FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms ING Groep at 'A+'; Outlook Negative

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Fitch Ratings - Paris - 15 Sep 2020: Fitch Ratings has affirmed ING Groep N.V.'s Long-Term Issuer Default Rating (IDR) at 'A+' and Viability Rating (VR) at 'a+'. Fitch has also affirmed ING Bank's Long-Term IDR at 'AA-' and ' VR at 'a+'. We have removed ING Groep's and ING Bank's IDRs, VRs and debt ratings from Rating Watch Negative (RWN) and assigned Negative Outlooks to their Long-Term IDRs.

The affirmation and removal from RWN reflect Fitch's view that ING's ratings have sufficient headroom under our updated assessment to absorb pressure on asset quality, earnings and capitalisation, which we expect in our baseline scenario for the economies in which the group operates. The Negative Outlook on ING Groep's, and ING Bank's Long-Term IDRs reflect downside risks to our baseline scenario, as pressure on the ratings would increase substantially if the downturn is deeper or more prolonged than we currently expect.

KEY RATING DRIVERS

ING GROEP AND ING BANK'S VRS

Fitch assesses the group on a consolidated basis as ING Bank, the group's main operating company, is ING Groep's only significant asset, and the probabilities of default of the two entities are highly correlated. ING Groep acts as the holding company for the group and its VR is equalised with the VR of ING Bank. The group is regulated on a consolidated basis, there is no double leverage at the holding company level, liquidity is managed centrally and the fungibility of capital between the holding company and the bank is high, in our view.

ING Groep's and ING Bank's VRs reflect the group's leading franchise in retail and wholesale banking in the Benelux region, complemented by adequate diversification in selected countries, sound asset quality and earnings, solid consolidated capital ratios and balanced funding profile. We expect downside risk on asset quality, earnings and capitalisation as a result of the coronavirus crisis.

Asset quality has proven resilient through the previous cycles due to geographical diversification, a significant share of low-risk residential mortgage loans on the balance sheet and diversified corporate lending. We expect impaired loans to rise, driven by SMEs and mid-corporate borrowers, and sectors such as oil and gas, shipping and transportation.

Under our baseline assumptions we expect the Stage 3 loans ratio to remain below 3% in the short to medium term. The Stage 3 loans ratio started to increase this year to 2.04% at end-1H20 from 1.9% at end-2019 after several years of improvement. The increase is partly explained by the default of a few individual corporate clients, two suspected external fraud cases and the further deterioration in reserve-based oil and gas exposure (EUR3.4 billion or less than 1% of loans at end-June 2020). Loan impairment charges (LICs) increased to 64bp (annualised) of gross loans in 1H20, reflecting higher provisions on performing loans (Stage 1 and Stage 2) due to weaker economic forecasts, higher provisions on a few large individual borrowers and on the US oil exposure. We expect residential mortgage loans to be resilient.

ING Groep's track record of strong operating profitability is underpinned by product and geographic diversification coupled with a focus on traditional commercial banking. The operating profit/risk-weighted assets (RWA) decreased to 1.2% in 1H20 from 2.1% in-2019, due to the surge in loan impairment charges (LICs) related to weaker macroeconomic forecasts. We expect short-term pressure on profitability from LICs above the through-the-cyclical average. The operating profitability should revert to pre-crisis levels with an operating profit/RWA around 2% from 2022 as LICs normalise.

ING Groep's common equity Tier 1 (CET1) ratio is sound and underpins the group's ratings. The CET1 ratio increased by about 40bp since end-2019 to 15% at end-June 2020. This provides a robust buffer of about 450bp above the revised minimum CET1 requirement. Leverage is reasonable, as measured by the regulatory leverage ratio (4.3% at end-June 2020) and tangible common equity/tangible assets (5.5%). The group's guidance for the CET1 ratio under the Basel III end-game rules is around 13.5%. ING Groep already absorbed most of the expected RWA inflation resulting from regulatory changes such as TRIM, new definition of default and Basel III end-game.

The stable funding profile reflects the bank's strong franchise in some deposit-rich jurisdictions, such as Belgium and Germany. To supplement its funding, ING Bank also regularly taps the wholesale market, to which it has good access. Its wholesale funding maturities are reasonably spread over time, and the bank's ample buffer of high-quality liquid assets (EUR137 billion at end-June 2020) further mitigates refinancing risk.

ING GROEP'S IDRS AND SENIOR DEBT

ING Groep's 'F1' Short-Term IDR is the baseline option mapping to a Long-Term IDR of 'A+' and reflects our assessment of the group's funding and liquidity score of 'a+'. ING Groep's senior unsecured debt is rated in line with the IDRs as we view the probability of default on senior unsecured obligations as the same as the probability of default of the issuer.

ING BANK'S IDRS, SENIOR DEBT AND DEPOSIT RATINGS

ING Bank's Long-Term IDR and senior debt is one notch above the bank's VR, since Fitch believes the risk of default on senior obligations, as measured by the Long-Term IDR, is lower than the risk of the bank failing, as measured by its VR. Fitch believes external senior creditors benefit from resolution funds ultimately raised by the holding company and designated to protect ING Bank's creditors in a group failure scenario.

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

We expect the buffer to be sustainable. Our expectation is based on the bank's need to meet the minimum requirement for own funds and eligible liabilities (MREL), set at EUR91 billion or 29% of end-2017 group RWAs. The group has adopted a single-point-of-entry resolution strategy, and ING Groep is the resolution entity. All MREL instruments, including senior debt, are issued at group level and downstreamed to ING Bank as junior-ranked instruments to third-party senior creditors. At end-June 2020, the combined buffer of qualifying junior debt and senior debt issued by the holding company amounted to EUR41 billion, or 12.8% of group RWAs.

The Short-Term IDR of 'F1+' is the only option mapping to a 'AA-' Long-Term IDR under Fitch's criteria.

We assigned long-term and short-term deposit ratings of 'AA-' and 'F1+' to ING Bank as deposits rank pari passu with senior preferred debt and derivatives claims in the Netherlands.

SUBSIDIARY AND AFFILIATED COMPANY

ING BELGIUM'S IDRS AND SUPPORT RATING

ING Belgium's IDRs and Support Rating are driven by institutional support available from its parent, ING Bank. ING Belgium's Long-Term IDR is equalised with ING Bank's since we believe there is an extremely high probability that ING Belgium will be supported, if needed. Fitch considers ING Belgium, which is ING Bank's wholly owned subsidiary, to be core to ING Bank's retail strategy and franchise in the Benelux region and highly integrated within its parent in terms of management and operations. In addition, we believe there is considerable reputation risk for ING Bank if ING Belgium defaults. In our view, ING Bank has sufficient capital resources and flexibility outside ING Belgium, including access to capital at the holding company, to provide support in case of need.

ING BELGIUM'S VR

We have assigned ING Belgium a VR of 'a-', which reflects our assessment of the bank's standalone credit strength. ING Belgium's VR reflects the bank's well-established franchise in Belgium and diversified business model focused on traditional commercial banking. The VR also reflects adequate asset quality and satisfactory earnings and profitability metrics. It also incorporates satisfactory capitalisation and a sound funding and liquidity profile.

With EUR161 billion total assets at-end 2019, ING Belgium is the fourth-largest bank operating in Belgium. The bank has a diversified business model focused on traditional commercial banking with limited reliance on volatile businesses. It offers a large range of products and services to retail, SMEs, large corporate and institutional clients benefiting from ING Bank's expertise. This results into high dependence on net interest income (about 75% of ING Belgium's revenue), which has been under pressure in recent years due to the low interest rate environment and strong domestic competition. The bank's geographical reach outside the Belgian domestic market is now limited to Luxembourg, where it also benefits from an established franchise and diversified business model.

ING Belgium's asset quality metrics are adequate, with an impaired loan/gross loan ratio of 2.9% at end-2019. Asset quality proved resilient through the cycle, but we expect impaired loans to increase as a result of the economic fallout from the coronavirus crisis. We particularly view the residential mortgage loans distributed though ING Belgium's broker network Record Bank as of a weaker quality than the rest of the mortgage portfolio and likely to be more volatile in a period of prolonged economic stress.

We also expect some inflow of impaired loans in the diversified SMEs and corporate portfolio as a result of the crisis. The reserve coverage of impaired loans is lower than peers, with a loan loss allowances/impaired loan ratio of 27% at end-2019, which reflects the high proportion of secured lending.

We expect profitability in 2020 and 2021 to weaken because of particularly high loan impairment charges (LICs) and continued low interest rates. The bank does not publish 1H20 financial accounts, but according to the bank's recent financial communication, annualised LICs more than tripled yoy to EUR338 million in 1H20 and strongly reduced the bank's profit before tax to a low EUR26 million (EUR435 million in 1H19). Combined with the constant pressure on the net interest margin, this will affect the bank's overall profitability. We also believe more modest growth prospects will add additional pressure on revenue, which will only be partially offset by an expected decrease in operating expenses thanks to the execution of ING Belgium's transformation plan.

ING Belgium has satisfactory capitalisation. The bank's fully loaded CET1 of 14.8% at end-2019 is in line with Belgian peers and above ING Groep's target of 13.5%. Capital is supported by additional Tier 1 and Tier 2 issuances at ING Bank's level, which are downstreamed to the Belgian entity. The bank's capital is more encumbered by unreserved impaired loans (about 25% at end-2019) than peers. This leaves ING Belgium's capital exposed to collateral valuation and realisation risk. ING Belgium's leverage ratio of about 5.7% at end-2019 is in line with Belgian peers.

ING Belgium benefits from a stable customer deposit base that accounts for about 75% of total funding. The loans/customer deposits ratio of about 107% at end-2019 is slightly above that of Belgian peers. Wholesale funding is limited to covered bonds, and the bank's follow ING Bank liquidity risk policy to manage its buffer of liquid assets.

ING GROEP, ING BANK AND ING BELGIUM'S DERIVATIVE COUNTERPARTY RATINGS

The Derivative Counterparty Ratings (DCRs) of ING Bank, ING Groep and ING Belgium have been affirmed at the same level as the banks' respective Long-Term IDRs because under Dutch and Belgian legislation, derivative counterparties have no definitive preferential status over other senior obligations in a resolution scenario.

ING GROEP AND ING BANK'S SUPPORT RATINGS AND SUPPORT RATING FLOORS

ING Groep's and ING Bank's Support Ratings of '5' and Support Rating Floors of 'No Floor' reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that the group becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution

Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of, or ahead of, a bank receiving sovereign support.

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

The subordinated Tier 2 debt securities issued by ING Bank and ING Groep are notched down from the respective VRs, in accordance with Fitch's criteria. The subordinated Tier 2 debt securities are rated two notches below the respective VRs to reflect the higher-than-average loss severity of this type of debt.

Additional Tier 1 (AT1) instruments issued by ING Groep are rated four notches below its VR. The notching reflects higher loss severity risk of these securities compared with senior unsecured debt (two notches) as well as high risk of non-performance (two notches).

RATING SENSITIVITIES

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

We could downgrade ING Bank's and ING Groep's IDRs and VRs and consequently their DCRs and debt ratings as well as ING Bank's deposit ratings, if the deterioration in asset quality is more severe than under our baseline scenario with an impaired loan ratio higher than 3% over a prolonged period, or if the operating profitability/RWA does not revert to 2% as expected under our assumptions. The VRs and IDRs are also sensitive to a material decrease in the CET1 ratio below 15% on a sustained basis.

ING Groep's IDRs could also be downgraded in case of a significant build-up of double leverage at the holding company, although this is not Fitch's expectation.

ING Belgium's ratings could be downgraded if ING Bank's IDRs are downgraded, or if Fitch perceives a decrease in the bank's strategic importance for the group. The most immediate downside rating sensitivity for the ING Belgium's VR relates to the economic and financial market fallout arising from the coronavirus outbreak. This represents a clear risk to our assessment of asset quality and profitability in case of a prolonged recession, high unemployment and material property price correction.

We would downgrade ING Belgium's VR if persistently high LICs continue to pressure the bank's profitability and start to materially weaken the bank's capital base.

ING Bank and ING Groep's Tier 2 subordinated debt and ING Groep's hybrid capital instruments would be downgraded if their VRs are downgraded. The ratings of ING Groep's additional Tier 1 instruments could also be downgraded if we see a heightened risk that capital cushions above the mandatory coupon omission triggers could fall below 100bp.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The Negative Outlook on ING Bank and ING Groep's Long-Term IDRs signals that an upgrade of both entities' IDRs and VRs and consequently of their debt ratings, is unlikely in the short term.

The Outlook could be revised to Stable if the pressure on asset quality, earnings and capitalisation turns out to be more moderate than our expectations. In the longer term, even if the group withstands rating pressure arising from the COVID-19 crisis, an upgrade of the ratings would be unlikely and would require a significant and structural improvement in the bank's financial metrics.

ING Bank's and ING Groep's DCRs could be upgraded in case of a change in legislation giving preference to derivative counterparties over senior obligation in a resolution scenario.

ING Groep's Short-Term IDR would be upgraded if its Long-Term IDR is upgraded or if its funding and liquidity score is upgraded to 'aa-' or above.

ING Belgium's IDRs could be upgraded in case of an upgrade of the parent's IDRs. Upside rating potential for ING Belgium's VR is limited in the near term in light of the uncertainty of the length of the coronavirus outbreak. Weathering the crisis relatively unharmed and building up an extended record of strong asset quality and profitability against stated targets could have positive implications for the VR over time.

ING Bank and ING Groep's Tier 2 subordinated debt and ING Groep's hybrid capital instruments could be upgraded if their VRs are upgraded.

An upgrade offing Groep and ING Bank's Support Ratings and an upward revision of their Support Rating Floors would require an increased probability of state support in the event that the group becomes non-viable. This is highly unlikely, in Fitch's view.

BEST/WORST CASE RATING SCENARIO

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

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The IDRs of ING Belgium NV/SA are aligned with ING Bank N.V.'s based on institutional support.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entities, either due to their nature or to the way in which they are being managed by the entities. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
ING Belgium NV/SA	LT IDR	AA- Rating Outlook Negative	Affirmed	AA- Rating Watch Negative

ENTITY/DEBT	RATING			PRIOR
	ST IDR	F1+	Affirmed	F1+ Rating Watch Negative
	Viability	a-	New Rating	
	Support	1	Affirme	1

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

ING Bank N.V.	EU Issued
ING Belgium NV/SA	EU Issued
ING Groep N.V.	EU Issued

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Structured Finance: Covered Bonds Structured Finance Banks Europe Belgium

Netherlands
