

Research Update:

# ING Groep Outlook Revised To Negative On Impaired Earnings In COVID-19 Fallout; Ratings On ING Bank Affirmed

April 23, 2020

## Overview

- Despite the government's measures to contain the COVID-19 pandemic, the Dutch economy and its domestic banks face an unprecedented challenge.
- Even under our base case of an economic recovery starting in third-quarter 2020, we expect Dutch banks' earnings and asset quality to be meaningfully impaired through end-2020 and into 2021.
- This weaker operating environment could lead us to negatively reassess ING's capitalization when compared with its lending risks, consequently constraining the assessment of the group's stand-alone credit profile (SACP) and therefore the creditworthiness of the nonoperating holding company (NOHC).
- However, ING has entered the COVID-19 crisis with a robust financial profile, and we believe that it will continue to build its buffer of bail-in-able debt.
- We are therefore revising to negative from stable our outlook on NOHC ING Groep N.V. and affirming the ratings at 'A-/A-2'.
- We are affirming our 'A+/A-1' issuer credit ratings on ING Bank. The outlook remains stable.

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## Rating Action

On April 23, 2020, S&P Global Ratings revised to negative from stable the outlook on ING's NOHC ING Groep N.V. We affirmed the ratings at 'A-/A-2'.

At the same time, we affirmed our 'A+/A-1' ratings on ING Bank. The outlook remains stable. We also affirmed the ratings on ING Bank's core and highly strategic subsidiaries.

## Rationale

Today's rating actions follow a review of several Western European banking sectors, including the Netherlands-based one. We revised our trend to negative from stable on our economic risk for the Dutch Bank Industry Country Risk Assessment(BICRA). The anchor for a domestic bank in the Netherlands remains at 'bbb+'. The Netherlands remains in group '3', like the U.S., the U.K., Australia, France, or Denmark.

Until the start of March, Dutch banks, like their European counterparts, were fully engaged with the same two key themes that have been paramount in recent years--stabilizing balance sheet strength with solid investor returns, and identifying how to refine operating models in the face of the looming risks and opportunities of the digital era. For the short term at least, the COVID-19 pandemic has changed (almost) everything. We now are expecting a 6.7% GDP contraction in the Netherlands and 7.3% in the eurozone, and a recovery of about 6.0% in 2021. Even under this base case, the effects of COVID-19 will be evident for long after the crisis subsides.

Dutch and European authorities have delivered unprecedented policy responses in the form of monetary, fiscal, and regulatory support to their economies. However, while we expect banks in the Netherlands to remain broadly resilient in the face of this short-term cyclical shock, we expect that it will face in 2020 a meaningful impact on asset quality, revenues, profitability, liquidity, and, potentially, capitalization. We expect very few of these negative trends to be strongly evident in Dutch banks' first-quarter results, but consider that they would become increasingly evident through the course of 2020 and persist into 2021.

We incorporate this view in our negative outlook on ING Groep N.V. The group is exposed to the recession that will happen in 2020 in the Netherlands, and in most of the countries in which it operates, because of the COVID-19 pandemic. This weaker operating environment could weigh on the group SACP and therefore on the NOHC's creditworthiness. At the same time, comfortable additional loss-absorbing capacity (ALAC) buffers should continue to protect the senior preferred bondholders of ING's main operating bank, ING Bank N.V. This led us to affirm the ratings, with a stable outlook, on ING Bank.

Like highly rated peers, ING has entered the COVID-19 pandemic in a position of relative strength, characterized by leading franchises in its home markets, sound asset quality, and strong capitalization. However, ING's 2020 performance will hurt from a decline in revenues, that its cost efficient digital banking model will not be able to compensate, and by deteriorating asset quality metrics. As a result, cost-of-credit risk will, in our view exceed, the bank's through-the-cycle guidance. The group's lending book is exposed to small business and entrepreneurs and to large corporates, some of which operate in sectors affected by COVID-19 crisis or in industries that are more cyclical and fragile, including oil and gas and leveraged finance. Like most peers, ING announced to suspend the payment of 2019 dividends and 2020 interim dividends up until October 2020. This offers a temporary protection to its capital base.

## Outlook

### ING Groep N.V.

The negative outlook on ING Groep reflects our view that economic risks in the Dutch banking market have risen as a result of the COVID-19 pandemic. This potentially leads to a weaker assessment of ING's capitalization when compared to its lending risks, which will rise over our

outlook horizon. We could consequently revise down the group SACP to 'a-', which would lead to a one-notch downgrade of ING Groep.

Rating pressure 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 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 NOHC. This will secure cushions made available to protect senior bondholders in the event of a resolution. This will also help counterbalance repercussions the COVID-19 pandemic may have on our assessment of ING's risk-adjusted capital base and therefore the group SACP. Finally, we continue to believe that ING's risk appetite will remain contained.

We could lower the ratings on ING Bank if tighter financial planning resulted in its issuance of ALAC-eligible instruments falling short of our expectations, or 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.

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 result in a negative rating action on ING Bank's hybrids as well.

## Ratings Score Snapshot

	To	From
Issuer Credit Rating		
ING Groep N.V.	A-/Negative/A-2	A-/Stable/A-2
ING Bank N.V.	A+/Stable/A-1	A+/Stable/A-1
SACP	a	a
Anchor	bbb+	bbb+
Business Position	Strong (+1)	Strong (+1)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	+1	+1
ALAC Support	+1	+1
GRE Support	0	0
Group Support	0	0

	To	From
Sovereign Support	0	0
Additional Factor	0	0

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, 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: 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

- Negative Rating Actions Taken On Multiple Benelux Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Negative Rating Actions Taken On Various French 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
- Full Analysis: ING Groep N.V., March 23, 2020

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.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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