S&P Global Ratings

RatingsDirect®

Research Update:

ING Groep N.V. 'A-/A-2' Ratings Affirmed Despite Reducing Capitalization; Outlook Stable

June 26, 2024

Overview

- We forecast that ING Groep N.V.'s risk-adjusted capital (RAC) ratio will decline to slightly below 10% by end-2025 as it moves regulatory capitalization toward its target common equity tier 1 (CET1) ratio of about 12.5% by end-2025.
- This development is balanced by ING's strong franchise and competitive position across its operating jurisdictions, its robust risk management, and solid earnings generation capacity--credit factors that continue to support comparability with 'a' grade peers.
- We therefore affirmed our 'A-/A-2' ratings on ING Groep N.V. and all our other issuer credit ratings on the related group entities and their debt.
- The outlook remains stable, reflecting our expectation that ING will deliver on its updated strategic plan and its creditworthiness will remain robust over the next two years.

PRIMARY CREDIT ANALYST

Anastasia Turdyeva
Dublin
+ (353)1 568 0622
anastasia.turdyeva@spglobal.com

SECONDARY CONTACTS

Mathieu Plait
Paris
+ 33 14 420 7364
mathieu.plait@spglobal.com

Clement Collard
Paris
+33 144207213
clement.collard@spglobal.com

RESEARCH CONTRIBUTOR

Ankit Jalan
CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Rating Action

On June 26, 2024, S&P Global Ratings affirmed its 'A-/A-2' long- and short-term issuer credit ratings on non-operating holding company ING Groep N.V.

At the same time, we affirmed our 'A+/A-1' ratings on its main operating bank, ING Bank N.V. The outlook on both entities is stable.

We affirmed our long- and short-term resolution counterparty rating on ING Bank N.V. at 'AA-/A-1+'.

We also affirmed all rated debt issuances from the group holding company and its subsidiaries (see Ratings List).

Rationale

We expect ING to remain well capitalized but operate with less capital in the coming years. We forecast our RAC ratio to decline to 9.5%-10.0% over the next 12-18 months from 10.5% as of end-2023. Our forecast incorporates 2%-3% risk-weighted assets growth, a 50% payout ratio, and an additional €5 billion capital distribution, as ING aims to converge its CET1 ratio toward its target of about 12.5% (under Basel IV) by end-2025. We estimate that our forecast RAC ratio will correspond to a CET1 ratio of about 13%. This is because we assume that ING will continue to operate with some buffer over its CET1 target, considering the potential for credit demand, regulatory impacts, and geopolitical uncertainties.

ING's solid digital capabilities, international diversification, and strong strategic execution support good earnings generation capacity and our ratings. Strategic focus and consistent execution have enabled the group to post sustainably strong performance. We believe that ING's refined but still sizable geographical footprint (with a retail presence in 10 countries and a global wholesale banking network) as well as leading digital capabilities, underpins earnings stability in different market conditions and supports future growth potential. ING's new strategic cycle plan builds on these strengths, with a focus on more capital-light business, fee generation growth, and its retail banking expertise. The group will particularly look for growth opportunities in countries like Germany, Italy, and Australia.

Under our base-case scenario, we expect the interest margin to decline from the peak seen in 2023 and stabilize over 2025-2026. Earnings stability will be supported by solid non-interest income and good cost controls, even if ING continues to invest heavily in technological transformation, with the cost-to-income ratio set to land at the higher end of the targeted 52%-54% by end-2027. As a result, we expect a return on equity of about 12.0%-12.5%--and possibly as high as its targeted 14%.

We expect ING to maintain asset quality and continue to comfortably manage all other risks. Borrowers across Europe are under pressure as economic activity remains slow and financing costs high. While households have so far proven to be resilient, corporate bankruptcies are increasing. We don't see ING's asset quality as immune from this trend, particularly in its leveraged finance and commercial real estate books. Nevertheless, we expect asset quality to remain robust, with the non-performing exposures to remain flattish, at about 1.8%-2.0%, over the next two years and forecast cost of risk to stay at the lower end of the through-the-cycle level of 20-30 basis points.

Although ING's compliance capabilities and framework have been strengthened over the past years, nonfinancial risks remain relevant to our assessment of its risk profile as the group has historically incurred material conduct charges. Given its international reach, we expect that ING will continue to prioritize further improvements in business policies and internal controls, as well as cyber risk management.

Thanks to its deposit-rich digital banking franchise, ING is not over-reliant on wholesale funding. Although customer deposits, which account for 73% of the funding mix, include some potentially less stable elements, such as large corporate and institutional balances, most are franchise-driven retail and commercial balances that have exhibited stability through turbulent market conditions. Wholesale funding is also diverse, with maturities well spread over time.

ING maintains large pool of European Central Bank-eligible assets; it had total available liquidity resources of €312 billion as of end-March 2024. ING's liquidity coverage ratio of 146% and the net stable funding ratio of 132% position the group well in the peer group of the largest European banks.

Taking the above factors into account, including the moderate reduction in the RAC ratio below 10%, we see its creditworthiness as still comparable to peers with an 'a' group SACP. Notably, we view key European peers at this rating level to include KBC Group, Erste Group, Groupe Credit Agricole, Rabobank, BNP Paribas, UBS Group, and HSBC Holdings.

ING's prospective headroom over its regulatory capital requirements would narrow, but remain sufficient. This is significant for our issue ratings on its AT1 capital instruments because a breach of its requirements--whether those based on risk-weighted assets or leverage--would likely lead to coupon nonpayment on the AT1s. The bank's SREP-MDA (maximum distributable amount) requirement is currently 10.8%. At close to 200 basis points, we expect its SREP-MDA headroom to move toward the lower end of the European peer group. However, given the remaining headroom and in the context of the group's robust earnings record, we do not view this development as materially increasing the risk of coupon nonpayment.

Outlook

The stable outlook on ING Groep and ING Bank indicate that we expect ING's creditworthiness to remain robust over the next two years. We anticipate that its geographical and business diversification will support solid and resilient earnings generation. The stable outlook on ING Bank reflects our view that the bank will maintain its buffer of bail-in-able debt, mainly through the issuance of senior unsecured debt by ING Groep.

Downside scenario

We are unlikely to downgrade ING Bank. If we were to revise downward our assessment of the group's stand-alone credit profile (SACP), we would expect to include a second notch for additional loss-absorbing capacity, given the large size of its buffer of bail-in-able debt.

However, a downward revision of the group SACP would lead us to lower the ratings on ING Groep and the ratings on the dated subordinated and AT1 instruments, which are notched from with the group SACP. This could happen if ING Groep's performance weakens materially versus international peers, with a deterioration in asset quality and earnings, or its risk-adjusted capitalization falls much further than we currently expect.

Upside scenario

We view ratings upside as remote in the context of its current capitalization policy on which it has built its financial targets for the coming years.

Ratings Score Snapshot

Issuer Credit Rating	To	From
ING Groep NV	**A-/Stable/A-2**	**A-/Stable/A-2**
ING Bank NV	**A+/Stable/A-1**	**A+/Stable/A-1**
Group SACP	A	a
Anchor	bbb+	bbb+

Issuer Credit Rating	To	From
ING Groep NV	**A-/Stable/A-2**	**A-/Stable/A-2**
ING Bank NV	**A+/Stable/A-1**	**A+/Stable/A-1**
Business position	Strong (+1)	Strong (+1)
Capital and earnings	Adequate (0)	Strong (+1)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	+1	0
Support	+1	+1
ALAC support	+1	+1
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
ING Groep N.V.	
Issuer Credit Rating	A-/Stable/A-2

Ratings Affirmed	
ING Bank N.V.	
ING Financial Markets LLC	
ING Bank N.V. (Dublin Branch)	
Issuer Credit Rating	A+/Stable/A-1
ING Bank N.V.	
ING Bank N.V. (Dublin Branch)	
Resolution Counterparty Rating	AA-/--/A-1+
ING Bank N.V.	
Certificate Of Deposit	
Foreign Currency	A+
ING Financial Markets LLC	
Resolution Counterparty Rating	A+/--/A-1
ING Groep N.V.	
Senior Unsecured	A-
Subordinated	BBB
Junior Subordinated	BB
Junior Subordinated	BB+
ING (US) Funding LLC	
Commercial Paper	A-1
ING Bank N.V.	
Senior Unsecured	A+
Subordinated	BBB
Subordinated	BBB+
Certificate Of Deposit	A-1
Commercial Paper	A-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.