S&P Global
Ratings

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ING Groep N.V. (Holding Company)

ING Bank N.V. (Lead Bank)

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SACP	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+
Bank Holding Company ICR
A-/Negative/A-2

Major Rating Factors

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 and bail-in buffers.

Weaknesses:

- Expected deterioration in asset quality in 2020 caused by the COVID-19 pandemic, as for peers.
- Continuous need to enhance nonfinancial risk framework and culture throughout the organization.
- Lower-for-longer interest-rate environment pressuring net operating income.

Outlook: Negative

ING Groep N.V.

The negative outlook on ING Groep N.V. (ING Groep) reflects our view that economic risks in the Dutch banking market have risen as a result of the COVID-19 pandemic. This could lead to a weaker assessment of the consolidated ING group's (ING's) capitalization when compared with its lending risks, which will rise over our outlook horizon. We could consequently revise down the group stand-alone credit profile (SACP) to 'a-', which would lead to a one-notch downgrade of ING Groep.

Rating pressure in the next 12 to 24 months could stem from a worse-than-anticipated deterioration in asset quality, particularly in the group's cyclical wholesale banking portfolio. 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 new nonfinancial risks were to materialize, depending on the magnitude of impact, we could lower the rating.

We would revise the outlook to stable if, once the risks stemming from the COVID-19 pandemic start receding and the contours of an economic recovery become clearer, ING's financial and risk profiles proved relatively resilient and its compliance framework enhanced.

ING Bank N.V.

The stable outlook on ING Bank N.V. (ING Bank) reflects our view that ING will continue to build its buffer of bail-in-able debt, mainly through the issuance of senior unsecured debt by the nonoperating holding company (NOHC), ING Groep. This will secure cushions made available to protect the bank's senior preferred bondholders in the event of a resolution. It will also help counterbalance any negative repercussions the COVID-19 pandemic may have on our assessment of ING's risk-adjusted capital (RAC) base, and therefore the group SACP. This is why different outlooks are assigned on ING's operating bank and on its holding company.

We could lower the ratings on ING Bank in the next 12 to 24 months if tighter financial planning resulted in its issuance of additional loss-absorbing capacity (ALAC)-eligible instruments falling short of our expectations, or if the group's appetite for growth would substantially inflate our risk-weighted assets. A downside scenario could also happen if the reinforcement of the group's nonfinancial risk framework and culture lagged plans, leading us to have a less favorable view of its risk management framework.

A positive rating action is remote. A higher rating would depend on us revising upward our assessment of ING's group SACP, which is unlikely considering both comparisons with peers and the near-term recession happening in the eurozone.

We do not assign outlooks to our issue ratings on banks' debt. That said, we note that our issue ratings on ING Bank's subordinated instruments should move in tandem with ING's group SACP. A more negative view of its SACP will also result in a negative rating action on ING Bank's hybrids.

Rationale

ING's 'a' group SACP ranks among the highest we assign to large European banking groups. It reflects ING's leading franchise, in Benelux and Germany, as well as a coherent and well-defined strategy. We consider ING well placed to manage the digital transformation banks are facing. ING's balance sheet has strengthened in recent years, allowing the bank to enter the COVID-19 pandemic in a relative position of strength. We believe that our RAC ratio will stay above

10% in the coming years, even though the economic slowdown expected in 2020 will have a negative impact on its cost of credit risk and near-term profits. Like most peers, however, ING announced that it will suspend unpaid 2019 and 2020 interim dividends up until at least Oct. 1, 2020, offering a temporary protection to its capital base. 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 nonfinancial risk framework. ING displays a funding profile in line with domestic peers'. Its liquidity position is underpinned by a large retail deposit base, and a sound liquidity buffer.

The announcement of ING's former CEO's move to UBS on Sept. 1, 2020, and his replacement by long-standing ING senior executive and current chief risk officer of the group, Mr Steven van Rijswijk, appears an orderly process that is unlikely to affect ING's credit profile under our central scenario. We expect ING will continue to focus on delivering its strategic plan, amid industrywide revenue headwinds and adverse economic environment in Europe.

ING ranks among the 30 global systemically important banks identified by the Financial Stability Board. With assets close to €900 billion at end-2019, ING is one of the top-10 financial services groups 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 we 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, which shows that the bank displays a more geographically diverse loan book than its domestic peers:

- 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%; and
- Americas and the U.K., 5% each.

Our assessment of Dutch economic risk balances the wealthy, diversified, and competitive nature of the country's economy. This translates into a wealthy sovereign able to provide support against international trade volatility, which the COVID-19 pandemic has amplified. Preexisting concerns related to global trade tensions and to Brexit remain. We now expect the Netherlands to enter into a recession in 2020, with a 5.9% GDP contraction, followed by a 3.9% rebound in 2021. This should affect the credit quality of export-oriented corporates, small and midsize enterprises, or other cyclical sectors. Private sector leverage in the Netherlands remains, on a gross basis, among the highest in the world, and constrains the structural ability of the Dutch economy to easily withstand potential external shocks. Economic imbalances have not receded in recent years, because of a dynamic real estate market. Household indebtedness will reduce over time with the gradual move away from interest-only mortgages. Authorities in the Netherlands, and across many other European countries, have delivered unprecedented policy responses to the COVID-19 pandemic in the form of monetary, fiscal, and regulatory support to their economies. Still, we expect the COVID-19-related short-term shock to be meaningful for banks' asset quality, revenues, profitability, and refinancing costs. We consider that the trend on economic risk for banking activities in the Netherlands is negative.

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, although the 2020 economic shock should have a meaningful negative effect. We observe some price discipline in the competitive mortgage segment. Banks have also completed major restructuring efforts, while cost-optimization programs continue in the context of the persistently low interest-rate environment. The system's relatively heavy reliance on wholesale funding in average is partly attributable to households' propensity to save in life insurance and pension products, rather than in bank deposits, and also due to some entity-specific bias toward this source of funding. We consider that Dutch systemwide funding benefits from the depth of the domestic capital market and the Dutch authorities' good track record in providing liquidity support. We view the trend on industry risk as stable.

Table 1

ING Groep N.V.--Key Figures

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	889,828.0	885,191.0	844,747.0	843,597.0	840,202.0
Customer loans (gross)	616,175.0	596,421.0	578,629.0	568,791.0	542,697.0
Adjusted common equity	47,266.0	43,640.0	42,996.0	41,182.0	39,085.0
Operating revenues	18,189.0	18,209.0	17,675.0	17,519.0	16,680.0
Noninterest expenses	10,293.0	9,888.0	9,811.0	10,507.0	9,326.0
Core earnings	4,856.5	5,391.5	4,937.8	4,525.3	4,381.6

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. Sustainability has also been one of the main pillars of ING's strategy for a while, and the bank aims to progressively decarbonize its loan portfolio in line with the Paris Agreement. Due to the global slowdown we expect in 2020 in the wake of the COVID-19 outbreak, and given ING's CEO change, we consider the bank will pursue a prudent and risk-minimization strategy, rather than a more ambitious one.

ING underwent a major transformation after the global financial crisis to become a pure commercial bank, from its origin as a large global bancassurance group. 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 nonfinancial risk 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 where it has a leading position, to those in which it operates more as a challenger, mainly in neighboring European countries or selected emerging markets with growth potential (see table 2). ING is also present in more than 40 countries through its wholesale international banking network, supporting corporations that do business globally.

Table 2

ING Groep N.V.--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, and Philippines, 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.

ING's focus is on expanding its base of 38.8 million individual customers, with a specific emphasis on increasing the number of primary relationships to more than 16.5 million by 2022, from 13.3 million in 2019. ING has been an innovator and early adopter of digital banking capabilities. Compared with 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 centered around an omnichannel approach focusing on mobile banking. When the economic situation normalizes, 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 operations in regions where the group operates.

ING's objective to defend net interest income, which traditionally accounts for 75% of its revenue, continues through various actions including:

- Lowering savings rates and charging, where possible, negative interest rates, such as in the Netherlands;
- Introducing higher pricing hurdles, notably in mortgage lending and wholesale banking; and
- Targeting, within risk appetite, gradual growth in non-euro countries.

The rollout of this strategy, together with strong business volumes, explains the relative resilience of ING's net interest margin so far. Overall, we believe that the prospects of lower-for-longer interest rates make it tough 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 and has a higher footprint in corporate business. We also consider as relevant peers some large French, Belgian, and U.K. banks such as BPCE, 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	--Fiscal year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (currency in millions)	18,306.0	18,299.0	17,773.0	17,982.0	16,845.0
Commercial banking/total revenues from business line	32.0	32.5	32.9	31.5	31.6
Retail banking/total revenues from business line	68.0	66.3	66.7	65.6	66.7
Commercial & retail banking/total revenues from business line	100.0	98.8	99.6	97.1	98.3
Other revenues/total revenues from business line	N.A.	1.2	0.4	2.9	1.7
Return on average common equity	9.1	9.3	9.8	9.5	8.1

N.A.--Not available.

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 remain 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 (bps) by 2027 (a portion of which having been recognized already). ING aims to maintain a CET1 ratio of about 13.5% under the Basel IV framework. Its fully loaded CET1 ratio was 14% at end-March 2020. 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 2019.

ING's RAC ratio stood at 11.1% as of year-end 2019. This is higher than we had expected, primarily due to:

- The bank's decision to follow the European Central Bank's (ECB's) recommendation and delay declared but unpaid 2019 dividends (€1.7 billion) up until at least Oct. 1, 2020; and
- Higher AT1 issues than we previously expected.

We base our forecast RAC ratio on the following assumptions:

- AT1 that will be refinanced or prefinanced if called, as in early 2020;
- A net income that is expected to reach a bottom low in 2020, as a result of COVID-19. Recovery will only be progressive in 2021 and 2022. Return on equity in those years could be halved compared with pre-COVID-19 ones;
- Over time, a resilient net operating income, with pressure on net interest margins from low interest rates being partially offset by growing fees;
- Continuous cost-cutting efforts mitigated by new investments in digitalization, compliance, and know your customer (KYC) programs, as well as regulatory levies. Cost-to-income ratio could be up to 62% in 2020 as per our own metrics, from 56.6% in 2019, before gradually declining to 60% in 2021 and 2022;
- Doubling at least the cost of credit risk in 2020, to close to 50 bps and progressively receding thereafter;
- Annual S&P Global Ratings' risk-weighted assets' (RWAs') compound annual growth rate of about 3.5%; encompassing deteriorating global economic and financial market conditions; and
- No material litigation costs.

As of March 31, 2020--and despite the rise in new additions to credit provisions to €661 million from €207 million in the same quarter of 2019--ING posted €670 million net profit, supported by resilient preprovisions income when compared with peers. We expect the bank to reinforce initiatives to protect net interest margins, increase fee income, and tackle costs. However, in 2020, revenue will decline at a higher pace than costs in our view, and ING's cost-to-income ratio will likely deteriorate to an estimated 62%.

Largely thanks to low-cost digital retail distribution channels, the bank displays a cost-efficiency ratio that compares well with that of European peers, except for Nordic banks. As does the group's return on equity, which stood at more than 9% at end-2019. While 2019 results confirmed ING's robust credit profile, they also indicated some pressure points that European banks were increasingly facing, including long-lasting low interest rates, rising costs to enhance nonfinancial risk monitoring, and a potential normalization of the cost of credit risk.

Table 4

ING Groep N.V.--Capital And Earnings

	--Fiscal year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	16.7	16.2	16.4	16.6	14.8
S&P Global Ratings' RAC ratio before diversification	11.1	10.1	10.2	N.A.	N.A.
S&P Global Ratings' RAC ratio after diversification	12.6	11.6	11.7	N.A.	N.A.
Adjusted common equity/total adjusted capital	87.1	89.0	89.2	84.2	85.1
Double leverage	87.6	87.1	87.0	87.8	90.3
Net interest income/operating revenues	77.4	76.4	77.6	75.6	75.3
Fee income/operating revenues	15.8	15.4	15.3	13.9	13.9
Market-sensitive income/operating revenues	4.5	6.6	4.2	8.7	7.1
Noninterest expenses/operating revenues	56.6	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	0.5	0.6	0.6	0.5	0.5

N.A.--Not available.

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	130,341.0	8,593.0	6.6	3,271.6	2.5
Of which regional governments and local authorities	146.0	129.0	88.4	8.7	6.0
Institutions and CCPs	89,054.0	12,654.0	14.2	27,371.9	30.7
Corporate	466,375.0	147,041.0	31.5	274,397.8	58.8
Retail	364,220.0	72,775.0	20.0	116,051.3	31.9
Securitization§	8,010.0	1,059.0	13.2	2,262.1	28.2
Other assets†	11,050.0	28,970.0	262.2	14,159.4	128.1
Total credit risk	1,069,050.0	271,092.0	25.4	437,514.1	40.9
Credit valuation adjustment					

Table 5

ING Groep N.V.--Risk-Adjusted Capital Framework Data (cont.)					
Total credit valuation adjustment	--	550.0	--	0.0	--
Market risk					
Equity in the banking book	753.0	1,185.0	157.4	5,316.9	706.1
Trading book market risk	--	5,564.0	--	8,224.3	--
Total market risk	--	6,749.0	--	13,541.2	--
Operational risk					
Total operational risk	--	38,061.0	--	35,802.6	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Diversification adjustments					
RWA before diversification	--	326,418.0	--	486,858.0	100.0
Total diversification/ concentration adjustments	--	--	--	(57,102.1)	(11.7)
RWA after diversification	--	326,418.0	--	429,755.9	88.3
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		54,519.0	16.7	54,265.0	11.1
Capital ratio after adjustments‡		54,519.0	16.7	54,265.0	12.6

*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 as of Dec. 31, 2019, S&P Global Ratings.

Risk position: A secured loan portfolio and an enhanced nonfinancial risk framework

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 contained and comparable across markets. We note that ING's capabilities in sustainable finance are strong and supported by a broad risk framework, which is well embedded into its decision-making process.

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 nonfinancial risks area. We view ING's exposures to sectors and geographies considered to be most at risk as well managed, although the COVID-19 pandemic will have a further impact in the coming quarters. There is also an ongoing need to enhance the compliance risk 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 (about 40% of gross customer lending), we consider the bank's risk exposures well diversified by sector. The diversification benefit in our RAC ratio calculation illustrates the spread of ING's activities by business line and risk type. ING's residential mortgage portfolio is also well diversified by geography. Its average loan-to-value stood at 61% at end-2019, compared with 83% at end-2013.

Corporate lending represents about one-third of the loan book. While its main focus is senior and secured deals, pockets of risk exist and credit losses will rise throughout in 2020 as a result of the macroeconomic impact of COVID-19. These pockets of risk include exposures to leveraged finance, oil and gas, metals and mining, shipping, and commercial real-estate. Risks embedded in these portfolios are well managed, in our view, but they remain sensitive, notably to changes in credit cycles and a decline in oil prices. Risk appetite is regularly reviewed and includes caps by sectors, a stronger focus on the originate-to-distribute model, senior tranches, secured assets, and lower loan to value. Risks of transition to a greener economy are also analyzed. Real-estate finance represented approximately 5% of total customer lending at year-end 2019, most of which was in the Netherlands. The financing of real-estate development by ING has also been 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 moderate 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-December 2019, and is reducing amid Turkish lira depreciation and the bank's 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. Credit losses bottomed out in the past few years. They increased to 42 bps of average customer loans as of end March 2020, on the back of a €247 million collective provisioning for Stage 2 loans, mainly in wholesale banking. Overall, we believe cost of credit risk should at least double in 2020 when compared with 2019. ING's nonperforming loans reported under Stage 3 classification under International Financial Reporting Standards (IFRS) 9 were 1.6% of total loans at March 31, 2020, broadly unchanged. ING reports that the Stage 3 provision coverage by reserves was 32.2% at end-2019. 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 5.9% of total outstanding as of the same date, compared with 5.3% as of year-end 2019.

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.

Nonfinancial risks

ING is inherently exposed to litigation and other nonfinancial risks that are disclosed in ING's annual report. While ING's compliance capabilities and framework have been strengthened over the past few years--and will continue to be built up--we think it will take some time to strengthen the management of nonfinancial risks and to ensure that a common risk culture is well-spread throughout the organization.

In 2018, following an investigation of the Dutch Public Prosecution Service (DPPS), ING's reputation was tarnished by recognized shortcomings over a number of years in the execution of customer due diligence to prevent financial crime in the Netherlands. ING's Group CFO stepped down as a result. ING reached an agreement with the DPPS, including a €775 million settlement. The U.S. authorities and Exchange Commission are expected to take no further actions against ING. Some months after the investigation, in Italy, deficiencies in anti-money-laundering processes were identified by the national regulator, who prohibited the group from on-boarding new customers locally. The Italian CEO left, and we understand the bank paid a limited fine. In 2020, the rollout of ING's enhanced compliance framework will continue, and we will monitor any news related to potential proceedings against the group in relation to financial crime.

Table 6

ING Groep N.V.--Risk Position					
	--Fiscal year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	3.3	3.1	1.7	4.8	4.0
Total diversification adjustment/S&P Global Ratings' RWA before diversification	(11.7)	(12.6)	(13.0)	(14.5)	N.A.
Total managed assets/adjusted common equity (x)	18.9	20.3	19.7	20.5	21.5
New loan loss provisions/average customer loans	0.2	0.1	0.1	0.2	0.3
Net charge-offs/average customer loans	0.2	0.2	0.2	0.3	0.3
Gross nonperforming assets/customer loans + other real estate owned	2.8	2.9	3.2	3.8	3.6
Loan loss reserves/gross nonperforming assets	27.1	26.1	24.6	24.1	29.7

N.A.--Not available.

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

We assess ING's funding as average and its liquidity as adequate. We consider ING's profile to be supported by a large and sticky retail deposit base, its primary source of funding, 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 those in France and Scandinavia. It reported a consolidated loan-to-deposit ratio of 106% at year-end 2019, which compares favorably with ratios of other large domestic peers and should not change much in 2020. This is partly attributable to ING's deposit-rich digital banking franchise. This capacity can even make it difficult 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. The regulatory net stable funding ratio stabilized well above 100%, as did our stable funding ratio, which stood at 107% as of year-end 2019. We expect these ratios to remain well above 100% in 2020.

ING's recourse to the ECB funding is opportunistic. Its targeted longer-term refinancing operations (TLTRO II) amounted to €17.7 billion in 2016-2017, maturing in 2020-2021. This represents a concentration in ING's long-term debt profile, but we believe that it will be able to refinance these outstanding borrowings within its usual debt issuance plans and with an opportunistic use of ECB funding. At the time of writing, ING had prepaid €10 billion of TLTRO II and participated in TLTRO III on an opportunistic basis. The bank's 2020 funding plan is not expected to stray far from that of 2019, which stood at €17 billion. ING Bank's funding is also 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, Australia, and Poland 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) and the reduced reliance on short-term wholesale funding have supported the increase in our broad liquid assets to short-term wholesale funding ratio to 1.5x at year-end 2019, 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 127% on Dec. 31, 2019, compared with 115% one year earlier, and should stay in the same range in 2020.

Table 7

ING Groep N.V.--Funding And Liquidity					
	--Fiscal year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	72.2	70.1	72.7	72.2	66.1
Customer loans (net)/customer deposits	106.5	106.5	106.4	107.8	107.3
Long-term funding ratio	84.7	83.4	85.5	85.5	80.1
Stable funding ratio	107.2	106.8	106.6	106.2	107.3
Short-term wholesale funding/funding base	16.5	17.7	15.6	15.6	21.3
Broad liquid assets/short-term wholesale funding (x)	1.5	1.5	1.6	1.6	1.2
Net broad liquid assets/short-term customer deposits	11.9	11.9	12.6	13.3	7.7
Short-term wholesale funding/total wholesale funding	57.5	58.0	55.6	54.1	61.4
Narrow liquid assets/3-month wholesale funding (x)	4.1	3.2	3.3	2.8	1.7

Environmental, social, and governance: A pioneer bank in sustainable finance

Environmental, social, and governance (ESG) factors for ING are broadly in line with those of the industry and country peers. Our view on ING's governance is supported by code and values in line with industry best standards, as well as a two-tier board structure, which enables it to maintain adequate independence of the supervisory board from top management. Compensation for the executive board members is reasonable, considering market practices and do not promote disproportionate risk-taking. Over the past few years though, the bank has suffered a series of incidents that revealed shortcomings in its KYC framework. Those cases have not damaged its financial profile or its reputation. However, any recurrence of such incidents could lead us to have a more negative view of its governance, and ultimately its credit quality.

Social factors are important due to changing customer expectations and an increased focus on banks' business conduct. ING has been an innovator and first mover in digital banking, understanding evolving customer preferences before most peers. We believe that ING's pioneer digital approach to banking business, and its strong focus on sustainability, make it an attractive employer. While the bank's commitment to customer satisfaction is strong, it faced, like Dutch peers, some complaints and litigation due to an alleged failure to provide enough information on certain products and services. This neither affected customers' confidence nor loyalty, as evidenced by recent trends in Net Promoters' Scores. More recently, ING has implemented measures to help its customers deal with the COVID-19 pandemic's impact on their finances. This included extensions of loan repayments for small and midsize enterprises (SMEs) and retail customers in various countries.

Sustainability has been one of the main pillars of ING's strategy for a while; it is a distinguishing feature of the bank's profile. As demonstrated by its Terra initiative, ING aims to progressively decarbonize its loan portfolio in line with the

Paris Agreement. ING's capabilities in sustainable finance are strong, well-advanced, and supported by a broad risk framework, which is well embedded into its decision-making process. Still, ING's businesses are exposed to transition risk, notably via its exposures to oil and gas, transportation, and shipping. The bank committed to zero exposure to thermal coal by 2025 and its carbon-intensive sectors policies are increasingly restrictive. ING's direct operational eco-efficiency compares well with peers, and adds credibility to its broader environmental goals and strategy.

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. Its ALAC buffer stood at 8% of S&P Global Ratings' risk-weighted assets (RWA) at year-end 2019, supported by €7 billion issues of senior notes at ING NOHC, as well as point-in time excess total adjusted capital (TAC). We believe the ALAC ratio will decline but stay above 7% over our projection horizon. This is well beyond the threshold of 5.25% we define for ING Bank's issuer credit rating to qualify for a one-notch uplift above group SACP. While we expect excess TAC to decline once ING resumes dividend payments, our ALAC projection encompasses regular issuances of senior notes at ING NOHC in 2020-2022.

ING's ALAC buffer is primarily made up of senior notes issued by the NOHC as well as Tier 2 instruments. In our projected ALAC, we take into account the NOHC's plans to issue senior notes of about €5 billion annually. The bank issued a Tier 2 note worth €1.5 billion in May 2020, which will be incorporated in our ALAC buffer.

Table 8

ING Groep N.V.--Summary ALAC Calculation At Dec. 31, 2019

		(Mil. €)	% of S&P Global Ratings RWA
A	Adjusted common equity	47,266.0	--
B	Hybrids in TAC	6,999.0	--
C (A+B)	TAC	54,265.0	11.1
D	TAC in excess of our 10% threshold	5,579.0	1.1
E	ALAC-eligible instruments	33,450.0	6.9
	Of which NOHC senior	24,121.0	--
	Of which minimal equity content hybrids	9,329.0	--
	Of which other	0.0	--
F (=D+E)	ALAC buffer	39,029.0	8.0
	S&P Global Ratings RWAs	486,858.0	--

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

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 on 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 neighboring 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.

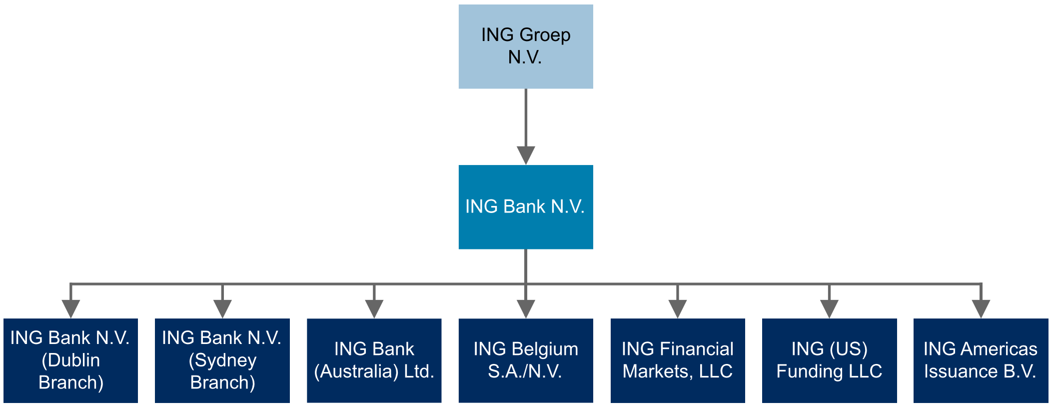
The ratings on U.S. broker dealer ING Financial Markets, LLC (ING FM) also reflect our view of its core group status as the hub for ING's U.S. financial markets and corporate business, which we think is critical for ING's global strategy. Given this strategic positioning and interconnectedness with the 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 1

Simplified Overview Of ING Group Structure

Issuing entities and rated operating banks



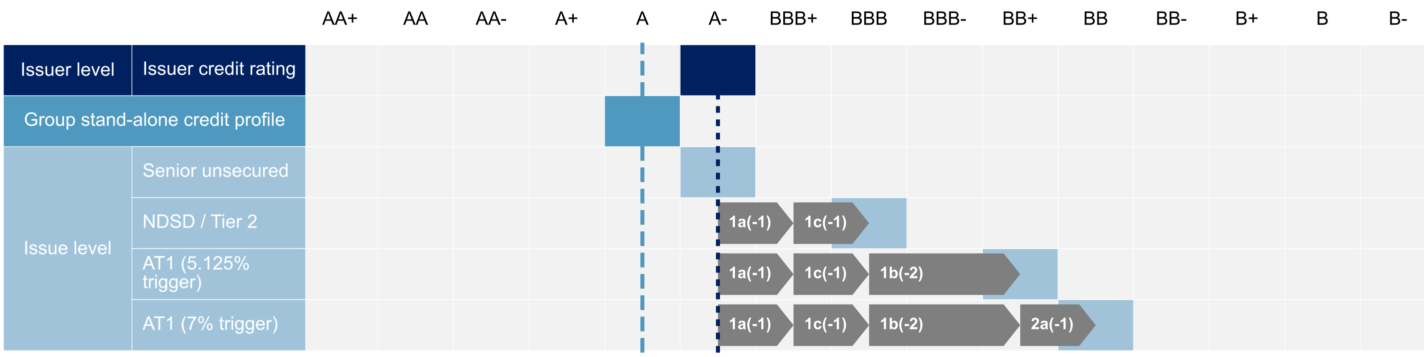
Source: ING.

Hybrids

Our approach to rating ING Groep N.V.'s and ING Bank N.V.'s hybrids is summarized in the charts below.

Chart 2

ING Groep N.V.: NOHC Notching



Key to notching

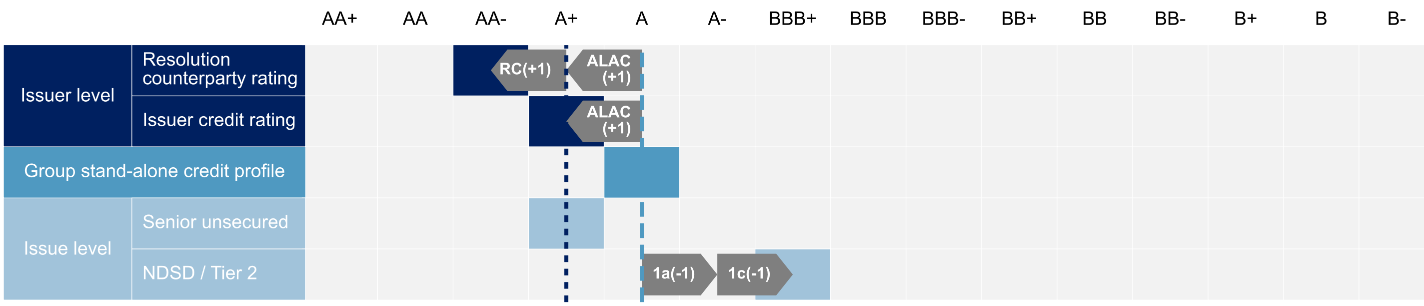
- - - - - Group stand-alone credit profile
- - - - - - Issuer credit rating

1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent
2a	Mandatory going-concern, regulatory capital-based trigger (either statutory or contractual)

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on July 1, 2019.
The nonoperating holding company (NOHC) issuer credit rating and senior unsecured debt ratings are notched from the group stand-alone credit profile (SACP) under our criteria. Since ALAC notching does not benefit NOHCs, for simplicity the diagram above is stylized to show the positioning of these ratings with reference to the group SACP.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt.

Chart 3

ING Bank N.V.: Notching



Key to notching

-----	Group stand-alone credit profile
------	Issuer credit rating
RC	Resolution counterpartyliabilities (senior secured debt)
ALAC	Additional loss-absorbing capacity buffer
1a	Contractual subordination
1c	Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on July 1, 2019.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt.

We derive our 'BB' rating on ING Groep's $2.25 billion additional Tier 1 instrument issued in 2015 and 2016 by deducting notches from the 'A-' issuer credit rating assigned to the NOHC 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 the distance to a 7% CET1 ratio was higher than 700 bps as of end March 2020, but we do not believe this buffer will be maintained in the future, based on ING's CET1 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: Methodology And Assumptions, 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
- 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: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating 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

- The $2 Trillion Question: What's On The Horizon For Bank Credit Losses, July 9, 2020
- ING Pioneers Digital Sales Channel Through Partnership With Amazon On Lending To Small Businesses In Germany, July 7, 2020
- How COVID-19 Risks Prompted European Bank Rating Actions, April 29, 2020
- ING Groep Outlook Revised To Negative On Impaired Earnings In COVID-19 Fallout; Ratings On ING Bank Affirmed, April 23, 2020
- Negative Rating Actions Taken On Multiple Benelux Banks On Deepening COVID-19 Downside Risks, April 23, 2020

- How COVID-19 Risks Prompted European Bank Rating Actions, April 23, 2020
- Europe's AT1 Market Faces The COVID-19 Test: Bend, Not Break, April 22, 2020
- How COVID-19 Is Affecting Bank Ratings, April 22, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020
- COVID-19: The Steepening Cost To The Eurozone And U.K. Economies, March 26, 2020
- COVID-19 Countermeasures May Contain Damage To Europe's Financial Institutions For Now, March 13, 2020
- The Coronavirus Will Shave 50 Basis Points Off Eurozone Growth, March 4, 2020
- Bulletin: UBS' Appointment Of ING's Ralph Hamers Is Credit Neutral For Both Banks, Feb. 20, 2020
- Bulletin: ING Groep N.V. Posts Mixed Results For 2019 Ahead Of A Challenging Year For European Banks, Feb. 7, 2020
- Climate Change: Can Banks Weather The Effects?, Sept. 9, 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's Earnings Can Absorb €775 Million Settlement With Dutch Authorities; Ratings Unaffected, Sept. 4, 2018

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of July 10, 2020)*

ING Groep N.V.	
Issuer Credit Rating	A-/Negative/A-2
Junior Subordinated	BB

Ratings Detail (As Of July 10, 2020)*(cont.)	
Junior Subordinated	BB+
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB
Issuer Credit Ratings History	
23-Apr-2020	A-/Negative/A-2
08-Jun-2015	A-/Stable/A-2
29-Apr-2014	A-/Negative/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
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.