exceeding €850 billion at end-2018, ING is one of the top-10 financial services group in Europe. It has an established strategy to build total loss-absorbing capacity (TLAC) and minimum requirements for own funds and eligible liabilities (MREL) buffers, mainly by recycling debt formerly issued by ING Bank, the main operating bank, with debt issued by ING Groep, its NOHC. We expect that this strategy will continue and have therefore included a notch of uplift in our ratings to reflect the ongoing buildup of ALAC instruments.

Anchor: A Netherlands-based bank, with more diversified geographies than local peers

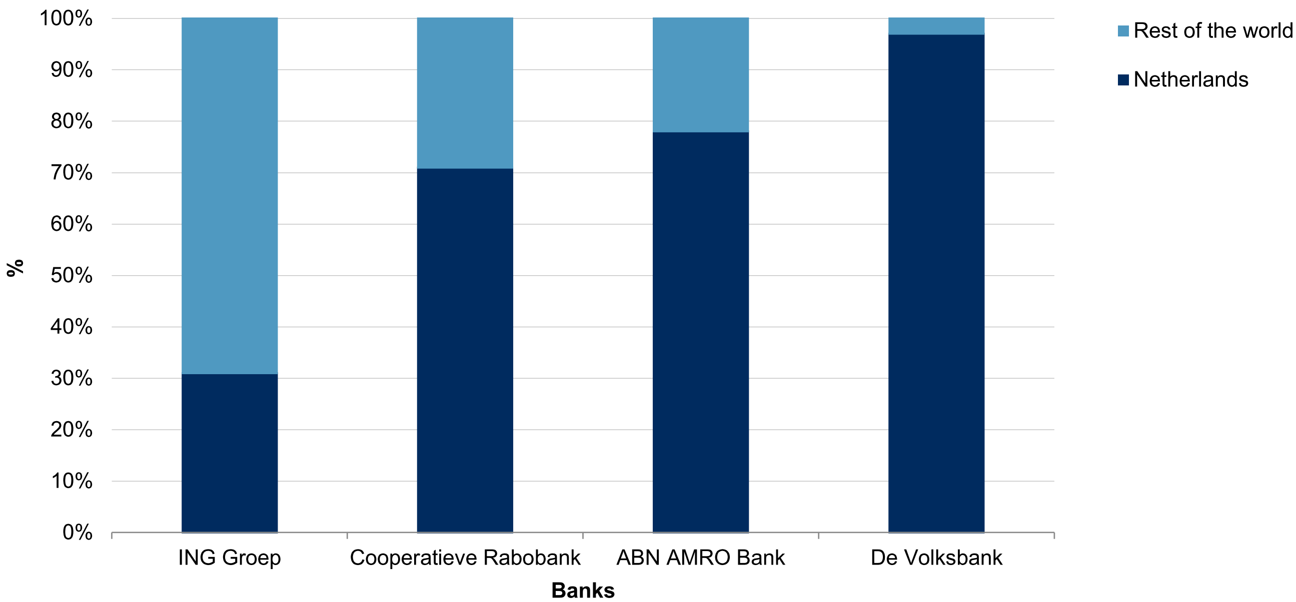
The starting point for our ratings on ING and its affiliates is the 'bbb+' anchor. This is based on the weighted-average of S&P Global Ratings' economic risk scores for the countries in which ING operates, combined with our industry risk assessment for the Dutch market. Both stand at '3'. To assess the average economic risk score, we use the following rounded geographic distribution of ING's lending at end-2018:

- The Netherlands, 30%.
- Belgium and Luxembourg, 15% combined.
- Germany, 15%.
- Other European countries, including ones in Eastern and Southern Europe, 20%.
- Asia-Pacific, in particular Australia, 10%.
- Americas and United Kingdom, 5% each.

ING displays a more geographically diverse loan book than its domestic peers. It also intends to continue to rebalance the geographic breakdown of its loan book, aiming for a smaller exposure to the Netherlands.

Chart 1

ING's Lending Portfolio Is More Diversified By Geography Than Domestic Peers'



Source: Banks, S&P Global Ratings.

Our assessment of Dutch economic risk reflects a wealthy, diversified, open, and competitive economy. It continues to perform well, with real GDP growth of 1.7% in 2019 and a forecast above-eurozone-average growth over 2020-2022. Unemployment is low, at about 3.3%. We believe this environment continues to support banking activities in the country. We also consider that the open nature of the Dutch economy is a source of volatility. Current global trade tensions and the uncertainty around Brexit will contribute to an expected slowdown of economic growth in Europe. Private sector leverage remains, on a gross basis, among the highest in the world and constrains the structural ability of Dutch economy to easily withstand potential external shocks. Economic imbalances have not receded in recent years because of a very dynamic real estate market. Nominal property prices went up 8.5% in 2017, 9.2% in 2018, and a further 6.3% rise is expected this year. Household indebtedness will reduce over time with the gradual move away from interest-only (non-amortizing) mortgages, but improvements have been so far hardly visible in absolute terms.

Our assessment of industry risks for Dutch banks incorporates high domestic concentration and our view of a stable competitive environment. We consider that the prospective profitability of domestic banking activities is adequate. In particular we observe supportive price discipline in the competitive mortgage segment. Some of the large banks have completed major restructuring efforts and cost optimization programs continue in the context of the persistently low interest-rate environment. Cost of risk has also remained low, mitigating asset repricing. The system's relatively heavy reliance on wholesale funding is partly attributable to households' propensity to save in life insurance and pension products, rather than in bank deposits. We consider that Dutch system-wide funding benefits from, among other things, the depth of the domestic capital market and the Dutch authorities' good track record in providing liquidity support.

Table 1

ING Groep N.V. Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2019***	**2018**	**2017**	**2016**	**2015**
Adjusted assets	911,473	885,191	844,747	843,597	840,202
Customer loans (gross)	613,829	596,421	578,629	568,791	542,697
Adjusted common equity	45,249	43,640	42,996	41,182	39,085
Operating revenues	9,124	18,209	17,675	17,519	16,680
Noninterest expenses	5,229	9,888	9,811	10,507	9,326
Core earnings	2,528	5,391	4,938	4,525	4,382

*Data as of June 30.
N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Business position: A pan-European bank with a cost-efficient digital banking model

Our assessment of ING's business position as strong reflects the group's focused and well-executed strategy, its leading franchises in home markets, good geographic diversity, and advanced forays in digital capabilities. From being a large global bancassurance group, ING underwent a major transformation after the global financial crisis to become a pure commercial bank. We expect ING to continue to operate as such, leveraging on the strengths of its digital capabilities and focusing on primary banking relationships. The group will continue to adapt to persistently low interest rates and regulatory challenges, putting greater emphasis on investments in compliance programs, diversification of sources of income (including growing fees), and stricter cost discipline. Enhancing the non-financial risks framework and ensuring a group-wide common anti-money laundering culture remain key strategic priorities for management.

ING enjoys good geographic diversification and is mainly in lower-risk countries. There is a clear delineation of territories where ING intends to expand its presence, from core historical markets in Benelux (Belgium, the Netherlands, and Luxembourg) where it has a leading position, to those in which it operates more as a challenger, mainly in neighbouring European countries or selected emerging markets with growth potential (table 2). ING is also present in more than 40 countries through its wholesale international banking network, supporting corporations that do business globally. Transaction services and financial market activities contribute to the diversification of wholesale banking revenues.

Table 2

ING's Strategic Geographic Focus

Market leaders	The Netherlands, Belgium, and Luxembourg. All three are low-risk markets with high household wealth. ING is the largest Netherlands-based banking group, and the second-largest by domestic assets. It is one of the top two lenders to Dutch large corporates and the third-largest bank in Belgium.
Challengers	Germany, Austria, Czech Republic, Spain, Italy, France, and Australia. ING Bank has grown to become one of the largest retail banks in Germany.
Growth markets	Poland, Turkey, Romania, complemented by stakes in banks in Thailand and China. These higher-risk markets still form a low proportion of the group's exposure, but this is rising modestly.

Sources: ING, S&P Global Ratings.

Apart from acquisitions in the financial technology sector, we cannot rule out external growth in the banking business, but we believe that it would only involve small-size operations in regions where the group operates. In early 2019, there were rumors of a potential acquisition of Germany-based Commerzbank AG by ING. Such a move would have presumably pressured the latter's creditworthiness, notably given the inherent execution risks it would have implied. Although ING could prove to be opportunistic, we don't expect the group to engage in a transformational merger in the short term.

ING's focus is on expanding its base of 38.4 million individual customers, with a specific emphasis on increasing the number of primary relationships to more than 16.5 million by 2022, from 12.9 million at mid-2019. ING has been an innovator and early adopter of digital banking capabilities. Compared to peers, it displays a highly efficient digital banking model in developed retail markets, which represents a key part of the bank's strategy. This is especially true for retail deposit collection and, increasingly, assets. Maintaining the first-mover competitive advantage remains a challenge in our view. Other axes of the strategy revolve around converging banking platforms, especially between the Netherlands and Belgium, and a distribution strategy centred around an omnichannel approach focusing on mobile banking.

ING's objective to defend net interest income, which traditionally accounts for 75% of its revenues, continues by: (1) repricing of assets, (2) targeting higher lending growth outside Benelux, and (3) expanding into lending that is higher margin than mortgage lending (small and midsize enterprises, consumer lending, and corporate clients). We expect the bank will maintain conservative underwriting standards while expanding into these areas. The rollout of this strategy, focused on a change in asset mix combined with savings rate cuts, explains the resilience of ING's net interest margin so far. Overall, we believe that the prospects of lower for longer interest rates make it a challenge for ING to significantly improve efficiency in the near future.

ING's rated peers include domestic peers such as Rabobank with its stronger foothold in the Netherlands, and ABN AMRO, which is more focused on domestic operations. We also consider as relevant peers some large French, Belgian, U.K. banks such as BPCE, Société Générale, Crédit Agricole, KBC, and Lloyds Banking Group, all of which combine solid retail franchises with other commission-generating businesses such as asset management, insurance activities, or selected wholesale banking activities.

Table 3

ING Groep N.V. Business Position

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (currency in millions)	9,241	18,299	17,773	17,982	16,845
Commercial banking/total revenues from business line	28.3	32.5	32.9	31.5	31.6
Retail banking/total revenues from business line	67.2	66.3	66.7	65.6	66.7
Commercial & retail banking/total revenues from business line	95.5	98.8	99.6	97.1	98.3
Other revenues/total revenues from business line	4.5	1.2	0.4	2.9	1.7
Return on average common equity	9.9	9.3	9.8	9.5	8.1

*Data as of June 30.
N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Capital and earnings: A financial roadmap that supports solid capital metrics

We view ING's capital position as a rating strength and expect that our RAC ratio will stabilize above 10% in the coming two years. ING's required adaptation to forthcoming Basel reform remains supportive of a strong capital assessment. ING estimates that the negative impact of the regulatory reform on its common equity tier 1 (CET1) is 200 basis points by 2027. While management has put in place various actions to mitigate this impact, including better distribution capabilities, regulatory risk-weighted assets (RWAs) inflation is expected to result in a decline in the group's CET1 ratio. ING aims to maintain a CET1 ratio of around 13.5% under the Basel IV framework. Its fully loaded CET1 ratio was 14.5% at end-June 2019.

We base our forecast RAC ratio on the following assumptions. Our base-case scenario does not factor in a large acquisition or material litigation costs.

- A resilient net operating income over time, with pressure on net interest margins from low interest rates being partially offset by higher-margin lending and growing fees.
- Continuous cost cutting efforts mitigated by new investments in digitalization and compliance programs as well as regulatory levies.
- Cost of credit risk at around 15bps of average gross customer loans.
- Internal capital generation of about €2.5 billion per year, assuming resilient net income at or above €5 billion.
- Annual S&P Global Ratings RWAs growth of around 5%, above customer loans, in line with ING's appetite to expand in markets with relatively higher economic risks.

We regard the quality of capital as satisfactory because it largely consists of core equity. The amount of hybrid capital instruments included in our total adjusted capital ratio, the numerator of our RAC ratio, was less than 15% at year-end 2018.

ING Groep calculated its leverage ratio at 4.3% as of June 30, 2019, meeting its internal target of above 4.0%. Under the 2018 Supervisory Review and Evaluation Process (SREP), ING continues to have to comply with a CET1 ratio of 11.8% in 2019. Under the maximum distributable amount (MDA) framework, ING's trigger level is set at 11.8% for 2019. The buffer for the 2019 MDA restriction level was €8.6 billion as of June 30, 2019.

Despite improving underlying trends, 2018 results were affected by a €775 million payment for a litigation settlement in the third-quarter (see risk position below), which was higher than we expected. We view ING's profitability as adequate compared with peers', with core earnings to operating revenues at 28% at mid-2019. Largely thanks to low-cost digital retail distribution channels, the bank displays a cost-efficiency ratio that, by our measure, stood at 57% at June 30, 2019. This compares well with peers', except for Nordic banks. So far, ING has been able to lower savings rates in many countries. Going forward, we believe that the repricing of retail deposits will be limited, though notably due to some local constraints such as an 11 basis point floor in Belgium. In 2019, barring any unexpected events, ING's core profitability metrics will likely continue to hold up well. In the first semester of 2019, the group maintained good commercial momentum and has further embedded non-financial risk management into its decision-making process. Net income stood at €2.5 billion as of June 30, 2019, on the back of continued business growth, higher but still-contained cost of credit risk, and seasonally higher regulatory costs.

Table 4

ING Groep N.V. Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	16.3	16.2	16.4	16.6	14.8
S&P Global Ratings' RAC ratio before diversification	N/A	10.1	10.2	N/A	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	11.6	11.7	N/A	N/A
Adjusted common equity/total adjusted capital	89.3	89.0	89.2	84.2	85.1
Double leverage	N/A	87.1	87.0	87.8	90.3
Net interest income/operating revenues	76.2	76.4	77.6	75.6	75.3
Fee income/operating revenues	15.2	15.4	15.3	13.9	13.9
Market-sensitive income/operating revenues	6.0	6.6	4.2	8.7	7.1
Noninterest expenses/operating revenues	57.3	54.3	55.5	60.0	55.9
Preprovision operating income/average assets	0.9	1.0	0.9	0.8	0.8
Core earnings/average managed assets	0.6	0.6	0.6	0.5	0.5

*Data as of June 30.
N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 5

ING Groep N.V.--Risk Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Credit risk					
Government & central banks	123,040.0	7,797.0	6.3	2,986.7	2.4
Of which regional governments and local authorities	176.0	117.0	66.5	9.5	5.4
Institutions and CCPs	78,257.0	13,440.0	17.2	25,138.1	32.1
Corporate	329,205.0	151,903.0	46.1	272,086.1	82.6
Retail	352,842.0	72,459.0	20.5	118,206.5	33.5
Of which mortgage	301,933.0	8,488.0	2.8	84,708.1	28.1
Securitization§	7,966.2	728.0	9.1	1,644.5	20.6
Other assets†	10,445.0	12,410.0	118.8	14,171.4	135.7
Total credit risk	901,755.2	258,737.0	28.7	434,233.2	48.2
Credit valuation adjustment					
Total credit valuation adjustment	--	552.0	--	0.0	--
Market Risk					
Equity in the banking book	1,654.0	3,853.0	233.0	9,772.3	590.8
Trading book market risk	--	6,509.0	--	9,862.6	--
Total market risk	--	10,362.0	--	19,634.9	--
Operational risk					
Total operational risk	--	35,522.0	--	30,152.3	--

Table 5

ING Groep N.V.--Risk Adjusted Capital Framework Data (cont.)					
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	--	314,152.0	--	484,020.3	100.0
Total Diversification/ Concentration Adjustments	--	--	--	(61,210.1)	(12.6)
RWA after diversification	--	314,152.0	--	422,810.3	87.4
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		50,831.0	16.2	49,038.0	10.1
Capital ratio after adjustments‡		50,831.0	16.2	49,038.0	11.6

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data, S&P Global Ratings.

Risk position: A diversified and secured loan portfolio and a continuous need to enhance non-financial risk frameworks

We assess ING's risk position as adequate. It reflects our view that ING's risk profile benefits from good diversification of exposures, the generally sound quality of its retail and corporate portfolios, skewed toward collateralized loans, and a risk appetite that we consider to be broadly comparable across markets. Inherent to a diversified banking model and wide geographic reach, pockets of risks nonetheless exist, for example in the wholesale banking portfolio or in the non-financial risks area. We view ING's exposures to sectors and geographies considered to be most at risk as well managed, thereby limiting potential losses in a downturn scenario. There is, however, an ongoing need to enhance the compliance risks framework throughout the organization and to ensure a common risk culture is well disseminated at the different layers of the organization.

Financial risks. ING's loan book is typified by a well-diversified and secured loan book. Among Dutch banks, it is the only large institution for which the Dutch market does not account for the majority of lending exposures. Despite its large exposure to residential mortgage loans (just under 50% of gross customer lending at end-December 2018), we consider the bank's risk exposures well diversified by sector. The diversification benefit in our RAC ratio calculation stood at 13% as of year-end 2018, illustrating the spread of ING's activities by business line and risk type. ING's residential mortgage portfolio is also well diversified by geography. We expect the average loan to value on residential mortgages to continue decreasing because of supporting property price dynamics in the markets where ING has a material mortgage loan book (the Netherlands, Belgium, Germany, and Australia). It stood at 63% at end-2018, compared to 83% at end-2013.

Corporate lending represents about one-third of the loan book. While its main focus is on senior and secured deals, pockets of risks exist however. These include exposures to real-estate finance, leverage finance, oil and gas, metals and mining, and shipping. Risks embedded in these portfolios are well managed in our view. Risk appetite is regularly reviewed and includes global caps by sectors, a stronger focus on the originate-to-distribute model, secured assets, and lower LTV. Real-estate finance represented approximately 5% of total customer lending at year-end 2018, most of which was in the Netherlands, a sector that has been under much pressure in recent years on the back of falling property valuations--albeit now recovering. Real-estate development was discontinued.

ING's exposure to the oil and gas sector is also significant, and mainly related to trade, export finance, and corporate loans to investment grade companies. The group's direct exposures to commodities prices accounts for a limited portion of the total.

ING operates primarily in low-risk countries, but the bank is active in some emerging markets, such as Turkey, which remain an area of scrutiny. The group's exposure to Turkey was 1.5% of total loans as of end-June 2019, and is reducing amid Turkish lira depreciation and contained risk appetite.

Overall, we believe that ING has a sound track record of cost of risk in its core retail and corporate banking portfolios. With cost of credit risk standing at 11bps as of year-end 2018, we believe that credit losses have now bottomed out. In our base case, we expect cost of risk to gradually increase to 15bps--no signs of abrupt deterioration having emerged so far. ING's loss experience has been, on average, less volatile than peers' because of its more diversified portfolio. More recently, economic recovery in the Netherlands has been slightly less beneficial for ING than for other more concentrated domestic peers. Its cost of risk peaked in 2013 at 43bps of customer loans because of the economic downturn.

ING's nonperforming loans reported under Stage 3 classification under IFRS 9 were 1.5% of total loans at year-end 2018, from 1.8% at the beginning of the year. The ratio decreased in the Netherlands and in asset and real-estate finance, but increased in Turkey. ING reports that the Stage 3 provision coverage ratio by reserves was 30% at end-2018. While lower than that of many European peers, this ratio reflects the asset-based and collateralized nature of a large part of ING's loan exposure. Stage 2 loans, including arrears over 30 days, made up more than 5% of total outstandings as of the same date.

In our view, market risks are relatively modest, reflecting the limited scale of ING's capital market activities, which is largely client flow driven, and a risk appetite managed within conservative limits. As for European peers, ING remains sensitive to sustained low interest rates, which are pressuring net interest income.

Non-financial risks. ING is inherently exposed to litigation and other non-financial risks that are disclosed in ING's annual report. In September 2018, following an investigation of the Dutch Prosecution Service (DPPS), ING's reputation was tarnished by the recognition of shortcomings in the execution of customer due-diligence policies to prevent financial crime in the Netherlands over a number of years. ING's Group CFO stepped down. ING reached an agreement with DPPS, including a settlement of €775 million. The U.S. authorities and Exchange Commission are expected to take no further actions against ING. Some months later, in Italy, deficiencies in anti-money-laundering processes were identified by the national regulator, who prohibited the group from on-boarding new customers locally. While ING's compliance capabilities and framework have been strengthened over the past few years and will continue to be, we think it will take some time to strengthen the management of non-financial risks and to ensure that a common risk culture is well-spread throughout the organization.

Table 6

ING Groep N.V. Risk Position

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	5.8	3.1	1.7	4.8	4.0

Table 6

ING Groep N.V. Risk Position (cont.)

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(12.6)	(13.0)	(14.5)	N/A
Total managed assets/adjusted common equity (x)	20.2	20.3	19.7	20.5	21.5
New loan loss provisions/average customer loans	0.1	0.1	0.1	0.2	0.3
Net charge-offs/average customer loans	0.1	0.2	0.2	0.3	0.3
Gross nonperforming assets/customer loans + other real estate owned	1.7	2.9	3.2	3.8	3.6
Loan loss reserves/gross nonperforming assets	43.2	26.1	24.6	24.1	29.7

*Data as of June 30.
N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Funding and liquidity: Stable retail deposit base and adequate liquidity buffers

Our assessment of ING's funding is average and its liquidity adequate, in our opinion. We consider ING's profile to be supported by a large and sticky retail deposit base, despite some wholesale funding reliance for domestic operations.

At the wider group level, ING benefits from less reliance on wholesale funding compared with several peers, in particular in France and Scandinavia. It reported a consolidated loan-to-deposit ratio of 106% at year-end 2018, which compares favorably with ratios of other large domestic peers. This is partly attributable to ING's deposit-rich digital banking franchise. This capacity can even make it a challenge for ING to find a good match of acceptable lending opportunities in each jurisdiction.

We consider the bank's wholesale funding base to be diverse, and observe that the maturity profile has lengthened over the past few years. Regulatory NSFR stabilized well above 100%, as did our stable funding ratio which stood at 104% as of mid-2019.

ING's recourse to the ECB's targeted longer-term refinancing operations (TLTRO) amounted to €10.7 billion in 2016 and €7 billion in 2017, maturing in 2020 and 2021, respectively. Although this represents a concentration in ING's long-term debt maturing ladder, we believe that it will be able to refinance these outstanding borrowings within its usual debt issuance plans. Total debt issued in 2018 was €25.3 billion, standing above the total amount of debt to be refinanced in 2020 and 2021. ING's 2019 funding plan is also expected to exceed that level. ING Bank's funding is supported by a €30 billion Dutch covered bond program. The cover pool comprises prime residential mortgage loans. We note that ING's subsidiaries in Germany, Belgium, and Austria complement ING's covered bond program with their own.

ING maintains an adequate liquidity position. Its liquidity buffer, which comprises a large share of government bonds and deposits placed with central banks, together with the reduced reliance on short-term wholesale funding have supported the increase in our broad liquid assets to short-term wholesale funding ratio to 1.2x at year-end 2018 from 0.8x at year-end 2010. Liquidity has also been enhanced through internal securitizations, the majority of which are eligible for repurchase agreements with the ECB in a liquidity stress scenario. The bank estimates its liquidity coverage ratio at 126% at June 30, 2019, compared to 115% one year ago.

Table 7

ING Groep N.V. Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	68.5	70.1	72.7	69.6	66.1
Customer loans (net)/customer deposits	106.7	106.5	106.4	107.8	107.3
Long-term funding ratio	81.4	83.4	85.5	82.6	80.1
Stable funding ratio	104.4	98.8	106.6	106.2	107.3
Short-term wholesale funding/funding base	19.9	17.7	15.6	18.7	21.3
Broad liquid assets/short-term wholesale funding (x)	1.2	1.1	1.6	1.3	1.2
Net broad liquid assets/short-term customer deposits	6.1	2.1	12.6	8.0	7.7
Short-term wholesale funding/total wholesale funding	61.9	58.0	55.6	59.4	61.4
Narrow liquid assets/3-month wholesale funding (x)	1.4	2.4	3.3	1.9	1.7

*Data as of June 30.
N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

External Support: ALAC buffer is growing on the back of issuances at the holding company level

We include a notch of uplift in the long-term rating on ING Bank, the group's leading operating bank. We estimate its ALAC buffer stood at 5.4% of S&P Global Ratings RWA at year-end 2018 and we believe the ALAC ratio will gradually increase to above 7% in 2021. This well above the threshold of 5.25% we define for ING. We set the threshold above our standard 5% to capture potential limitations in deploying ALAC flexibly within the group in a stress scenario. As of year-end 2018, our ALAC buffer was primarily made of senior notes issued by the NOHC (€17 billion) as well as Tier 2 instruments (€8 billion). ING's NOHC plans to issue about €7 billion-€9 billion of senior debt in 2019, of which €5.1 billion had already been subscribed by investors as ofJune 30, 2019.

Table 8

Summary ALAC Calculation At Dec. 31, 2018

		(Mil. €)	**% of S&P Global Ratings RWA**
A	Adjusted common equity	43,640	
B	Hybrids in TAC	5,387	
C (A+B)	TAC	49,027	10.1
D	TAC in excess of our 10% threshold	625	0.0
E	ALAC-eligible instruments	25,293	5.2
	Of which NOHC senior	17,015	
	Of which minimal equity content hybrids	8,278	
	Of which other	0	
F (=D+E)	ALAC buffer	25,918	5.4
	S&P Global Ratings RWAs	484,020	

Source: S&P Global Ratings database. ALAC--Additional loss-absorbing capacity. RWAs--Risk-weighted assets. TAC--Total adjusted capital. NOHC--Nonoperating holding company.

As a Global Systemically Important Bank, ING is expected to comply with the TLAC defined by the Financial Stability Board. ING currently assumes that its TLAC requirement will stand at 23.5% of RWA at Jan. 1, 2022, at the NOHC level, which includes the requirement to comply with the Dutch regulator's phased-in systemic risk buffer of 3% of

RWA. There is also a common expectation that the MREL requirement will stand higher than TLAC.

Since early 2017, ING has clarified it will rely on its NOHC as the issuing entity to build TLAC/MREL buffers. The maturing senior debt issued by the operating bank will therefore likely be refinanced by senior debt issued by the NOHC.

In our view, ING has high systemic importance in the Netherlands given its leading retail and wholesale banking franchise. Since December 2015, we have regarded the prospect of extraordinary government support for Dutch banks as uncertain, in view of the country's well-advanced and effective resolution regime. As a result, systemic banks are not eligible for a rating uplift for possible future Dutch government support. However, we view the Dutch resolution regime as effective under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns, following a bail-in of eligible liabilities.

Rated entities: Branches, core entities, and highly strategic subsidiaries

We rate ING Groep one notch lower than the Group SACP to reflect its status as a NOHC.

We rate ING Bank's branch in Dublin in line with our ratings on ING Bank because we consider its creditworthiness to be equivalent to the operating bank from which the branch emanates. Our foreign currency rating on Ireland does not cap the creditworthiness of the branch.

We consider that ING Belgium S.A./N.V. (ING Belgium) comfortably meets our criteria to be classified as a core subsidiary of ING Bank. It represents a material portion of ING's total assets, in a strategic neighbouring country with a highly integrated business model. We rate ING Belgium in line with the supported group credit profile (GCP) because, given its size and location in the eurozone, we consider that it would be part of a group resolution scenario.

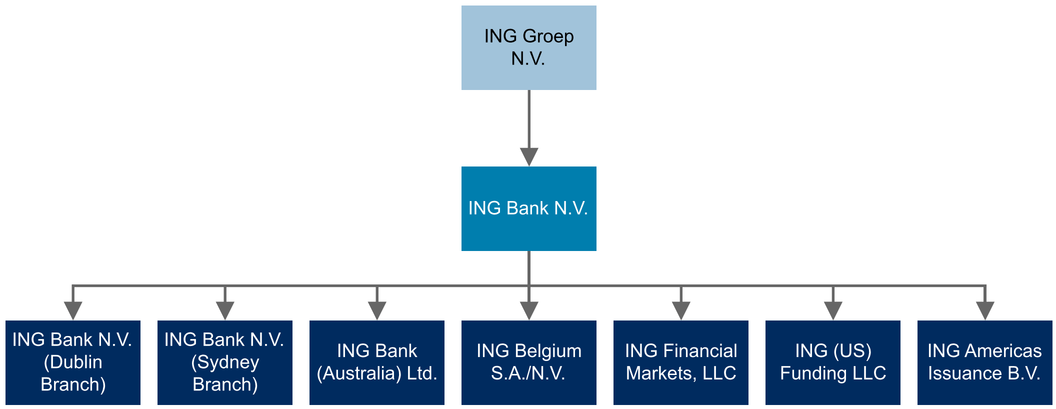
The ratings on U.S. broker dealer ING Financial Markets, LLC (ING FM) also reflect our view of its core group status as the hub for ING's U.S. financial markets and corporate business, which we think is critical for ING's global strategy. Given this strategic positioning and interconnectedness with the rest of the group, we notch ING FM from the supported GCP.

We classify ING Bank (Australia) Ltd. as a highly strategic subsidiary. Among other factors, this reflects the close alignment between its activities and the rest of the group, and sound performance to date. ING Bank Australia is relatively small compared with the rest of the group, though. We notch ING Bank Australia from the supported GCP, given its strategic importance, despite the absence of a resolution regime in Australia.

Chart 2

Simplified Overview Of ING Group Structure

Issuing entities and rated operating banks



Source: ING.

Hybrids

We derive our 'BB' rating on ING Groep's $2.25 billion AT1 instrument issued in 2015 and 2016 by deducting notches from the 'A-' issuer credit rating assigned to the nonoperating holding company as follows:

- One notch for contractual subordination;
- Two notches because of the notes' Tier 1 regulatory capital status;
- One notch because the notes' documentation contains a contractual conversion clause; and
- One notch related to a going-concern conversion trigger (when the CET1 ratio falls below 7%). We expect the distance to the trigger to stay within 301 bps-700 bps.

We note that ING Groep's CET1 ratio stood at 14.5% at end-June 2019. The distance to a 7% CET1 ratio was higher than 700bps at this date but we do not believe this will be maintained in the future based on ING's updated CET1 public target of around 13.5%.

Resolution counterparty ratings (RCRs)

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution. We have assigned RCRs to all of ING's rated operating entities. The assigned long-term RCRs are one notch above the respective long-term ICRs except for ING FM. For that entity, the long-term RCR is in line with the long-term ICR, consistent with our U.S. jurisdiction assessment.

RCRs apply to issuers in jurisdictions where we assess the resolution regime as effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Additional rating factors: None

There are no additional rating factors.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Climate Change: Can Banks Weather The Effects? Sept. 9, 2019
- ECB Stimulus Signal Is Good For Growth, Bad For Bank Profits, July 26, 2019
- Ratings On Various Dutch Banks Affirmed; Most Positive Outlooks Revised To Stable On Property Market Developments, June 28, 2019
- EU Banking Reform Package: Enhanced Balance Sheets; Incomplete Market Integration, June 18, 2019
- Europe’s Banks Must Step Up To Crack Down On Financial Crime, April 18, 2019
- ING's Potential Shortcomings In Anti-Money-Laundering Processes In Italy Show Compliance Strengthening Is Not Over, March 19, 2019
- ING Groep N.V., March 12, 2019

- The Top Trends Shaping European Bank Ratings In 2019, Feb. 28, 2019
- ING Groep's Earnings Can Absorb €775 Million Settlement With Dutch Authorities; Ratings Unaffected, Sept. 4, 2018
- Banking Industry Country Risk Assessment: The Netherlands, June 11, 2018

Ratings Detail (As Of September 17, 2019)*	
ING Groep N.V.	
Issuer Credit Rating	A-/Stable/A-2
Junior Subordinated	BB
Junior Subordinated	BB+
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB
Issuer Credit Ratings History	
08-Jun-2015	A-/Stable/A-2
29-Apr-2014	A-/Negative/A-2
02-Dec-2013	A-/Stable/A-2
Sovereign Rating	
Netherlands	AAA/Stable/A-1+
Related Entities	
ING Bank (Australia) Ltd.	
Issuer Credit Rating	A/Stable/A-1
ING Bank N.V.	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Certificate Of Deposit	
Local Currency	A-1
Commercial Paper	
Local Currency	A-1
Senior Secured	AAA/Stable
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB
Subordinated	BBB+
ING Bank N.V. (Dublin Branch)	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
ING Bank N.V. (Sydney Branch)	
Senior Unsecured	A+
ING Belgium S.A./N.V.	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
ING Financial Markets, LLC	
Issuer Credit Rating	A+/Stable/A-1

Ratings Detail (As Of September 17, 2019)*(cont.)	
Resolution Counterparty Rating	A+/--/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.