FitchRatings

RATING ACTION COMMENTARY

# Fitch Revises Outlook on ING Groep to Stable; Affirms at 'A+'

Thu 25 Nov, 2021 - 11:48 AM ET

Fitch Ratings - Paris - 25 Nov 2021: Fitch Ratings has revised the Outlooks on ING Groep N.V. and ING Bank N.V.'s Long-Term Issuer Default Ratings (IDRs) to Stable from Negative and affirmed the Long-Term IDRs at 'A+' and 'AA-', respectively. Fitch has also affirmed ING Groep's and ING Bank's Viability Ratings (VRs) at 'a+'.

The revision of the Outlooks reflects the group's better than anticipated financial performance during the pandemic and the stabilisation of the Dutch and Belgian operating environments. Fitch's updated economic assumptions for the Netherlands and other core countries for the group indicate strong economic recovery, despite some remaining risks related to the pandemic, supply chain disruptions and rising energy prices. Consequently, we believe that downside pressure on ING Groep's profitability, asset quality and capitalisation has receded.

The Stable Outlook also incorporates our expectation that ING Groep will continue to operate with sound capitalisation levels in the next 12-24 months, including with a comfortable buffer above the group's long-term common equity Tier 1 (CET1) target revised down to 12.5% under Basel III end-game.

Fitch has withdrawn ING Groep's and ING Bank's Support Ratings and Support Rating Floors as they are no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria on 12 November 2021. In line with the updated criteria, we have assigned the two entities Government Support Ratings (GSR) of 'No Support' ('ns').

## KEY RATING DRIVERS

### VRs, ING GROEP'S IDRs AND SENIOR UNSECURED DEBT

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, good geographic diversification in selected countries, and moderate risk appetite, resulting in sound through-the-cycle asset quality and earnings, solid consolidated capital ratios and well-balanced funding profile.

ING Groep's asset quality is underpinned by geographical diversification, good-quality loan portfolio dominated by low-risk residential mortgage loans and well-diversified and secured SME and corporate lending. Exposure to more cyclical segments such as oil & gas, commercial real estate and Turkey have been managed well over previous economic cycles, and future deterioration appears manageable.

Fitch expects moderate asset quality pressure stemming from SME and corporate exposures, although to date ING Groep has experienced only a temporary and lower than previously expected increase in impaired loans in 2020, cushioned by support measures provided to borrowers. ING Groep's Stage 3 loans ratio decreased to 1.9% at end-September 2021, slightly below the group's 2% four-year average, due to limited new impaired loan inflows and repayments on existing Stage 3 loans, particularly in the corporate segment. The performance of most of the sectors highly vulnerable to the pandemic is weaker than the SME/corporate average. However, the expected deterioration should be manageable, given the relatively small size of the exposure, which totalled almost EUR29 billion at end-September 2021 or less than 4% of total credit outstanding.

ING Groep's sound and stable earnings generation reflects its focus on traditional commercial banking, with limited exposure to volatile businesses, good pricing power in core markets and geographic diversification into markets with growth potential. In addition, ING Groep's cost efficiency compares well with similarly rated peers (except for Nordic peers) despite having deteriorated moderately in recent years due to low rates that pressured revenue and higher regulatory, and customer due-diligence costs.

ING Groep's operating profit/risk-weighted assets (RWAs) recovered to 2.5% in 9M21 after declining to an adequate 1.5% in 2020. ING Groep's operating profitability recovered more rapidly than expected, benefiting from a sharp decline in loan impairment charges (LICs) to only 4bp of gross loans in 9M21 (annualised basis) from 43bp in 2020, strong fee income growth, primarily from retail banking, and slightly lower recurring operating expenses. In 2022, we expect ING Groep to generate an operating profitability/RWAs in line with the 2.1% four-year average, supported by higher loan growth, stable net interest margin, sound fee growth, stable recurring operating expenses and below through-the-cycle LICs.

The divestment from retail banking in Austria, Czech Republic and potentially France (currently under strategic review) have no material impact on our assessment of ING Groep's franchise or earnings and profitability due to their small size in ING Groep's total footprint.

ING Groep's CET1 ratio of 15.8% at-end September 2021 is sound and underpins the group's ratings. The CET1 ratio improved compared with end-2020 reflecting sound organic capital generation and higher RWAs, mainly due to higher lending volumes. At end-September 2021, ING Groep had EUR2.8 billion profit reserved outside the CET1 capital that it will distribute to shareholders. We believe ING Groep will maintain sound capitalisation levels in the next 12-24 months, as we expect management to remain cautious about steering its CET1 ratio towards its current target of about 12.5% (under Basel IV).

The affirmation of ING Groep's 'a+' capitalisation and leverage score with a stable outlook reflects a comfortable cushion of almost 530bp above minimum capital requirements, sound internal capital generation, high-quality loan book that produced on average 25bp LICs through-the-cycle, and RWA density that compares well with peers.

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

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 UNSECURED DEBT AND DEPOSIT RATINGS

ING Bank's Long-Term IDR and senior unsecured debt are 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 end-state minimum requirement for own funds and eligible liabilities (MREL), set at 27.88% of RWAs starting 1 January 2024. The group has adopted a single-point-of-entry resolution strategy, and ING Groep is the resolution entity. All MREL instruments, including senior unsecured debt, are issued at group level and downstreamed to ING Bank as junior-ranked instruments to third-party senior creditors. At end-September 2021, the combined buffer of qualifying junior debt and senior debt issued by the holding company amounted to EUR42.5 billion, or about 14% of the bank's RWAs.

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

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

## ING GROEP AND ING BANK DERIVATIVE COUNTERPARTY RATINGS

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

## ING GROEP AND ING BANK'S GSR

ING Groep's and ING Bank's GSRs reflect Fitch's view that that due to the implementation of EU's Bank Recovery and Resolution Directive (BRRD) senior creditors of ING Groep and ING Bank can no longer rely on full extraordinary support from the sovereign if the bank becomes non-viable.

**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 twice from the respective VRs, reflecting baseline notching for this type of debt under Fitch's criteria. Additional Tier 1 (AT1) instruments issued by ING Groep are rated four notches below its VR. The notching reflects poor recoveries of these securities given their deep subordination (two notches) as well as incremental risk of non-performance relative to the VR due to fully discretionary coupons (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 and ING Bank's deposit ratings, if the deterioration in asset quality is more severe than under our baseline scenario with an impaired loan ratio increasing above 3% over a prolonged period, or if the operating profitability/RWA durably declines below 2%. We expect ING Groep to operate in the medium term with a comfortable buffer above its 12.5% long-term CET1 ratio target and convergence towards this target to be gradual. Pressure on VRs and IDRs would arise if convergence to the targeted CET1 ratio is more rapid than anticipated or if it is not accompanied by strengthened profitability as expected in the group's strategic plan while maintaining a sound risk profile.

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 Bank and ING Groep's Tier 2 subordinated debt and ING Groep's additional Tier 1 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:

An upgrade of both entities' IDRs and VRs and consequently of their debt ratings, is unlikely in the short term, and would require a material improvement in the group's business profile from higher business diversification and enhanced franchises in mature markets outside Benelux, which would lead to further improvement in profitability, coupled with stronger asset quality and capitalisation metrics in line with a 'aa' category assessment under Fitch's criteria.

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 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 of the GSR would require a higher propensity of sovereign support. While not impossible, the BRRD makes this highly unlikely.

## VR ADJUSTMENTS

There are no adjustments to any of the implied Key Rating Drivers nor to the implied VR.

## 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.

## ESG CONSIDERATIONS

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

## RATING ACTIONS

| ENTITY / DEBT | RATING | | | PRIOR |
|---|---|---|---|---|
| ING Groep N.V. | LT IDR | A+ Rating Outlook Stable | Affirmed | A+ Rating Outlook Negative |
| | ST IDR | F1 | Affirmed | F1 |
| | Viability | a+ | Affirmed | a+ |
| | Support | WD | Withdrawn | 5 |
| | Support Floor | WD | Withdrawn | NF |
| | DCR | A+(dcr) | Affirmed | A+(dcr) |
| | Government Support | ns | New Rating | |
| senior unsecured | LT | A+ | Affirmed | A+ |
| subordinated | LT | A- | Affirmed | A- |
| subordinated | LT | BBB | Affirmed | BBB |
| senior unsecured | ST | F1 | Affirmed | F1 |

| | | |
|---|---|---|
| ING Bank N.V. | LT IDR AA- Rating Outlook Stable Affirmed | AA- Rating Outlook Negative |
| | ST IDR F1+ Affirmed | F1+ |
| | Viability a+ Affirmed | a+ |
| | Support WD Withdrawn | 5 |
| | Support Floor WD Withdrawn | NF |
| | DCR AA-(dcr) Affirmed | AA-(dcr) |
| | Government Support ns New Rating | |
| senior unsecured | LT AA- Affirmed | AA- |
| long-term deposits | LT AA- Affirmed | AA- |
| subordinated | LT A- Affirmed | A- |
| senior unsecured | ST F1+ Affirmed | F1+ |
| short-term deposits | ST F1+ Affirmed | F1+ |

**VIEW ADDITIONAL RATING DETAILS**

## FITCH RATINGS ANALYSTS

**Andreea Playoust**
Director

Primary Rating Analyst
+33 1 44 29 91 71
andreea.playoust@fitchratings.com
Fitch Ratings Ireland Ltd
28 avenue Victor Hugo Paris 75116

**Michal Bryks**
Director
Secondary Rating Analyst
+48 22 338 6293
michal.bryks@fitchratings.com

**Cristina Torrella Fajas**
Senior Director
Committee Chairperson
+34 93 323 8405
cristina.torrellafajas@fitchratings.com

## MEDIA CONTACTS

**Louisa Williams**
London
+44 20 3530 2452
louisa.williams@thefitchgroup.com

Additional information is available on www.fitchratings.com

## PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## APPLICABLE CRITERIA

Bank Rating Criteria (pub. 12 Nov 2021) (including rating assumption sensitivity)

## ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

## ENDORSEMENT STATUS

| | |
|---|---|
| ING Groep N.V. | EU Issued, UK Endorsed |

## DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, THE FOLLOWING HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE OR ANCILLARY SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF PERMISSIBLE SERVICE(S) FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) OR ANCILLARY SERVICE(S) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

**READ LESS**

## COPYRIGHT

jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the

applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.
For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001
Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

READ LESS

## SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Structured Finance: Covered Bonds Structured Finance Banks Europe Netherlands