# ING Bank

# Condensed consolidated interim financial information for the period ended 30 June 2020

# Contents

# Interim report

## Introduction

ING is a global financial institution with a strong European base, offering banking services through its operating company ING Bank. ING Bank's more than 55,000 employees offer retail and wholesale banking services to customers in over 40 countries.

Steven van Rijswijk, previously member of the Executive Board and management board banking and chief risk officer of ING, has succeeded Ralph Hamers as CEO and chairman of the Executive Board and management board banking. The Supervisory Board has appointed Steven van Rijswijk effective 1 July 2020.

## Covid-19 pandemic

The spread of Covid-19 in the first half of 2020 and its development into a global pandemic affected ING in a number of ways, impacting our customers, operations and employees and the communities where we operate. Supported by ING's digital focus, most of our employees worldwide continue to work from home, providing an uninterrupted, high standard of service to our customers.

ING put measures in place to help customers deal with the impact of the pandemic on their finances. This included extensions of loan repayments for SME and retail customers in various countries. ING also works with larger corporate clients to deliver solutions tailored to their specific needs.

The economic impact of the Covid-19 pandemic and the impact of IFRS-9 methodology have resulted in significantly higher Expected Credit Losses, which have impacted ING's net profit for the first half of 2020. As a result of the impairment test triggered by the Covid-19 pandemic, ING also recognised €310 million as an impairment of goodwill on its balance sheet in the reporting period.

More information on the impact of Covid-19 on ING as well on the related risk measures taken to address the impact can be found in the section "Risk Management". The financial impact on the Covid-19 related crisis can be found in the section "ING Bank consolidated results" and throughout the financial statements section of this report.

As a reaction to the ongoing global pandemic, regulators have introduced a number of changes to regulatory capital requirement reliefs that are also applicable to ING. More information on this can be found in the section "business environment" of this report and note "Capital Management" of the interim financial statements.

# ING Bank consolidated results

ING Bank monitors and evaluates the performance of its segments at a consolidated level and by segment. The Management Board of ING Bank consider this to be relevant to an understanding of the Bank's financial performance, because it allows investors to understand the primary method used by management to evaluate the Bank's operating performance and make decisions about allocating resources.

As from the financial year 2020 the information presented to the Management Board of ING Bank is no longer based on underlying results but on IFRS as endorsed by the European Union. Previously monitoring and evaluation of ING Bank's segments was based a non-GAAP financial performance measure called underlying. Underlying result was derived by excluding from IFRS the following: special items, the impact of divestments and results from former insurance related activities. In 2020 and 2019 no special items, divestments or former insurance related results were recorded anymore.

The breakdown of net result by segment is included in Note 17 'Segments'.

ING Bank's net result in the first half of 2020 decreased to €1,021 million, or 60.6%, compared with €2,589 million in the same period of 2019. The decline was primarily caused by elevated risk costs reflecting the (expected) economic impact of the Covid-19 pandemic, including higher Individual Stage 3 provisions, and €310 million of impairments on goodwill. The effective tax rate was 32.9% compared with 26.6% in the first half of 2019.

The result before tax fell 56.1% to €1,575 million from €3,590 million in the first half of 2019, predominantly due to €1,582 million higher risk costs, but also due to higher expenses and lower income. Income decreased 0.4% as the first half of 2019 had included a €119 million one-off gain related to the release of a currency translation reserve and a €79 million receivable related to the insolvency of a financial institution. Excluding these one-off items, income was 1.8% higher, mainly due to higher fee income on investment products and higher income from Financial Markets, which more than offset the impact of lower interest margins on customer deposits. Operating expenses rose by €399 million, or 7.6%, on the first six months of 2019, mainly due to €310 million of goodwill impairments.

Net interest income decreased by €19 million, or 0.3%, to €6,931 million in the first six months of 2020. The interest result on customer deposits declined due to lower interest margins on both savings and current accounts caused by lower reinvestment yields, while average current account volumes increased. The interest result on customer lending was higher compared with the same period a year ago, due to improved interest margins on residential mortgages combined with higher lending volumes. Higher interest results at Treasury (supported by the introduction of the ECB's two-tiering system at the end of October 2019) and Financial Markets (which can be volatile), were offset by lower net interest income in the Corporate Line. ING's overall net interest margin, which is defined as net interest income divided by the average balance sheet total, decreased by 6 basis points to 1.48%, from 1.54% in the first half of 2019.

Net fee and commission income increased 8.7% to €1,507 million from €1,386 million one year ago. In Retail Banking, net fee and commission income rose by €94 million. This was mainly driven by higher fee income on investment products, predominantly in Germany, while fee income on daily banking products was lower reflecting a reduction of (international) payment transactions following the lockdown measures related to the Covid-19 pandemic. Total fee income in Wholesale Banking increased by €23 million, predominantly in Financial Markets, mainly due to higher deal activity in Global Capital Markets, partly offset by lower fees in Trade & Commodity Finance as a result of lower average oil prices.

Total investment and other income fell to €760 million from €896 million in the first half of 2019, which had included a €119 million one-off gain from the release of a currency translation reserve related to the sale of ING's stake in Kotak Mahindra Bank and a €79 million receivable related to the insolvency of a financial institution. Excluding these items, investment and other income rose by €62 million, or 8.9%, primarily in Financial Markets.

Operating expenses increased by €399 million, or 7.6%, to €5,625 million. Expenses in the first six months of 2020 included €663 million of regulatory costs, while the same period of 2019 included €612 million of regulatory costs. Expenses excluding regulatory costs rose by €348 million, or 7.5%, to €4,962 million. The increase was mainly caused by €310 million of goodwill impairments related to a number of acquisitions in the past. Also excluding this goodwill impairment, expenses increased by 0.8%, mainly due to the impact of collective-labour-agreement salary increases and higher KYC-related expenses. These increases were largely offset by a value added tax (VAT) refund and the impact of cost savings (including lower marketing and travel costs as a result of the Covid-19 restrictions), while the first half of 2019 included a restructuring provision in Retail Germany. The cost/income ratio increased to 61.2% from 56.6% in the first half of 2019.

Net additions to loan loss provisions were €1,997 million compared with €416 million in the first half of 2019. Risk costs in the first six months of 2020 were severely impacted by a combination of increased collective provisioning reflecting the worsened macro-economic indicators due to the Covid-19 pandemic, higher Individual Stage 3 provisions and negative rating migration. Risk costs were annualised 64 basis points of average customer lending compared with 14 basis points in the first half of 2019.

## Retail Netherlands

Retail Netherlands posted a result before tax of €1,043 million, compared with €1,132 million in the first six months of 2019. This decline was mainly attributable to higher risk costs reflecting the worsened macro-economic environment, as well as lower margins on savings and current accounts. The impact of these factors was partly offset by higher Treasury-related revenues.

Total income increased by €9 million, or 0.4%, to €2,269 million, compared with €2,260 million in the first half of 2019. Net interest income rose 1.3%, mainly due to higher treasury related revenues, which was largely offset by lower net interest results on savings and current accounts due to lower margins, while average volumes continued to increase. Net interest results on customer lending were stable, as lower average volumes were compensated by slightly higher margins. Customer lending increased by €2.4 billion in the first half of 2020. Net core lending (which excludes Treasury products and a €0.6 billion decline in the WUB run-off portfolio) decreased by €0.9 billion, of which €0.4 billion was in residential mortgages and €0.5 billion in other lending. In the first half of 2020 net customer deposits (excluding Treasury) grew by €11.1 billion, mainly in current accounts. Net fee and commission income increased by €3 million, or 0.9%, while investment and other income was €15 million lower.

Operating expenses decreased by €7 million, or 0.6%, to €1,088 million from €1,095 million in the first six months of 2019. The decrease was mainly due to lower expenses related to staff, marketing and travel, which were largely offset by higher regulatory costs and IT expenses.

The net addition to loan loss provisions was €139 million, or 17 basis points of average customer lending, in the first six months of 2020, compared with €33 million, or 4 basis points, in the same period of last year. Risk costs in the first half of 2020 included €90 million of collective provisions related to the worsened macro-economic indicators, including provisioning related to loans subject to a payment holiday.

### Retail Belgium

Retail Belgium, which includes Luxembourg, posted a result before tax of €-36 million in the first half of 2020, compared with €328 million in the same period of 2019. The decline was mainly attributable to higher risk costs reflecting the worsened macro-economic environment, combined with lower income and higher expenses.

Total income declined by €44 million, or 3.5%, to €1,215 million. Net interest result decreased by €22 million, or 2.3%, mainly reflecting lower margins on savings and current accounts, partly offset by higher net interest income from mortgages due to improved margins and higher volumes. Net core lending (excluding Treasury) decreased by €0.3 billion in the first half of 2020, fully in residential mortgages. Net customer deposits (excluding Treasury) grew by €3.3 billion, predominantly in current accounts. Net fee and commission income rose by €19 million, or 10.1%, mainly due to higher fee income on investment products. Investment and other income declined by €41 million, mainly due to lower Treasury-related revenues, including negative marked-to-market movements of derivatives which are not in hedge accounting.

Operating expenses rose by €96 million, of which €43 million was caused by a goodwill impairment related to an acquisition in the past by ING Belgium. The remaining increase was mainly due to higher regulatory costs and KYC-related expenses.

The net addition to the provision for loan losses increased to €282 million, or annualised 62 basis points of average customer lending, from €58 million in the first half of 2019. The increase in risk costs was mainly in business lending. Risk costs in the first half of 2020 included €65 million of collective provisions related to the worsened macro-economic indicators, including provisioning related to loans subject to a payment holiday. The remaining risk costs were mainly related to Stage 3 provisioning on a number of individual files.

### Retail Germany

Retail Germany, which includes Austria, recorded a first-half 2020 result before tax of €494 million, up 10.0% from €449 million in the same period of 2019. The increase was primarily due to higher income, partly offset by higher risk costs after a net release in the first half of 2019.

Total income increased to €1,075 million, up 7.0% from €1,005 million in the first six months of 2019. The increase was driven by €92 million higher fee income, predominantly on investment products thanks to a higher number of brokerage trades on the back of market volatility. Net interest income increased 0.6% to €801 million, due to accounting asymmetry in Treasury (with an offset in other income) and higher margins on mortgages, largely offset by margin pressure on savings. In the first six months of 2020, net core lending (which excludes Treasury products) increased by €1.5 billion, of which €1.3 billion was in residential mortgages and €0.2 billion in consumer lending. Net customer deposits (excluding Treasury) increased by €1.2 billion, fully in current accounts while savings showed an outflow. Investment and other income declined by €27 million, mainly in Treasury due to the aforementioned accounting asymmetry and lower capital gains.

Operating expenses decreased by €12 million, or 2.1%, to €567 million from €579 million in the first half of 2019. When adjusted for a €36 million restructuring provision recorded in the first half of last year, expenses increased by €24 million. The increase was mainly due to investments to support business growth as well as the consolidation of a subsidiary as from the first half of 2020, partly offset by lower regulatory costs.

The net addition to the provision for loan losses was €14 million, or 3 basis points of average customer lending, in the first half of 2020, compared with a net release of €23 million in the same period of last year, which had included model updates on mortgages. Risk costs in the first half of 2020 included €3 million of collective provisions related to the worsened macro-economic indicators.

### Retail Other Challengers & Growth Markets

Retail Other Challengers & Growth markets' result before tax declined to €295 million from €438 million in the first six months of 2019, reflecting higher risk costs and operating expenses, partly offset by higher income.

Total income rose by €33 million, or 2.0%, to €1,720 million from €1,687 million in the first six months of last year, driven by higher net interest income consistent with higher volumes, and higher Treasury-related revenues. The increase was partially offset by lower net fee and commission income as lockdown measures due to the Covid-19 pandemic reduced the number of daily banking transactions. The net production in customer lending (adjusted for currency effects and Treasury) was €1.3 billion in the first half of 2020, with growth in all countries, except in Italy. The net inflow in customer deposits, also adjusted for currency impacts and Treasury, was €8.1 billion, with the largest increases in Poland and Spain.

Operating expenses increased by €59 million, or 5.6%, to €1,120 million from €1,061 million in the first half of 2019, of which €17 million was due to higher regulatory costs. The remaining increase was mainly due to strategic initiatives and the execution of bank-wide regulatory programmes, including KYC, partly offset by lower marketing expenses.

The net addition to loan loss provisions increased by €117 million on the first half of 2019 to €304 million, or annualised 63 basis points of average customer lending. Risk costs in the first half of 2020 included €104 million of collective provisions related to the worsened macro-economic indicators. The increase versus the first half of last year was mainly visible in Poland, Italy and Spain, whereas risk costs in Turkey declined.

### Wholesale Banking

In the first six months of 2020, the result before tax turned to a loss of €204 million from €1,018 million in the same period last year. The decline was predominantly due to elevated risk costs as well as higher expenses (including a €260 million goodwill impairment as a result of the impairment test triggered by the Covid-19 pandemic), partly offset by higher income.

Total income increased by €162 million, or 6.2%, to €2,780 million in the first half of 2020, mainly due to higher income in Financial Markets and Treasury & Other. This was partly offset by lower income in Daily Banking & Trade Finance and negative marked-to-market adjustments in Lending. The increase in Financial Markets was driven by higher income in the Forex, Rates and Global Capital Market businesses, together with substantial lower negative valuation adjustments than recorded in the first half of 2019.

Net interest income increased by €33 million, or 1.8%, on the first six months of 2019, mainly driven by Treasury & Other and Financial Markets. The increase was partly offset by lower interest results in Daily Banking & Trade Finance, mainly due to lower margins in Payments & Cash Management. Net core lending (excluding currency impacts, Treasury and the Lease run-off portfolio) grew by €3.8 billion in the first half of 2020. Net customer deposits (excluding currency impacts and Treasury) rose by €6.4 billion.

Net fee and commission income increased by €23 million, or 4.3%, on last year, predominantly in Financial Markets mainly due to higher deal activity in Global Capital Markets. The increase was partly offset by Daily Banking & Trade Finance mainly due to lower fees in Trade & Commodity Finance (mainly due to lower average oil prices). Investment and other income rose to €354 million from €248 million in the first half of 2019, primarily due to higher revenues in Financial Markets. This increase was partly offset by Lending, which included negative marked-to-market adjustments related to syndicated loans and loans at fair value through profit or loss.

Operating expenses were €1,728 million, or 20.2% higher than in the first six months of 2019. Excluding regulatory costs (€151 million in the first half of 2020 versus €143 million one year ago), operating expenses increased by €283 million, or 21.9%. The increase was mainly explained by a €260 million goodwill impairment related to a number of acquisitions in the past. Also excluding this goodwill impairment, expenses increased by 1.8%, mainly due to higher staff expenses related to annual salary increases and higher KYC costs. This increase was partly offset by lower performance-related expenses and the impact of continued cost-savings measures.

Net addition to loan loss provisions rose to €1,256 million, or annualised 133 basis points of average customer lending, from €162 million, or 18 basis points, in the first half of 2019. The increase was predominantly due to various Individual Stage 3 provisions and high collective Stage 1 and Stage 2 provisions as a result of the economic impact of the Covid-19 pandemic, including €366 million of collective provisions related to the worsened macro-economic indicators, as well as a €30 million collective Stage 2 provision for increased risk that was observed in the US reserve-based lending book.

### Corporate Line

The Corporate Line reported a result before tax of €-17 million compared with €224 million in the first half of 2019. Total income fell to €139 million from €404 million a year ago. This decline was primarily due to lower investment and other income, as the first six months om 2019 included a €119 million one-off gain from the release of a currency translation reserve related to the sale of ING's stake in Kotak Mahindra Bank and the recognition of a €79 million receivable related to the insolvency of a financial institution. Excluding both items, income decreased by €67 million, primarily due to lower income from foreign currency exchange ratio hedging. Operating expenses decreased to €153 million from €180 million in the first half of 2019, mainly due to the recognition of a value-added tax (VAT) refund in the first half of 2020, partly offset by higher shareholders and KYC-related expenses.

## ING Bank statement of financial position ('balance sheet')

ING Bank's total balance sheet increased by €93 billion to €985 billion at 30 June 2020 from €892 billion at 31 December 2019.

### Cash and balances with central banks

Cash and balances with central banks increased by €66 billion to €119 billion. The increase was driven by ING's participation in a new series of Targeted Longer-Term Refinancing Operations, TLTRO III, initiated by the European Central Bank (visible in deposits from banks) and increased customer deposits. Further details on TLTRO can be found in note Deposits from Banks.

### Loans and advances to banks and deposits from banks

Loans and advances to banks decreased by €4 billion to €31 billion. Deposits from banks increased by €44 billion to €79 billion, mainly due to the participation in TLTRO III of €60 billion (of which €55 billion in June 2020), which was partly offset by repayments and maturities of TLTRO II (€-18 billion).

### Financial assets/liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss increased by €15 billion to €111 billion, after a relatively low year-end 2019. The increase was mainly due to €10 billion of higher assets mandatorily at fair value through profit or loss (reverse repos) and €5 billion higher trading assets (derivatives). Financial liabilities at fair value through profit or loss increased by €13 billion to €91 billion, approximately mirroring the development on the asset side of the balance sheet, with €8 billion of higher trading liabilities (trading derivatives and repos) and €5 billion of increased designated financial liabilities at fair value through profit or loss (repo activity). Financial assets and liabilities at fair value through profit or loss consist predominantly of derivatives, securities and (reverse) repos, and are mainly used to facilitate client needs.

### Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (OCI) increased by €5 billion to €39 billion, due to €5 billion more debt securities, which mainly reflect investments in government bonds (mainly US Treasuries) and short-term paper. In addition, the value of the existing portfolio rose due to a drop in yields.

### Securities at amortised costs

Securities at amortised cost increased by €5 billion to €51 billion, mainly due to an increase of investments in government bonds.

### Loans and advances to customers

Loans and advances to customers increased by €5 billion to €617 billion from €612 billion at 31 December 2019. This was due to €6 billion of higher customer lending partly offset by €1 billion of higher provisions for loan losses. When adjusted for €3 billion of negative currency impacts, customer lending increased by €9 billion. After also excluding €4 billion increase of short-term lending in Treasury, a €1 billion decline in the WUB and Lease run-off portfolios and €1 billion of positive valuation adjustments in hedged mortgages, net core lending increased by €5 billion of which €3 billion was in non-mortgage lending and €2 billion in residential mortgages.

### Other assets/liabilities

Other assets increased by €3 billion while other liabilities were €2 billion higher. Both movements were mainly due to changes in financial transactions pending settlement.

### Customer deposits

Customer deposits increased by €32 billion to €638 billion. Adjusted for currency impacts and Treasury, net customer deposits grew by €30 billion in the first half of 2020, predominantly due to higher customer deposits at Retail Banking reflecting ING Bank’s strength as a deposit gatherer.

### Debt securities in issue

Debt securities in issue increased by €2 billion to €96 billion due to €5 billion of higher certificates of deposit/ commercial paper (CD/CPs), while other debt securities, mainly long-term debt, decreased by €4 billion.

### Subordinated loans

Subordinated loans remained stable at €17 billion. The issuances of a $750 million Additional Tier 1 instrument in February 2020 and €1.5 billion of Tier 2 notes in May 2020, were offset by the $1 billion redemption of an ING Bank Tier 2 instrument in February 2020 and the $1.7 billion redemption of two series of perpetual securities in May 2020.

### Shareholders’ equity

Shareholders’ equity increased by €0.5 billion to €47.5 billion from €46.9 billion at 31 December 2019. The increase mainly reflects the €1.0 billion net result for the first half of 2020 and a positive change in the cashflow hedge reserve of €0.5 billion, partly offset by a €0.6 billion decrease of the currency translation reserve and €0.3 billion of negative unrealised revaluations of equity securities (mainly due to a decrease of the valuation of our stake in Bank of Beijing).

# Conformity statement

The Management Board Banking is required to prepare the Interim Accounts and the Interim Report of ING Bank N.V. for each financial period in accordance with applicable Dutch law and with International Accounting Standard 34 ‘Interim Financial Reporting’.

**Conformity statement pursuant to section 5:25d paragraph 2(c) of the Dutch Financial Supervision Act (Wet op het financieel toezicht).**

The Management Board Banking is responsible for maintaining proper accounting records, for safeguarding assets and for taking reasonable steps to prevent and detect fraud and other irregularities. It is responsible for selecting suitable accounting policies and applying them on a consistent basis, making judgements and estimates that are prudent and reasonable. It is also responsible for establishing and maintaining internal procedures which ensure that all major financial information is known to the Management Board Banking, so that the timeliness, completeness and correctness of the external financial reporting are assured.

As required by section 5:25d paragraph 2(c) of the Dutch Financial Supervision Act, each of the signatories hereby confirms that to the best of his knowledge:

- the ING Bank N.V. interim accounts for the period ended 30 June 2020 give a true and fair view of the assets, liabilities, financial position and profit or loss of ING Bank N.V. and the entities included in the consolidation taken as a whole; and
- the ING Bank N.V. interim report for the period ended 30 June 2020 includes a fair review of the information required pursuant to article 5:25d, paragraphs 8 and 9 of the Dutch Financial Supervision Act regarding ING Bank N.V. and the entities included in the consolidation taken as a whole.

Amsterdam, 5 August 2020

The Management Board Banking

S.J.A. (Steven) van Rijswijk
CEO

T. (Tanate) Phutrakul
CFO

P. (Pinar) Abay
Head of Market Leaders

A. (Aris) Bogdaneris
Head of Challengers & Growth Markets

M.I. (Isabel) Fernandez Niemann
Head of Wholesale Banking

R.M.M. (Roel) Louwhoff
COO/CTO

# Risk management

Managing risk is at the core of ING's business. Financial risks include credit risk, for example when we offer loans, market risk through our trading and banking book positions, and liquidity or funding risk through financial management. Non-financial risks are those associated with IT and cybersecurity, our daily operations (e.g. fraud and money laundering), compliance, adhering to socially-acceptable ethical norms and reputational issues.

We continually develop our risk management to address political and economic developments, evolving regulatory requirements, changing customer expectations, emerging competitors and new technologies, all of which could potentially impact our business.

### Basis of disclosures

This risk management section contains an update of information relating to the nature and the extent of the risks arising from financial instruments as disclosed in the 2019 ING Bank consolidated financial statements as included in the 2019 Annual Report. These disclosures are an integral part of the ING Bank condensed consolidated interim financial statements and are indicated by the symbol (*). Chapters, paragraphs, graphs or tables within this risk management section that are indicated with this symbol in the respective headings or table header are considered to be an integral part of the condensed consolidated interim financial statements.

This risk management section also includes additional disclosures beyond those required by IFRS standards, such as certain regulatory disclosures. Not all information in this section can be reconciled back to the primary financial statements and corresponding notes, as it has been prepared using risk data that differs to the accounting basis of measurement. Examples of such differences include the exclusion of accrued interest and certain costs and fees from risk data, and timing differences in exposure values (IFRS 9 models report expected credit loss on underlying exposures).

# Business environment

The Covid-19 pandemic and subsequent lockdown measures have thrown the world economy in turmoil. Even as countries are reopening, the global economy is expected to shrink in 2020 as domestic demand and supply, trade, and finance have been severely disrupted. In addition, the continuing US-China trade tensions and prolonged uncertainty on Brexit have negatively affected the global economy in the first half-year of 2020.

### Covid-19

In late-2019, a highly-infectious coronavirus named Covid-19 was first identified in China. Spreading quickly to other regions of the world, Covid-19 was declared a global pandemic by the World Health Organization on 11 March 2020. Various countries and local governmental authorities across the world have introduced measures aimed at preventing the further spread of Covid-19, such as bans on public events with over a certain number of attendees, closures of places where larger groups of people gather such as schools, sports facilities and bars and restaurants, lockdowns, border controls and travel and other restrictions. Such measures have disrupted the normal flow of business operations in those countries and regions, which include countries and regions where ING and its customers and counterparties operate, affected global supply chains, global manufacturing, tourism, consumer spending and asset prices, and resulted in volatility and uncertainty across the global economy and financial markets.

In addition to measures aimed at preventing the further spread of the Covid-19 virus, governments in various countries have introduced measures aimed at mitigating the economic consequences of the outbreak. For example, the Dutch government has announced economic measures aimed at protecting jobs, households' wages and companies, e.g., by way of tax payment holidays, guarantee schemes and a compensation scheme for heavily affected sectors in the economy. These announced measures and any additional measures, including any payment holidays with respect to mortgages or other loans, have had and may continue to have a significant impact on ING's customers and other counterparties.

Governments, regulators and central banks (including the ECB), have also announced that they are taking or considering measures seeking to safeguard the stability of the financial sector, to prevent lending to the business sector from being jeopardised and to ensure the payment system continues to function properly. The Basel III framework includes capital and liquidity buffers that are designed to withstand stressed situations like the current one. The ECB allows banks to operate temporarily below the level of capital defined by the capital conservation buffer (CCB). Furthermore, several countries released or reduced their countercyclical buffer (CCyB). This brings back ING Bank's fully loaded CCyB from 24 bps in Q4 2019 to 3 bps in Q2 2020, helping to maintain the supply of credit and dampen the downswing of the financial cycle. The measures remain until further notice.

ING is monitoring the ongoing Covid-19 pandemic carefully as it evolves to understand the impact on its people and business. A central ING team has been set up to monitor the situation globally and provide guidance on health and safety measures, travel advice and business continuity for our company. As the situation differs from country to country, we are following local government guidelines in our response to the virus. As of April 2020, most of ING's staff are working from home for several months, during which time ING has not experienced any substantial operational disruptions as result of work from home. In addition, since May staff in various countries have started rotation schemes to return to work in the office in a controlled manner, taking into account local circumstances and any applicable government measures (including with respect to social distancing). This controlled office opening process is expected to allow for essential face-to-face meetings. However, at this time, it is not certain when ING's employees may be generally expected or permitted to return to ING's offices. If due to illness, technical limitations or other restrictions in connection with the pandemic, employees are unable to work or are not able to operate as effectively and efficiently as in the office, this may adversely affect ING's business, results and financial condition.

In addition, a situation in which most or some ING's employees continue working from home may raise operational risks, including with respect to information security, data protection, availability of key systems and infrastructure integrity. There is also a risk that ING will not be effective in implementing regulatory or strategic change programs in the current environment. If any of these risks were to materialize that may adversely affect ING's business, results and financial condition

Also the potential economic implications for the countries and sectors where ING is active, which could have a material adverse effect on ING's business and operations, are being assessed and discussed in order to identify possible mitigating actions.

Further details on our credit risk and market risk portfolios are covered in the next chapters.

## Credit risk management practices (*)

In many countries, Governments have adopted economic support programs (such as tax advantages, unemployment regulations or guarantees) that we believe will assist ING clients in potential financial difficulty to manage through these extraordinary times. In addition, various initiatives have been taken to grant payment holidays, (guaranteed) new money facilities etc.

Governments in almost all Retail Banking countries have adopted measures providing for payment holidays. As of end of June, approximately 189,000 customers were granted payment holidays. The total exposure of loans for which a payment holiday is granted amounts to € 18.1 billion, of which over 55% were for customers located in the Netherlands and Belgium.

The payment holiday schemes offered in the various countries differ in terms of scope, benefit duration and key conditions. Generally these schemes offer a 3 or 6 month suspension of principal payment, and in some instances also of interest payment. The payment holidays are applied to business lending and for mortgages and consumer loans.

The modification of contractual terms of loans subject to payment holiday arrangements does not automatically result in derecognition of the financial assets. Where applicable, the carrying amount of the financial asset has been recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the original effective interest rate and a gain or loss was recognized.

The various measures by governments and ING to alleviate the impact of Covid-19 also impact the loan classification in terms of forbearance and consequently IFRS 9 staging. In light of this, the EBA has provided guidelines which define eligibility criteria for a payment holiday arrangement offered to a large group of customers to be classified as a “general payment moratorium”. The application of such a general payment moratorium should not lead to a forbearance classification. Therefore it should not automatically trigger recognition of lifetime ECL either. ING follows the EBA guidelines and when a payment holiday is provided to a customer as part of a “general payment moratorium”, ING does not consider this measure to classify as forbearance.

## Portfolio quality and concentration

Lending to businesses is diversified over various sectors and countries. The total gross carrying amounts is composed of approximately 65% business lending and 35% consumer lending. For a detailed breakdown of ING’s credit risk portfolio by Sector and Geographical area, refer to the section “Credit Risk portfolio” reported in the ‘Risk management’ section of the 2019 Annual Report.

ING’s total credit outstandings increased significantly compared to year-end 2019 mainly as a result of the TLTRO III participation through deposits to central banks. This is visible in the next table as investment grade with AAA rating. For the sectors which were mostly impacted by Covid-19, please refer to the section “Changes in gross carrying amounts and loan loss provision”.

As described in above section “business environment” governments in various countries have introduced measures aimed at mitigating the economic consequences of the Covid-19 virus outbreak, especially for private individuals and small business. These measures have a mitigating effect on the deterioration of the credit quality of the portfolio. Policies with respect to payment holidays are intended to address short-term liquidity difficulties for individuals and businesses resulting from the impact of Covid-19. These payment holidays have led to a reduced number of defaults.

## Loan Loss Provisioning (*)

Since 1 January 2018, ING has recognised loss allowances based on the expected credit loss model (ECL) of IFRS 9, which is designed to be forward-looking. The IFRS 9 impairment requirements are applicable to on-balance sheet financial assets measured at amortised cost or fair value through other comprehensive income (FVOCI), such as loans, debt securities and lease receivables, as well as off-balance sheet items such as undrawn loan commitments, certain financial guarantees, and undrawn committed revolving credit facilities.

The table below describes the portfolio composition over the different IFRS 9 stages and rating classes. The Stage 1 portfolio represents 91.9% (31 December 2019: 94.0%) of the total gross carrying amounts, mainly composed of investment grade, while Stage 2 makes up 6.7% (31 December 2019: 4.7%) and Stage 3 makes up 1.4% (31 December 2019: 1.3%) total gross carrying amounts, respectively.

## Gross Carrying amount per IFRS 9 stage and rating class (*)[1]

| 30 June 2020 | | 12-month ECL (Stage 1) | | Lifetime ECL not credit impaired (Stage 2) | | Lifetime ECL credit impaired (Stage 3) | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| **Rating class** | | Gross Carrying Amount | Provisions | Gross Carrying Amount | Provisions | Gross Carrying Amount | Provisions | Gross Carrying Amount | Provisions |
| Investment grade | 1 (AAA) | 125,600 | 5 | 273 | | | | 125,873 | 5 |
| | 2-4 (AA) | 103,608 | 5 | 297 | | | | 103,905 | 5 |
| | 5-7 (A) | 134,992 | 23 | 1,177 | 1 | | | 136,168 | 24 |
| | 8-10 (BBB) | 295,699 | 90 | 7,825 | 14 | | | 303,524 | 104 |
| Non-Investment grade | 11-13 (BB) | 171,411 | 215 | 17,849 | 119 | | | 189,260 | 334 |
| | 14-16 (B) | 30,548 | 210 | 24,388 | 496 | | | 54,936 | 706 |
| | 17 (CCC) | 1,421 | 169 | 4,676 | 436 | | | 6,097 | 605 |
| Substandard grade | 18 (CC) | | | 4,055 | 200 | | | 4,055 | 200 |
| | 19 (C) | | | 2,238 | 145 | | | 2,238 | 145 |
| NPL grade | 20-22 (D) | | | | | 13,476 | 3,984 | 13,476 | 3,984 |
| **Total** | | **863,279** | **717** | **62,777** | **1,412** | **13,476** | **3,984** | **939,533** | **6,112** |

1 IAS 37 provisions (EUR 95.4 million) are excluded.

## Gross Carrying amount per IFRS 9 stage and rating class (*)[1]

| 31 December 2019 | | 12-month ECL (Stage 1) | | Lifetime ECL not credit impaired (Stage 2) | | Lifetime ECL credit impaired (Stage 3) | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| **Rating class** | | Gross Carrying Amount | Provisions | Gross Carrying Amount | Provisions | Gross Carrying Amount | Provisions | Gross Carrying Amount | Provisions |
| Investment grade | 1 (AAA) | 75,144 | 1 | | | | | 75,144 | 1 |
| | 2-4 (AA) | 82,992 | 3 | 28 | | | | 83,020 | 3 |
| | 5-7 (A) | 131,931 | 11 | 273 | | | | 132,204 | 11 |
| | 8-10 (BBB) | 295,130 | 55 | 4,905 | 6 | | | 300,035 | 61 |
| Non-Investment grade | 11-13 (BB) | 194,643 | 209 | 7,925 | 54 | | | 202,568 | 263 |
| | 14-16 (B) | 36,683 | 202 | 18,416 | 367 | | | 55,099 | 569 |
| | 17 (CCC) | 405 | 7 | 4,067 | 146 | | | 4,472 | 153 |
| Substandard grade | 18 (CC) | | | 3,253 | 160 | | | 3,253 | 160 |
| | 19 (C) | | | 2,216 | 148 | | | 2,216 | 148 |
| NPL grade | 20-22 (D) | | | | | 10,955 | 3,275 | 10,955 | 3,275 |
| **Total** | | **816,928** | **490** | **41,082** | **881** | **10,955** | **3,275** | **868,965** | **4,646** |

1 IAS 37 provisions (EUR 93.3 million) are excluded.

### Changes in gross carrying amounts and loan loss provision (*)

The table below provides a reconciliation by stage of the gross carrying/nominal amount and allowances for loans and advances to banks and customers, including loan commitments and financial guarantees. The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL. This includes the net remeasurement of ECL arising from stage transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis.

The net remeasurement line represents the changes in provisions for facilities that remain in the same stage.

Please note the following comments with respect to the movements observed in the table below for the first half-year 2020:

- Stage 3 gross carrying amount increased by €2.5 billion from €10.9 billion as per 31 December 2019 mainly as a result of ING's introduction of a new definition of default which had an impact of €1.0 billion and due to developments with respect to certain large individual files. For further background on implementation of new Definition of Default, please refer to section 1.5 of the Condensed Consolidated Financial Statements.
- Stage 2 gross carrying amount increased by €21.6 billion from €41.1 billion as per 31 December 2019. This is mainly caused by the significant lifetime PD trigger (€8.4 billion), the Watchlist trigger (€4.0 billion), primarily in Wholesale Banking, and to a lesser extent Forbearance (€3.3 billion);
- Transportation & Logistics, Services, Real Estate and Food, Beverages & Personal Care were the sectors particularly impacted by the Covid-19 pandemic, with an increase in Stage 2 amounts of €4.7 billion, €2.1 billion, €2.0 billion and €1.7 billion respectively. These sectors represent 12%, 9%, 9% and 8% of the total Stage 2 gross carrying amounts respectively.
- The net remeasurement of loan loss provisions in Stage 1 and Stage 2 of €182 million and €354 million respectively and the transfer into lifetime ECL of €522 million were significantly impacted by the worsened macro-economic outlook, including management adjustments of €90 million to reflect the risks in payment holidays and the impact of oil price decrease on the upstream Reserve Based Lending book in the US.

Additional information on macro-economic scenarios is included in the section "Macro-economic scenarios and sensitivity analysis of key sources of estimation uncertainty".

## Changes in gross carrying amounts and loan loss provisions (*)[1,2,3]

| 30 June 2020 | 12-month ECL (Stage 1) | | Lifetime ECL not credit impaired (Stage 2) | | Lifetime ECL credit impaired (Stage 3) | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Gross carrying amount | Provisions | Gross carrying amount | Provisions | Gross carrying amount | Provisions | Gross carrying amount | Provisions |
| Opening balance as at 1 January 2020 | **816,928** | **490** | **41,082** | **881** | **10,955** | **3,275** | **868,965** | **4,645** |
| Transfer into 12-month ECL (Stage 1) | 7,746 | 14 | -7,401 | -126 | -346 | -8 | | -120 |
| Transfer into lifetime ECL not credit impaired (Stage 2) | -33,527 | -50 | 33,947 | 523 | -420 | -47 | | 426 |
| Transfer into lifetime ECL credit impaired (Stage 3) | -2,135 | -20 | -2,144 | -136 | 4,279 | 1,059 | | 902 |
| Net remeasurement of loan loss provisions | | 187 | | 353 | | 262 | | 802 |
| New financial assets originated or purchased | 95,279 | 141 | | | | | 95,279 | 141 |
| Financial assets that have been derecognised | -65,966 | -43 | -4,230 | -66 | -551 | -72 | -70,746 | -182 |
| Net drawdowns and repayments | 44,954 | | 1,522 | | -9 | | 46,467 | |
| Changes in models/risk parameters | | | | | | | | |
| **Increase in loan loss provisions** | | **229** | | **548** | | **1,193** | | **1,970** |
| Write-offs | | | | | -433 | -433 | -433 | -433 |
| Recoveries of amounts previously written off | | | | | | 19 | | 19 |
| Foreign exchange and other movements | | -3 | | -17 | | -70 | | -90 |
| **Closing balance as at 30 June 2020** | **863,279** | **716** | **62,777** | **1,412** | **13,476** | **3,984** | **939,533** | **6,112** |

1 At the end of June 2020, the Gross carrying amounts included loans and advances to central banks (€116.9 billion), loans and advances to banks (€30.7 billion), financial assets at FVOCI (€37.0 billion), securities at amortised cost (€51.1 billion), loans and advances to customers (€622.9 billion) and financial guarantees (credit replacement) in scope of IFRS 9 impairment requirements (€113.4 billion) and excludes receivables related to securities in reverse repurchase transaction (€-13.4 billion), cash collateral in respect of derivatives (€-9.4 billion), the value adjustment hedged items (€-4.4 billion), a receivable that is offset by a liquidity facility (€-1.5 billion), on-demand bank balances (€-2.7 billion) and other differences amounting to €-1.1 billion.
2 Stage 3 Lifetime credit impaired includes €4.9 million Purchased or Originated Credit Impaired.
3 At the end of June 2020, the stock of provisions included provisions for loans and advances to central banks (€5 million), loans and advances to banks (€13 million), financial assets at FVOCI (€13 million), securities at amortised cost (€21 million), provisions for loans and advances to customers (€6,030 million) and provisions for contingent liabilities (credit replacements) recorded under Provisions (€30 million).

## Changes in gross carrying amounts and loan loss provisions (*)[1,2,3]

| 31 December 2019 | 12-month ECL (Stage 1) | | Lifetime ECL not credit impaired (Stage 2) | | Lifetime ECL credit impaired (Stage 3) | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Gross carrying amount | Provisions | Gross carrying amount | Provisions | Gross carrying amount | Provisions | Gross carrying amount | Provisions |
| Opening balance as at 1 January 2019 | **788,173** | **501** | **46,949** | **925** | **10,758** | **3,141** | **845,880** | **4,568** |
| Transfer into 12-month ECL (Stage 1) | 12,856 | 30 | -12,579 | -253 | -277 | -23 | | -246 |
| Transfer into lifetime ECL not credit impaired (Stage 2) | -21,577 | -73 | 22,382 | 474 | -805 | -81 | | 320 |
| Transfer into lifetime ECL credit impaired (Stage 3) | -2,210 | -6 | -1,753 | -135 | 3,964 | 1,113 | | 972 |
| Net remeasurement of loan loss provisions | | -77 | | 36 | | 283 | | 242 |
| New financial assets originated or purchased | 180,605 | 205 | | | | | 180,605 | 205 |
| Financial assets that have been derecognised | -126,082 | -103 | -9,108 | -162 | -1,659 | -137 | -136,849 | -402 |
| Net drawdowns and repayments | -14,834 | | -4,807 | | 1 | | -19,640 | |
| Changes in models/risk parameters | | 15 | | 2 | | -8 | | 9 |
| **Increase in loan loss provisions** | | **-9** | | **-39** | | **1,147** | | **1,099** |
| Write-offs | -1 | -1 | -2 | -2 | -1,027 | -1,028 | -1,030 | -1,031 |
| Recoveries of amounts previously written off | | | | | | 55 | | 55 |
| Foreign exchange and other movements | | -1 | | -3 | | -41 | | -45 |
| **Closing balance as at 31 December 2019** | **816,928** | **490** | **41,082** | **881** | **10,955** | **3,275** | **868,965** | **4,646** |

1 At the end of December 2019, the Gross carrying amounts included loans and advances to central banks (€51.2 billion), loans and advances to banks (€35.1 billion), financial assets at FVOCI (€32.2 billion), securities at amortised cost (€46.1 billion), loans and advances to customers (€616.5 billion) and financial guarantees (credit replacement) in scope of IFRS 9 impairment requirements (€115.7 billion) and excludes receivables related to securities in reverse repurchase transaction (€-9.9 billion), cash collateral in respect of derivatives (€-10.2 billion), the value adjustment hedged items in respect of portfolio hedges (EUR -3.9 billion), a receivable that is offset by a liquidity facility (€-1.3 billion), de-netting of cash pool balances (€-1.8 billion) and other differences amounting to €-0.4 billion.
2 Stage 3 Lifetime credit impaired includes €1 million Purchased or Originated Credit Impaired.
3 At the end of December 2019, the stock of provisions included provisions for loans and advances to central banks (€1 million), loans and advances to banks (€9 million), financial assets at FVOCI (€10 million), securities at amortised cost (€10 million), provisions for loans and advances to customers (€4,590 million) and provisions for contingent liabilities (credit replacements) recorded under Provisions (€25 million).

## Macro-economic scenarios and sensitivity analysis of key sources of estimation uncertainty (*)

### Methodology (*)

Our methodology in relation to the adoption and generation of macroeconomic scenarios is described in the Risk Management section of the Annual Report 2019. We continue to follow this methodology in generating our probability-weighted ECL, with consideration of alternative scenarios and management adjustments supplementing this ECL where, in management's opinion, the consensus forecast does not fully capture the extent of recent credit or economic events. The macro-economic scenarios are applicable to the whole ING portfolio in the scope of IFRS9 ECL’s.

### Macro-economic scenarios (*)

The provisions are based on the end of June macro-economic consensus forecasts, with the main inputs for four of our main portfolios in the upside scenario, baseline scenario and downside scenario presented in the sensitivity table below. The Macro-economic (ME) forecast resulted increased calculated model based collective provisions. The main driver for the increase is the significant GDP growth deterioration which is forecasted as result of the Covid-19 crisis, which mainly impacted risk costs in Wholesale Banking. For Retail portfolios, unemployment rate and house prices are the most important drivers and those did show more moderate deterioration. Hence the impact of worsened macroeconomic forecasts on the Retail portfolios is more moderate.

The macro-economic scenarios reflects how the Covid-19 pandemic, the (reversal of) lockdown measures and government and central bank support measures potentially can impact the economic outlook. In the consensus forecast, a rebound in activity is projected to start in the second half of 2020 despite ongoing containment measures. Nevertheless, the consensus does not expect the major economies to return to pre-crisis levels until after 2021. Making predictions is difficult as there are still many uncertainties about the development of the Covid-19 pandemic.

### Management adjustments (*)

In times of volatility and uncertainty where the portfolio quality and economic environment is rapidly changing, models alone may not be able to accurately predict losses. In these cases management adjustments can be applied to appropriately reflect ECL. Adjustments can also be applied where the impact of the updated macroeconomic scenarios is over- or under-estimated by the IFRS 9 models.

As mentioned above, per the guidance from EBA, Covid-19 related payment holidays should not be regarded as an automatic forbearance trigger, and hence, should not automatically trigger recognition of lifetime ECL.

Looking forward, it is expected that the phasing out of the Covid-19 related payment holiday schemes and other support measures in the second half of 2020 could potentially lead to more business insolvencies and unemployment. This could lead to more clients that have currently taken payment holidays, getting into financial difficulties and to higher levels of defaults. To the extent ING believes that this elevated risk is not yet covered in the IFRS9 models, a management adjustment has been recognised.

This management adjustment has been recognised for SME portfolios as these portfolios are considered to be most at risk and have the highest percentage of customers requesting payment holidays compared to other portfolios. ING has recognised a management adjustment of €45 million in Netherlands and €15 million in Belgium as they are the largest SME portfolios and not significantly impacted by ME forecasts updates.

In addition, as oil price remains volatile, as well as exposed to the impacts of the Covid-19 crisis and subject to political decisions, ING recognised a management adjustment for the upstream oil book of €30 million.

### Analysis on sensitivity (*)

Based on the above, analysis on the sensitivity of key forward-looking macroeconomic inputs used in the ECL collective-assessment modelling process and the probability-weights applied to each of the three scenarios is presented below. The countries included in the analysis are the Bank's most significant geographic regions, in terms of both gross contribution to reportable ECL, and sensitivity of ECL to forward-looking macroeconomics. Accordingly, the Bank considers these portfolios to present the most significant risk of resulting in a material adjustment to the carrying amount of financial assets within the next financial year. The Bank also observes that, in general, the Wholesale business is more sensitive to the impact of forward-looking macroeconomic scenarios.

While the table does give a high-level indication of the sensitivity of the outputs to the different scenarios, it does not provide insight on the interdependencies and correlations between different macroeconomic variable inputs.

**Sensitivity analysis (*)[1,2,3]**

| | | 2020 | 2021 | 2022 | Un-weighted ECL (Eur mln) | Probability-weighing | Reportable ECL (Eur mln)[4] |
|---|---|---|---|---|---|---|---|
| **Netherlands** | | | | | | | |
| Upside scenario | Real GDP | -6.0 | 5.2 | 3.9 | | | |
| | Unemployment | 4.9 | 4.4 | 3.8 | 476 | 20% | |
| | HPI | 3.7 | 14.7 | 5.3 | | | |
| Baseline Scenario | Real GDP | -6.3 | 4.0 | 2.3 | | | |
| | Unemployment | 5.3 | 5.4 | 5.4 | 536 | 60% | 559 |
| | HPI | -0.2 | 0.8 | 3.2 | | | |
| Downside scenario | Real GDP | -6.9 | 0.6 | 0.1 | | | |
| | Unemployment | 6.2 | 7.5 | 8.3 | 708 | 20% | |
| | HPI | -4.4 | -14.4 | 0.3 | | | |

**Sensitivity analysis (*)[1,2,3]**

| | | 2020 | 2021 | 2022 | Un-weighted ECL (Eur mln) | Probability-weighing | Reportable ECL (Eur mln)[4] |
|---|---|---|---|---|---|---|---|
| **Germany** | | | | | | | |
| Upside scenario | Real GDP | -5.8 | 7.1 | 2.6 | | | |
| | Unemployment | 3.7 | 2.4 | 1.6 | 518 | 20% | |
| | HPI | 6.0 | 7.0 | 8.5 | | | |
| Baseline Scenario | Real GDP | -6.3 | 5.3 | 1.9 | | | |
| | Unemployment | 4.0 | 3.6 | 3.2 | 558 | 60% | 575 |
| | HPI | 4.4 | 3.2 | 5.1 | | | |
| Downside scenario | Real GDP | -6.9 | 1.7 | -0.4 | | | |
| | Unemployment | 4.7 | 5.1 | 5.2 | 681 | 20% | |
| | HPI | 0.7 | -1.3 | 1.3 | | | |
| **Belgium** | | | | | | | |
| Upside scenario | Real GDP | -7.6 | 6.2 | 2.8 | | | |
| | Unemployment | 8.9 | 7.7 | 7.2 | 450 | 20% | |
| | HPI | 2.8 | 5.0 | 4.4 | | | |
| Baseline Scenario | Real GDP | -7.9 | 4.9 | 2.3 | | | |
| | Unemployment | 9.2 | 7.7 | 7.7 | 491 | 60% | 510 |
| | HPI | 1.9 | 3.9 | 3.5 | | | |
| Downside scenario | Real GDP | -8.5 | 2.5 | 1.0 | | | |
| | Unemployment | 10.3 | 10.2 | 10.3 | 628 | 20% | |
| | HPI | 0.7 | 2.2 | 2.6 | | | |
| **United States** | | | | | | | |
| Upside scenario | Real GDP | -5.6 | 5.3 | 4.9 | | | |
| | Unemployment | 9.8 | 5.2 | 2.7 | 205 | 20% | |
| | HPI | 3.1 | 6.8 | 8.8 | | | |
| Baseline Scenario | Real GDP | -5.7 | 4.2 | 3.0 | | | |
| | Unemployment | 10.2 | 6.6 | 4.7 | 285 | 60% | 335 |
| | HPI | 2.3 | 2.8 | 3.0 | | | |
| Downside scenario | Real GDP | -6.6 | 0.5 | 0.7 | | | |
| | Unemployment | 10.9 | 9.1 | 8.1 | 612 | 20% | |
| | HPI | 1.3 | -1.9 | -3.3 | | | |

1 Real GDP, in % year-on-year change
2 Unemployment in % of total labour force
3 House Price Index (HPI) in % year-on-year
4 Sensitivity does not include the effect of manual adjustments, which are not material

The setting of PD threshold bandings requires management judgement, and is a key source of estimation uncertainty. To demonstrate the sensitivity of the ECL to these PD thresholds bandings, analysis was run on all collectively-assessed assets, which assumed all assets (Stage 1 and 2) were below the threshold, and apportioned a 12 month ECL. On ING Bank level, the total ECL collective-assessment for performing assets is €2,129 million (2019: €1,291 million). On the same asset base, analysis was run which assumed all performing assets were above the threshold, and apportioned a lifetime ECL. This gave rise to a hypothetical collective-assessment ECLs €1,636 million (2019: €866 million) and €3,409 million (2019: €2,665 million) respectively. Please note that in this analysis all other ECL risk parameters (except for the stage) were kept equal.

It should be noted that the lifetime PD thresholds are not the only drivers of stage allocation. An asset can change stages as a result of being in arrears, on a Watch List or being forborne, among other triggers.

# Market risk in trading books(*)

### Sensitivities (*)

As part of the risk monitoring framework, ING actively monitors the daily changes of sensitivities of the trading portfolios. Sensitivities measure the impact of movements in individual market risk factors (foreign exchange rates, interest rates, credit spreads, equity, and commodity prices) on profit and loss results of the trading positions and portfolios.

The following tables show the five largest trading positions in terms of sensitivities to foreign exchange, interest rate and credit spread risk factor movements. These largest exposures also reflect concentrations of risk in FX risk per currency, IR risk per currency, and Credit Spread risk per country and rating and sector. Due to the nature of the trading portfolios, positions in the portfolios can change significantly from day to day, and sensitivities of the portfolios can change daily accordingly.

**Most important foreign exchange trading positions (*)**

| amounts in EUR millions | 30 June 2020 | | 31 December 2019 |
|---|---|---|---|
| Foreign exchange | | Foreign exchange | |
| US Dollar | 127 | US Dollar | 116 |
| Great Britain Pound | -37 | Chinese Yuan Renminbi | -21 |
| Chinese Yuan Renminbi | 27 | South Korean Won | 20 |
| Japanese Yen | -26 | Brazilian Real | -15 |
| Switzerland Franc | -24 | Japanese Yen | -10 |

**Most important interest rate and credit spread sensitivities (*)**

| amounts in EUR thousands | 30 June 2020 | | 31 December 2019 |
|---|---|---|---|
| **Interest Rate (BPV)** [1] | | **Interest Rate (BPV)** [1] | |
| Euro | -1,280 | Euro | –740 |
| US Dollar | -745 | US Dollar | –325 |
| Great-Britain Pound | -154 | Russian Ruble | –105 |
| Japanese Yen | -92 | Great-Britain Pound | –68 |
| Australian Dollar | -66 | Australian Dollar | –31 |
| | | | |
| **Credit Spread (CSO1)** [2] | | **Credit Spread (CSO1)** [2] | |
| Germany | 153 | United States | 360 |
| United States | 109 | Germany | 163 |
| Republic of Korea | -58 | France | 117 |
| Indonesia | 42 | Russian Federation | 73 |
| United Kingdom | 40 | United Kingdom | 72 |

1 Basis Point Value (BPV) measures the impact on value of a 1 basis point increase in interest rates. The figures include commodity risk in banking books.

2 Credit Spread Sensitivity (CS01) measures the impact on value of a 1 basis point increase in credit spreads. Exposures to supranational institutions are not assigned to a specific country.

**Credit spread sensitivities per risk class and sector (excluding sovereign exposures) (*)**

| | 30 June 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| amounts in EUR thousands | Corporate | Financial Institutions | Corporate | Financial Institutions |
| **Credit Spread (CSO1)** [1] | | | | |
| **Risk classes** | | | | |
| 1 (AAA) | 1 | -3 | 1 | –1 |
| 2–4 (AA) | 21 | -64 | –15 | –63 |
| 5–7 (A) | 56 | -50 | 143 | 32 |
| 8–10 (BBB) | 207 | -24 | 273 | 1 |
| 11–13 (BB) | 57 | -4 | 148 | 9 |
| 14–16 (B) | 20 | -2 | 51 | 1 |
| 17–22 (CCC and NPL) | 3 | | 26 | |
| Not rated | | | | |
| **Total** | **365** | **-147** | **626** | **–21** |

1 Credit Spread Sensitivity (CS01) measures the impact on value of a 1 basis point increase in credit spreads.

# Other risks and uncertainties

Because we are a financial services company conducting business on a global basis, our revenues and earnings are affected by the volatility and strength of the economic, business, liquidity, funding and capital markets environments specific to the geographic regions in which we conduct business. The ongoing turbulence and volatility of such factors have adversely affected, and may continue to adversely affect, the profitability, solvency and liquidity of our business.

Factors such as interest rates, securities prices, credit ratings, credit spreads, liquidity spreads, exchange rates, effects of the Covid-19 pandemic, consequences of the United Kingdom's withdrawal from the European Union, changes to 'benchmark' indices, consumer spending, changes in client behaviour, business investment, real estate values and private equity valuations, government spending, inflation or deflation, the volatility and strength of the capital markets, political events and trends, non-compliance with (or changes) in laws and regulations, climate change, terrorism, as well as inability to protect our intellectual property and infringement claims by third parties, to achieve our strategy or to retain key personnel may all impact the business and economic environment and, ultimately, our solvency, liquidity and the amount and profitability of business we conduct in a specific geographic region.

Additional risks of which the ING is not presently aware, or that are currently viewed as less material than the risks described above, could also affect the business operations of ING and have a material adverse effect on ING's business activities, financial condition, results of operations and prospects. For more information on risks, please refer to "Other information and appendices - Risk Factors" in the Annual Report ING Group for the year ended December 31, 2019."

## Developments on KYC

In the first half year of 2020, as part of this process, the Risk Committee and the Supervisory Board spent considerable time discussing, among other things, the progress in the bank-wide Know Your Customer Enhancement Programme.

The KYC Enhancement Programme encompasses all client segments in all ING business units. The programme consists of three parts: (a) look-back analysis on past deficiencies in post-transaction monitoring. The look-back analysis consists of screening of transactions executed in the past. In case unusual transactions are identified, ING is committed to following the applicable reporting process; (b) enhancement of customer due diligence files with the aim to document sufficiently the knowledge the bank has about its clients in the line with past and new requirements; (c) structural solutions that should support getting sustainably better in addressing money laundering risks in our portfolio and complying with laws and regulations.

The structural solutions comprise five pillars:

- Development and global roll-out of KYC risk appetite statements, KYC risk assessments on clients, capability structure and maturity assessments;
- Development and global roll-out of a bank-wide KYC digital service platform;
- Translation of risk assessment outcomes into scenarios and alert definitions that can be applied in transaction monitoring;
- Set up central KYC organisation that defines standards and drives global execution and improvements; and
- Develop and rollout KYC communication and awareness initiatives and set up a behavioural risk department that performs risk assessments.

In the first half-year 2020, ING continued to make progress in executing the Global KYC Enhancement Program. Several workstreams have delivered on their commitments and further improvement activities are now embedded in continuous improvement cycles in regular operations.  Key achievements in the past months include among others:

- the adjusted Global KYC organisation started on 1st February with the establishment of three pillars - Customer Due Diligence, Transaction Monitoring and Screening – to enhance end-to-end steering and ownership;
- the adoption of ING's 2020 Global KYC RAS, which includes a number of inclusions set for high risk client relationships; and
- the partnership with the Association of Certified Anti-Money Laundering Specialists (ACAMS) to rollout their internationally recognised and certified KYC training for ING employees.

### IBOR Transition

Interbank offered rates, such as EURIBOR and LIBOR, are widely used as benchmarks to set interest rates across a broad range of financial products and contracts. In line with recommendations from the Financial Stability Board, a fundamental review and reform of the major interest rates benchmarks has been undertaken. For the Eurozone, this led to a reform of the EURIBOR benchmark rate and development of €STR as the recommended new nearly risk-free-rate (RFR) to replace EONIA. For LIBOR benchmarks, the reform will include replacing interest rate benchmarks with alternative, nearly risk-free rates. This process is at different stages, and is progressing at different speeds, across several major currencies.

ING Bank has exposure to IBORs through various products in all of its business lines (wholesale banking, retail banking, business banking) and exposure relating to the associated funding and hedging activities including debt issuance, the interest rate risk position, holdings of investment securities, etc. ING has established a global IBOR Transition Program to manage the transition. The program performs the assessment and actions necessary to manage a smooth transition to RFRs within all internal processes and systems, including pricing, risk management, legal documentation, hedge arrangements, as well as any impact on customers.
The Covid-19 virus outbreak has impacted the progress in a number of interim industry developments intended to aid transition. However, the key industry working groups are active and the FCA has reiterated that the working assumption that LIBOR cannot be assumed to be available beyond the end of 2021 remains. ING is proactively reaching out to industry participants, counterparties and clients to create awareness and offer support on the upcoming transition.

At ING, progress has been made in H1 2020 on the IBOR execution activities in all Business Lines of the bank. The program has a robust governance in place, with progress being tracked by business line Steering committees reporting into the central IBOR Steering committee. ING is well on track to meet the external milestones of 2020 and finalizing detailed roadmaps and resource planning for implementation in 2021. ING is monitoring market developments closely, as there remain some uncertainties in the industry.

# Condensed consolidated statement of financial position

| in EUR million | 30 June 2020 | 31 December 2019 |
|---|---|---|
| **Assets** | | |
| Cash and balances with central banks | 118,971 | 53,202 |
| Loans and advances to banks | 30,663 | 35,133 |
| Financial assets at fair value through profit or loss 2 | 111,155 | 96,217 |
| Financial assets at fair value through other comprehensive income 3 | 38,993 | 34,468 |
| Securities at amortised cost 4 | 51,085 | 46,108 |
| Loans and advances to customers 5 | 616,845 | 611,907 |
| Investments in associates and joint ventures 6 | 1,775 | 1,790 |
| Property and equipment | 3,086 | 3,172 |
| Intangible assets 7 | 1,586 | 1,916 |
| Current tax assets | 604 | 251 |
| Deferred tax assets | 806 | 730 |
| Other assets | 9,530 | 7,014 |
| Total assets | **985,099** | **891,910** |

| | 30 June 2020 | 31 December 2019 |
|---|---|---|
| **Liabilities** | | |
| Deposits from banks 8 | 78,649 | 34,826 |
| Customer deposits | 638,379 | 606,410 |
| Financial liabilities at fair value through profit or loss 9 | 90,644 | 77,943 |
| Current tax liabilities | 387 | 499 |
| Deferred tax liabilities | 758 | 695 |
| Provisions | 566 | 688 |
| Other liabilities | 14,838 | 12,796 |
| Debt securities in issue 10 | 95,592 | 93,721 |
| Subordinated loans 11 | 16,801 | 16,515 |
| Total liabilities | **936,614** | **844,093** |
| | | |
| **Equity 12** | | |
| Share capital and share premium | 17,067 | 17,067 |
| Other reserves | 3,600 | 4,000 |
| Retained earnings | 26,795 | 25,857 |
| Shareholders' equity (parent) | **47,463** | **46,924** |
| Non-controlling interests | 1,022 | 893 |
| Total equity | **48,484** | **47,817** |
| Total liabilities and equity | **985,099** | **891,910** |

References relate to the accompanying notes. These are an integral part of the Condensed consolidated Interim financial statements.

# Condensed consolidated statement of profit or loss

for the periods ended 30 June

| 6 month period in EUR million | 1 January to 30 June 2020 | 2019 |
|---|---|---|
| **Continuing operations** | | |
| Interest income using effective interest rate method | 11,038 | 12,945 |
| Other interest income | 1,027 | 1,611 [1] |
| Total interest income | **12,065** | **14,556** |
| | | |
| Interest expense using effective interest rate method | –4,211 | –5,972 |
| Other interest expense | –923 | –1,634 [1] |
| Total interest expense | **–5,134** | **–7,606** |
| | | |
| Net interest income 13 | **6,931** | **6,950** |
| | | |
| Net fee and commission income 14 | 1,507 | 1,386 |
| Valuation results and net trading income 15 | 456 | 547 |
| Investment income | 40 | 58 |
| Other income[2] 16 | 264 | 292 |
| Total income | **9,198** | **9,232** |

| | 1 January to 30 June 2020 | 2019 |
|---|---|---|
| Addition to loan loss provisions 5 | 1,997 | 416 |
| Staff expenses | 2,927 | 2,809 |
| Other operating expenses | 2,698 | 2,417 |
| Total expenses | **7,623** | **5,643** |
| | | |
| Result before tax from continuing operations | **1,575** | **3,590** |
| | | |
| Taxation | 519 | 954 |
| Net result from continuing operations | **1,056** | **2,636** |
| | | |
| Net result (before non-controlling interests) | **1,056** | **2,636** |
| Net result attributable to Non-controlling interests | 36 | 47 |
| Net result attributable to shareholders of the parent | **1,021** | **2,589** |

1 Prior period amounts in other interest income and other interest expense have been updated to improve consistency and comparability.

2 Other income includes Result from associates and joint ventures, Result on disposal of group companies, Net result on derecognition of financial assets at amortised cost and Other.

References relate to the accompanying notes. These are an integral part of the Condensed consolidated Interim financial statements.

# Condensed consolidated statement of comprehensive income

| 6 month period | 1 January to 30 June | |
|---|---|---|
| in EUR million | 2020 | 2019 |
| **Net result (before non-controlling interests)** | 1,056 | 2,636 |
| | | |
| **Other comprehensive income** | | |
| Items that will not be reclassified to the statement of profit or loss: | | |
| Realised and unrealised revaluations property in own use | 11 | 36 |
| Remeasurement of the net defined benefit asset/liability | 84 | –23 |
| Net change in fair value of equity instruments at FVOCI | –311 | 201 |
| Net change in fair value of own credit risk of financial liabilities at FVPL | 11 | –91 |
| | | |
| Items that may subsequently be reclassified to the statement of profit or loss: | | |
| Net change in fair value of debt instruments at FVOCI | –77 | 4 |
| Realised gains/losses on debt instruments at FVOCI reclassified to the statement of profit or loss | –27 | –36 |
| Changes in cash flow hedge reserve | 644 | 861 |
| Exchange rate differences | –691 | –126 |
| Share of other comprehensive income of associates and joint ventures and other income | 3 | –3 |
| **Total comprehensive income** | **703** | **3,460** |
| | | |
| **Comprehensive income attributable to:** | | |
| Non-controlling interests | 134 | 86 |
| Shareholders of the parent | 570 | 3,375 |
| | **703** | **3,460** |

# Condensed consolidated statement of changes in equity

| in EUR million | Share capital and share premium | Other reserves | Retained earnings | Share-holders' equity (parent) | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| **Balance as at 31 December 2019** | 17,067 | 4,000 | 25,857 | 46,924 | 893 | 47,817 |
| | | | | | | |
| Net change in fair value of equity instruments at fair value through other comprehensive income | | –310 | –2 | –312 | | –311 |
| Net change in fair value of debt instruments at fair value through other comprehensive income | | –72 | | –72 | –5 | –77 |
| Realised gains/losses on debt instruments at fair value through other comprehensive income reclassified to the statement of profit or loss | | –27 | | –27 | –1 | –27 |
| | | | | | | |
| Changes in cash flow hedge reserve | | 501 | | 501 | 144 | 644 |
| Realised and unrealised revaluations property in own use | | 9 | 2 | 11 | 0 | 11 |
| Remeasurement of the net defined benefit asset/liability | | 84 | | 84 | | 84 |
| Exchange rate differences and other | | –650 | | –650 | –41 | –691 |
| Share of other comprehensive income of associates and joint ventures and other income | | 54 | –51 | 3 | | 3 |
| Change in fair value of own credit risk of financial liabilities at fair value through profit or loss | | 11 | | 11 | | 11 |
| Total amount recognised directly in other comprehensive income net of tax | | **–399** | **–51** | **–451** | **98** | **–353** |
| Net result | | | 1,021 | 1,021 | 36 | 1,056 |
| Total comprehensive income net of tax | | **–399** | **969** | **570** | **134** | **703** |
| | | | | | | |
| Dividends | | | –43 | –43 | –3 | –46 |
| Employee stock option and share plans | | | 12 | 12 | 0 | 12 |
| Changes in the composition of the group and other changes | | | | | –1 | –1 |
| **Balance as at 30 June 2020** | **17,067** | **3,600** | **26,795** | **47,463** | **1,022** | **48,484** |

Changes in individual Reserve components are presented in Note 12 'Equity'.

# Condensed consolidated statement of changes in equity - continued

| in EUR million | Share capital and share premium | Other reserves | Retained earnings | Shareholders' equity (parent) | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| **Balance as at 31 December 2018** | 17,067 | 3,504 | 23,602 | 44,173 | 803 | 44,976 |
| | | | | | | |
| Net change in fair value of equity instruments at fair value through other comprehensive income | | –123 | 322 | 199 | 2 | 201 |
| Net change in fair value of debt instruments at fair value through other comprehensive income | | 4 | | 4 | 0 | 4 |
| Realised gains/losses on debt instruments at fair value through other comprehensive income reclassified to the statement of profit or loss | | –34 | | –34 | –1 | –36 |
| | | | | | | |
| Changes in cash flow hedge reserve | | 830 | | 830 | 31 | 861 |
| Realised and unrealised revaluations property in own use | | 29 | 7 | 36 | –0 | 36 |
| Remeasurement of the net defined benefit asset/liability | | –23 | | –23 | | –23 |
| Exchange rate differences and other | | –132 | | –132 | 6 | –126 |
| Share of other comprehensive income of associates and joint ventures and other income | | 122 | –125 | –3 | 0 | –3 |
| Change in fair value of own credit risk of financial liabilities at fair value through profit or loss | | –91 | | –91 | | –91 |
| Total amount recognised directly in other comprehensive income net of tax | | **582** | **204** | **786** | **38** | **824** |
| Net result | | | 2,589 | 2,589 | 47 | 2,636 |
| Total comprehensive income net of tax | | **582** | **2,793** | **3,375** | **86** | **3,460** |
| | | | | | | |
| Dividends | | | –1,055 | –1,055 | –27 | –1,082 |
| Employee stock option and share plans | | | 15 | 15 | 0 | 15 |
| Changes in the composition of the group and other changes | | | | | | |
| **Balance as at 30 June 2019** | **17,067** | **4,085** | **25,355** | **46,508** | **862** | **47,369** |

# Condensed consolidated statement of cash flows

| in EUR million | | 1 January to 30 June 2020 | 2019 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Result before tax** | | 1,575 | 3,590 |
| Adjusted for: | – Depreciation and amortisation | 402 | 388 |
| | – Addition to loan loss provisions | 1,997 | 416 |
| | – Other non-cash items in Result before tax | 790 | 72 |
| Taxation paid | | –1,149 | –1,582 |
| Changes in: | – Net change in Loans and advances to/from banks, not available/payable on demand | 51,910 | –3,434 |
| | – Net change in Trading assets and Trading liabilities | 3,215 | –1,696 |
| | – Loans and advances to customers | –9,860 | –18,728 |
| | – Customer deposits | 34,189 | 20,544 |
| | – Other | –5,748 | 8,601 |
| **Net cash flow from/(used in) operating activities** | | **77,322** | **8,171** |
| | | | |
| **Cash flows from investing activities** | | | |
| Investments and advances: | - Acquisition of subsidiaries, net of cash acquired | – | –17 |
| | - Associates and joint ventures | –10 | –60 |
| | - Financial assets at fair value through other comprehensive income | –13,095 | –7,765 |
| | - Securities at amortised cost | –16,306 | –6,395 |
| | - Property and equipment | –144 | –135 |
| | - Other investments | –165 | –184 |
| Disposals and redemptions: | – Associates and joint ventures | 12 | 6 |
| | – Financial assets at fair value through other comprehensive income | 8,523 | 8,982 |
| | – Securities at amortised cost | 11,547 | 7,441 |
| | – Property and equipment | 4 | 71 |
| | – Loans sold | – | 401 |
| | – Other investments | 8 | 1 |
| **Net cash flow from/(used in) investing activities** | | **–9,627** | **2,346** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from debt securities | | 48,565 | 49,763 |
| Repayments of debt securities | | –46,335 | –57,088 |
| Proceeds from issuance of subordinated loans | | 2,138 | 1,091 |
| Repayments of subordinated loans | | –2,431 | –931 |
| Repayments of principal portion of lease liabilities | | –132 | –123 |
| Purchase/sale of treasury shares | | | |
| Dividends paid | | –46 | –1,055 |
| Other financing | | – | |
| **Net cash flow from/(used in) financing activities** | | **1,759** | **–8,343** |
| | | | |
| **Net cash flow** | | **69,453** | **2,174** |
| | | | |
| **Cash and cash equivalents at beginning of year** | | 54,029 | 47,528 |
| Effect of exchange rate changes on cash and cash equivalents | | –192 | –53 |
| **Cash and cash equivalents at end of year** | | **123,290** | **49,649** |

# Condensed consolidated statement of cash flows - continued

| Cash and cash equivalents | 30 June 2020 | 30 June 2019 |
|---|---|---|
| Treasury bills and other eligible bills | 170 | 94 |
| Deposits from banks/Loans and advances to banks | 4,149 | –2,616 |
| Cash and balances with central banks | 118,971 | 52,171 |
| Cash and cash equivalents at end of year | **123,290** | **49,649** |

The increase in Cash and Cash Equivalents by EUR 69 billion in the 6 month period up to 30 June 2020 to EUR 123 billion were mainly driven by ING's participation of EUR 55 billion in the targeted longer-term refinancing operations (TLTRO III) in June, which were mainly placed on deposit with the ECB as at 30 June (reported as Cash and balances with Central Banks) and by increased customer deposits.

The table below presents the Interest and dividend received and paid.

| | 1 January to 30 June | |
|---|---|---|
| | 2020 | 2019 |
| Interest received | 12,295 | 14,790 |
| Interest paid | –5,510 | –7,572 |
| | **6,784** | **7,218** |
| | | |
| Dividend received[1] | 23 | 62 |
| Dividend paid | –46 | –1,055 |

1. Includes dividends received as recognized within Investment Income, from equity securities included in the Financial assets at fair value through profit or loss, Financial assets at fair value through OCI, and from Investments in associates and joint ventures. Dividend paid and received from trading positions have been included.

Interest received, interest paid and dividends received are included in operating activities in the Condensed consolidated statement of cash flows. Dividend paid is included in financing activities in the Condensed consolidated statement of cash flows.

# Notes to the Condensed consolidated interim financial statements

## 1 Basis of preparation and accounting policies

### 1.1 Reporting entity

ING Bank N.V. is a company domiciled in Amsterdam, the Netherlands. Commercial Register of Amsterdam, number 33031431. These Condensed consolidated interim financial statements, as at and for the six months period ended 30 June 2020, comprise ING Bank N.V. (the Parent company) and its subsidiaries, together referred to as ING Bank. ING Bank is a global financial institution with a strong European base, offering a wide range of retail and wholesale banking services to customers in over 40 countries.

### 1.2 Basis of preparation of the Condensed consolidated interim financial statements

The ING Bank Condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

ING Bank applies International Reporting Standards (IFRS) as adopted by the European Union (EU), which are IFRS Standards and IFRS Interpretations as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) with some limited modifications such as the temporary 'carve-out' from IAS 39 'Financial Instruments: Recognition and Measurement' (herein, referred to as IFRS). These are consistent with those set out in the notes to the 2019 ING Bank Consolidated financial statements as included in the 2019 Annual Report except for the adoption of a number of amendments effective in 2020 as set out in Note 1.3 'Changes to accounting policies.

Under the EU carve-out, ING Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging). For further information, reference is made to paragraph 1.6.5 'Derivatives and hedge accounting' of Note 1 and Note 39 'Derivatives and hedge accounting' of the 2019 ING Bank Consolidated financial statements as included in the 2019 Annual Report.

The Condensed consolidated interim financial statements should be read in conjunction with the 2019 ING Bank Consolidated financial statements as included in the 2019 Annual Report.

The ING Bank Condensed consolidated interim financial statements have been prepared on a going concern basis.

The Condensed consolidated interim financial statements are presented in euros and rounded to the nearest million, unless stated otherwise. Amounts may not add up due to rounding.

#### 1.2.1 Presentation of Risk management disclosures

Certain disclosures of the nature and extent of risks related to financial instruments as disclosed in the 2019 ING Bank Consolidated financial statements as included in the 2019 Annual Report are updated due to the Covid-19 developments in the first six months of 2020.

Although these disclosures are included in the 'Risk management' section, they are an integral part of the ING Bank Condensed consolidated interim financial statements. The disclosures are indicated by the symbol (*).

## 1.3 Changes to accounting policies

ING Bank has consistently applied its accounting policies to all periods presented in these Condensed consolidated financial statements, except for amendments that became effective in 2020.

### 1.3.1 Changes in IFRS effective in 2020

A number of amended standards became applicable for the current reporting period with no significant impact on ING Bank's accounting policies, ING Bank's results or financial position.

The list of amendments effective in the current period and applicable for ING Bank (endorsed by the EU):

- Amendments to IAS 39 ' Financial Instruments: Recognition and Measurements' and IFRS 7 ' Financial Instruments: Disclosures': 'IBOR Reform and its Effects on Financial Reporting – Phase 1' (issued on 26 September 2019 and early adopted by ING in 2019);
- Amendments to IFRS 3 'Business Combinations': Definition of a Business (issued on 22 October 2018);
- Amendments to IAS 1 and IAS 8: 'Definition of Material' (issued on 31 October 2018); and
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018).

In May 2020 the IASB also issued amendments to IFRS 16 'Leases': 'Covid-19-Related Rent Concessions' to provide lessees with an exemption from assessing whether a Covid-19-related rent concession is a lease modification. The amendments are effective for annual reporting periods beginning on or after 1 June 2020, with early application permitted (including financial statements not yet authorised for issue at 28 May 2020) and are also available for interim reports. The amendments are not yet endorsed by the EU. The amendments will not have material impact on ING Bank's accounting policies, ING Bank's results or financial position.

ING Bank has not early adopted any standard, interpretation or amendment (including the above mentioned IFRS 16 amendments) which has been issued, but is not yet effective.

For further information, reference is made to Note 1 'Basis of preparation and accounting policies, 1.4.2 Upcoming changes in IFRS after 2019' in the 2019 ING Bank Consolidated financial statements.

## 1.4 Significant judgements and critical accounting estimates and assumptions

The preparation of the Condensed consolidated interim financial statements requires management to make judgements in the process of applying its accounting policies and to use estimates and assumptions. The estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent assets and contingent liabilities at the balance sheet date, as well as reported income and expenses for the period. The actual outcome may differ from these estimates. The process of setting assumptions is subject to internal control procedures and approvals.

As discussed in Note 1.5 ' Significant judgements and critical accounting estimates and assumptions' of the 2019 ING Bank Consolidated financial statements, ING Bank has identified the following 3 areas that require management to make significant judgements and use critical accounting estimates and assumptions based on the information and financial data that may change in future periods:

- The determination of the fair values of financial assets and liabilities;
- Loan loss provisions; and
- Provisions.

These areas continue to be relevant for these Condensed consolidated interim financial statements, and, in particular, an increased level of estimation uncertainty is observed for Loan loss provisions due to Covid-19 outbreak and determination of the fair values of financial assets and liabilities due to market developments in the first six months of 2020.

In addition to the disclosures in the 2019 Annual Report of ING, the increased uncertainty for Loan loss provisions from Covid-19 manifested itself in the following key areas: the uncertainty around macroeconomic forecasts and the period and duration of the economic recovery path; uncertainty around determining when there has been a significant increase in credit risk, especially in the light of government measures such as payment holidays where traditional risk drivers in ECL models based on payment behavior can be ineffective as these clients are not required to make regular payments and limited (if any) additional information is available. For further discussion and details of the significant judgements and critical accounting estimates and assumptions relating to the Loan loss provisions, reference is made to paragraph 'Loan loss provisioning' in the 'Risk management' section of the interim report.

In light of uncertainties due to Covid-19, the assessment of impairment on non-financial assets became a new area of critical accounting estimates in the first six months of 2020. For ING it mainly related to the assessment for potential impairment of goodwill and an investment in associate (TMB), which involves estimation of their recoverable amounts. Recoverable amounts are sensitive to the assumptions used and their estimation becomes particularly judgmental in light of uncertainties due to Covid-19. The projected cash flows, discount rates and growth rates are particularly relevant and the sensitivity of the recoverable amounts to these assumptions is described in Note 7 'Intangible assets' and Note 6 'Investments in associates and joint ventures'.

### 1.5 Other developments

ING has historically aligned the Definition of Default for regulatory purposes with the definition of 'credit-impaired' financial assets under IFRS 9 (Stage 3). To comply with new regulatory technical standards (RTS) and EBA guidelines ING updated its Definition of Default in the first quarter of 2020. Consequently, ING updated this definition also for IFRS 9 purposes. From an accounting perspective, this represents a change in accounting estimate. This change had no material impact on the Expected Credit Losses but impacted the migration of assets mainly between Stage 2 and Stage 3 resulting in an increase in Stage 3 assets. For more details on this impact, reference is made to paragraph 'Loan loss provisioning' in the 'Risk management' section of the interim report.

# Notes to the Condensed consolidated statement of financial position

## 2 Financial assets at fair value through profit or loss

**Financial assets at fair value through profit or loss**

| | 30 June 2020 | 31 December 2019 |
|---|---|---|
| Trading assets | 53,784 | 49,264 |
| Non-trading derivatives | 2,530 | 2,278 |
| Designated at fair value through profit or loss | 3,700 | 3,076 |
| Mandatorily measured at fair value through profit or loss | 51,142 | 41,600 |
| | **111,155** | **96,217** |

Trading assets include assets that are classified under IFRS as Trading, but are closely related to servicing the needs of the clients of ING Bank. ING offers institutional clients, corporate clients, and governments, products that are traded on the financial markets.
A significant part of the derivatives in the trading portfolio is related to servicing corporate clients in their risk management to hedge for example currency or interest rate exposures. In addition, ING provides its customers access to equity and debt markets for issuing their own equity or debt securities (securities underwriting).

Part of the trading assets are sold subject to repurchase agreements, securities lending and similar agreements comparable to collateralised lending, and continue to be recognised in the consolidated statement of financial position.
From a risk perspective, the gross amount of trading assets must be considered together with the gross amount of trading liabilities, which are presented separately on the statement of financial position since IFRS does not always allow netting of these positions in the statement of financial position.

As at 30 June 2020, Trading Assets include Loans and receivables of EUR 14,344 million (31 December 2019: EUR 11,969 million) with regard to reverse repurchase transactions.

Reference is made to Note 9 'Financial liabilities at fair value through profit or loss' for information on trading liabilities.

Financial assets 'Mandatorily measured at fair value through profit or loss' mainly include reverse repurchase agreements. The related repurchase financial liabilities are classified as financial liabilities 'Designated at fair value through profit or loss'. As at 30 June 2020, Financial assets mandatorily measured at fair value through profit or loss include Loans and receivables of EUR 49,048 million (31 December 2019: EUR 38,985 million) with regard to reverse repurchase transactions.

## 3 Financial assets at fair value through other comprehensive income

**Financial assets at fair value through other comprehensive income by type**

| | 30 June 2020 | 31 December 2019 |
|---|---|---|
| Equity securities | 1,998 | 2,306 |
| Debt securities[1] | 35,650 | 30,483 |
| Loans and advances[1] | 1,345 | 1,680 |
| | **38,993** | **34,468** |

1 Debt securities include an amount of EUR -10 million (31 December 2019: EUR -7 million) and the Loans and advances includes EUR -3 million (31 December 2019: EUR -3 million) of Loan loss provisions.

## Exposure to equity securities

**Equity securities designated as at fair value through other comprehensive income**

| | Carrying value | Dividend income | Carrying value | Dividend income |
|---|---|---|---|---|
| | 30 June 2020 | 30 June 2020 | 31 December 2019 | 31 December 2019 |
| Investment in Bank of Beijing | 1,704 | – | 2,001 | 93 |
| Other Investments | 294 | 2 | 305 | 18 |
| | **1,998** | **2** | **2,306** | **111** |

For strategic equity securities, ING decided to apply the option to irrevocably designate these investments at fair value through other comprehensive income, instead of the IFRS 9 default measurement of fair value through profit or loss.

As at 30 June ING holds approximately 13% (31 December 2019: 13%) of the shares of Bank of Beijing, a bank listed on the stock exchange of Shanghai. As per regulatory requirements set by China Banking and Insurance Regulatory Commission, ING, as a shareholder holding more than 5% or more of the shares, is required to supply additional capital when necessary. No request for additional capital was received as per 30 June 2020 (2019: nil).

**Changes in fair value through other comprehensive income**

The following table presents changes in financial assets at fair value through other comprehensive income.

**Changes in fair value through other comprehensive income financial assets**

| | FVOCI equity securities | | FVOCI debt instruments [1] | | Total | |
|---|---|---|---|---|---|---|
| | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 |
| Opening balance as at 1 January | 2,306 | 3,228 | 32,163 | 27,995 | 34,468 | 31,223 |
| Additions | 9 | 11 | 13,087 | 16,259 | 13,095 | 16,270 |
| Amortisation | | | 32 | –12 | 32 | –12 |
| Transfers and reclassifications | 1 | 3 | 0 | –0 | 1 | 3 |
| Changes in unrealised revaluations[2] | –289 | 139 | 611 | 258 | 322 | 397 |
| Impairments | | | –0 | –2 | –0 | –2 |
| Reversals of impairments | | | –3 | 1 | –3 | 1 |
| Disposals and redemptions | –1 | –1,091 | –8,524 | –12,298 | –8,526 | –13,389 |
| Exchange rate differences | –27 | 15 | –369 | –40 | –396 | –25 |
| Changes in the composition of the group and other changes | –0 | 0 | –0 | 2 | –0 | 3 |
| Closing balance | **1,998** | **2,306** | **36,995** | **32,163** | **38,993** | **34,468** |

1 Fair value through other comprehensive income debt instruments includes both debt securities and loans and advances.
2 Changes in unrealised revaluations include changes on hedged items which are recognised in the statement of profit or loss.

In the first six months of 2020, changes in unrealised revaluations of equity securities decreased mainly related to negative revaluation of the stake in Bank of Bejing following a sharp decline in share price (EUR -271 million).

In the first quarter of 2019, ING sold its last tranche of shares in India's Kotak Mahindra Bank (Kotak) for EUR 880 million. The transaction, for a stake of 3.07%, concluded the divestment process and was the main driver for the 'disposal' line in 2019.

Reference is made to Note 4 'Securities at amortised cost' for details on ING Bank's total exposure to debt securities.

## 4 Securities at amortised cost

Securities at amortised cost fully consist of Debt securities.

ING Bank's total exposure to debt securities is included in the following lines in the statement of financial position:

**Exposure to debt securities**

| | 30 June 2020 | 31 December 2019 |
|---|---|---|
| Debt securities at fair value through other comprehensive income | 35,650 | 30,483 |
| Debt securities at amortised cost | 51,085 | 46,108 |
| Debt securities at fair value through other comprehensive income and amortised cost | **86,735** | **76,592** |
| | | |
| Trading assets | 6,852 | 6,256 |
| Debt securities at fair value through profit or loss | 3,643 | 3,067 |
| Total debt securities at fair value through profit or loss | **10,496** | **9,323** |
| | **97,230** | **85,914** |

ING Bank's total exposure to debt securities (excluding debt securities held in the trading portfolio) of EUR 90,378 million (31 December 2019: EUR  79,659 million) is specified as follows:

**Debt securities by type of exposure**

| | Debt Securities at FVPL | | Debt Securities at FVOCI | | Debt Securities at AC | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 |
| Government bonds | 148 | 408 | 24,679 | 20,300 | 28,427 | 25,627 | 53,254 | 46,334 |
| Sub-sovereign, Supranationals and Agencies | 1,413 | 505 | 7,862 | 6,606 | 13,006 | 10,689 | 22,281 | 17,801 |
| Covered bonds | | | 1,986 | 1,734 | 6,669 | 6,960 | 8,655 | 8,693 |
| Corporate bonds | | | 325 | 476 | 137 | 143 | 462 | 619 |
| Financial institutions' bonds | 1,353 | 1,440 | 377 | 332 | 1,933 | 1,536 | 3,663 | 3,308 |
| ABS portfolio | 730 | 714 | 431 | 1,043 | 934 | 1,163 | 2,095 | 2,920 |
| | **3,643** | **3,067** | **35,660** | **30,491** | **51,106** | **46,118** | **90,409** | **79,676** |
| Loan loss provisions | | | -10 | -7 | -21 | -10 | -31 | -17 |
| Bond portfolio | **3,643** | **3,067** | **35,650** | **30,483** | **51,085** | **46,108** | **90,378** | **79,659** |

Approximately 88% (31 December 2019: 90%) of the exposure in the ABS portfolio is externally rated AAA, AA or A. There are no borrowed debt securities recognised in the statement of financial position.

## 5 Loans and advances to customers

**Loans and advances to customers by type**

| | 30 June 2020 | 31 December 2019 |
|---|---|---|
| Loans to, or guaranteed by, public authorities | 41,925 | 42,190 |
| Loans secured by mortgages | 353,091 | 352,262 |
| Loans guaranteed by credit institutions | 4,397 | 3,775 |
| Personal lending | 28,814 | 28,250 |
| Corporate loans | 194,647 | 190,019 |
| | **622,874** | **616,497** |
| | | |
| Loan loss provisions | –6,029 | –4,590 |
| | **616,845** | **611,907** |

As at 30 June 2020, Loans and advances to customers – corporate loans include receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 3,012 million (31 December 2019: EUR 180 million).

For details on credit quality and loan loss provisioning, refer to 'Risk management – Credit risk' paragraph 'Credit quality'.

**Loans and advances to customers by subordination**

| | 30 June 2020 | 31 December 2019 |
|---|---|---|
| Non-subordinated | 616,768 | 611,786 |
| Subordinated | 78 | 121 |
| | **616,845** | **611,907** |

No individual loan or advance has terms and conditions that significantly affect the amount, timing or certainty of the consolidated cash flows of the Bank.

## 6 Investments in associates and joint ventures

**Investments in associates and joint ventures**

| 30 June 2020 | Interest held (%) | Fair value of listed invest-ments | Balance sheet value | Total assets | Total liabilities | Total income | Total expenses |
|---|---|---|---|---|---|---|---|
| TMB Public Company Limited | 23 | 673 | 1,492 | 54,563 | 48,832 | 526 | 378 |
| Other investments in associates and joint ventures | | | 283 | | | | |
| | | | **1,775** | | | | |

**Investments in associates and joint ventures**

| 31 December 2019 | Interest held (%) | Fair value of listed invest-ments | Balance sheet value | Total assets | Total liabilities | Total income | Total expenses |
|---|---|---|---|---|---|---|---|
| TMB Public Company Limited | 23 | 1,109 | 1,509 | 55,804 | 49,974 | 1,145 | 891 |
| Other investments in associates and joint ventures | | | 281 | | | | |
| | | | **1,790** | | | | |

The reporting dates of certain associates and joint ventures can differ from the reporting date of the Bank, but by no more than three months.

**TMB Bank Public Company Limited**

ING Bank has a 23.03% investment in TMB Bank Public Company Limited (hereafter: TMB), a bank listed on the Stock Exchange of Thailand. TMB is providing products and services to Wholesale, Small and Medium Enterprise (SME), and Retail customers. In December 2019 TMB merged with Thanachart Bank and became Thailand's sixth largest bank.

TMB is accounted for as an investment in associate based on the size of ING shareholding and representation on the Board. IFRS requires to test its investment in TMB for impairment when there is an indication that impairment might exist.

### Impairment testing

In the first half year of 2020, the fair value of ING's investment in TMB significantly declined below the purchase cost. This indicator triggered ING to perform an impairment test on the recoverability of the investment of TMB.  The impairment test performed led to no impairment at 30 June 2020, as the recoverable amount, as determined by a Value in Use calculation, was higher than the carrying amount.

**Investments in associates and joint ventures**

| 30 June 2020 | Value in Use | Fair value | Carrying value |
|---|---|---|---|
| TMB Public Company Limited | 1,606 | 673 | 1,492 |

### Methodology

In line with IFRS, the recoverable amount is determined as the higher of the fair value less costs of disposal and Value in Use ('VIU'). Fair value less costs of disposal is based on observable share price. The ViU calculation uses discounted cash flow projections based on management's best estimates. VIU is derived using a Dividend Discount Model (DDM) where distributable equity, i.e. future earnings available to ordinary shareholders, is used as a proxy for future cash flows. The valuation looks at expected cash flows into perpetuity resulting in two main components to the ViU calculation:

i) the estimation of future earnings over a 5 year forecast period; and

ii) the terminal value being the extrapolation of earnings into perpetuity applying a long term growth rate. The earnings that are used for extrapolation represent the stable long term financial results and position of TMB, i.e. a steady state. The terminal value comprises the majority of the total VIU.

### Key assumptions used in the VIU calculation

The value in use is determined using a valuation model which is subject to multiple management assumptions. The key assumptions, i.e. those to which the overall result is most sensitive to, are the following:

- Terminal growth rate: 3% for periods after 2024, consistent with current long term forecasts of GDP growth for Thailand;
- Discount rate (cost of equity): 9%, based on the capital asset pricing model (CAPM) calculated for TMB, using current market data.

The model was tested for reasonably possible changes to key assumptions in the model. This reflects the sensitivity of the VIU to each key assumption on its own and it is possible that more than one favourable and/or unfavourable change may occur at the same time. A reduction in all of the forecasted annual cash flows, including terminal value, of 7.1% would reduce the recoverable amount to the carrying amount. A -122bps change in the terminal growth rate or a 46bps change in the discount rate would cause the VIU to equal the carrying amount.

**Changes in Investments in associates and joint ventures**

| | 30 June 2020 | 31 December 2019 |
|---|---|---|
| Opening balance as at 1 January | 1,790 | 1,044 |
| Additions | 10 | 686 |
| Transfers to and from Investments/Other assets and liabilities | -0 | 4 |
| Revaluations | 2 | -10 |
| Share of results | 33 | 64 |
| Dividends received | -11 | -50 |
| Disposals | -1 | -10 |
| Impairments | 1 | -34 |
| Exchange rate differences | -55 | 96 |
| Other | 6 | |
| Closing balance | **1,775** | **1,790** |

Share of results from associates and joint ventures of EUR 33 million (2019: EUR 64 million) as included in the table above, is mainly attributable to results of TMB of EUR 39 million (2019: EUR 59 million).

Share of results from associates and joint ventures as presented in the statement of profit or loss includes, besides above mentioned share of results, also impairments.

# 7 Intangible assets

**Changes in intangible assets**

| | Goodwill | | Software | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 |
| Opening balance | 907 | 918 | 958 | 868 | 52 | 53 | 1,916 | 1,839 |
| Additions | | 17 | 50 | 94 | | 0 | 50 | 111 |
| Capitalised expenses | | | 115 | 285 | | | 115 | 285 |
| Amortisation | | | -120 | -235 | -1 | -2 | -121 | -237 |
| Impairments[1] | -310 | | -3 | -61 | -15 | -0 | -328 | -61 |
| Exchange rate differences | -35 | -28 | -5 | 0 | -0 | -0 | -40 | -28 |
| Disposals | | | -8 | -1 | | -0 | -8 | -1 |
| Changes in the composition of the group and other changes | | | 2 | 8 | 0 | 1 | 2 | 9 |
| Closing balance | **562** | **907** | **989** | **958** | **35** | **52** | **1,586** | **1,916** |
| | | | | | | | | |
| Gross carrying amount | 872 | 907 | 2,738 | 2,608 | 60 | 61 | 3,670 | 3,575 |
| Accumulated amortisation | | | -1,737 | -1,641 | -8 | -7 | -1,745 | -1,648 |
| Accumulated impairments | -310 | | -11 | -9 | -17 | -2 | -338 | -11 |
| Net carrying value | **562** | **907** | **989** | **958** | **35** | **52** | **1,586** | **1,916** |

1 Impairments of intangible assets are presented within Other operating expenses in the statement of Profit or Loss.

## Goodwill

Goodwill is allocated to groups of cash generating units (CGUs) as follows:

**Goodwill allocation to group of CGUs**

| Group of CGUs | Method used for recoverable amount | Discount rate | Long term growth rate | Goodwill 30 June 2020 | Goodwill 31 December 2019 |
|---|---|---|---|---|---|
| Retail Netherlands | Values in use | 8.46% | 0.00% | 30 | 30 |
| Retail Belgium | Values in use | 9.54% | 0.00% | | 50 |
| Retail Germany | Values in use | 8.43% | 0.00% | 349 | 349 |
| Retail Growth Markets[1] | Values in use | 13.59% | 3.61% | 182 | 209 |
| Wholesale Banking[1] | Values in use | 9.38% | 0.85% | | 268 |
| | | | | **562** | **907** |

1 Goodwill related to Growth Countries is allocated across two groups of CGUs, EUR 182 million to Retail Growth Markets and EUR 0 million to Wholesale Banking (31 December 2019: EUR 209 million to Retail Growth Markets and EUR 61 million to Wholesale Banking).

Covid-19 has resulted in adverse changes in the market and economic environment. Due to the impact of the significant deterioration in the economic environment on the cash flow outlook of our businesses, we completed a goodwill impairment review across ING Bank in the second quarter of 2020.

This review resulted in the recognition of goodwill impairments on the CGU Retail Belgium of EUR 50 million (of which EUR 43 million Retail Belgium segment and EUR 8 million Corporate Line) and on the CGU Wholesale Banking of EUR 260 million (fully reported in the Wholesale Banking segment).

For both CGUs the impairment resulted from the negative developments in the macro-economic outlook in the context of the Covid-19 pandemic. In addition, the applicable discount rate is also affected by the deteriorated economic and risk environment. The discount rate used to estimate the value in use of the CGU Belgium as at 30 June 2020 was 9.54 % (31 December 2019: 6.94 %). The discount rate used to estimate the value in use of CGU Wholesale Banking, which is based on the weighted average of the discount rates of various local businesses as Wholesale Banking is a global business line, was at 30 June 9.38% (31 December 2019: 7.29%).

For each of the other group of CGU's the recoverable amount exceeds the carrying value of the CGUs for 2020 and 2019 and therefore no impairment is required.

### Methodology

Several methodologies are applied to arrive at the best estimate of the recoverable amount. In line with IFRS, the recoverable amount is determined as the higher of the fair value less costs of disposal and Value in Use (VIU). The VIU calculation is based on a Dividend Discount model using three year management approved plans, updated for the expected impact of Covid-19. When estimating the VIU of a CGU, local conditions and requirements determine the capital requirements, discount rates, and terminal growth rates. These local conditions and capital requirements determine the ability to upstream excess capital and profits to ING Bank. The discount rate calculation includes other inputs such as equity market premium, country risk premium, and long term inflation which are based on market sources and management's judgement. The long term growth rate for EU-countries is based on long-term risk-free rate by reference to the yield of a composite index consisting of Euro generic government bonds, with a maturity of 30 years. For other countries, the growth rate includes long term inflation rate obtained from market sources.

### Sensitivity of key assumptions

Key assumptions in the goodwill impairment test model are the projected locally available cash flows (based on local capital requirements and projected profits), discount rates (cost of equity), and long term growth rates.

The recoverable amounts of the unimpaired CGU's are sensitive to the above key assumptions.

A decrease in the available cash flow of 10%, an increase in the discount rate of 1 percent point or a reduction of future growth rate to zero are considered reasonably possible changes in key assumptions. If the aforementioned changes occur to the above key assumptions holding the other key assumptions constant, goodwill of the remaining CGUs will continue to be recoverable and no impairment will occur.

### Other intangible assets with indefinite life

The carrying value of CGU Wholesale Banking includes as at 30 June 2020 EUR 11 million (31 December 2019: EUR 20 million) of intangibles with indefinite life which relates to acquired trade names in the payments and cash management business. The asset is deemed to have indefinite life because there is no foreseeable limit to the cash flows generated by those intangible assets.

In the first half year of 2020 an impairment of an indefinite useful life asset of EUR 10 million was recognised, related to a trade name no longer in use.

## 8 Deposits from banks

Deposits from banks include non-subordinated debt from banks, except for amounts in the form of debt securities.

**Deposits from banks by type**

| | 30 June 2020 | 31 December 2019 |
|---|---|---|
| Non-interest bearing | 19 | 180 |
| Interest bearing | 78,631 | 34,646 |
| | **78,649** | **34,826** |

Deposits from banks includes ING's participation in the targeted longer-term refinancing operations (TLTRO) of EUR 59.5 billion (31 December 2019: EUR 17.7 billion). ING participated in a new series of Targeted Longer-Term Refinancing Operations (TLTRO III) for EUR 4.5 billion in March 2020, EUR 55.0 billion in June 2020 and repaid EUR 17.7 billion on previous TLTRO. The TLTRO funding is granted for a period of three years with early repayment option after 1 year. The interest rate on the TLTRO depends on the lending volumes granted to corporates (excluding financial institutions) and households (excluding mortgages).

Under the conditions of the program, banks that show growth in lending volumes equal to or above 0% between 1 March 2020 and 31 March 2021 the interest rate applied on all TLTRO III operations outstanding over the period between 24 June 2020 and 23 June 2021 will be 50 basis points below the average interest rate on the deposit facility prevailing over the same period, and in any case not higher than -1%. In subsequent years the interest will be in a corridor between the Deposit Facility and Main Refinancing Operations rates, depending to what extent ING meets the lending growth conditions of the TLTRO III program. The amount of interest to be recognised on the TLTRO depends on a reasonable expectation of whether the conditions will be met over the life of the loan. Interest on TLTRO is presented as part of net interest margin.

## 9 Financial liabilities at fair value through profit or loss

**Financial liabilities at fair value through profit or loss**

| | 30 June 2020 | 31 December 2019 |
|---|---|---|
| Trading liabilities | 35,745 | 28,042 |
| Non-trading derivatives | 2,438 | 2,217 |
| Designated at fair value through profit or loss | 52,461 | 47,685 |
| | **90,644** | **77,943** |

As at 30 June 2020, trading liabilities include funds on deposit of EUR 8,559 million (31 December 2019: EUR 4,556 million) with regard to repurchase transactions.

As at 30 June 2020, financial liabilities designated at fair value through profit or loss include funds entrusted of EUR 43,180 million (31 December 2019: EUR 38,492 million) with regard to repurchase transactions.

## 10 Debt securities in issue

Debt securities in issue relate to debentures and other issued debt securities with either fixed interest rates or interest rates based on floating interest rate levels, such as certificates of deposit and accepted bills issued by ING Bank, except for subordinated items. Debt securities in issue do not include debt securities presented as Financial liabilities at fair value through profit or loss. ING Bank does not have debt securities that are issued on terms other than those available in the normal course of business. The maturities of the debt securities are as follows:

**Debt securities in issue – maturities**

| | 30 June 2020 | 31 December 2019 |
|---|---|---|
| **Fixed rate debt securities** | | |
| Within 1 year | 32,575 | 26,871 |
| More than 1 year but less than 2 years | 10,522 | 10,358 |
| More than 2 years but less than 3 years | 3,232 | 6,742 |
| More than 3 years but less than 4 years | 1,795 | 3,142 |
| More than 4 years but less than 5 years | 2,491 | 1,226 |
| More than 5 years | 14,265 | 14,305 |
| Total fixed rate debt securities | **64,879** | **62,644** |
| | | |
| **Floating rate debt securities** | | |
| Within 1 year | 26,090 | 24,938 |
| More than 1 year but less than 2 years | 2,500 | 3,126 |
| More than 2 years but less than 3 years | 1,228 | 1,917 |
| More than 3 years but less than 4 years | 50 | 134 |
| More than 4 years but less than 5 years | 90 | 144 |
| More than 5 years | 755 | 816 |
| Total floating rate debt securities | **30,713** | **31,077** |
| | | |
| **Total debt securities** | **95,592** | **93,721** |

In the first six months of 2020, Debt securities in issue increased by EUR 1.9 billion. This increase is mainly attributable to a issuances of commercial paper of EUR 4.7 billion, certificates of deposits of EUR 0.6 billion and an increase in other debt securities of EUR 0.4 billion partly offset by matured savings certificates of EUR 0.2. billion,  the redemption of RMBS (residential mortgage backed securities) of EUR 0.5 billion and matured long term maturity bonds of EUR 3.1 billion.

## 11 Subordinated loans

Subordinated loans relate to subordinated capital debentures and private loans which may be included in the calculation of the capital ratio.

Subordinated loans include loans that qualify as Tier 1 and Tier 2 (CRD IV eligible) capital. Subordinated loans of EUR 13.7 billion have been placed with ING Bank N.V. by ING Groep N.V.

**Changes in subordinated loans**

| | 30 June 2020 | 31 December 2019 |
|---|---|---|
| Opening balance as at 1 January | 16,515 | 13,643 |
| New issuances | 2,138 | 3,440 |
| Repayments | –2,431 | –931 |
| Exchange rate differences and other | 579 | 362 |
| Closing balance | **16,801** | **16,515** |

In 2020 ING Groep N.V. issued in February USD 750 million 4.875% Perpetual Additional Tier 1 Contingent Convertible Capital Securities and in May EUR 1.5 billion 2.125% Subordinated Tier 2 Notes. In February ING Bank N.V. bought back USD 1 billion 5.800% Tier 2 securities via a tender and in April ING Groep N.V. redeemed USD 1 billion 6.000% Perpetual Additional Tier 1 Contingent Convertible Capital Securities and USD 700 million 6.125% Perpetual Debt Securities.

# Equity

## 12 Equity

**Total equity**

| | 30 June 2020 | 31 December 2019 |
|---|---|---|
| Share capital and share premium | | |
| - Share capital | 525 | 525 |
| - Share premium | 16,542 | 16,542 |
| | **17,067** | **17,067** |
| | | |
| Other reserves | | |
| - Revaluation reserve: Equity securities at FVOCI | 1,270 | 1,580 |
| - Revaluation reserve: Debt instruments at FVOCI | 200 | 299 |
| - Revaluation reserve: Cash flow hedge | 1,709 | 1,208 |
| - Revaluation reserve: Credit liability | –103 | –114 |
| - Revaluation reserve: Property in own use | 262 | 253 |
| - Net defined benefit asset/liability remeasurement reserve | –252 | –336 |
| - Currency translation reserve | –2,729 | –2,079 |
| - Share of associates and joint ventures and other reserves | 3,244 | 3,189 |
| | **3,600** | **4,000** |
| | | |
| Retained earnings | 26,795 | 25,857 |
| | | |
| Shareholders' equity (parent) | 47,463 | 46,924 |
| Non-controlling interests | 1,022 | 893 |
| Total equity | **48,484** | **47,817** |

In March 2020, ING Bank announced that it will suspend any payment of dividends until 1 October 2020, following an industry wide recommendation of the ECB. The ECB subsequently updated their recommendation at the end of July, extending the timeframe for suspension of dividend payments until 1 January 2021. Any dividend payment by ING will therefore be delayed until after 1 January 2021. Final dividend over 2019 paid out by ING Bank in February 2020 to its shareholder ING Groep N.V. was EUR 43 million (2019: EUR 173 million), no interim dividend 2020 was paid out in the first six months of 2020 (2019: EUR 2.646 million in total).

**Changes in revaluation reserve**

| | Equity securities at FVOCI | | Debt instruments at FVOCI | | Cash flow hedge | | Credit liability | | Property in own use | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **30 June 2020** | **31 December 2019** | **30 June 2020** | **31 December 2019** | **30 June 2020** | **31 December 2019** | **30 June 2020** | **31 December 2019** | **30 June 2020** | **31 December 2019** |
| Opening balance | 1,580 | 1,914 | 299 | 365 | 1,208 | 604 | -114 | 8 | 253 | 202 |
| Changes in credit liability reserve | | | | | | | 11 | -116 | | |
| Unrealised revaluations | -312 | 137 | -72 | -33 | 501 | 604 | | | 11 | 60 |
| Realised gains/losses transferred to the statement of profit or loss | | | -27 | -33 | | | | | | |
| Realised revaluations transferred to retained earnings | 2 | -472 | 0 | | | | 0 | -6 | -2 | -9 |
| Closing balance | **1,270** | **1,580** | **200** | **299** | **1,709** | **1,208** | **-103** | **-114** | **262** | **253** |

**Equity securities at FVOCI**

In 2020, the unrealised revaluations of EUR -312 million includes EUR -297 million of revaluations of shares in Bank of Beijing.

In 2019, the unrealised revaluations of EUR 137 million are due to the revaluation of shares in Bank of Beijing EUR 35 million and shares in EquensWorldLine EUR 101 million. The EUR -472 million transfer of revaluation reserve to retained earnings is mainly related to the sale of shares in Kotak Mahindra Bank EUR -320 million and EquensWorldLine EUR -149 million.

**Cash flow hedge reserve**

ING mainly hedges floating rate lending with interest rate swaps. Due to decrease in interest rate yield curve the interest rate swaps had a positive revaluation of EUR 501 million (2019: EUR 604 million) which is recognised in cash flow hedge reserve.

**Changes in currency translation reserve**

| | **30 June 2020** | **31 December 2019** |
|---|---|---|
| Opening balance | –2,079 | –2,068 |
| Unrealised revaluations | 84 | –134 |
| Realised gains/losses transferred to the statement of profit or loss | | –128 |
| Exchange rate differences | –734 | 251 |
| Closing balance | **–2,729** | **–2,079** |

Unrealised revaluations relates to changes in the value of hedging instruments that are designated as net investment hedges. The hedging strategy is to hedge the CET1 ratio. The net decrease of unrealized revaluations and Exchange rate differences of EUR -650 million (2019: EUR 117 million increase) is related to several currencies including TRY, PLN, GBP, RUB and AUD that depreciated against the EUR.

Realised gains/losses transferred to the statement of profit or loss in 2019 is related to the sale of shares in Kotak Mahindra Bank (EUR -119 million) and the effect of the merger transaction of TMB (EUR -9 million).

# Notes to the Condensed statement of profit or loss

## 13 Net interest income

**Net interest income**

| | 1 January to 30 June | | | 1 January to 30 June | |
|---|---|---|---|---|---|
| | 2020 | 2019 | | 2020 | 2019 |
| Interest income on loans | 8,432 | 9,803 | Interest expense on deposits from banks | 113 | 184 |
| Interest income on financial assets at fair value through OCI | 283 | 311 | Interest expense on customer deposits | 1,175 | 1,854 |
| Interest income on financial assets at amortised cost | 263 | 359 | Interest expense on debt securities in issue | 704 | 964 |
| Interest income on non-trading derivatives (hedge accounting) | 1,769 | 2,267 | Interest expense on subordinated loans | 322 | 320 |
| Negative interest on liabilities | 292 | 205 | Negative interest on assets | 117 | 186 |
| Total interest income using effective interest rate method | **11,038** | **12,945** | Interest expense on non-trading derivatives (hedge accounting) | 1,779 | 2,466 |
| | | | Total interest expense using effective interest rate method | **4,211** | **5,972** |
| | | | | | |
| Interest income on financial assets at fair value through profit or loss | 450 | 1,006 | Interest expense on financial liabilities at fair value through profit or loss | 348 | 891 |
| Interest income on non-trading derivatives (no hedge accounting) | 556 | 589 [1] | Interest expense on non-trading derivatives (no hedge accounting) | 540 | 702 [1] |
| Interest income other | 21 | 16 | Interest expense on lease liabilities | 11 | 12 |
| Total other interest income | **1,027** | **1,611** | Interest expense other | 24 | 29 |
| | | | Total other interest expense | **923** | **1,634** |
| Total interest income | **12,065** | **14,556** | Total interest expense | **5,134** | **7,606** |
| | | | | | |
| | | | Net interest income | **6,931** | **6,950** |

1 The prior periods have been updated to improve consistency and comparability.

## 14 Net fee and commission income

**Fee and commission income**

| | 1 January to 30 June | |
|---|---|---|
| | 2020 | 2019 |
| Funds transfer | 686 | 736 |
| Securities business | 439 | 316 |
| Insurance broking | 101 | 91 |
| Asset management fees | 115 | 97 |
| Brokerage and advisory fees | 321 | 278 |
| Other | 644 | 648 |
| | **2,307** | **2,164** |

Other, mainly consists of commission fees in respect of bank guarantees of EUR 98 million (first six months of 2019: EUR 103 million), in respect of underwriting syndication loans of EUR 10 million (first six months of 2019: EUR 6 million), in respect of structured finance fees of EUR 67 million (first six months of 2019: EUR 76 million) and in respect of collective instruments distributed but not managed by ING of EUR 112 million (first six months of 2019: EUR 80 million).

**Fee and commission expenses**

| | 1 January to 30 June | |
|---|---|---|
| | 2020 | 2019 |
| Funds transfer | 301 | 321 |
| Securities business | 80 | 95 |
| Insurance broking | 0 | 1 |
| Asset management fees | 3 | 4 |
| Brokerage and advisory fees | 157 | 129 |
| Other | 259 | 229 |
| | **800** | **778** |

All of ING's net fee and commission income are in scope of IFRS 15 'Revenue from Contracts with Customers'. Reference is made to Note 17 'Segments' which includes net fee and commission income, as reported to the Executive Board and the Management Board Banking, disaggregated by line of business and by geographical segment.

## 15 Valuation results and net trading income

**Valuation results and net trading income**

| | 1 January to 30 June | |
|---|---|---|
| | 2020 | 2019 |
| Securities trading results | –1,024 | 718 |
| Derivatives trading results | 1,596 | –433 |
| Other trading results | 54 | 65 |
| Change in fair value of derivatives relating to | | |
| – fair value hedges | 231 | –151 |
| – cash flow hedges (ineffective portion) | –42 | 24 |
| – other non-trading derivatives | 403 | 149 |
| Change in fair value of assets and liabilities (hedged items) | –205 | 193 |
| Valuation results on assets and liabilities designated at FVPL and assets mandatorily measured at FVPL | –292 | –329 |
| Foreign exchange transactions results | –264 | 311 |
| | **456** | **547** |

Securities trading results include the results of market making in instruments such as government securities, equity securities, corporate debt securities, money-market instruments, and interest rate derivatives such as swaps, options, futures, and forward contracts. Foreign exchange transactions results include gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities. Other trading results include the results of trading loans and funds entrusted.

Net trading income relates to trading assets and trading liabilities which include assets and liabilities that are classified under IFRS as Trading but are closely related to servicing the needs of the clients of ING. ING offers products that are traded on the financial markets to institutional clients, corporate clients, and governments.

The majority of the risks involved in security and currency trading is economically hedged with derivatives. The securities trading results are partly offset by results on these derivatives. The result of these derivatives is included in Derivatives trading results. The result on currency trading is included in foreign exchange transactions results.

The fair value movements on the derivatives are influenced by changes in the market conditions such as stock prices, interest rates and currency exchange rates. Following the increased concerns about the Covid-19 pandemic, the global financial markets experienced more volatility than usual in the first half of 2020 which had considerable impact on the results. Aided by substantial central bank intervention, markets have recovered during the second quarter of 2020 and volatility has largely returned to pre-pandemic levels.
Derivatives trading results is also impacted by fair value movements arising from changes in credit spreads (CVA and DVA), bid offer spreads, model risk and incremental cost of funding on derivatives (FVA and CollVA). As result of the economic consequences of the Covid-19 pandemic, ING also observed significant widening of the spreads resulting in increased negative fair value changes. As markets stabilised in the second quarter of 2020 and spreads tightened, the fair value changes decreased again.
In the first six months of 2020, Derivatives trading results include EUR -99 million CVA/DVA adjustments on trading derivatives (in the first six months of 2019: EUR -1 million).

'Valuation results and net trading income' include the fair value movements on derivatives (used for both hedge accounting and economically hedging exposures) as well as the changes in the fair value of assets and liabilities included in hedging relationships as hedged items.

In addition, 'Valuation results and net trading income' include the results on assets and liabilities designated at fair value through profit or loss and assets mandatorily measured at fair value through profit or loss.
In the first six months of 2020, Valuation results on assets and liabilities designated at fair value through profit or loss include fair value adjustments on own issued notes amounting to EUR -141 million (in the first six months of 2019: EUR -373 million).

## 16 Other income

| Other income | | |
|---|---|---|
| | 1 January to 30 June | |
| | 2020 | 2019 |
| Share of result associates and joint ventures | 34 | 15 |
| Result on disposal of group companies | 0 | 117 |
| Net result derecognition of FA measured at amortised cost | 187 | 16 |
| Other | 43 | 144 |
| | **264** | **292** |

In the first six months of 2020, ING realised a result of EUR 186 million following a one-off sale of certain securities at amortised cost driven by exceptional market conditions due to Covid-19. The sale is considered to be infrequent, but more than insignificant in value.

# Segment reporting

## 17 Segments

ING Bank's segments are based on the internal reporting structures by lines of business.

The Management Board Banking of ING  set the performance targets, approve and monitor the budgets prepared by the business lines. Business lines formulate strategic, commercial, and financial plans in conformity with the strategy and performance targets set by the Management Board Banking of ING Bank.

Recognition and measurement of segment results are in line with the accounting policies as described in Note 1 'Accounting policies'. Corporate expenses are allocated to business lines based on time spent by head office personnel, the relative number of staff, or on the basis of income, expenses and/or assets of the segment.

**Specification of the main sources of income of each of the segments by line of business**

| Segments of results by line of business | Main source of income |
|---|---|
| Retail Netherlands<br>*(Market Leaders)* | Income from retail and private banking activities in the Netherlands, including the SME and mid-corporate segments, and the Real Estate Finance portfolio related to Dutch domestic mid-corporates. The main products offered are current and savings accounts, business lending, mortgages and other consumer lending in the Netherlands. |
| Retail Belgium<br>*(Market Leaders)* | Income from retail and private banking activities in Belgium (including Luxembourg), including the SME and mid-corporate segments. The main products offered are similar to those in the Netherlands. |
| Retail Germany<br>*(Challengers and Growth Markets)* | Income from retail and private banking activities in Germany (including Austria). The main products offered are current and savings accounts, mortgages and other customer lending. |
| Retail Other<br>*(Challengers and Growth Markets)* | Income from retail banking activities in the rest of the world, including the SME and mid-corporate segments in specific countries. The main products offered are similar to those in the Netherlands. |
| Wholesale Banking | Income from wholesale banking activities. The main products are: lending, debt capital markets, working capital solutions, export finance, daily banking solutions, treasury and risk solutions, and corporate finance. |

**Specification of geographical segments**

| Geographical segments | Main countries |
|---|---|
| The Netherlands | |
| Belgium | Including Luxembourg |
| Germany | Including Austria |
| Other Challengers | Australia, France, Italy, Spain, Portugal, Czech Republic, and UK Legacy and Other |
| Growth Markets | Poland, Romania, Turkey, Philippines and Asian bank stakes |
| Wholesale Banking Rest of World | UK, Americas, Asia and other countries in Central and Eastern Europe |
| Other | Corporate Line Banking and the run-off portfolio of Real Estate |

ING Bank monitors and evaluates the performance of ING Bank at a consolidated level and by segment. The management Board Banking consider this measure to be relevant to an understanding of the Bank's financial performance, because it allows investors to understand the primary method used by management to evaluate the Bank's operating performance and make decisions about allocating resources.

ING Bank reconciles the total segment results to the total result of ING Bank using Corporate Line. The Corporate Line is a reflection of capital management activities and certain income and expenses that are not allocated to the businesses, including a recognition of a value-added tax (VAT) refund in the first half of 2020 (recorded under expenses), while the same period of last year included a EUR 119 million gain from the release of a currency translation reserve following the sale of ING's stake in Kotak Mahindra Bank and the recognition of a EUR 79 million receivable related to the insolvency of a financial institution (both recorded under income). Furthermore, the Corporate Line includes the isolated legacy costs (mainly negative interest results) caused by the replacement of short-term funding with long-term funding during 2013 and 2014. ING Bank applies a system of capital charging for its operations in order to create a comparable basis for the results of business units globally, irrespective of the business units' book equity and the currency they operate in.

As from the financial year 2020 the information presented to the Management Board Banking of ING Bank is no longer based on underlying results but on IFRS as endorsed by the EU. Previously monitoring and evaluation of ING Bank's segments was based on a non-GAAP financial performance measure called underlying. Underlying result was derived by excluding from IFRS the following: special items, divestments and results from former insurance related activities. In 2020 and 2019 no special items, divestments or former insurance related results were recorded anymore.

The information presented in this note is in line with the information presented to the Management Board Banking of ING Bank.

This note does not provide information on the revenue specified to each product or service as this is not reported internally and is therefore not readily available.

## Segments by line of business

| 6 month period 1 January to 30 June | 2020 Retail Netherlands | 2020 Retail Belgium | 2020 Retail Germany | 2020 Retail Other | 2020 Wholesale Banking | 2020 Corporate Line | 2020 Total | 2019 Retail Netherlands | 2019 Retail Belgium | 2019 Retail Germany | 2019 Retail Other | 2019 Wholesale Banking | 2019 Corporate Line | 2019 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income | | | | | | | | | | | | | | |
| – Net interest income | 1,763 | 937 | 801 | 1,392 | 1,864 | 173 | 6,931 | 1,740 | 959 | 796 | 1,374 | 1,831 | 249 | 6,950 |
| – Net fee and commission income | 332 | 207 | 215 | 193 | 561 | –2 | 1,507 | 329 | 188 | 123 | 212 | 538 | –6 | 1,386 |
| – Total investment and other income | 175 | 71 | 59 | 134 | 354 | –32 | 760 | 190 | 112 | 86 | 100 | 248 | 160 | 896 |
| Total income | **2,269** | **1,215** | **1,075** | **1,720** | **2,780** | **139** | **9,198** | **2,260** | **1,259** | **1,005** | **1,687** | **2,618** | **404** | **9,232** |
| | | | | | | | | | | | | | | |
| Expenditure | | | | | | | | | | | | | | |
| – Operating expenses | 1,088 | 969 | 567 | 1,120 | 1,728 | 153 | 5,625 | 1,095 | 873 | 579 | 1,061 | 1,438 | 180 | 5,226 |
| – Additions to loan loss provision | 139 | 282 | 14 | 304 | 1,256 | 3 | 1,997 | 33 | 58 | –23 | 187 | 162 | 0 | 416 |
| Total expenses | **1,227** | **1,251** | **581** | **1,424** | **2,984** | **156** | **7,623** | **1,128** | **931** | **556** | **1,248** | **1,600** | **180** | **5,643** |
| | | | | | | | | | | | | | | |
| **Result before taxation** | **1,043** | **–36** | **494** | **295** | **–204** | **–17** | **1,575** | **1,132** | **328** | **449** | **438** | **1,018** | **224** | **3,590** |
| Taxation | 262 | 9 | 188 | 85 | 23 | –49 | 519 | 287 | 100 | 153 | 123 | 209 | 83 | 954 |
| Non-controlling interests | –1 | 0 | 2 | 27 | 8 | –0 | 36 | 0 | 0 | 1 | 38 | 8 | –0 | 47 |
| **Net result IFRS** | **781** | **–44** | **304** | **183** | **–235** | **32** | **1,021** | **845** | **229** | **295** | **278** | **801** | **142** | **2,589** |

## Geographical split of the segments

| 6 month period 1 January to 30 June | 2020 | | | | | | | | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Netherlands | Belgium | Germany | Other Challengers | Growth Markets | Wholesale Banking Rest of World | Other | Total | Netherlands | Belgium | Germany | Other Challengers | Growth Markets [1] | Wholesale Banking Rest of World [1] | Other | Total |
| Income | | | | | | | | | | | | | | | | |
| – Net interest income | 2,097 | 1,090 | 1,059 | 893 | 799 | 823 | 169 | 6,931 | 2,061 | 1,112 | 1,060 | 885 | 800 | 787 | 244 | 6,950 |
| – Net fee and commission income | 494 | 302 | 228 | 136 | 131 | 217 | –2 | 1,507 | 487 | 270 | 142 | 142 | 156 | 197 | –6 | 1,386 |
| – Total investment and other income | 197 | 98 | 80 | 14 | 203 | 197 | –28 | 760 | 90 | 177 | 108 | 5 | 167 | 183 | 166 | 896 |
| Total income | **2,788** | **1,491** | **1,367** | **1,043** | **1,133** | **1,237** | **139** | **9,198** | **2,638** | **1,558** | **1,310** | **1,032** | **1,123** | **1,167** | **404** | **9,232** |
| | | | | | | | | | | | | | | | | |
| Expenditure | | | | | | | | | | | | | | | | |
| – Operating expenses | 1,736 | 1,126 | 652 | 669 | 644 | 644 | 155 | 5,625 | 1,472 | 1,025 | 654 | 638 | 616 | 640 | 182 | 5,226 |
| – Additions to loan loss provision | 320 | 338 | 241 | 212 | 205 | 678 | 3 | 1,997 | 78 | 99 | –32 | 92 | 130 | 50 | 0 | 416 |
| Total expenses | **2,056** | **1,465** | **893** | **882** | **849** | **1,322** | **157** | **7,623** | **1,550** | **1,124** | **622** | **730** | **746** | **690** | **182** | **5,643** |
| | | | | | | | | | | | | | | | | |
| **Result before taxation** | **732** | **26** | **474** | **162** | **284** | **–85** | **–18** | **1,575** | **1,088** | **435** | **689** | **302** | **377** | **477** | **222** | **3,590** |
| Retail Banking | 1,043 | –36 | 494 | 74 | 222 | | | 1,796 | 1,132 | 328 | 449 | 163 | 275 | | | 2,348 |
| Wholesale Banking | –310 | 62 | –20 | 88 | 62 | –85 | –2 | –204 | –44 | 106 | 240 | 139 | 102 | 477 | –2 | 1,018 |
| Corporate Line | | | | | | | –17 | –17 | | | | | | | 224 | 224 |
| **Result before taxation** | **732** | **26** | **474** | **162** | **284** | **–85** | **–18** | **1,575** | **1,088** | **435** | **689** | **302** | **377** | **477** | **222** | **3,590** |
| Taxation | 252 | 25 | 170 | 56 | 71 | –10 | –45 | 519 | 271 | 132 | 233 | 101 | 84 | 48 | 84 | 954 |
| Non-controlling interests | –1 | 0 | 2 | | 35 | | | 36 | –0 | 0 | 1 | | 46 | | | 47 |
| **Net result IFRS** | **481** | **2** | **302** | **106** | **178** | **–74** | **27** | **1,021** | **817** | **303** | **454** | **201** | **246** | **429** | **139** | **2,589** |

1) As from 2020 financials of Philippines are reported in Growth Markets while previously Wholesale Banking in Philippines was reported in WB Rest of World; historical figures have been adjusted.

# 18 Fair value of assets and liabilities

## a) Financial assets and liabilities

The following table presents the estimated fair values of ING Bank's financial assets and liabilities. Certain items per the statement of financial position are not included in the table, as they do not meet the definition of a financial asset or liability. The aggregation of the fair values presented below does not represent, and should not be construed as representing, the underlying value of ING Bank.

The Covid-19 pandemic impacted the global financial markets in the first six months of 2020. ING observed large volatility in the market resulting in increased spreads, markets distortion and also illiquidity in some specific markets which has stressed ING's valuation processes and movements in level classifications. The volatility in the market has stabilised in the second quarter of 2020. Financial Assets and Liabilities, including Level 3, continued to be valued using agreed methodologies and ING continued to limit the unobservable input to arrive at the most appropriate Fair Market value.

**Fair value of financial assets and liabilities**

| | Estimated fair value | | Carrying value in the Statement of financial position | |
|---|---|---|---|---|
| | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 |
| **Financial assets** | | | | |
| Cash and balances with central banks | 118,971 | 53,202 | 118,971 | 53,202 |
| Loans and advances to banks | 30,670 | 35,130 | 30,663 | 35,133 |
| Financial assets at fair value through profit or loss | | | | |
| – Trading assets | 53,784 | 49,264 | 53,784 | 49,264 |
| – Non-trading derivatives | 2,530 | 2,278 | 2,530 | 2,278 |
| – Assets mandatorily as at fair value through profit or loss | 51,142 | 41,600 | 51,142 | 41,600 |
| – Assets designated as at fair value through profit or loss | 3,700 | 3,076 | 3,700 | 3,076 |
| Financial assets at fair value through other comprehensive | | | | |
| – Equity securities | 1,998 | 2,306 | 1,998 | 2,306 |
| – Debt securities | 35,650 | 30,483 | 35,650 | 30,483 |
| – Loans and advances | 1,345 | 1,680 | 1,345 | 1,680 |
| Securities at amortised cost | 52,147 | 46,928 | 51,085 | 46,108 |
| Loans and advances to customers | 627,085 | 621,299 | 616,845 | 611,907 |
| Other assets[1] | 8,369 | 5,851 | 8,369 | 5,851 |
| | **987,389** | **893,095** | **976,080** | **882,886** |
| **Financial liabilities** | | | | |
| Deposits from banks | 78,531 | 35,086 | 78,649 | 34,826 |
| Customer deposits | 639,475 | 607,860 | 638,379 | 606,410 |
| Financial liabilities at fair value through profit or loss | | | | |
| – Trading liabilities | 35,745 | 28,042 | 35,745 | 28,042 |
| – Non-trading derivatives | 2,438 | 2,217 | 2,438 | 2,217 |
| – Designated as at fair value through profit or loss | 52,461 | 47,685 | 52,461 | 47,685 |
| Other liabilities[2] | 12,074 | 9,747 | 12,074 | 9,747 |
| Debt securities in issue | 94,977 | 93,358 | 95,592 | 93,721 |
| Subordinated loans | 16,288 | 17,183 | 16,801 | 16,515 |
| | **931,989** | **841,178** | **932,139** | **839,162** |

1 Other assets do not include, among others: (deferred) tax assets, net defined benefit asset, inventory, property development and property obtained from foreclosures.

2 Other liabilities do not include, among others: (deferred) tax liabilities, net defined benefit and related employee benefit liabilities, reorganisation and other provisions, other taxation, social security contributions and lease liabilities.

## b) Fair value hierarchy

ING Bank has categorised its financial instruments that are either measured in the statement of financial position at fair value or of which the fair value is disclosed, into a three level hierarchy based on the priority of the inputs to the valuation. The fair value hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques supported by unobservable inputs. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide reliable pricing information on an ongoing basis. The fair value hierarchy consists of three levels, depending upon whether fair values were determined based on (unadjusted) quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument (Level 3). Financial assets in Level 3 include for example illiquid debt securities, complex derivatives, certain complex loans (for which current market information about similar assets to use as observable, corroborated data for all significant inputs into a valuation model is not available), and asset backed securities for which there is no active market and a wide dispersion in quoted prices.

Observable inputs reflect market data obtained from independent sources. Unobservable inputs are inputs which are based on the Bank's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the market. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates, and certain credit spreads. Transfers into and transfers out of fair value hierarchy levels are made on a quarterly basis.

A comprehensive description of Fair value hierarchy is reported in 'Note 36 Fair value of assets and liabilities' of the 2019 Annual Report ING Bank. This chapter of the Interim financial report should be read in conjunction with the 2019 Annual Report ING Bank.

**Methods applied in determining fair values of financial assets and liabilities (carried at fair value)**

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 |
| **Financial Assets** | | | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | | |
| - Trading assets | 9,364 | 13,238 | 43,504 | 35,852 | 915 | 174 | 53,784 | 49,264 |
| - Non-trading derivatives | | | 2,484 | 2,270 | 46 | 8 | 2,530 | 2,278 |
| - Assets mandatorily at fair value through profit or loss | 27 | 22 | 49,836 | 40,196 | 1,280 | 1,381 | 51,142 | 41,600 |
| - Assets designated as at fair value through profit or loss | 142 | 203 | 2,492 | 1,628 | 1,066 | 1,244 | 3,700 | 3,076 |
| Financial assets at fair value through other comprehensive income | 36,312 | 32,165 | 1,057 | 343 | 1,624 | 1,961 | 38,993 | 34,468 |
| | **45,845** | **45,628** | **99,373** | **80,289** | **4,930** | **4,768** | **150,148** | **130,685** |
| | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Financial liabilities at fair value through profit or loss | | | | | | | | |
| – Trading liabilities | 1,217 | 1,446 | 34,332 | 26,401 | 197 | 195 | 35,745 | 28,042 |
| – Non-trading derivatives | 1 | | 2,278 | 2,106 | 158 | 110 | 2,438 | 2,217 |
| – Financial liabilities designated as at fair value through profit or loss | 571 | 719 | 51,107 | 46,782 | 783 | 184 | 52,461 | 47,685 |
| | **1,789** | **2,165** | **87,717** | **75,289** | **1,138** | **490** | **90,644** | **77,943** |

In the first six months of 2020, the increase in financial assets mandatorily at fair value through profit or loss and financial liabilities designated as at fair value through profit or loss mainly relates to (reverse) repurchase transactions for which the valuation technique is supported by observable inputs.

In 2020 there were no significant transfers between level 1 and 2 and no significant changes in valuation techniques.

## Changes in Level 3 Financial assets

| | Trading assets | | Non-trading derivatives | | Financial assets mandatorily at FVPL | | Financial assets designated at FVPL | | Financial assets at FVOCI | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 |
| Opening balance | 174 | 494 | 8 | 27 | 1,381 | 1,042 | 1,244 | 1,075 | 1,961 | 2,749 | 4,768 | 5,387 |
| Realised gain/loss recognised in the statement of profit or loss during the period [1] | -42 | 40 | 2 | -21 | -70 | -63 | -110 | -6 | -9 | -15 | -227 | -66 |
| Revaluation recognised in other comprehensive income during the period [2] | | | | | | | | | -51 | 155 | -51 | 155 |
| Purchase of assets | 96 | 28 | 3 | | 928 | 1,494 | 173 | 360 | 9 | 11 | 1,208 | 1,893 |
| Sale of assets | -53 | -53 | -3 | -3 | -836 | -832 | -101 | -212 | -187 | -680 | -1,179 | -1,780 |
| Maturity/settlement | -29 | -11 | -1 | | -43 | -461 | -41 | -35 | -97 | -212 | -210 | -719 |
| Reclassifications | | -279 | | | 2 | 279 | | | 1 | 3 | 3 | 4 |
| Transfers into Level 3 | 787 | 26 | 37 | 4 | -2 | 9 | | 63 | | | 822 | 103 |
| Transfers out of Level 3 | -18 | -72 | | | -86 | -88 | -101 | | | -53 | -205 | -214 |
| Exchange rate differences | | 1 | | | 2 | -1 | | | -2 | 1 | 1 | 1 |
| Changes in the composition of the group and other changes | | | | | 2 | 2 | | | -0 | 1 | 2 | 3 |
| Closing balance | **915** | **174** | **46** | **8** | **1,280** | **1,381** | **1,066** | **1,244** | **1,624** | **1,961** | **4,930** | **4,768** |

1 Net gains/losses were recorded as ‘Valuation results and net trading income’ in the statement of profit or loss. The total amounts includes EUR 199 million (31 December 2019: EUR 43 million) of unrealised gains and losses recognised in the statement of profit or loss.
2 Revaluation recognised in other comprehensive income is included on the line ‘Net change in fair value of debt instruments at fair value through other comprehensive income’.

In the first six months of 2020, the transfer into Level 3 assets is mainly driven by debt securities that are part of a structure transferred into level 3 due to illiquidity in the market which decreased market observability for an input.

Transfers out of Level 3 is mainly related to debt obligations due to the valuation no longer being significantly impacted by unobservable inputs.

In 2019 the amounts reported on the line reclassifications relate to syndicated loans reclassified from trading assets to financial assets mandatory at FVPL.

## Changes in Level 3 Financial liabilities

| | Trading liabilities | | Non-trading derivatives | | Financial liabilities designated as at fair value through profit or loss | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 |
| Opening balance | 195 | 122 | 110 | 80 | 184 | 708 | 490 | 910 |
| Realised gain/loss recognised in the statement of profit or loss during the period[1] | -30 | 102 | 28 | -16 | -10 | 32 | -12 | 118 |
| Issue of liabilities | 32 | 72 | 18 | 46 | 555 | 35 | 605 | 154 |
| Early repayment of liabilities | -73 | -30 | -0 | -0 | -68 | -10 | -141 | -40 |
| Maturity/settlement | -8 | -32 | -1 | | -59 | -479 | -69 | -511 |
| Transfers into Level 3 | 92 | 13 | 2 | | 224 | 49 | 318 | 62 |
| Transfers out of Level 3 | -11 | -52 | | | -42 | -150 | -54 | -202 |
| **Closing balance** | **197** | **195** | **158** | **110** | **783** | **184** | **1,138** | **490** |

1 Net gains/losses were recorded as 'Valuation results and net trading income' in the statement of profit or loss. The total amount includes EUR 13 million(31 December 2019: EUR 115 million) of unrealised gains and losses recognised in the statement of profit or loss.

In the first six months of 2020, the tranfers into level 3 mainly consisted of debt issued at designated fair value, mainly structured notes, which were transferred into Level 3 due to illiquidity in the market which caused the valuation being significantly impacted by unobservable inputs.

In 2019, financial liabilities mainly repo's were transferred out of Level 3 mainly due to the valuation not being significantly impacted by unobservable inputs.

### Recognition of unrealised gains and losses in Level 3

Amounts recognised in the statement of profit or loss relating to unrealised gains and losses during the year that relates to Level 3 assets and liabilities are included in the line item 'Valuation results and net trading income' in the statement of profit or loss.

Unrealised gains and losses that relate to 'Financial assets at fair value through other comprehensive income' are included in the Revaluation reserve – Equity securities at fair value through other comprehensive income or Debt Instruments at fair value through other comprehensive income.

### Level 3 Financial assets and liabilities

Financial assets measured at fair value in the statement of financial position as at 30 June 2020 of EUR 150 billion includes an amount of EUR 4.9 billion ( 3.3%) which is classified as Level 3 (31 December 2019: EUR 4.8 billion, being 3.6%). Changes in Level 3 from 31 December 2019 to 30 June 2020 are detailed above in the table Changes in Level 3 Financial assets.

Financial liabilities measured at fair value in the statement of financial position as at 30 June 2020 of EUR 91 billion includes an amount of EUR 1.1 billion ( 1.3%) which is classified as Level 3 (31 December 2019: EUR 0.5 billion, being 0.6%). Changes in Level 3 from 31 December 2019 to 30 June 2020 are disclosed above in the table 'Changes in Level 3 Financial liabilities'.

Financial assets and liabilities in Level 3 include both assets and liabilities for which the fair value was determined using (i) valuation techniques that incorporate unobservable inputs as well as (ii) quoted prices which have been adjusted to reflect that the market was not actively trading at or around the balance sheet date. Unobservable inputs are inputs which are based on ING's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates, and certain credit spreads. Valuation techniques that incorporate unobservable inputs are sensitive to the inputs used.

Of the total amount of financial assets classified as Level 3 as at 30 June 2020 of EUR 4.9 billion (31 December 2019: EUR 4.8 billion), an amount of EUR 2.9 billion ( 59.4%) (31 December 2019: EUR 2.5 billion, being 52.6%) is based on unadjusted quoted prices in inactive markets. As ING does not generally adjust quoted prices using its own inputs, there is no significant sensitivity to ING's own unobservable inputs.

Furthermore, Level 3 financial assets includes approximately EUR 1.1 billion (31 December 2019: EUR 1.3 billion) which relates to financial assets that are part of structures that are designed to be fully neutral in terms of market risk. Such structures include various financial assets and liabilities for which the overall sensitivity to market risk is insignificant. Whereas the fair value of individual components of these structures may be determined using different techniques and the fair value of each of the components of these structures may be sensitive to unobservable inputs, the overall sensitivity is by design not significant.

The remaining EUR 0.9 billion (31 December 2019: EUR 1.0 billion) of the fair value classified in Level 3 financial assets is established using valuation techniques that incorporates certain inputs that are unobservable.

Of the total amount of financial liabilities classified as Level 3 as at 30 June 2020 of EUR 1.1 billion (31 December 2019: EUR 0.5 billion), an amount of EUR 0.7 billion (64.5%) (31 December 2019: EUR 0.2 billion, being 39.3%) is based on unadjusted quoted prices in inactive markets. As ING does not generally adjust quoted prices using its own inputs, there is no significant sensitivity to ING's own unobservable inputs.

Furthermore, Level 3 financial liabilities includes approximately EUR 0.1 billion (31 December 2019: EUR 0.1 billion) which relates to financial liabilities that are part of structures that are designed to be fully neutral in terms of market risk. As explained above, the fair value of each of the components of these structures may be sensitive to unobservable inputs, but the overall sensitivity is by design not significant.

The remaining EUR 0.3 billion (31 December 2019: EUR 0.2 billion) of the fair value classified in Level 3 financial liabilities is established using valuation techniques that incorporates certain inputs that are unobservable.

The table below provides a summary of the valuation techniques, key unobservable inputs and the lower and upper range of such unobservable inputs, by type of Level 3 asset/liability. The lower and upper range mentioned in the overview represent the lowest and highest variance of the respective valuation input as actually used in the valuation of the different financial instruments. Amounts and percentages stated are unweighted. The range can vary from period to period subject to market movements and change in Level 3 position. Lower and upper bounds reflect the variability of Level 3 positions and their underlying valuation inputs in the portfolio, but do not adequately reflect their level of valuation uncertainty. For valuation uncertainty assessment, reference is made to section Sensitivity analysis of unobservable inputs (Level 3).

## Valuation techniques and range of unobservable inputs (Level 3)

| | Assets | | Liabilities | | Valuation techniques | Significant unobservable inputs | Lower range | | Upper range | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | | | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 |
| **At fair value through profit or loss** | | | | | | | | | | |
| Debt securities | 1,470 | 920 | | | Price based | Price (%) | 0% | 0% | 107% | 121% |
| | | | | | Net asset value | Price (%) | n/a | n/a | n/a | n/a |
| | | | | | Present value techniques | Credit spread (bps) | n/a | n/a | n/a | n/a |
| | | | | | Loan pricing model | Credit spread (bps) | n/a | n/a | n/a | n/a |
| Equity securities | 139 | 146 | | 1 | Price based | Price | 0 | 0 | 5,475 | 5,475 |
| Loans and advances | 919 | 1,576 | | | Price based | Price (%) | 0% | 0% | 100% | 104% |
| | | | | | Present value techniques | Price (%) | n/a | n/a | n/a | n/a |
| | | | | | | Credit spread (bps) | 2 | 1 | 1,013 | 250 |
| | | | | | | | | | | |
| (Reverse) repo's | 539 | 3 | 434 | 1 | Present value techniques | Interest rate | 1% | 4% | 4% | 4% |
| Structured notes | | | 350 | 184 | Price based | Price (%) | 69% | 83% | 112% | 124% |
| | | | | | Net asset value | Price (%) | n/a | n/a | n/a | n/a |
| | | | | | Option pricing model | Equity volatility (%) | 14% | 13% | 27% | 20% |
| | | | | | | Equity/Equity correlation | 0.6 | 0.6 | 0.9 | 0.8 |
| | | | | | | Equity/FX correlation | -0.7 | -0.5 | 0.3 | 0.3 |
| | | | | | | Dividend yield (%) | 1% | 2% | 5% | 4% |
| | | | | | | Interest rate volatility (%) | n/a | n/a | n/a | n/a |
| | | | | | | IR/IR correlation | n/a | n/a | n/a | n/a |
| | | | | | Present value techniques | Implied correlation | n/a | n/a | n/a | n/a |
| Derivatives | | | | | | | | | | |
| – Rates | 45 | 13 | 85 | 68 | Option pricing model | Interest rate volatility (bps) | 17 | 17 | 137 | 137 |
| | | | | | | Interest rate correlation | n/a | n/a | n/a | n/a |
| | | | | | | IR/INF correlation | n/a | n/a | n/a | n/a |
| | | | | | Present value techniques | Reset spread (%) | 2% | 2% | 2% | 2% |
| | | | | | | Prepayment rate (%) | n/a | n/a | n/a | n/a |
| | | | | | | Inflation rate (%) | n/a | n/a | n/a | n/a |
| | | | | | | Credit spread (bps) | n/a | n/a | n/a | n/a |

**Valuation techniques and range of unobservable inputs (Level 3)**

| | Assets | | Liabilities | | Valuation techniques | Significant unobservable inputs | Lower range | | Upper range | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 | | | 30 June 2020 | 31 December 2019 | 30 June 2020 | 31 December 2019 |
| – FX | | 1 | | | Present value techniques | Inflation rate (%) | n/a | n/a | n/a | n/a |
| | | | | | Option pricing model | FX volatility (bps) | 9 | 5 | 10 | 8 |
| – Credit | 144 | 102 | 185 | 183 | Present value techniques | Credit spread (bps) | 4 | 2 | 25,961 | 11,054 |
| | | | | | | Implied correlation | n/a | n/a | n/a | n/a |
| | | | | | | Jump rate (%) | 12% | 12% | 12% | 12% |
| | | | | | Price based | Price (%) | 99% | n/a | 107% | n/a |
| – Equity | 45 | 42 | 80 | 50 | Option pricing model | Equity volatility (%) | 3% | 4% | 113% | 84% |
| | | | | | | Equity/Equity correlation | 0.2 | - | 0.9 | - |
| | | | | | | Equity/FX correlation | -0.6 | -0.6 | 0.3 | 0.6 |
| | | | | | | Dividend yield (%) | 0% | 0% | 29% | 13% |
| – Other | 5 | 3 | 3 | 3 | Option pricing model | Commodity volatility (%) | 18% | 11% | 79% | 53% |
| | | | | | | Com/Com correlation | n/a | 0.3 | n/a | 0.9 |
| | | | | | | Com/FX correlation | -0.5 | -0.5 | -0.3 | -0.3 |
| **At fair value through other comprehensive income** | | | | | | | | | | |
| – Debt | | | | | Price based | Price (%) | n/a | n/a | n/a | n/a |
| – Loans and advances | 1,345 | 1,680 | | | Present value techniques | Prepayment rate (%) | 9% | 6% | 9% | 6% |
| – Equity | 279 | 282 | | | Present value techniques | Credit spread (bps) | 2 | n/a | 1.91 | n/a |
| | | | | | | Inflation rate (%) | 3% | 3% | 3% | 3% |
| | | | | | | Price (%) | 100% | 100% | 100% | 187% |
| | | | | | | Other | 63 | n/a | 80 | n/a |
| Total | **4,930** | **4,768** | **1,138** | **490** | | | | | | |

## Valuation techniques

The presented Fair Values include an IFRS Fair Value Adjustment that reflects the fair exit price of which the valuation changes are booked through P&L or OCI.

Additionally, an adjustment that is to capture the 90% confidence prudency is considered as Additional Valuation Adjustment according to CRR Article 105/ RTS, which is not part of the IFRS Fair Value and is deducted from CET1.

## Sensitivity analysis of unobservable inputs (Level 3)

Where the fair value of a financial instrument is determined using inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument, the actual value of those inputs at the balance date may be drawn from a range of reasonably possible alternatives. In line with market practice the upper and lower bounds of the range of alternative input values reflect a 90% level of valuation certainty. The actual levels chosen for the unobservable inputs in preparing the financial statements are consistent with the valuation methodology used for fair valued financial instruments.

If ING had used input values from the upper and lower bound of this range of reasonably possible alternative input values when valuing these instruments as of 30 June 2020, then the impact would have been higher or lower as indicated below. The purpose of this disclosure is to present the possible impact of a change of unobservable inputs in the fair value of financial instruments where unobservable inputs are significant to the valuation.

In practice valuation uncertainty is measured and managed per exposure to individual valuation inputs (i.e. risk factors) at portfolio level across different product categories. Where the disclosure looks at individual Level 3 inputs the actual valuation adjustments may also reflect the benefits of portfolio offsets.

Because of the approach taken, the valuation uncertainty in the table below is broken down by related risk class rather than by product.

In reality some valuation inputs are interrelated and it would be unlikely that all unobservable inputs would ever be simultaneously at the limits of their respective ranges of reasonably possible alternatives. Therefore it can be assumed that the estimates in the table below show a greater fair value uncertainty than the realistic position at period end assuming normal circumstances/normal markets.

Also, this disclosure does not attempt to indicate or predict future fair value movement. The numbers in isolation give limited information as in most cases these Level 3 assets and liabilities should be seen in combination with other instruments (for example as a hedge) that are classified as Level 2.

The possible impact of a change of unobservable inputs in the fair value of financial instruments at fair value through other comprehensive income are estimated to be immaterial.

**Sensitivity analysis of Level 3 instruments**

| | Positive fair value movements from using reasonable possible alternatives | | Negative fair value movements from using reasonable possible alternatives | |
|---|---|---|---|---|
| | **30 June 2020** | **31 December 2019** | **30 June 2020** | **31 December 2019** |
| **Fair value through profit or loss** | | | | |
| Equity (equity derivatives, structured notes) | 43 | 35 | –20 | |
| Interest rates (Rates derivatives, FX derivatives) | 26 | 40 | –1 | |
| Credit (Debt securities, Loans, structured notes, credit derivatives) | 25 | 10 | –9 | |
| | **94** | **85** | **–30** | **–** |

## 19 Legal proceedings

**Settlement agreement:** On 4 September 2018, ING announced that it had entered into a settlement agreement with the Dutch Public Prosecution Service relating to previously disclosed investigations regarding various requirements for client on-boarding and the prevention of money laundering and corrupt practices. Under the terms of the settlement agreement ING paid a fine of EUR 675 million and EUR 100 million for disgorgement. In connection with the investigations, ING had also received information requests from the US Securities and Exchange Commission ("SEC"). As ING announced on 5 September 2018, ING has received a formal notification from the SEC that it has concluded its investigation. In the letter dated 4 September 2018 the Division of Enforcement states that, based on information as of the date thereof, it does not intend to recommend an SEC enforcement action against ING. Following the entry into the settlement agreement, ING has experienced heightened scrutiny from authorities in various countries. ING is also aware, including as a result of media reports, that other parties may, among other things, seek to commence legal proceedings against ING in connection with the subject matter of the settlement, have filed requests with the Court of Appeal in The Netherlands to reconsider the prosecutor's decision to enter into the settlement agreement with ING and not to prosecute ING or (former) ING employees and that the Court of Appeal is now taking procedural steps as part of due process of law before entering into its final decision making. In addition other parties have filed or may file requests for disciplinary proceedings against ING employees based on the Dutch "Banker's oath".

**Findings regarding AML processes**: As previously disclosed, after its September 2018 settlement with Dutch authorities concerning Anti-Money Laundering matters, and in the context of significantly increased attention on the prevention of financial economic crime, ING has experienced heightened scrutiny by authorities in various countries. The interactions with such regulatory and judicial authorities have included, and can be expected to continue to include, onsite visits, information requests, investigations and other enquiries. Such interactions, as well as ING's internal assessments in connection with its global enhancement programme, have in some cases resulted in satisfactory outcomes, and also have resulted in, and may continue to result in, findings, or other conclusions which may require appropriate remedial actions by ING, or may have other consequences. ING intends to continue to work in close cooperation with authorities as it seeks to improve its management of non-financial risks in terms of policies, tooling, monitoring, governance, knowledge and behaviour.

**Interest rate derivatives claims:** ING is involved in several legal proceedings in the Netherlands with respect to interest rate derivatives that were sold to clients in connection with floating interest rate loans in order to hedge the interest rate risk of the loans. These proceedings are based on several legal grounds, depending on the facts and circumstances of each specific case, inter alia alleged breach of duty of care, insufficient information provided to the clients on the product and its risks and other elements related to the interest rate derivatives that were sold to clients. In some cases, the court has ruled in favour of the claimants and awarded damages, annulled the interest rate derivative or ordered repayment of certain amounts to the claimants. The total amounts that need to be repaid or compensated in some cases still need to be determined. ING may decide to appeal against adverse rulings. Although the outcome of the pending litigation and similar cases that may be brought in the future is uncertain, it is possible that the courts may ultimately rule in favour of the claimants in some or all of such cases. Where appropriate a provision has been taken. The aggregate financial impact of the current and future litigation could become material.
As requested by the AFM, ING has reviewed a significant part of the files of clients who bought interest rate derivatives. In December 2015, the AFM concluded that Dutch banks may have to re-assess certain client files, potentially including certain derivative contracts that were terminated prior to April 2014 or other client files. As advised by the AFM, the Minister of Finance appointed a Committee of independent experts (the "Committee") which has established a uniform recovery framework for Dutch SME clients with interest rate derivatives. ING has adopted this recovery framework and has reassessed individual files against this framework. ING has taken an additional provision for the financial consequences of the recovery framework. In 2017, ING has informed the majority of the relevant clients whether they are in scope of the recovery framework, and thus eligible for compensation, or not. Because implementation by ING of the uniform recovery framework encountered delay, ING has previously offered advance payments to customers out of the existing provision. As of December 2018, all customers in scope of the uniform recovery framework have received an offer of compensation from ING (including offers of no compensation). In July 2020, the independent derivative dispute committee rejected all claims by the client against ING in ING's last open file under the uniform recovery framework.

**Interest surcharges claims:** ING received complaints and was involved in litigation with natural persons (natuurlijke personen) in the Netherlands regarding increases in interest surcharges with respect to several credit products, including but not limited to commercial property (commercieel verhuurd onroerend goed). ING has reviewed the relevant product portfolio. The provision previously taken has been reversed for certain of these complaints. All claims are dealt with individually. Thus far, the courts have ruled in favour of ING in each case, ruling that ING was allowed to increase the interest surcharged based upon the essential obligations in the contract. In line with the Dutch Supreme Court ruling in a case involving another bank, ING will continue to deal with all claims individually.

**Criminal proceedings regarding cash company financing:** In June 2017, a Belgian criminal Court ruled that ING Luxembourg assisted third parties in 2000 to commit a tax fraud in the context of the purchase of the shares of a cash company. The Court convicted ING Luxembourg, among others, and ordered ING to pay a penal fine of EUR 120,000 (suspended for half of the total amount). The court also ordered ING Luxembourg jointly and severally with other parties, to pay EUR 31.48 million (together with any interest payable under applicable law) to the bankruptcy trustee of the cash company. In July 2017, ING Luxembourg filed an appeal against this judgment. A settlement with all the civil parties involved was reached in mid-2018. However, this settlement does not apply to the criminal conviction of ING Luxembourg. In January 2020, the Court of Appeal of Antwerp reformed the first judgment: ING Luxemburg benefitted from an "opschorting van de uitspraak/suspension du prononcé" which means that the conviction has been upheld, but no penal sanction has been pronounced (penalties suspended). The judgement is now final.

**Mortgage expenses claims:** ING Spain has received claims and is involved in procedures with customers regarding reimbursement of expenses associated with the formalisation of mortgages. In most court proceedings in first instance the expense clause of the relevant mortgage contract has been declared null and ING Spain has been ordered to reimburse all or part of the applicable expenses. The courts in first instance have applied in their rulings different criteria regarding the reimbursement of expenses. ING Spain has filed an appeal against a number of these court decisions. ING Spain has also been included, together with other Spanish banks, in three class actions filed by customer associations. The outcome of the pending litigation and similar cases that may be brought in the future is uncertain. A provision has been taken. However, the aggregate financial impact of the current and future litigation could change. In February 2018, the Spanish Supreme Court ruled that Stamp Duty (Impuesto de Actos Jurídicos Documentados) expenses are chargeable to the customer, while in October 2018 it ruled that Stamp Duty is chargeable to the banks. In November 2018, the Spanish Supreme Court clarified the issue regarding Stamp Duty by stating that this tax should be borne by the customer. As for the remaining types of the expenses, in January 2019, the Spanish Supreme Court issued several decisions that stated that the client and the bank each have to bear half of the notary and management company costs and that registry costs have to be borne in full by the bank. Allocation of valuation costs between the bank and the customer were not addressed by the Spanish Supreme Court decisions and remain uncertain. In July 2020, the European Court of Justice ruled that if the clause that regulates the mortgage formation costs is declared null and void, any mortgage formation costs payable pursuant to such clause have to be borne in full by the bank, and not equally divided between the bank and the customer, contrary to the Spanish Supreme Court in its January 2019 ruling. ING Spain is assessing the impact of this decision on claims from customers against ING.

For further information regarding legal proceedings we refer to note 44 “Legal proceedings” in the ING Bank Annual Report 2019.

## 20 Related parties

In the normal course of business, ING Bank enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of ING Bank include, among others, its subsidiaries, associates, joint ventures, key management personnel, and various defined benefit and contribution plans. Transactions between related parties include rendering or receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral. All transactions with related parties took place at conditions customary in the market. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

## 21 Subsequent events

There are no subsequent events to report.

## 22 Capital management

ING Bank's CET1 ratio increased to 13.5% in Q2 2020 (EOY 2019: 13.1%), mainly due to capital generation and decreased RWA from various relief measures and management actions taken.

### Policy changes due to the Covid-19 pandemic

As a reaction to the ongoing global pandemic, the following relevant regulators have introduced a number of changes to regulatory capital requirements applicable to ING:

Various competent authorities changed or removed Countercyclical Buffer (CCyB) requirements, which reduced the fully loaded CCyB for ING from 24 basis points to 3 basis points.

Consequentially, ING Bank's fully loaded Total Capital Maximum Distributable Amount trigger level decreased from 10.74% to 10.53%. This also reduced the fully loaded CET1 requirement, which decreased from 7.24% to 7.03%, and the fully loaded Tier 1 requirement, which decreased from 8.74% to 8.53%.

The ECB provided some relief on RWA increases by postponing pending TRIM reviews by at least six months. The DNB further announced it is delaying the introduction of a floor for mortgage loan risk weighting.

The Basel Committee on Banking Supervision announced the postponement of the implementation date of Basel IV standards by one year to the beginning of 2023.

Following the CRR amendments due to Covid-19 ("CRR quick fix" or CRR 2.5), ING adopted a) an extension of the IFRS 9 transitional arrangements (EUR 0.2 billion capital increase), b) the infrastructure support factor (EUR 0.9 billion RWA relief) and c) the SME support factor (EUR 2.0 billion RWA relief).

### Ratings

The ratings from S&P, Moody's and Fitch remained unchanged in the first half of the year. Fitch changed its outlook on ING Bank to 'Rating Watch Negative' (RWN) on 1 April 2020.

**Main credit ratings of ING at 30 June 2020**

| | Standard & Poor's | | Moody's | | Fitch | |
|---|---|---|---|---|---|---|
| | Rating | Outlook | Rating | Outlook | Rating | Outlook |
| **ING Bank N.V.** | | | | | | |
| Long-term | A+ | Stable | Aa3 | Stable | AA- | RWN* |
| Short-term | A-1 | | P-1 | | F1+ | |

* Rating Watch Negative

ING's key credit ratings and outlook are shown in the table above. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency.

A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of other ratings. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency's judgment, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

# Review report

To: The Shareholder and the Supervisory Board of ING Bank N.V.

## Introduction

We have reviewed the accompanying condensed consolidated interim financial information as at 30 June 2020 of ING Bank N.V., Amsterdam (the ‘Company’), which comprises the condensed consolidated statement of financial position as at 30 June 2020, the condensed consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the six-month period ended 30 June 2020, and the notes comprising a summary of the significant accounting policies and other explanatory information. The Management Board of the Company is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

## Scope

We conducted our review in accordance with Dutch law including standard 2410, ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Dutch Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2020 is not prepared, in all material respects, in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted by the European Union.

Amstelveen, 5 August 2020

KPMG Accountants N.V.

W.G. Bakker RA

# Disclaimer

ING Bank's Condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union ('IFRS-EU'). In preparing the financial information in this document, except as described otherwise, the same accounting principles are applied as in the 2019 ING Bank consolidated annual accounts. All figures in this document are unaudited. Small differences are possible in the tables due to rounding.

Certain of the statements contained herein are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to a number of factors, including, without limitation:
(1) changes in general economic conditions, in particular economic conditions in ING's core markets, including changes affecting currency exchange rates,
(2) the effects of the Covid-19 pandemic and related response measures, including lockdowns and travel restrictions, on economic conditions in countries in which ING operates, on ING's business and operations and on ING's employees, customers and counterparties,
(3) changes affecting interest rate levels,
(4) any default of a major market participant and related market disruption,
(5) changes in performance of financial markets, including in Europe and developing markets,
(6) changes in the fiscal position and the future economic performance of the United States, including potential consequences of a downgrade of the sovereign credit rating of the US government,
(7) consequences of the United Kingdom's withdrawal from the European Union,
(8) changes in or discontinuation of 'benchmark' indices,
(9) inflation and deflation in our principal markets,
(10) changes in conditions in the credit and capital markets generally, including changes in borrower and counterparty creditworthiness,
(11) failures of banks falling under the scope of state compensation schemes,
(12) non-compliance with or changes in laws and regulations, including those financial services and tax laws, and the interpretation and application thereof,
(13) geopolitical risks, political instabilities and policies and actions of governmental and regulatory authorities,
(14) ING's ability to meet minimum capital and other prudential regulatory requirements,
(15) outcome of current and future litigation, enforcement proceedings, investigations or other regulatory actions, including claims by customers,
(16) operational risks, such as system disruptions or failures, breaches of security, cyber-attacks, human error, changes in operational practices or inadequate controls including in respect of third parties with which we do business,
(17) risks and challenges related to cybercrime including the effects of cyber-attacks and changes in legislation and regulation related to cybersecurity and data privacy,
(18) changes in general competitive factors,
(19) the inability to protect our intellectual property and infringement claims by third parties,
(20) changes in credit ratings,
(21) business, operational, regulatory, reputation and other risks and challenges in connection with climate change,
(22) inability to attract and retain key personnel,
(23) future liabilities under defined benefit retirement plans,
(24) failure to manage business risks, including in connection with use of models, use of derivatives, or maintaining appropriate policies and guidelines,

(25) changes in capital and credit markets, including interbank funding, as well as customer deposits, which provide the liquidity and capital required to fund our operations,
(26) the other risks and uncertainties detailed in the most recent annual report of ING Groep N.V. (including the Risk Factors contained therein) and ING's more recent disclosures, including press releases, which are available on www.ING.com.

This document may contain inactive textual addresses to internet websites operated by us and third parties. Reference to such websites is made for information purposes only, and information found at such websites is not incorporated by reference into this document. ING does not make any representation or warranty with respect to the accuracy or completeness of, or take any responsibility for, any information found at any websites operated by third parties. ING specifically disclaims any liability with respect to any information found at websites operated by third parties. ING cannot guarantee that websites operated by third parties remain available following the publication of this document, or that any information found at such websites will not change following the filing of this document. Many of those factors are beyond ING's control.

Any forward looking statements made by or on behalf of ING speak only as of the date they are made, and ING assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

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