ING Bank

Annual Report 2020

Contents

About this report

In this report, the sections Strategy and performance, Risk management, Corporate governance and Dutch Corporate governance statement by the Management Board Banking together form the Report of the Management Board Banking. This annual report also contains ING Bank N.V. consolidated and parent company financial statements, and other information.

Our business

Market trends like the shift to mobile and online banking confirm ING's mobile-first digital approach. Building on this, we adapted our processes and service models to make banking safer, easier and always accessible to customers in a time of social distancing, and put measures in place to help them deal with the impact of the coronavirus pandemic on their finances.

These included contactless payments, more flexibility on loan and mortgage repayments, financial advice and partnering with business clients big and small to support them in the most appropriate way. We also strived to provide uninterrupted access to our banking services. In 2020, weighted system availability for Retail Banking customers in the Netherlands and Belgium was 99.6 percent and for Wholesale Banking clients worldwide system availability was 99.9 percent.

Reduced economic activity during the year meant demand for consumer and business loans was lower in a number of markets, and the ongoing low/negative interest rate environment pushed our net interest income down. Yet our results remained resilient throughout the year. Demand for mortgages remained healthy and we were able to grow our fee income as considerably more customers chose ING's accessible digital retail investment products. We ended the year with improving cost control and a strong capital position, contributing to a full-year result before tax of €3,810 million.

Recognising the growing demand for digital and platform services, we took steps in 2020 to increase the pace of end-to-end digitalisation across our business and make our products and processes even easier, smarter and more efficient, from onboarding new customers to instant payments.

At the same time, to provide our 39.3 million customers with a differentiating and engaging experience everywhere and to move closer to becoming a universal data-driven digital leader, we aligned our Retail organisation under one management team with shared global priorities aimed at harmonising customer engagement and selected products on cross-border platforms.

We also centralised innovation, introduced 'do your thing' - ING's first global tagline – and harmonised our activities for small and medium enterprises (SMEs) and mid-corporate clients in seven countries in a new Business Banking segment.

In Wholesale Banking we deepened our focus on core clients, supported by steps to build differentiating value propositions to meet their needs. This also supports our strategy to diversify income by generating more fee-based business. We continued to focus on digitalising our processes and streamlining our organisation to deliver faster and better to clients. As part of the focus on core clients, we announced measures to simplify our geographical footprint, withdrawing from South America and selected Asia markets while continuing to serve the needs of clients in those markets from our regional hubs.

Our markets

ING serves over 39.3 million individual customers as well as small and medium-sized businesses up to multinational corporations and financial institutions.

Our Retail Banking business line offers private individuals a full range of products and services covering payments, savings, insurance, investments and secured and unsecured lending. This segment also includes self-employed entrepreneurs, micro businesses, small-to-medium enterprises (SMEs) and mid-corporate companies who are served by our Business Banking proposition in several European countries. These business customers earn revenues of up to €250 million and our goal is to help them manage and accelerate their business. Wholesale Banking offers corporate clients advisory value propositions such as specialised lending, tailored corporate finance, green structuring and debt and equity-market solutions. It also serves their daily banking needs with payments and cash management, trade and treasury services.

Our markets

Market Leaders
Netherlands, Belgium, Luxembourg

- Leading retail and wholesale banks
- Cross-border customer interaction platform with mobile-first customer experience and cost efficiency

Challengers
Australia, Austria, Czech Republic, France, Germany, Italy, Spain

- Digital bank with uniform, mobile-first customer experience
- Broadening product capabilities

Growth Markets
Poland, Romania, Turkey, the Philippines and our stakes in Asia

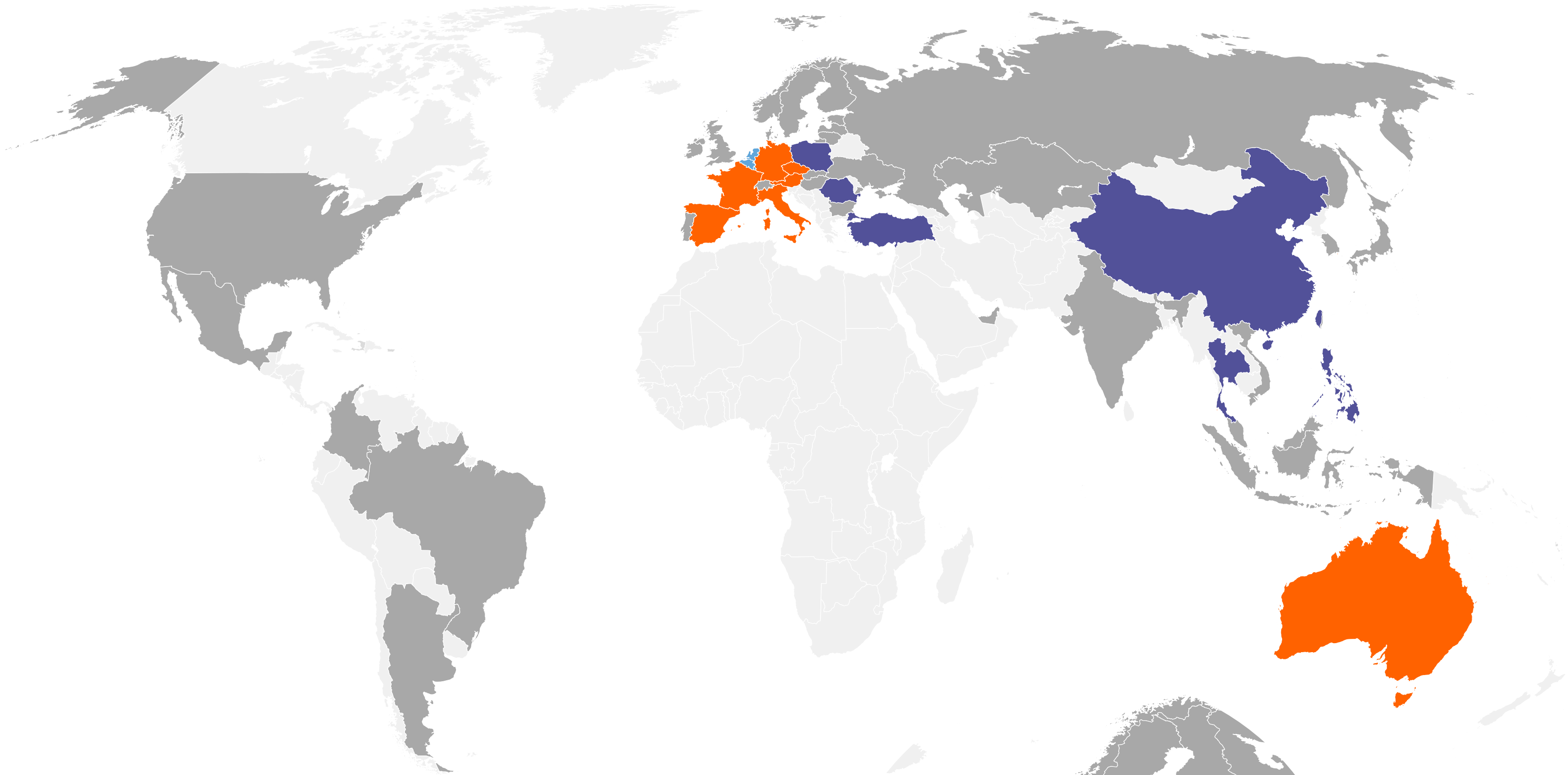
- Universal banks in economies with high growth potential
- Developing differentiating customer experience based on mobile-first approach

Wholesale Banking
International network and global franchises

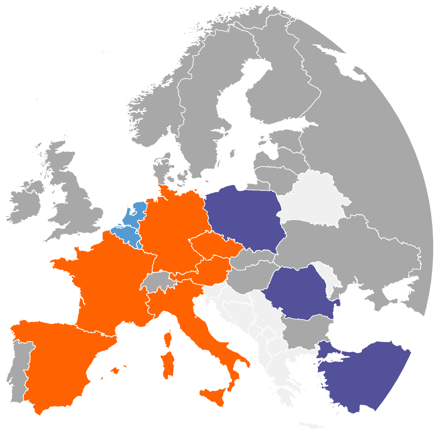
- Active in more than 40 countries
- Extensive international client base across all regions
- Sector-focused client business in lending, capital structuring and advisory, transaction services and financial markets.

We offer:

- Payments, savings, insurance, investments and lending products and services to individuals, SMEs and mid-corporate clients
- Daily banking and strategic finance and advisory propositions to corporate clients



Our customers
39.3 million
(year-end 2020)



Supporting customers in crisis

The Covid-19 crisis impacted our customers in many ways. Across our business we took action to help them navigate the economic headwinds and stay in control of their finances during this turbulent time. ING's support began with the basics: aiming to provide uninterrupted access to our mobile and digital channels when customers need them most and making their lives easier with digital tools such as contactless payments.

To ensure the continuity of services our Wholesale Banking clients rely on, certain business-critical operations such as Financial Markets, Treasury, and Payments, were split across different locations during global lockdowns.

In the Netherlands, 85 percent of all card payments in 2020 were contactless via plastic cards and third-party services like Apple Pay, as well as our own Android solution in the banking app, which is now also available in Australia, Poland, Romania, Germany, France, the UK (via Yolt), Italy and Spain. Driven by accelerating digital behaviour of our customers, the use of mobile payments increased rapidly against a backdrop of lockdowns and other Covid-19 measures, both as a share of total card payments and total contactless payments. Customers appreciate not having to enter their pin code on a terminal.

In countries such as the Netherlands, Spain, Belgium, Germany and Turkey, we increased the daily limit for contactless payments so customers could use this option more often and made it free to withdraw cash from ATMs (in some countries this is already a free service). Customers in Poland can use their mobile phones to make contactless ATM transactions. Also in Poland, it's now possible to open a new account from home using just a mobile phone and an ID card.

New mortgage customers in Australia can now validate their identity by video; video calls to advise customers on investments and other matters replaced face-to-face contact in Belgium and the Netherlands. For primary customers in Australia, ING maintained a higher savings interest rate even when they did not reach the salary deposit requirement.

In some countries, a limited number of branches remained open for customers who wanted in-person advice. In our branches we took precautions to ensure the safety of customers and employees, such as installing plexiglass screens, making hand sanitisers available, splitting teams and limiting visits to by appointment only.

Payment holidays

Customers in all retail countries were offered mortgage holidays and deferrals on loans and credit card repayments. We granted 196,000 customers payment holidays totalling €19.4 billion since government measures were introduced in various countries to protect people impacted by job losses and loss of income during the lockdowns. Of these, 55 percent were for customers in the Netherlands and Belgium. By the end of the year, 93% of payment holidays had expired. We also provided around €1.5 billion of government-guaranteed facilities to support our business clients.

In addition, ING worked closely with business clients to understand the direct impact on their individual situations. Some industries, such as travel, hospitality and transport, were more severely affected than others. In the most heavily affected sectors governments also stepped in to protect companies and jobs with measures such as tax payment holidays and compensation schemes. Between March and May we collected feedback from over 18,000 businesses in six countries through regular pulse checks to gain insight into their needs.

While it is impossible to predict how the pandemic will develop, additional lockdowns across Europe in the autumn and the phasing out of related payment holiday schemes and other support measures could potentially lead to more business insolvencies and unemployment. This could lead to more customers getting into financial difficulties and to higher levels of default.

Short-term liquidity

In times of crisis, companies need to be able to make swift decisions and want a financial partner they can trust to be there for them. For many businesses, their most urgent initial need was support with liquidity, particularly when markets are as volatile as today.

In Turkey, ING worked with the World Bank and Turk Eximbank on a €380 million loan to support exporters with financing during the crisis.

In the Netherlands, we dedicated €1.1 billion for loans to SMEs. Part of these funds will be guaranteed by the European Investment Bank and €702 million of these loans will be sold against a favourable interest rate.

ING proactively contacted Wholesale Banking and Business Banking clients to discuss ways to ease the impact on their businesses, which in some cases was significant. By monitoring the business landscape to better understand which industries are most impacted we can tailor our support and solutions to specific industries and determine who needs our help the most.

These tailored solutions included ways of easing their short-term liquidity needs with funding set apart for Covid-19 facilities. ING's capital markets teams placed €39 billion of bonds via active bookrunner roles for corporates and financial institutions and approved around 70 new liquidity facilities for top-segmented clients. By converting Covid-19 facilities into capital market mandates we believe we helped clients secure longer term funding more easily while lessening the risks for our bank by shifting exposure to the institutional market.

In May, ING collaborated with French bond issuer Caisse Francaise de Financement Local (CAFFIL) on Europe's first Covid-19-related bond to raise financing for French public hospitals.

Financial health

Managing money is one of the leading causes of stress for people around the world as many struggle to meet their day-to-day needs or plan for their future. This was amplified during the Covid-19 pandemic. ING offered budgeting and debt relief advice and guidance to customers in financial difficulty in partnership with organisations like the Dutch 'Geldfit' website, and financial counselling services in Australia and Romania.

Using our knowledge of innovation and digitalisation, we put insights about people and money into products, tools, research and education that help contribute to a financially healthy society. We believe that the right information at the right time can help people make better financial decisions. We are delivering that through forecasting tools, such as 'Kijk Vooruit' which gives Dutch customers an overview of upcoming payments. With Everyday Roundup, available in Australia, Poland and Romania, we help customers save while they spend. In Belgium, we've partnered with fintech Minna to manage customer subscriptions (see 'Platform thinking' below).

As a result of our financial empowerment activities, 27.8 million people (71 percent of our customer base) felt financially empowered by ING in 2020. In 2019, this was 25.9 million or 67 percent. Our ambition for 2022 is for 30.2 million customers to feel financially empowered by ING.

World around us

Our business is shaped by events and developments in the world around us. The biggest of these in 2020 was the coronavirus pandemic, which was an unprecedented public health challenge and which also caused devastating economic and social disruption.

ING has had to adapt to the implications this had for customers and employees, as well as to new market trends and stakeholder expectations. At the same time, our business continues to be affected by regulatory changes and the persistent low interest rate environment. Our coronavirus response aims to offer short-term relief as well as deliver long-term value for our stakeholders and society.

To improve as an organisation we need to identify, understand and closely manage our performance on the most important topics for our stakeholders, balancing their interest whenever we make decisions. That's why we engage with our internal and external stakeholders in various ways. We also constantly monitor external shifts in regulatory developments and market trends. Both of these give insight into which topics are most important for which stakeholders, and how these topics relate to our business. Our annual materiality assessment then helps us identify which economic, environmental and social topics we should focus on. These are highlighted in this report.

This chapter will address some of the material topics as well as other important themes and developments in 2020: the Covid-19 pandemic, macroeconomic developments, climate change, financial crime risks, cybersecurity resilience, personal data protection, and culture and ethics.

Covid-19 pandemic

Covid-19 was declared a global pandemic by the World Health Organization on 11 March 2020. National and local governments across the world introduced measures aimed at preventing the further spread of the virus. These included the closure of schools, sports facilities, bars and restaurants; bans on public events; and travel restrictions and border controls. Such measures disrupted the normal flow of business operations in most countries, including those where ING operates. It affected global supply chains, manufacturing, tourism, consumer spending and asset prices, and has increased volatility and uncertainty across the global economy and in financial markets.
In an effort to mitigate the economic consequences, governments introduced measures to protect households and companies. These included tax-payment holidays, guarantee schemes and compensation for heavily affected sectors in the economy. Still, the economic consequences had – and may continue to have – a significant impact on ING's customers, employees, shareholders and other stakeholders.

There were also regulatory developments in light of Covid-19. The European and other central banks took steps to help by relaxing rules on capital buffers that banks need to hold and made recommendations on paying dividends, which remain in effect until at least September 2021. This gives banks more buffer capital available to lend to businesses during coronavirus restrictions, and to absorb losses when businesses can't repay those loans. The European Central Bank (ECB) also undertook various monetary policy measures to provide liquidity to the economy and banks in particular.

ING also took steps to protect and provide relief for our customers, employees and communities. For example, we offered customers payment holidays and provided business clients with liquidity. We worked hard to safeguard the wellbeing of our employees. We built on our digital foundation and equipped employees with the necessary facilities to work from home without interrupting the high standards of service we offer customers. For communities, we encouraged our businesses and employees to donate time and funds to help address the initial challenges the coronavirus brought, as well as looking towards the future and how we can help build back better.

Macroeconomic developments

As a global financial services company, our profitability, solvency and liquidity are influenced by the state of the economy and the market environment for business, liquidity, funding and capital. The year's volatility had a marked impact on our performance.

The Covid-19 pandemic threw the world economy into turmoil. The global economy shrank in 2020 as demand and supply, trade, and finance were severely disrupted. Although we started to see a recovery mid-year as lockdowns were relaxed, a second wave of the virus caused governments to slow reopening and/or re-impose lockdowns, and the economic recovery lost momentum. In most advanced economies, despite effective monetary and fiscal policy support, output remained substantially below pre-pandemic levels.

Western European economies were hit hard by the coronavirus pandemic and associated mobility-reducing measures. In Germany, the Netherlands and Belgium, economic activity in the first half of 2020 dropped by 10-15%. Economic activity in the second quarter of 2020 recorded the largest contractions since World War II.

Following a rapid implementation of sizeable policy support measures and after most economic activities were allowed to resume (subject to social distancing and hygiene measures), the economic environment turned more favourable during the summer. However, despite a strong economic rebound in the third quarter, the level of economic activity at the end of the year was still below year-end 2019 levels as a resurgence of new coronavirus cases necessitated the re-imposition of lockdown measures.

Helped by job retention schemes, the rise in unemployment was relatively mild and levelled off in the second half of the year. Despite the unemployment rate having increased, housing markets remained firm, helped by interest rates remaining low.

There was an asymmetric impact across the euro area, with southern countries (Spain, Italy) generally hit the hardest during the first wave of the coronavirus. This was partly due to the variation in the length and strictness of containment measures, the size of discretionary fiscal support, and differences in the economic importance of international tourism.

As in the eurozone, economic performance in Poland was heavily influenced by lockdown measures, the introduction of job protection schemes and increased public expenditure. Uncertainty about domestic factors and the economic recovery held back private investment, as in most other European countries. The central bank of Poland reduced the benchmark interest rate to 0.1% and purchased assets in the secondary market to improve banks' liquidity.

Additional economic uncertainty came from continuing US-China trade tensions and the US elections in November. To help ING's leadership in their strategic planning, we developed scenarios for various potential outcomes to these developments so we are better prepared for different possible futures. The ongoing negative interest rate environment is also making it a priority for ING to diversify our income.

Large amounts of fiscal stimulus deployed by governments worldwide in 2020 were combined with monetary stimulus. The US Federal Reserve lowered key interest rates and the ECB stepped up bond purchasing. In the eurozone, the yield curve flattened. In general, the euro appreciated compared with its main trading partners, reflecting perceived changes in global risk sentiment and interest rate developments. Towards the end of the year, positive news about vaccines improved financial market sentiment, although a strong eruption of new coronavirus cases and the emergence of new, more contagious variants are sobering the economic outlook.

Uncertainty around the future relationship between the European Union and the United Kingdom continued throughout the year, compounding the impact of Covid-19, which weakened the British pound vis-à-vis the euro. In July, we announced that due to Brexit we will move ING's European trading activities from London to Amsterdam. The successful conclusion of an EU/UK-trade deal at year-end avoided economic disruption at the start of 2021.

China regained control of the outbreak of the coronavirus relatively swiftly by implementing strict sanitary and economic measures, and in the second half of the year almost all activities had restarted and exceeded pre-pandemic levels. However, the number of cases began increasing again towards the end of 2020 and beginning of 2021.

Australia was hit less severely by the coronavirus pandemic than other countries. The Australian authorities introduced considerable fiscal and monetary support to the economy. The central bank reduced its policy rate and three-year Australian government bond yield target to 0.1% and extended its long-term, low-cost funding to banks to boost business loans. The central bank also introduced an asset purchase programme targeted at long-term bonds to ease further financial conditions.

Climate change

Climate change is one of the world's most urgent problems. The International Monetary Fund (IMF) says it will have a potentially catastrophic environmental, human and economic toll if left unaddressed. We believe that ING can make the biggest impact in fighting climate change through our financing.

We work with our clients to finance and facilitate their transition to low-carbon technologies. We've developed a comprehensive suite of sustainability products and services to help them, including green loans and green bonds.

With our Terra approach, we aim to align our loan book with the Paris Agreement's well-below two-degrees Celsius goal in the nine sectors most responsible for climate change. In 2020, we released our second Terra progress report. The report includes quantitative results and targets for all of these nine sectors, fulfilling the commitment we made the previous year. One of these targets is a 19% reduction in our financing to upstream oil and gas by 2040 compared with 2019 levels. It's important to note that this target is in line with the International Energy Association's sustainable development scenario, and that it's not static. If more or quicker action is needed and the scenario is adjusted, our target will adjust accordingly. For more details on our targets and exposure in these nine sectors, please see the latest Terra progress report on ing.com.

Our approach to climate action is collaborative and inclusive. We helped develop an open-source climate methodology with our partner, the 2° Investing Initiative (2DII). This was published in 2020 for all banks to use. We're working with other banks to make this an industry-wide standard, as we believe this will lead to greater transparency and help the financial sector make a bigger impact. In December 2018, ING and four peers signed the Katowice Commitment and in September 2020 these same banks published a blueprint of how we'll all use the methodology developed with 2DII.

Our work with the Katowice Commitment laid the groundwork for the Collective Commitment to Climate Action (CCCA), now signed by 38 banks globally. This is the banking sector's farthest-reaching commitment to climate alignment. ING is co-lead of the implementation of the CCCA. In December 2020 an overview was published of the concrete measures CCCA signatory banks took in the first 12 months to deliver on their commitment. ING is a founding signatory of the Principles for Responsible Banking, adopted by more than 200 banks, representing a third of the world's banking assets.

While our Terra approach helps measure the impact of our loans on the climate, we are increasingly aware of the risks associated with climate change. These include physical risks, which can be acute (such as floods and wildfires) or chronic (temperature increases and rising sea levels); and transition risk, which is driven by policy, technology or market changes as we shift towards a low-carbon global economy and potentially lead to stranded assets. Our climate risk programme helps measure the impact of climate change on our loan book. Following a year of floods, droughts and wildfires, climate-related risk again topped the World Economic Forum's (WEF) 2020 global risk ranking in terms of likelihood of occurrence and impact. The IMF is examining the impact of climate on the world's financial markets and whether it is priced into market valuations. The European Central Bank (ECB) published a guide in 2020 on how they expect banks to prudently manage and transparently disclose climate-related and environmental risks under current prudential rules.

We are continuing to advance our understanding and approach to climate risks and opportunities. In 2020 ING published our first Climate Risk Report, setting out our approach to managing this emerging strategic and credit risk. We're integrating climate risk into our risk management framework, governance and business strategy.

Financial crime risks

Money laundering is a crime in and of itself. It also facilitates other crimes, such as people trafficking and drug smuggling. According to the United Nations Office on Drugs and Crime, suspicious transactions continue to reach as much as $2 trillion a year. This scale illustrates the scope of the problem – it is not something one bank can fight on its own.

To be more effective in our efforts to fight financial economic crime, we work closely with our peers, regulators and law enforcement. This includes initiatives with other Dutch and Belgian banks to jointly monitor transactions, and further professionalising our KYC organisation by means of internationally recognised certifications.

Next to this, improving customer due diligence and transaction monitoring activities are top priorities for ING. Since 2017, we've been running a programme to enhance our know your customer activities in all customer segments of all ING business units. This has led to standardised KYC policies, global governance and consistent processes, tools and training, which contribute to becoming sustainably better in the way we address money laundering risks and comply with laws and regulations.

Structural solutions include interventions aimed at addressing undesirable behavioural patterns identified within the organisation and encouraging desirable behaviours that will positively influence KYC execution. Read more in 'How we make a difference' and 'Risk management'.

Cybersecurity resilience

Digital technology has connected the world in an unprecedented way. The Covid-19 outbreak highlighted just how much people rely on the internet to work, socialise and shop. At the same time, there are growing concerns about unequal access, a lack of governance, data privacy and increasingly sophisticated cyberattacks.

Cybercrime is a growing threat to companies in general and to the financial system in particular. The expansion of mobile and online banking, and ING's own reliance on cloud technology – especially at a time when many employees are working from home – have increased the risk of criminals gaining unauthorised access to ING networks. The global lockdowns due to the pandemic also presented opportunities for criminals to continue to target customers with phishing attacks, identity theft and online fraud.

One of our top priorities is to keep our bank safe, secure and compliant and to retain customers' trust. Our multi-faceted approach aims to anticipate threats and prevent them from becoming reality. Safeguards include security and communication-monitoring capabilities that use behavioural analysis, machine learning and rules engines. We are also partnering with fintechs and others to facilitate security innovation for the bank and our industry.

Personal data protection

Along with cybersecurity, safeguarding customer data and data privacy are also important responsibilities. This is required by an increasing legislative focus, for example through the EU's second Payment Services Directive (PSD2) and the General Data Protection Regulation (GDPR). It requires financial institutions to walk the fine line between privacy protection and fostering data sharing.

An ING International Survey released in October 2020 found that while open banking – the sharing of financial data between service providers with the user's permission – is providing more tools that make people's financial lives easier, not everyone is using them. Carried out in 13 European countries, the survey revealed differing attitudes to sharing personal data and interacting with technology. In Austria and Germany, for example, around two-thirds of people were happy for companies to share their information with their consent. In the Netherlands, Belgium and the Czech Republic, this was only around one in 10 people.

There are also different attitudes to security around accessing data. This could range from simple passwords to voice, face and fingerprint recognition or a combination. The value of the global fingerprint-sensor market, for example, is expected to rise to $5.2 billion in 2026 from $2.9 billion today, according to market research. This is partly as a result of the increasing numbers of smartphones, tablets and wearable devices. Yet the survey found that just about a third of Europeans think fingerprint logins are 'very secure'.

Our customers trust us with their money and their data, a responsibility we take very seriously. This is supported by our global data protection policy (GDPP), which is aligned with the EU's general data protection regulation. Our global and local data ethics councils guide our decisions around the use of data, based on ING's Orange Code values.

Culture and ethics

Trust in the financial sector has been rising since the financial crisis of 2008/2009 and rose in the first half of 2020 according to the Edelman Trust Barometer, driven by banks' response to the Covid-19 outbreak. ING adheres to a comprehensive set of policies and rules designed to protect our customers and our bank from conduct that will jeopardise people's trust in our business and our sector. This includes policies to prevent insider trading, price-fixing and market manipulation, as well as regulations to detect and prevent tax evasion, fraud and financial crime.

Trust is about more than regulatory compliance and internal controls that ensure a company sticks to the rules. It's built on the values and behaviours the company exhibits. ING's Orange Code places integrity above all else. It defines the principles we stick to no matter what and the behaviours we are committed to. Our Orange Code also guides our decisions when we're faced with dilemmas. In addition, all ING employees are expected to adhere to our global Code of Conduct. Introduced at the start of 2020, it builds on our Orange Code, giving employees tangible guidance on how to put it into practice. The global Code of Conduct is in addition to local codes of conduct in various countries.

We will not ignore, tolerate or excuse behaviour that breaches our values. We encourage employees to speak up against discrimination and strive to create a diverse and inclusive workplace where everyone feels free to be themselves.

When employees are confronted with unethical or illegal behaviour, they're encouraged to speak to the person involved, to their own direct manager or to their manager one level up. They can also reach out to HR or their local compliance officer. And if they are unsure, they can consult an ING whistleblower reporting officer for advice. We take the utmost care to protect the identity of whistleblowers and the confidentiality of such reports in order to protect informants against retaliation.

Initiatives to further strengthen our compliance culture include various training modules on non-financial-risk-related topics, both for Risk and Compliance specialists as well as all staff. In addition, we carry out behavioural risk assessments to identify impeding behavioural patterns and develop appropriate interventions.

Our strategy

ING's Think Forward strategy is built around its purpose to empower people to stay a step ahead in life and in business and its customer promise to make banking clear and easy, anytime, anywhere, empower, and keep getting better.

Think Forward guides ING's response to the challenges and opportunities presented by developments inside and out the bank and helps it focus on the elements it needs to be successful. In particular, how to master the digital customer experience. Customer experience is the key differentiator in an increasingly digital world in which expectations are being shaped by people's interactions online and on their smartphones.

The Covid-19 pandemic amplified society's growing reliance on the online economy and accelerated market trends like the shift to mobile banking and contactless payments. The opening of the European payments market under the PSD2 directive further spurred competition from new non-bank providers such as third party mobile and online payment platforms like ApplePay and Alipay.

These developments reinforced the relevance of ING's data-driven, mobile-first approach. It accelerated the urgency of implementing end-to-end digitalisation, both to meet the growing demand for mobile banking and to enhance operational excellence, which ensures customers can do their daily banking without disruption, even during the global lockdowns. Linked to this is the need to master data to truly understand and anticipate customers' evolving needs and finding innovative ways to add value, also in areas beyond banking.

These are the strategic priorities that aim to create the differentiated customer experience and deepen the customer relationship.

Another factor influencing ING's business was the ongoing negative interest rate environment in the eurozone and low interest rates elsewhere, which continued to erode margins on customer deposits, putting pressure on net interest income. Loan demand in a number of markets weakened during the pandemic due to strong direct government support, while the inflow of customer deposits accelerated and interest rates in non-eurozone countries significantly reduced. In response, ING introduced negative interest rates for retail customers in some markets and increased its focus on income diversification with strong fee income growth, particularly in retail investment products.

Platform approach

While many businesses struggled to survive the global lockdowns in 2020, Big Tech companies thrived. ING's competitive landscape is increasingly shaped by these companies, which offer an engaging digital experience on an open platform that meets a range of needs in one go-to digital ecosystem. Platform providers are all about customer experience. They use data and advanced analytics to pinpoint what people need and partner with third parties to meet this with fitting products and services, ensuring customers come back for more. Platforms are empowering. To remain relevant, ING has to be on the platforms where its (future) customers are, while maintaining the highest possible standards of integrity.

Open banking creates opportunities for ING to add value for customers by connecting to the products and services of others, also in areas beyond banking.

When it comes to platforms, ING is developing its own business solutions. It's building its own platforms, some of which have evolved into stand-alone platforms. It's investing in independent initiatives and it's connecting to third-party platforms offering relevant products and services.

Building a universal digital bank

To accelerate the execution of its Think Forward strategy, ING launched a series of transformation programmes in 2016 to unite similar businesses and bring the bank closer to one mobile-first digital platform offering one ING experience everywhere. These are Unite be+nl, to combine the respective strengths of Netherlands and Belgium, which runs until H1 2021; Maggie (formerly Model Bank) to standardise the customer experience and product offering in four Challenger markets - Czech Republic, France, Italy and Spain; Welcome, to digitalise ING in Germany, which was completed in 2019; and WTOM, which has come to a natural conclusion having achieved cost, risk and income benefits for the Wholesale Banking franchise.

Given the corona-virus related economic headwinds and the learnings from the complexities and costs of cross-border systems and product integration, ING decided to refocus its activities in 2020 to ensure faster customer delivery and a continuously improving end-to-end digital customer experience. This underpinned the decision in 2020 to stop the Maggie programme. To become a leading, data-driven digital bank, ING will instead focus on using its global technology foundation (shared data lakes, cloud infrastructure and modular IT build blocks), reusing already developed mobile app components and rolling out global digital product offerings in the areas of insurance, investments and consumer lending. When identifying areas to build cross-border capabilities, ING will weigh up impact versus complexity with the aim of increasing scalability and deliver speed. In this way it only needs to develop once for multiple countries and can create sustainable competitive advantage, accelerate customer engagement and business impact.

The creation of one global Retail Banking management team in 2020 is the next step in ING's journey to unify and harmonise its approach in all Retail markets – including the Business Banking segment serving small and medium-sized enterprises and mid-corporate clients – and will further reinforce alignment, improve prioritisation and accelerate digitalisation.

In addition, ING announced in 2020 that it is combining all its innovation activities into a dedicated business area called ING Neo, which will help sharpen its focus and create more impact.

Innovation

ING relies on innovation to develop truly disruptive products, services and experiences that enable it to remain relevant to its customers and live up to its purpose, also in areas beyond banking.

Innovative ideas come from inside and outside ING. Employees are encouraged to think creatively through initiatives like the bank-wide Innovation Bootcamp, ING's customised PACE innovation methodology, and the ING Innovation Fund, which supports employees to turn their breakthrough ideas into reality.

ING also invests in, partners with and collaborates with others to accelerate the development of innovative solutions. Companies like robo-advisor Scalable Capital and Eigen, a natural language processing fintech that applies machine learning in areas such as corporate lending and SME banking. ING Ventures invests in early-stage companies with disruptive technologies, such as WeLab (automated consumer loans in China and Hong Kong) and Fintonic (Spanish finance app), while ING Labs in Amsterdam, Brussels, London and Singapore is an incubator for promising scale-ups, each with its own specific value spaces that matches local expertise and ecosystems. ING currently has more than 200 partnerships.

Mastering data

ING has identified data fluency as one of the 'Big 6' capabilities it needs to succeed. The others are customer experience, leadership, non-financial risk management, cybersecurity and operations management.

Among other things, ING uses data to personalise customer interactions and gain insights to deliver a differentiating experience; for models that help it manage capital, risk-weighted assets and risk management; to fight money laundering and other financial economic crime; and to drive innovation using artificial intelligence and robotics solutions.

However, to make data meaningful it needs to be sorted, harmonised and put into context. The accuracy of ING's models relies heavily on the quality of the data used to develop them. It's essential to have one common approach for using and storing data. ING's data management strategy includes standardised data definitions (ING Esperanto) and data models (Esperanto Warehouse Model), which contribute to the availability, quality, integrity, usability, control and governance of its data. In 2020, ING focused on further improving data quality and accessibility, which means getting good quality data properly ingested into shared data lakes.

Becoming a truly data-driven organisation requires ING to step up its analytics capabilities. This means promoting data fluency among employees and strengthening its analytics delivery. ING has an Analytics Academy to enhance its data science capabilities, its added an analytics track to its International Talent Programme for graduates, and ING collaborates with academic institutions like Dutch Delft University of Technology (TU Delft) on artificial intelligence research.

At the same time, ING acknowledges the need to protect people's privacy and ensuring its data is secure and protected from loss, misuse of theft, as well as handling data safely and being honest about how it's used.

Safe, secure and compliant

ING takes its responsibility as a gatekeeper to the financial system extremely seriously. Since 2017, ING has been working to further enhance the management of compliance risks and embed stronger awareness across the organisation, especially when it comes to Know Your Customer (KYC) and financial crime-related policies, procedures and processes.

As ING operates in a dynamic and challenging environment, it is continuously learning and improving while getting to a more sustainable and mature level in exercising its role as a gatekeeper that fights financial economic crime. Keeping the bank safe, secure and compliant is a top priority. In 2020, ING joined forces with four other Dutch banks to monitor transactions in the Netherlands in the collective fight against money laundering; it stepped up training of its KYC professionals with internationally recognised certification; and connected all ING countries in scope to a digital pre-screening transaction tool as part of its standardisation efforts.

Responsible finance

As a bank, ING has a role in promoting and supporting economic, social and environmental progress. Two areas where it can have the biggest impact are climate action and financial health.

To promote people's financial health, ING focuses on giving them the knowledge and tools to make informed decisions about their finances. And through its financing ING seeks to positively influence society's transition to a more sustainable, low-carbon economy. One of the important ways it does that is through its Terra approach to steer the impact of ING's lending portfolio to support the Paris Climate Agreement's goal to limit the rise of global temperatures to well below two degrees Celsius.

Terra is based on collaboration and ING worked with other banks to develop the open-source methodology used to measure progress in each of the nine sectors most responsible for climate change. In 2020, ING released its second progress report on Terra, which includes quantitative results and targets for all nine sectors – up from five a year ago.

ING also works closely with clients to support their transitions with products, finance and insights. These include green loans, sustainable improvement loans, bonds and advisory. ING is considered a pioneer in sustainable finance, having introduced the first sustainability-linked loan and made-to-measure sustainability improvement loan. In 2020, ING issued 30 sustainability improvement loans, 17 green loans and supported 60 mandates for clients through green, social and sustainability bonds. ING broke new ground with Europe's first Covid-19-related bond to raise financing for French public hospitals.

Climate change is a growing threat and in 2020 ING published its first Climate Risk Report setting out its approach to managing this emerging and strategic risk.

Elements of ING's strategy

This section describes the four strategic priorities of ING's Think Forward strategy and the four enablers for executing on it.

Strategic priorities

To deliver on its Customer Promise and create a differentiating customer experience, ING has identified four strategic priorities:

1. Earning the primary relationship

By this ING means increasing the number of customers who have multiple ING products (including a current account into which a recurring income, such as a salary, is paid) or Wholesale Banking clients with anchor products such as lending and transaction services. It's closely linked to customer experience and satisfaction: the more satisfied customers are, the more likely they'll choose ING for additional products and services. Over the past five years ING has consistently increased the number of primary customers.

2. Using advanced data capabilities to understand its customers better

Having the right data at its fingertips will enable ING to achieve many of its strategic priorities. ING uses data to personalise its customer interactions and gain insights to deliver a differentiating experience. It also helps to make sound business decisions and drives innovation. At the same time, ING wants to protect people's data and their privacy and is committed to handling data safely and being open about how it is used.

3. Increase the pace of innovation to serve changing customer needs

New technologies enable new ways to do things and disrupt the status quo. To stay relevant it's essential for ING to evolve too. This means coming up with disruptive products, services and experiences that support its strategic ambitions and keep ING a step ahead.

4. Thinking beyond traditional banking to develop new services and business models

Persistent low/negative interest rates offer savers little incentive, challenging the traditional business model of banks. Digital platforms are an opportunity to become relevant to customers by providing new products and services, also in areas beyond banking, which offer new revenue streams for ING and provide a better customer experience.

Strategic enablers

Four enablers support the implementation of ING's strategy:

1. Simplify and streamline

Standardised products, systems and processes, shared services, one IT infrastructure and one Way of Working lay the foundation for the superior digital experience ING strives to deliver. This allows ING to respond more quickly to changing customer needs and low-cost competitors by becoming more cost-effective, cost-efficient and agile, and by bringing new products and services to market faster.

2. Operational excellence

ING promises customers it will keep getting better. This includes accelerating the digitalisation of end-to-end processes for a frictionless customer experience and greater efficiency. It's also about ensuring safe and secure operations, stable IT systems and platforms and the highest standards of data security.

3. Performance culture

Delivering a differentiating customer experience requires engaged employees who are motivated to go the extra mile. ING strives to create a great employee experience and develop great leaders who can enhance performance and inspire people to deliver on its strategy. Diversity and inclusion contribute to this – people perform better when they are free to be themselves. ING does not tolerate discrimination in any form. In everything it does, ING is guided by the values and behaviours in its Orange Code and global Code of Conduct.

4. Lending capabilities

ING is seeking opportunities to broaden and diversify its retail lending capabilities in the Business Banking and consumer lending segments. In Wholesale Banking it is continuing to build on its lending capabilities in its markets, combined with its sector lending franchises and product capabilities, to build primary relationships to be able to diversity its income by generating more fees. ING is considered a pioneer in sustainable finance, having introduced the first sustainability-linked loan and a made-to-measure sustainability improvement loan.

Our performance

Capital management

Risk and capital management remain central to the stability and continuity of the bank. Maintaining our risk profile within our risk appetite and strengthening our capital base is how we grow a sustainable business and achieve our strategic objectives.

Our overall approach to capital management is to ensure that we have enough capital to cover our (economic) risks at all levels, including the risks from the ongoing pandemic, and comply with local and global regulations, while delivering a return for our shareholders and investing in innovation to accelerate the Think Forward Strategy.

In 2020, our capital position remained strong despite the higher risk costs due to the Covid-19 pandemic. ING bank's CET1 ratio was 14.0% at the end of 2020. The CET1 ratio at the end of the year improved primarily due lower risk-weighted assets. The decrease in risk-weighted assets, was mainly due to lower volumes, FX movements and improved book quality. On the latter, downward rating adjustments were more than offset by higher and additional collateral value.

See 'Note 49 Capital management' in the 'Consolidated Financial Statements' for more information.

Financial developments

In 2020, results of ING Bank were resilient, even as the year was defined by the unprecedented challenges of Covid-19 and its impact on our customers, business clients and society. ING Bank's net result fell 50.1% to €2,415 million from €4,843 million in 2019. The effective tax rate in 2020 was relatively high at 34.6% (versus 27.7% in 2019) and was mainly caused by the lower result before tax, which included higher non-deductible amounts like the impairments on goodwill and on our stake in TMB.

The result before tax declined 44.2% to €3,810 million in 2020 from €6,831 million in 2019, primarily caused by elevated risk costs reflecting the (expected) economic impact of the Covid-19 pandemic, combined with impairments on goodwill, restructuring provisions and other impairments. After years of growth, net core lending (adjusted for currency impacts, and excluding Treasury and the run-off portfolios) declined by €2.5 billion in 2020, while net customer deposit inflow was high at €41.4 billion. The global retail customer base grew to 39.3 million at year-end, and the number of primary customers rose during the year by 578,000 to 13.9 million.

Income declined 3.6% to €17,645 million from €18,295 million in 2019. The decline was mainly in the Corporate Line due to lower interest results from foreign currency ratio hedging and to some positive one-offs recorded in 2019. Income at Retail Banking decreased due to an impairment on our equity stake in TMB, whereas income in Wholesale Banking (mainly in Financial Markets) increased.

Net interest income decreased 3.4% to €13,600 million. The decline was largely due to lower interest results on current accounts and savings, reflecting the continued pressure on liability margins, combined with lower interest results from foreign currency ratio hedging due to lower interest rate differentials. This decline was largely offset by higher interest results at Treasury (supported by the introduction of the ECB's two-tiering system at the end of October 2019) and, to a lesser extent, on lending products, reflecting a slight increase in the total lending margin. ING Bank's overall net interest margin declined to 1.43% from 1.54% in 2019.

Net fee and commission income increased 5.0% to €3,011 million from €2,868 million in 2019. In Retail Banking, net fee and commission income rose by €204 million, or 11.7%. This was mainly driven by higher fee income on investment products, predominantly in Germany, whereas daily banking fees slightly increased supported by increased package fees, which countered the impact of a drop in payment transactions due to lockdown measures and travel restrictions. Total fee income in Wholesale Banking declined by €66 million, or 5.8%, predominantly in Trade & Commodity Finance as a result of lower average oil prices as well as lower syndicated deal activity in Lending.

Total investment and other income decreased to €1,034 million in 2020 from €1,352 million in previous year. The decline was mainly in Retail Banking, largely due to a €230 million goodwill impairment related to ING's stake in TMB, and in the Corporate Line. In 2019, the latter 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. These declines were partly offset by Wholesale Banking, predominantly in Financial Markets due to a positive swing in valuation adjustments.

Operating expenses increased by €817 million, or 7.9%, to €11,160 million. Expenses in 2020 included €1,105 million of regulatory costs, compared with €1,021 million previous year. The increase was furthermore caused by €673 million of incidental items recorded in 2020, mainly reflecting €310 million of goodwill impairments and several restructuring provisions and impairments related to the review of activities and measures announced (including those on Wholesale Banking and the Maggie project). Excluding regulatory costs and these incidental items, expenses increased by €60 million, or 0.6%, as the impact of collective-labour-agreement (CLA) salary increases and higher IT expenses, was largely offset by the impact of continued cost-efficiency measures (including lower marketing and travel costs as a result of the Covid-19 restrictions). The cost/income ratio was 63.2% versus 56.5% in 2019.

Net additions to loan loss provisions were €2,675 million, or 43 basis points of average customer lending, compared with €1,120 million, or 18 basis points, in 2019. The increase was mainly due to various Individual Stage 3 provisions, including a sizeable provision for an alleged external fraud case in 2020, and high collective Stage 1 and Stage 2 provisioning as a result of the economic impact of the Covid-19 pandemic. Risk costs in 2020 included €590 million of collective provisions related to the worsened macro-economic indicators, including provisioning related to loans subject to a payment holiday.

The return on IFRS-EU equity of ING Bank declined to 5.1 percent in 2020 from 10.6 percent in 2019.

Retail Banking

Total Retail Banking

In 2020, Retail Banking results were resilient. However, net result fell 31.8 percent to €2,281 million from €3,347 million in 2019, strongly affected by the impact of the Covid-19 pandemic which resulted in higher risk costs reflecting the worsened macro-economic environment, as well as by impairments in both income and expenses, and some other incidental items.

The result before tax declined 29.4 percent to €3,348 million. Income declined by €217 million, or 1.7 percent, including a €230 million impairment on ING's equity stake in TMB. Excluding this impairment, income rose 0.1 percent, as higher fee income and increased Treasury-related revenues were offset by margin pressure on savings and current accounts. In 2020, total customer lending declined by €0.3 billion to €436.8 billion. Adjusted for currency impacts, Treasury and the WestlandUtrecht Bank (WUB) run-off portfolio, Retail's net core lending book grew by €2.4 billion as growth in mortgages more than offset a decline in business lending. Net customer deposit (also adjusted for Treasury and currency impacts) grew by €37.0 billion in 2020.

Operating expenses increased by €443 million. This was for €281 million caused by incidental items in 2020, mainly reflecting impairments and restructuring provisions related to the Maggie project and our retail branch network as well as a goodwill impairment in Retail Belgium. Furthermore, expenses rose mainly due to higher regulatory costs, the impact of collective-labour-agreement (CLA) salary increases and higher IT expenses, partly offset by lower marketing and travel expenses. The cost/income ratio was 61.8 percent in 2020, compared with 57.1 percent in 2019.

Risk costs rose to €1,322 million, or 30 basis points of average customer lending, from €588 million, or 14 basis points, in 2019. Risk costs in 2020 included €398 million of collective provisions related to the worsened macro-economic indicators, including management adjustments to reflect a possible delay in expected credit losses and provisioning related to loans subject to a payment holiday.

Market Leaders

Retail Netherlands

The result before tax of Retail Netherlands decreased 5.7 percent to €2,078 million from €2,204 million in 2019. This decline was mainly attributable to higher risk costs reflecting the worsened macro-economic environment and an increase in regulatory costs.

Total income declined by €34 million, or -0.8 percent, to €4,471 million, compared with €4,505 million in 2019. Net interest income declined 0.8 percent, mainly due to lower margins on savings and current accounts, combined with a decline in average lending volumes, which was largely offset by higher Treasury- related revenues. Net core lending (which excludes Treasury products and a €1.1 billion decline in the WUB run-off portfolio) decreased by €3.2 billion in 2020, of which €0.8 billion was in residential mortgages and €2.4 billion in other lending. Net customer deposits (excluding Treasury) grew by €15.3 billion, predominantly in current accounts. Net fee and commission income increased by €7 million, or 1.0 percent, primarily due to higher investment product fees. Investment and other income was €11 million lower.

Operating expenses rose by €26 million, or 1.2 percent, to €2,236 million from €2,210 million in 2019, of which €65 million was caused by higher regulatory costs. Expenses excluding regulatory costs declined 1.9 percent as the impact of CLA salary increases, higher IT expenses as well as provisions related to redundancies and customer claims, were more than offset by lower external staff costs and lower marketing and travel expenses.

The net addition to loan loss provisions was €157 million, or 10 basis points of average customer lending, compared with €91 million, or 6 basis points, in 2019. Risk costs in 2020 included €118 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 includes ING in Luxembourg.

The result before tax of Retail Belgium fell to €122 million, compared with €647 million in 2019. The decline was attributable to higher risk costs reflecting the worsened macro-economic environment, combined higher expenses and lower income.

Income declined by €69 million, or 2.8 percent, to €2,373 million from €2,442 million in 2019. Net interest income was 4.8 percent down to €1,816 million, mainly reflecting lower margins on savings and current accounts, and lower Treasury related revenues, partly offset by higher interest results from mortgages. Net core lending (excluding Treasury) decreased by €1.5 billion in 2020, evenly spread over mortgages and other lending. Net customer deposits (also excluding Treasury) grew by €4.0 billion, predominantly in current accounts. Net fee and commission income rose by €39 million, or 10.4 percent, mainly due to higher fee income on investment products and mortgages. Investment and other income declined by €16 million, mainly from Financial Markets.

Operating expenses rose by €128 million, of which €43 million was due to a goodwill impairment related to an acquisition in the past by ING Belgium and €40 million related to restructuring costs recorded in the fourth quarter of 2020. The remaining increase was mainly due to higher regulatory costs and IT expenses.

The net addition to the provision for loan losses increased to €514 million, or 57 basis points of average customer lending, from €186 million, or 21 basis points, in 2019. Risk costs in 2020 included €158 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 business lending, including provisioning on a number of individual files.

Challengers & Growth Markets

Retail Germany

Retail Germany includes ING in Austria.

The result before tax declined 0.7 percent to €950 million, compared with €957 million in 2019, as higher income largely offset the impact of higher risk costs (after a net release in 2019) and increased expenses.

Total income rose 6.6 percent to €2,117 million from €1,985 million in 2019. The increase was driven by €169 million higher fee income, predominantly on investment products due to higher assets under management, new account openings and a higher number of brokerage trades in volatile markets. Net interest income increased 0.5 percent to €1,587 million, as higher interest results from lending and accounting asymmetry in Treasury (with an offset in other income), was largely offset by margin pressure on savings and current accounts. In 2020, net core lending (which excludes Treasury products) increased €4.5 billion, of which €4.2 billion was in residential mortgages and €0.3 billion in consumer lending. Net customer deposits (excluding Treasury) increased by €5.8 billion, largely in current accounts. Investment and other income declined by €45 million, mainly due to the aforementioned accounting asymmetry and lower capital gains.

Operating expenses increased by €30 million, or 2.8 percent, to €1,110 million in 2020. The increase was mainly due to investments to support business growth as well as the consolidation of a subsidiary as from the first quarter of 2020, while previous year included a €36 million restructuring provision.

The net addition to the provision for loan losses was €57 million, or 6 basis points of average customer lending, compared with a net release of €53 million in 2019, which had included model updates on mortgages. Risk costs in 2020 included €8 million of collective provisions related to the worsened macro-economic indicators.

Retail Other

Retail Other consists of the Other Challengers & Growth Markets, including the bank stakes in Asia.

Retail Others' result before tax fell to €199 million, from €935 million in 2019, mainly reflecting impairments on TMB and the Maggie project as well as higher risk costs.

Total income declined by €248 million to €3,261 million in 2020, of which €230 million related to an impairment on ING's equity stake in TMB. Excluding this impairment, total income decreased by €18 million, or -0.5 percent. Net interest income was down 1.0 percent to €2,760 million, reflecting margin pressure on savings and current accounts, largely offset by higher interest results from lending products and Treasury. Net customer lending (adjusted for currency effects and Treasury) grew by €2.6 billion in 2020, with growth in all countries, except Italy. The net inflow in customer deposits, also adjusted for currency impacts and Treasury, was €11.9 billion, with largest increases in Poland and Spain. Net fee and commission income declined 2.6 percent to €412 million, largely due to a decline in Turkey, which was partly offset by increases in most of the other countries. Excluding the aforementioned impairment, investment and other income rose by €21 million.

Operating expenses increased by €259 million, or 11.7 percent, to €2,469 million from €2,210 million in 2019, of which € 140 million related to an impairment on capitalised software following the decision to stop the Maggie transformation programme (previously called Model Bank) and €27 million of restructuring provisions and impairments related to the project and some other countries. Excluding these incidental items, expenses increased by €92 million, or 4.2 percent, mainly due to higher regulatory costs, investments in business growth and lower capitalization of costs following the decision on Maggie. These increases were partly offset by lower legal provisions as well as lower marketing and travel expenses.

The net addition to loan loss provisions increased by €229 million on 2019 to €593 million, or 61 basis points of average customer lending. Risk costs in 2020 included €114 million of collective provisions related to the worsened macro-economic indicators, including provisioning related to loans subject to a payment holiday, as well as a €59 million Stage 3 provision for expected losses on CHF-indexed mortgages in Poland. The increase versus 2019 was mainly visible in Poland, Romania and Australia, whereas risk costs in Turkey declined.

Wholesale Banking

The full-year 2020 results for Wholesale Banking were also strongly affected by the impact of the Covid-19 pandemic. The net result declined to €512 million from €1,352 million in 2019. The result before tax dropped 54.8 percent to €827 million, down from €1,830 million in 2019. The decline was predominantly due to elevated risk costs and higher expenses (including impairments and restructuring provisions), partly offset by higher income.

Total income rose 1.8 percent to €5,396 million in 2020, compared with €5,298 million in 2019, reflecting higher revenues in Financial Markets and Treasury & Other, partly offset by lower income in Daily Banking & Trade Finance and Lending. The net core lending book (adjusted for currency impacts and excluding Treasury and the Lease run-off portfolio) declined by €4.9 billion in 2020. The inflow in net customer deposits (excluding currency impacts and Treasury) was €4.4 billion. Net interest income decreased 2.0 percent, mainly due to lower margins on current accounts and lower average lending volumes. This decline was largely offset by higher interest results from Treasury (with an offset in other income). Net fee and commission income decreased 5.8 percent on 2019, mainly due to lower syndicated deal activity in Lending and lower fees in Trade & Commodity Finance. Investment and other income rose by €240 million, primarily due to higher valuation results in Financial Markets, partly offset by Treasury.

Operating expenses rose 9.6 percent to €3,218 million from €2,937 million in 2019, mainly due to a €260 million goodwill impairment and €124 million of restructuring provisions and impairments recorded in the fourth quarter of 2020, following the announced refocusing of activities, including an additional impairment on Payvision. Excluding the aforementioned incidental items, expenses decreased 3.5 percent, mainly due to lower regulatory costs and the impact of continued cost-efficiency measures as well as lower travel expenses as a result of the Covid-19 restrictions.

The net addition to loan loss provisions rose to €1,351 million, or 75 basis points of average customer lending, compared with €532 million, or 29 basis points, in 2019. The increase was predominantly due to various Individual Stage 3 provisions, including a sizeable provision for an alleged external fraud case in 2020, and high collective Stage 1 and Stage 2 provisions as a result of the economic impact of the Covid-19 pandemic, including €192 million of collective provisions related to the worsened macro-economic indicators.

Lending posted a result before tax of €691 million, down 56.7 percent compared with €1,597 million in 2019, predominantly due to elevated risk costs. Risk costs in 2020 were primarily impacted by various large individual files, including a sizeable provision for an alleged external fraud case, as well as the economic impact of the Covid-19 pandemic. Lending income declined 3.2 percent, reflecting lower lending margins and lower syndicated deal activity. Expenses declined 3.1 percent, mainly due to lower regulatory costs.

The result before tax from Daily Banking & Trade Finance fell to €246 million from €476 million in 2019. This decline was due to lower income and higher expenses, partly offset by lower risk costs as previous year included a sizeable provision for an external fraud case. The decline in income mainly reflect lower margins on current accounts as well as lower fee income, mainly in Trade & Commodity Finance as a result of lower average oil prices. Expenses rose 9.8 percent, mainly due to impairments on Payvision's intangible assets.

Financial Markets recorded a result before tax of €230 million, compared with a loss of €121 million in 2019. The increase was predominantly due to higher income, which included €73 million of positive valuation adjustments versus €-228 million in 2019, and lower expenses in part due to lower staff expenses and regulatory costs. Excluding valuation adjustments, pre-tax result rose by €50 million compared with 2019, mainly in the Global Capital Markets business.

The result before tax of Treasury & Other was €-339 million compared with €-123 million in 2019. This decline was mainly explained by a €260 million goodwill impairment and €95 million of restructuring provisions and related impairments following the announced refocusing of activities, partly offset by higher Treasury income.

Our people

We are extremely grateful to all ING colleagues for their resilience and ongoing commitment in a challenging year. Our people are at the heart of our business and we rely on them to support our customers, even more so in times of crisis. With more interactions and transactions than ever now online, our workforce is evolving to keep pace with the skills and capabilities this requires. At the same time we strive to provide a differentiating employee experience that keeps people motivated and engaged.

Covid-19: How we made a difference for our people

Covid-19 has disrupted societies, and it has had a big impact on ING employees across the globe. Business continuity and our ability to keep serving our customers relied on rapidly transforming our way of working into a work-from-home model. This required quickly putting the necessary infrastructure and processes in place to support up to around 80 percent of our global workforce working from home.

Health and safety first

Since the start of the global pandemic in March our focus has been on keeping our colleagues safe, healthy and supported. We set up a global steering group and local crisis management teams at ING locations, which strived to follow the highest health and safety standards. This included restricting business travel and taking measures to create a safe work environment in our offices and branches.

As the virus outbreak worsened, the majority of our workforce switched to working from home. To ensure our employees remain engaged and are equipped to do their jobs remotely, we provide tools and guidance for remote working, support best-practice sharing and help them to create an optimal work environment.

For those unable to work remotely, because they're involved in business-critical operations or work in a branch, we take every precaution to create a safe work environment. Social distancing guidelines and enhanced health and hygiene measures apply to desks, meeting rooms and common areas. We strive to uphold high health and safety standards and follow local government advice on coronavirus prevention measures.

Learning and staying vital

ING believes people need to stay vital to be at their best in their job. This was even more important during the long months of working under difficult circumstances in 2020. Supporting and safeguarding the wellbeing of our employees and managers was of crucial importance.

Covid-19 highly disrupted our way of working and added urgency to the need for high adaptability and resilience. Activities were shifted to a virtual working environment, sometimes performed in isolation. Managers were asked to set up virtual team networks to remain close to their employees and to guide and encourage them, leading to different sorts of challenges. Apart from finding new ways to collaborate, they needed to motivate and engage employees from a distance, manage their own vitality, and monitor the wellbeing of colleagues when they couldn't see them every day. We addressed these challenges by offering a wide range of online support tools for all employees and extra coaching for leaders and managers.

Our global Talent and Learning team put in place a number of virtual development and training tools, tailored to the various workforce levels. On top of the coaching already included in the Think Forward Leadership Programme, we offered 400 of our top leaders one-to-one consultation sessions with external wellbeing coaches. We also introduced a virtual version of the Think Forward Leadership Experience (TFLE) programme for people managers with five or more direct reports focusing on the topic of sustained high performance.

We fully digitalised our development tools for managers, empowering them to drive performance and improve their managerial skills. These tools included additional webinars on topics such as motivating a team from a distance. Around 1,200 managers attended these webinars.

For employees, a fully digital offering was created with more than 100 tools and resources focused largely on personal effectiveness. Topics included:

- Embracing new working conditions
- Getting guidance and staying engaged
- Organising your work and being flexible
- Building trust and psychological safety
- Asking for and providing feedback
- Dealing with change and uncertainty.

Local wellbeing initiatives

Local businesses came up with a range of creative solutions to help employees stay strong in difficult times. The support varied from tips and tricks on nutrition and how to stay fit, to online wellbeing coaches, psychological support, tips on how to deal with stress and workload and advice on the importance of taking a holiday – even when your trip is cancelled.

Some examples of the many local initiatives include 'Wellbeing Friday' and a wellness intranet page called Frenkie (Australia), a health week and virtual sports challenges (Poland), a wellbeing handbook and online workouts on emotional and mental health (Romania), online meditation courses and yoga lessons (Italy), personal trainer videos (Germany) and online talks on nutrition, mindfulness and the importance of sleep (Turkey). Employees in the Netherlands and Belgium could follow a newsletter series with expert advice on performing during the coronavirus period. We also launched a series of webinars for employees in the Netherlands and Belgium focused on developing a positive mindset, concentrating under pressure and creating moments of relaxation.

The Wellbeing Quotient (WQ) programme in the Netherlands and Belgium, aiming to improve the wellbeing of individuals and teams, went digital this year. The WQ programme comprises training courses on energy management, performing under pressure and mental power. Since its launch in Wholesale Banking in 2018, 10,000 people have completed the WQ programme.

Communicate, communicate

Leaders and managers at all levels stepped up their communication efforts to keep their teams up to date and motivated in uncertain times. As well as virtual stand-ups and other meetings to discuss formal, business-related topics, there were also informal virtual get-togethers, from pub quizzes to wellness workshops and webinars.

Internal communication became vital to keep staff engaged. On global and local intranets and in social communities, people told stories and shared photos and videos of their working from home experiences. External experts featured in an article series on the global intranet, 'Home coach'.

Continuous listening and organisational health

To measure the engagement and wellbeing of ING's largely remote workforce during the Covid-19 pandemic, we created frequent, global Quick Pulse surveys. Altogether approximately 42,000 people received the survey, asking questions such as 'How are you feeling today', 'What is affecting how you feel' and 'Have you been able to combine your work and private life well today'? The outcomes provided valuable input to sharpen the offering of supportive tools for employees and managers globally and locally.

These Quick Pulse surveys were run weekly between April and June so that local businesses could quickly address issues as they arose. The surveys continued at a lower frequency throughout the rest of the year to enable the organisation to address the challenges employees were facing. Local support varied from offering online toolkits and workshops on remote working and collaboration to providing ergonomic advice on how to sit and use home office equipment (IT, furniture), mental health support and extending communications efforts to connect managers and their teams. The Quick Pulse survey will continue in its current format in 2021.

We also measure ING's organisational health in the more extensive Organisational Health Index (OHI) diagnostic survey. The last full survey in September 2019 had shown that our results were declining. Based on this, the Management Board Banking decided to focus our efforts on three priority areas: direction, leadership and innovation & learning. These global themes were the starting point for action plans at local, business and functional levels, which also covered local or business-line issues.

To monitor the progress on these priorities, we introduced two OHI Pulse surveys for all employees in 2020. The global results of the OHI Pulse survey held in May showed significant improvement across all business-lines in the three priority areas. More colleagues indicated ING's purpose is communicated clearly and that they understood more how they contribute to ING's success. More colleagues felt their views were included in decision-making and more felt leaders showed concern for the welfare of employees. Also, more colleagues felt ING was doing well in innovation.

The outcomes of the OHI Pulse survey in November, compared to May, showed that leaders continued their high level of support and caring for employees' welfare. Scores on direction declined slightly while those on innovation & learning remained generally stable versus May.

The May and November surveys also included some questions on engagement. The results showed that despite the challenging times, engagement at ING remains high. Comparing the November 2020 scores with those in September 2019, both job engagement (focusing on enjoyment of work) and organisational engagement (looking at pride in ING as a company) increased. Between May and November, the engagement scores remained relatively stable.

The next full organisational health survey will be run in 2Q 2021.

Orange Code and Code of Conduct

Our business centres on people and trust. People trust us with their money and with their data. Maintaining this trust is crucial.

Everything we do at ING is guided by the values and behaviours that underpin our way of working. We call this our Orange Code.

The Orange Code is a manifesto that describes our way of working, putting integrity above all. It is comprised of our values and our behaviours.

ING values are the principles we stick to, no matter what.

We are honest

We are prudent

We are responsible

ING behaviours are commitments we make to each other and the standards by which we measure each other's performance.

You take it on and make it happen.

You help others to be successful.

You are always a step ahead.

We expect everybody to demonstrate our Orange Code behaviours every day. ING colleagues showed this during the crisis by continuing to serve customers from home: they took things on and made them happen. And they helped each other to be successful; for example by supporting colleagues who had to combine work tasks with home schooling. The Orange Code behaviours drive our success.

The Orange Code values are the promises we make. It's our policy not to ignore, tolerate or excuse any behaviour that is not in line with these values. Doing so could potentially put our customers at risk, erode the public's confidence and damage our reputation. That's why integrity is at the very foundation of our culture.

In 2020, we introduced a global Code of Conduct, which outlines the 10 core principles we expect from employees. These principles build on the values and behaviours of our Orange Code and are based on ING's existing policies, minimum standards and guidelines to keep ING safe, secure and compliant. The global Code of Conduct is in addition to local codes of conduct in various countries. Important elements are the 'speak-up' principle, encouraging employees to report any misconduct, and the principle that every ING employee is entitled to a safe working environment. ING does not tolerate discrimination, harassment, bullying, sexual or other forms of intimidation, aggression or violence.

Diversity and inclusion

We promote diversity at ING, not just because it is the right thing to do. We promote diversity because it's essential for delivering on our strategy. To stay a step ahead we need teams with a healthy mix of contrasting perspectives and backgrounds as they are more creative, faster to adapt and more inventive with their solutions. At ING we value inclusion and we encourage people to bring their whole self to work.

We strive for no group or level to comprise more than 70 percent of the same gender, nationality or age group. Managers are ultimately responsible for building mixed teams and choosing the dimensions of diversity they focus on. They are guided by the 70 percent principle and our global priorities (gender, nationality and age).

How are we doing?

When we look at the overall global make-up of ING we see that collectively we meet the 70 percent across all three dimensions. However, within individual teams and on a country level there are different, often complex challenges in creating the mixed teams we strive for, and we are not always making progress at the speed we would like. Our starting point is fully understanding on an ongoing basis where we are at and where the challenges lie. We have detailed dashboards to help different areas of the business identify gaps and monitor progress towards building mixed teams. These dashboards monitor in real-time how the countries and business lines are doing, at different levels of the organisation. The HR teams use these in their discussions with local management teams.

Diversity at the top

Like many other financial organisations, getting the right mix of people – especially in leadership positions – remains a challenge. There is more to be done to redress imbalances that still exist. ING is committed to making progress in this area.

When looking at the composition of our Management Board and Supervisory Board we look at diversity in a broad sense, striving for factors such as nationality, gender, age, education and work background. The diversity and competence matrix in the Supervisory report reflects the composition of the Management Board and the Supervisory Board.

At the level below the Management Board Banking there is still work to be done to make the necessary progress, particularly in terms of gender. At this level, 27 percent of our leaders are female. In terms of nationality we see more diversity at this level with 43 percent of leaders of non-Dutch nationality. We are addressing this as part of our annual talent review process, which aims to create a more balanced pipeline by including more diverse candidates on succession lists for around 400 of our top roles, and through regular discussions around these appointments at Management Board level.

Looking more broadly, the number of female managers remained stable at 37 percent of managers (37 percent in 2019) and 30 percent of managers of managers (29 percent in 2019).

Inclusion

To create an environment where people can truly feel free to be themselves and where people decisions are made objectively and fairly, we need to reduce our biases. In July 2020, ING launched a 'Banking on inclusion' training programme for managers and HR professionals. By the end of 2020, 683 ING managers had enrolled in the training. All employees globally could already follow an online unconscious bias e-learning, which was introduced in 2019.

Our 'quality of hire programme' aims to improve the quality of our hiring processes, reducing early turnover and increasing job performance. We have created an evidence-based approach, Hiring 1-2-3, that aims to help us hire the right candidates for ING, reduce biases and prejudices we all have and offer candidates a fair process. The three steps focus only on evidence, to ensure a fair and objective process for every candidate. We work with structured interviews and diverse interview panels, and we calibrate before making a decision. The approach was piloted successfully in Romania, after which it was implemented in five more countries in 2020. Global roll-out will take place in 2021.

As an inclusive employer, ING wants its benefits to be inclusive as well. In 2020, we performed a worldwide review of our benefits packages. After a first round covering 40 countries, we did a deeper assessment in eight countries, comprising 65 percent of the ING population. In several cases the benefits packages were assessed as 'above-market'. In terms of inclusivity, some themes emerged that we may consider focusing on in the future, including family leave (e.g. equal paternity/maternity leave), financial education and wellbeing.

To further promote inclusion, ING has more than 20 employee networks and employee-led diversity initiatives. The Lioness network, for instance, is in five countries and aims to help women realise their ambitions. Other networks focus on race and nationality, cultural diversity, employees with a disability, LGBT+ employees and allies, and various age groups.

Our stance on discrimination

Discrimination is when a person is treated differently or excluded, for example from a job opportunity, because of their race, gender, religion, cultural background, ethnicity, sexual orientation, disability, political opinion, family responsibility, age or social origin. It has the effect of nullifying or impairing equal opportunity. ING has measures in place to prevent discrimination towards customers and employees. These include our Global Code of Conduct, which expects all employees to create and maintain a safe working environment and to speak up and report misconduct.

In 2020, the topics of racial injustice and ethnicity and the Black Lives Matter movement were pushed into the spotlight by incidents and subsequent protests in the US and the rest of the world. To reinforce our position on discrimination, the Management Board Banking shared a global message with all employees in June, denouncing all forms of discrimination and encouraging employees to speak up if they encounter discrimination at work, or behaviour they're not comfortable with.

We make a conscious effort to include all people, no matter what their cultural background, experience, religion, sexual orientation or political viewpoints. Any distinction, exclusion or preference not based on the inherent requirements of the job is deemed to be discrimination. We are working together to create an inclusive workplace and, in turn, play our part in building an inclusive world.

We have a policy that aims to ensure equal remuneration for men and women doing work of equal value. At the same time, it's important to acknowledge the difference in average pay between genders, and the difference in pay between men and women in the same position adjusted for circumstances like experience. We take into account that the difference in average pay at ING is influenced by the (smaller) number of women in higher management roles.

More than 10 countries annually – including the Netherlands, Belgium and Poland – review and monitor pay levels from a gender perspective, taking any necessary actions if disparities are identified. While we aspire to conduct this exercise globally in the future, we will need to roll out a consistent job framework model and implement one global HR system across all ING countries before this is possible.

Performance management

At ING we manage our people's performance on a continuous basis. Called Step Up, our global performance management practice centres around so-called 'continuous conversations' between employees and their managers. 'Continuous conversations' are informal, regular, on-the-job chats between employees and their manager so employees know what they're supposed to do, how they're doing and what they can improve. These discussions should encompass the employee's job, 'stretch' ambitions and our Orange Code behaviours. In addition to these informal conversations there are also three formal check-ins during the year – target setting, mid-year review and year-end evaluation. When assessing performance, we always encourage managers to look broadly at an employee's performance, considering all areas affecting their work and home life. With Covid-19 introducing difficult circumstances for many employees – for example, juggling home schooling or caring for relatives while working – this balanced view was particularly relevant this year.

The Individual Development Plan (IDP), introduced in February 2020, helps employees to work on their personal development needs and ambitions. Employees are encouraged to create their IDP at the beginning of the year and discuss their development on a continuous basis with their manager. Similar to performance management, two formal moments are scheduled at mid-year and year-end to check in on progress.

The IDP framework enables employees to identify actions to improve their performance in a current role, think ahead about the skills and experiences they might need for a next role, or even beyond that for a role outside ING. The IDP is available in all countries and over a third of all employees have put a plan in place.

Our people offer

This year we introduced 'our people offer'. This document – based on extensive research – sets out our differentiating offer as an employer in the marketplace and states what we ask of our people in return. Our people offer gives guidance to our global people practices, while supporting our Think Forward strategy. It replaces the previous 'employer value proposition' and forms the basis of our employer brand.

A total reward statement was introduced in the Netherlands and Belgium, giving employees a full, personal overview of their salary, pension and payments, as well as options available to help them improve their wellbeing and craftmanship.

Continuous learning and talent development

To deliver on our purpose and strategy ING needs to have the right capabilities in place. Working with the business, we identified six clear capabilities we need now and in the future to deliver on our business strategy – both as an organisation and as individuals. These six capabilities, collectively known as the 'Big 6' capabilities, are important for all ING colleagues irrespective of role, level, country or department.

Our *foundational* capabilities are those required to get the basics right. These keep us safe, create and maintain trust of our customers, stakeholders and our people. There are three of these: non-financial risk management, cybersecurity and operations management. Data fluency, customer experience and leadership are our three *distinctive* capabilities. These distinguish ING in the market and are essential for creating value.

The Big 6 will bring additional focus to both the development needs of the ING workforce and the many learning resources we have available. The capabilities were launched in 2020 in the Netherlands and Belgium, along with a new online learning platform – My Learning. The further roll-out of the Big 6-campaign to all employees is planned for 2021.

My Learning

My Learning is ING's new intelligent digital learning platform where employees can find our complete offering of learning content in one location. The new platform is live in Netherlands and Belgium and all employees in these countries have access. The roll-out of My Learning to other countries will continue in 2021.

The platform contains learning activities from ING sources as well as external content libraries, allowing employees to find everything they need in one system. My Learning offers content selected specifically for the user. The better the platform gets to know the employee, the more relevant the recommendations become. These recommendations are based on the role, interests and learning and the search behaviour of the user, as well as that of colleagues with a similar profile.

My Learning organises search results in channels and so-called learning plans, with learning activities on the same subject being grouped in a channel. Official ING content curated by our learning experts are 'recommended channels'. Employees can also create their own channels.

Think Forward Leadership programmes

ING's Think Forward Leadership Programme (TFLP) aims to develop greater leaders and better managers who can engage staff and enhance team performance. Introduced for senior leaders in 2017, it was extended later that year to people managers globally as the Think Forward Leadership Experience (TFLE), with follow-up learning activities.

The first phase of the programmes focused on self-awareness, personal ownership and collaboration. Other subjects covered were the Orange Code and the Think Forward strategy. Phase 2, launched for TFLP in 2018, focused on sustained high performance, talent development and performance transparency (how can we lead courageously and create a culture of transparency). This was also extended to the TFLE audience in 2020.

The first full digital version of the TFLE went live in September. The content focused on topics like psychological safety, micro agressions/messages, radical candour and sustainable high performance; priming ourselves and our team for performance. These topics are even more relevant in the context of working from home and the acceleration in change we are all experiencing. In 2020, a total of 840 managers joined these sessions. Feedback was positive with an overall peer recommendation score of 4.2 out of 5 and a 4.6 out of 5 score in response to the question: 'The skills and insights I gained are relevant for leaders at ING'.

ING's programme for new managers, or managers who are new to ING, was launched in 2020. The First-Time Leader Programme (FTLP) aims to develop the skills these managers need to help themselves and their teams be successful. Themes include communication, personal development and leading a team. Over 500 people participated in the fully digital programme over the year.

The FTLP is available to managers and employees who would like to become managers in the future via the ING Learning Centre/MyLearning platform. Participants have access to a range of online resources specially created for them, including training modules, videos and an online library.

The award-winning Purpose to Impact programme, launched in 2019, helps employees in the Netherlands and Belgium discover their personal purpose, connecting their motivation and unique strengths to the goals of ING.

Digitalisation: using data to improve the employee experience

While in many areas, recruitment was much less of a focus, ING still needs key specialist profiles in some locations to realise our digital ambitions. To improve the way we attract talent we are redesigning our global recruitment operating model, particularly with regards to our sourcing and screening approach for niche or hard-to-fill roles.

Our ambition is to bring our employee experience on a par with our customer experience. A new survey called the Employee Experience Index© was piloted in four countries in 2020 to gain more insight into the touchpoints that impact employee engagement. This will be rolled out to additional countries in 2021 to become a recurring initiative offering actionable insights into the experiences of ING employees throughout the employee lifecycle.

Starting a new job is one of the crucial stages in the employee lifecycle. In 2020, we introduced a digital onboarding tool that guides new hires and their managers through the onboarding journey, helping to make new colleagues feel welcome at a time when they can't meet their teams in person. The tool was launched for ING's shared-services centre in Manila, followed by the Netherlands later in the year.

A changing organisation

Looking for a new normal

Overall, the speed with which the ING workforce managed to adapt to a new remote way of working in 2020 was a huge achievement. Of course, given the uncertainty around Covid-19 and how it develops, it's hard to predict what the future holds. What is clear is that ING will have to learn from these experiences to create a 'new normal' in which we seek to balance the advantages of working from home and working from the office. We are taking a measured step-by-step approach to this, testing and evaluating as we progress – to make sure that we're taking the right decisions each step of the way for employees, our stakeholders and ING as a whole.

As a starting point we've created a set of guiding principles that describe our global way of working. These principles complement ING's one Way of Working and promote one global standard with a degree of flexibility for local implementation.

Based on the initial analysis, we envisage that in the future employees will spend around 50 percent of their time working remotely and will be empowered to work much more flexibly. This is not set in stone, but is an indication of our current thinking and our starting point for the 'new normal'. It will require re-thinking many aspects of the way we work – for instance office space, collaboration, travel – and it's important we look carefully at this and test initial conclusions before making final decisions and moving forward with the roll-out. In some countries, for example in Spain, Italy and Turkey, colleagues have already been given the flexibility to choose where they want to work, which provided valuable input for the global approach.

Organisational and people impact

ING's ambition to transform into a leading data-driven digital bank remains firm. The challenging external environment requires us to remain flexible in how and where we deliver our Think Forward strategy. At the same time, customer behaviour is changing as we become more digital in our approach to banking. This can impact the way we operate and the skills and capabilities we need. This means we sometimes need to make organisational changes or refocus our activities. These decisions can impact our people and roles can, for example, change or no longer exist.

In July, ING in the Netherlands announced its intention to close 42 branches over the coming year, moving services to other ING branches or service points. ING in the Netherlands has 134 branch offices and 246 service points (December 2020). In December, ING in Belgium announced plans to close 62 branches out of a branch network of 552 branches (December 2020). This is because we're seeing customers are increasingly using digital channels rather than visiting our branches. Covid-19 has accelerated these changes and the speed of digitalisation. The vast majority of colleagues affected by the announced changes are expected to find new roles in other parts of our business.

Furthermore, in November we announced we are simplifying the geographical and client footprint of our Wholesale Banking business and stopping the Maggie transformation programme. Refocusing these activities will result in a headcount reduction of approximately 1,000 full-time equivalents (FTEs) mainly over the course of 2021.

Decisions like these are not made lightly. We are committed to treating employees impacted by the changes with respect and care. We aim, as far as possible, to help them develop their skills or find new job opportunities inside and outside ING.

Risk management

The Covid-19 pandemic and subsequent lockdown measures have thrown the world into turmoil. The global economy shrank in 2020 as domestic demand and supply, trade and finance have been severely disrupted. This section explains ING's approach towards risk management and how this was impacted by the Covid-19 pandemic.

As a global financial institution with a strong European base, offering banking services, ING is exposed to a variety of risks. We manage these risks through a comprehensive risk management framework that integrates risk management into daily business activities and strategic planning. This safeguards ING's financial strength and reputation by promoting the identification, measurement and control of risks at all levels of the organisation. Taking measured risks is core to ING's business.

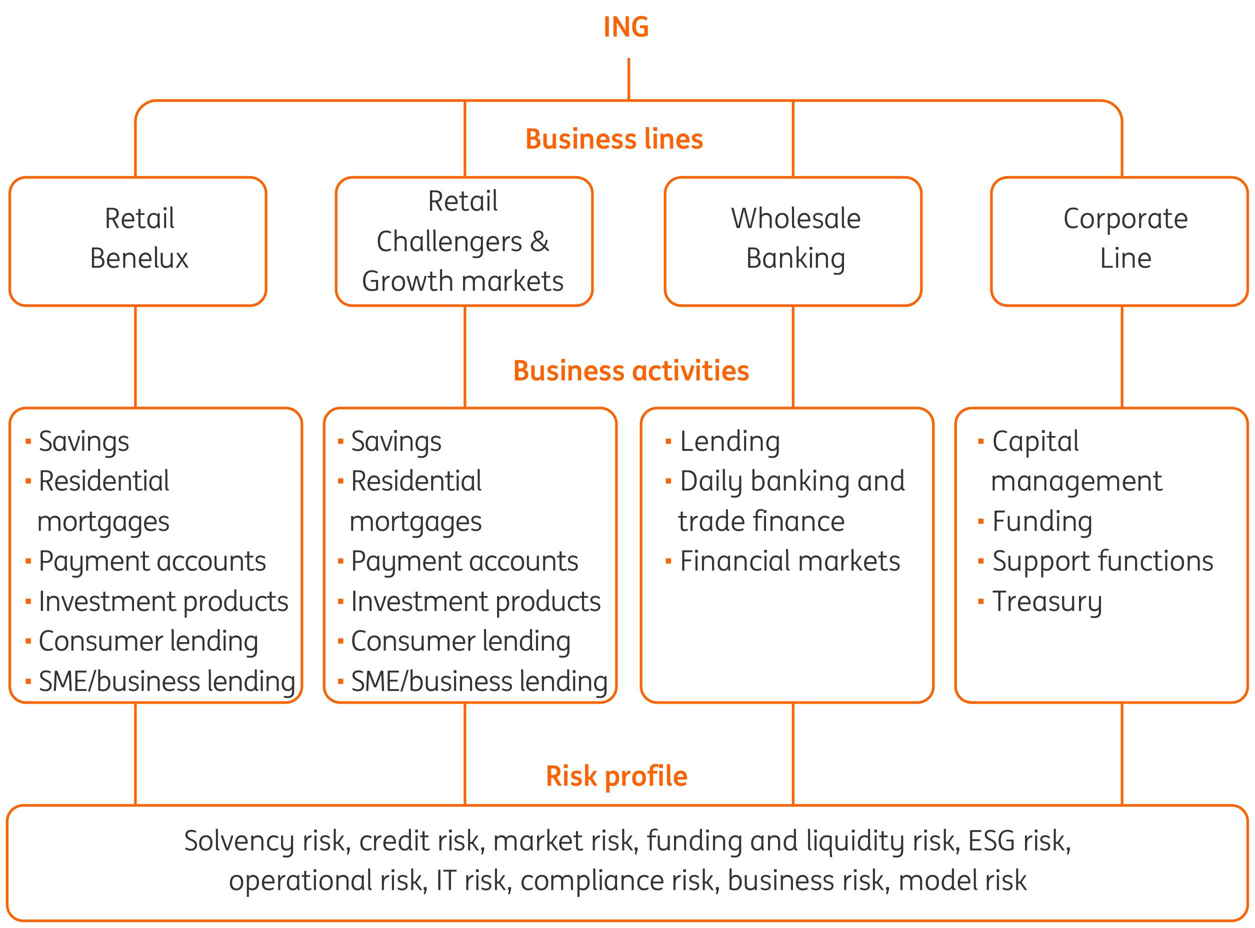
The risk management function supports the Executive Board in formulating the risk appetite, strategies, policies and limits. It provides review, oversight and support functions throughout ING on risk-related items. ING's main financial risks exposures are to credit risk (including transfer risk), market risk (including interest rate, equity, real estate, credit spread, and foreign exchange risks), funding and liquidity risk, and business risk. ING is also exposed to non-financial risks such as operational, IT and compliance risks, as well as to model risks. The ING Group chief risk officer (CRO) is also the CRO of ING Bank.

This section sets out how ING manages its risks on a day-to-day basis. It explains how the risk management function is embedded within the organisation based on the 'three lines of defence' model. It describes the key risks that arise from ING's business model and how these are managed by dedicated risk management departments, with various specific areas of expertise. The section provides qualitative and quantitative disclosures about solvency, credit, market, funding and liquidity, ESG, business, operational, IT, compliance and model risks.

Risk profile

This chart provides high-level information on the risks arising from ING's business activities:

Risk profile



Basis of disclosures (*)

The risk management section contains information relating to the nature and extent of the risks of financial instruments as required by International Financial Reporting Standards (IFRS) 7 'Financial Instruments: Disclosures'. These disclosures are an integral part of ING Bank Consolidated financial statements and are indicated by the symbol (*). Chapters, paragraphs, graphs or tables within the 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 consolidated financial statements.

This risk management section also includes additional disclosures beyond those required by IFRS standards, such as certain legal and 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). Disclosures in accordance with Part Eight of the CRR and CRD IV, and as required by the supervisory authority, are published in our 'Additional Pillar III Report', which can be found on our corporate website ing.com.

Top and emerging risks

The risks listed below are defined as existing and emerging risks that may have a potentially significant impact on our financial position or our business model. They may have a material impact on the reputation of the company, introduce volatility in future operational results, or impact ING's medium and long-term strategy including the ability to pay dividends, maintain appropriate levels of capital or meet liquidity and funding targets. An emerging risk is defined as a risk that has the potential to have a significant negative effect on our performance, but whose impact on the organisation is currently more difficult to assess than other risk factors that are not identified as emerging risks.

The topics have emerged as part of the annual risk assessment that is performed as part of the Stress Testing Framework and the Risk Appetite Framework. The sequence in which the risks are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

The 2020 risk assessment confirmed our top and emerging risks. The top risks in 2020 are related to financial crime, cybercrime and a persistent low interest rate environment. On top of that, the Covid-19 pandemic impacted our business environment. Climate change risk remains an important risk, reflecting the impact that climate change may have for the financial position and/or reputation of ING.

Covid-19 pandemic

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. Read more in 'The world around us'.

In addition, 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. Read more in 'Our business', in 'Credit risk' and in Note 49 'Capital Management'.

The Covid-19 pandemic has affected all of ING's businesses. These effects have included increased volatility, widening of credit spreads, and credit deterioration of loans to ING's customers. The 2020 risk costs were impacted by a combination of increased collective provisioning reflecting the worsened macroeconomic indicators and uncertainty, higher individual Stage 3 provisions, negative rating migration and manual overlays to address the risk on payment holidays and for the delay in observed defaults as a result of the Government support measures. Sectors particularly impacted by the Covid-19 pandemic were Aviation (Transportation and Logistics), Hospitality and Leisure (Services and Food, Beverages and Personal Care) and Non-food retail (Retail).

Increased attention is being paid to our financial risks. This was especially true during the initial phases of the pandemic, which included high frequency calls between senior management of the bank, as well as with external stakeholders like the ECB, to intensely monitor developments relating to liquidity, market and credit risks. ING also performed several types of stress tests and sectoral reviews to assess the potential impact on its financial position, which helped ING to get further insights into the potential impact and to define appropriate mitigating actions. Read more in ‘Credit risk’, ‘Market risk’ and ‘Funding and Liquidity risk’.

ING is monitoring the evolving Covid-19 pandemic carefully 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. In addition, a situation in which most or some of 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. Read more in ‘Non-financial risk’.

The duration of the pandemic and the impact of measures taken in response by governmental authorities, central banks and other third parties remain uncertain. Recent increases in Covid-19 infection rates amplified uncertainty and affect the recovery path. 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 continuously being identified, assessed and monitored in order to execute possible mitigating actions.

Geopolitical risk

ING`s business and portfolios are exposed to geopolitical risks such as political instability, social unrest or military conflicts, which could adversely affect our operations. Global tensions over trade, technology and ideology pose challenges and have negative effects for economic growth. The Covid-19 pandemic could accelerate and amplify the negative impact, with divergence both between and within countries leading to increased inequality.

The US-China relationship stands out as an important geopolitical risk, with (related) trade tensions, negatively impacting global growth. Increasing protectionism between key countries could lead to a slowdown in global production and adversely affect global trade and investments.

On 24 December 2020, the United Kingdom and the European Union agreed a post-Brexit "EU-UK Trade and Cooperation" Agreement (the “TCA”). The financial services provisions of the TCA are very limited. UK-based financial services providers lost EU passporting rights from 1 January 2021 and EU-UK financial services have become subject to unilateral equivalence decisions. The EU and UK regulators have taken measures to address overall financial stability risks (e.g. extension to recognition of UK CCPs).

ING’s Brexit preparations were predicated on a no trade deal outcome and certain business model adaptations have been implemented to ensure the continuity of business post-Brexit. ING was well prepared with both our EU and UK post-Brexit authorisations. ECB’s authorisation decision conditions have been met or are on track for their September 2021 due dates. Pending PRA & FCA authorisation decision, UK Temporary Permissions Regime is allowing continuity of UK branch authorisation from 1 January 2021. Some FM trading activities will move from London to Amsterdam as a result of Brexit.

ING continuously monitors the developments and outlook in geopolitical risk and assesses what impacts these may have on our portfolios. Internal stress testing and scenario analyses are used to assess the potential impact and adjust the limits to exposures according to our risk appetite.

Financial economic crime

Knowing who we do business with helps us protect our customers, society and our bank from financial economic crimes (FEC). We believe that as gatekeepers to the financial system we have an obligation to prevent criminals from misusing it, detect misuse where it occurs and respond accordingly. We believe we can be even more effective in safeguarding the financial system if we join forces and work with other banks and with national, European and global authorities and law enforcement agencies to tackle financial economic crime. In 2020, ING continued to execute and update policies and procedures to further enhance our know your customer (KYC) activities. In addition, ING set up a special taskforce to monitor transactions for financial economic crime related to Covid-19.

Cybercrime

Cybercrime remains a continuous threat to companies in general and to financial institutions in particular. Both the frequency and the intensity of attacks are increasing on a global scale. Threats from distributed denial of service (DDoS) attacks, targeted attacks (also called advanced persistent threats) and ransomware have intensified worldwide.

ING builds on its cybercrime resilience through its dedicated Cyber Crime Expertise and Response Team, further enhancing the control environment to protect from, and detect and respond to, e-banking fraud, DDoS and targeted attacks. Controls and monitoring continue to be embedded in the organisation as part of the overall internal control framework and are continuously re-assessed against existing and new threats. The identification and monitoring of new threat actors and campaigns relevant to ING inform this process as does closer alignment between IT security and fraud teams. In addition, ING continues to strengthen its global cybercrime and fraud resilience through extensive collaboration with financial industry peers, law enforcement authorities, government (e.g. National Cybersecurity Center) and internet service providers (ISPs).

Data management

ING is using a large number of systems and applications to support key business processes and operations to best focus on our customers and their needs. The reconciliation of multiple data sources and the protection of customer data are regarded as crucial processes in ING, and further spurred by its strategic focus on digital service delivery, technology and innovation. We depend on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. ING is also subject to increasing regulatory requirements including EU General Data Protection Regulation (GDPR) and the Basel Committee for Banking Supervision (BCBS 239) principles. ING is continuing to improve data governance, execute data-quality framework controls consistently across the Bank and prioritising implementation of the target infrastructure to further simplify, standardise and modernise its activities.

Low/negative interest rate environment

The persistent low/negative interest rate environment, with central banks holding their rates at negative levels in most countries, continued to negatively impact short-term as well as long-term market rates. The Covid-19 pandemic intensified the low/negative interest rate environment and it is expected to remain at this level for some time. This is posing a challenge for bank business models that earn income from net interest income from traditional savings activities. In addition, loans are being repriced at lower rates which is putting more pressure on margins and impacting long-term profitability. ING is continuously assessing this market environment. ING has introduced negative charging and is reducing thresholds for charging negative rates. Further, ING is expanding other sources of income such as net fee and commission income.

Climate change risk

ING is increasingly aware of the risks associated with climate change. This includes physical risk and transition risk. Physical risk can be acute, such as flood and wildfires, or chronic, such as increase in temperature and sea level rise. Transition risk can be driven by policy, technological or market changes occurring as we shift towards a low-carbon global economy and potentially lead to stranded assets.

In addition to our Climate Expert Group (CEG), in 2020 we established an internal climate risk working group to address the impacts resulting from climate change as part of a bank-wide approach. As such, climate should be considered to be included in our risk management framework and integrated into a forward-looking approach. Our Climate Risk Report 2020 details our approach and sector-specific insights.

Risk governance (*)

Effective risk management requires firm-wide risk governance. ING's risk and control structure is based on the 'three lines of defence' governance model. Each line has a specific role and defined responsibilities, with the execution of tasks being distinct from the control of these same tasks. The three lines work closely together to identify, assess, and mitigate risks.

This governance framework is designed in such a way that risk is managed in line with the risk appetite approved by the Management Board Banking (MBB), the Executive Board (EB) and the Supervisory

Board (SB); and this approach is cascaded throughout ING. The MBB is composed of the Executive Board of ING Group, the heads of the business lines and the chief operating officer.

The heads of ING's banking business and support functions and the heads of the country units, or their delegates, are the first line of defence. They have the primary ownership, accountability and responsibility for assessing, controlling and mitigating all financial and non-financial risks affecting their businesses, and, for the completeness and accuracy of the financial statements and risk reports with respect to their responsible areas. The COO is responsible and accountable for proper security and controls on global applications and IT platforms servicing the Bank and implementing proper processes.

The second line of defence consists of oversight and specialised functions in risk management and compliance. They (i) have co-responsibility for risk management, through articulating and translating the risk appetite into methodologies and policies to support and monitor business management's control of risk, (ii) objectively challenge risk management execution and control processes and coordinate the reporting of risks and controls by the first line of defence, (iii) advise management on risk management and compliance and have decision-making power in relation to business activities that are judged to present unacceptable risks to ING and (iv) can set minimum requirements in terms of quality and quantity of global resourcing in the risk management and compliance functions.

The internal audit function forms the third line of defence. It provides an independent assessment of the effectiveness of internal controls over the risks to ING's business processes and assets, including risk management activities performed in both the first and second lines of defence. To protect its independent nature, decisions regarding the appointment, re-appointment or dismissal from office as well as the remuneration package of the head of the internal audit function require Supervisory Board approval.

The next graph illustrates the different key senior management level committees in place in the risk governance structure.

(*)

Risk governance

			2-tier board structure	
SB Level	**Supervisory board** Risk committee			
Executive Level	**Management board** CRO			Internal audit
	Risk committees Global Credit and Trading Policy Committee Global Credit Committee – Transaction Approval Asset and Liability Committee Bank Non-Financial Risk Committee Bank Model Risk Management Committee			
Regional and BU level	BU line management, regional and local managers	Local and regional risk committee Regional and BU risk managers		
	1st line of defence	2nd line of defence		3rd line of defence

Board-level risk oversight (*)

ING has a two-tier board structure consisting of a Management Board (EB for ING Group and MBB for ING Bank) and a Supervisory Board (SB); both tiers play an important role in managing and monitoring the risk management framework.

- The SB is responsible for supervising EB and MBB policy, the general course of affairs of ING Group, ING Bank and its business (including its financial policies and corporate structure). For risk management purposes the SB is advised mainly by the Risk Committee, which assists and advises in monitoring the risk profile and approving the overarching risk appetite of the company as well as the structure and effective operation of the internal risk management and control systems.
- The EB is responsible for managing risks associated with all activities of ING Group, whereas the MBB is responsible for managing risks associated with all activities of ING Bank. The EB and MBB responsibilities include ensuring that internal risk management and control systems are effective and that ING Group and ING Bank comply with relevant legislation and regulations. On a regular basis, the EB and MBB report on these issues and discuss the internal risk management and control systems with the SB. On a quarterly basis, the EB and MBB report on ING's risk profile versus its risk appetite to the Risk Committee, explaining changes in the risk profile.

As a member of the EB and the MBB, the CRO is responsible for ensuring that risk management issues are heard and discussed at the highest level. The CRO steers a risk organisation both at head-office and business-unit levels, which participates in commercial decision-making, bringing countervailing power to keep the risk profile within the agreed risk tolerance. The CRO reports to the SB committee on ING's risk appetite levels and on ING's risk profile at least quarterly. In addition, the CRO briefs them on developments in internal and external risk-related issues and seeks to ensure they understand specific risk concepts.

Executive level (*)

The key risk committees described below act within the overall risk policy and delegated authorities granted by the MBB:

- Global Credit and Trading Policy Committee (GCTP) discusses and approves policies, methodologies, and procedures related to credit, trading, country, and reputation (i.e. environmental and social risk or ESR) risks. The GCTP meets on a monthly basis. After the MBB and the GCTP, the Credit and Trading Risk Committee (CTRC) is the highest level body authorised to discuss and approve policies, methodologies, and procedures related to credit and trading risk.
- Global Credit Committee – Transaction Approval (GCC(TA)) discusses and approves transactions that entail taking credit risk (including investment risk), country, legal, and environmental and social risk. The GCC(TA) meets twice a week.
- Asset and Liability Committee Bank (ALCO Bank) discusses and steers, on a monthly basis, the overall risk profile of all ING Bank's balance sheet and capital management risks. ALCO Bank discusses and approves policies, methodologies and procedures regarding solvency, market risk in the banking book and funding and liquidity risks.
- Non-Financial Risk Committee Bank (NFRC Bank) is accountable for the design and maintenance of the Non-financial risk management framework including operational risk management, compliance and legal policies, minimum standards, procedures and guidelines, development of tools, methods, and key parameters (including major changes) for risk identification, measurement, mitigating and monitoring/ reporting. NFRC Bank meetings are held at least quarterly.
- The Model Risk Management Committee (MoRMC) discusses and steers, on a monthly basis, the overall model strategy. MoRMC discusses and approves policies and methodologies related to model risk management.

Regional and business unit level (*)

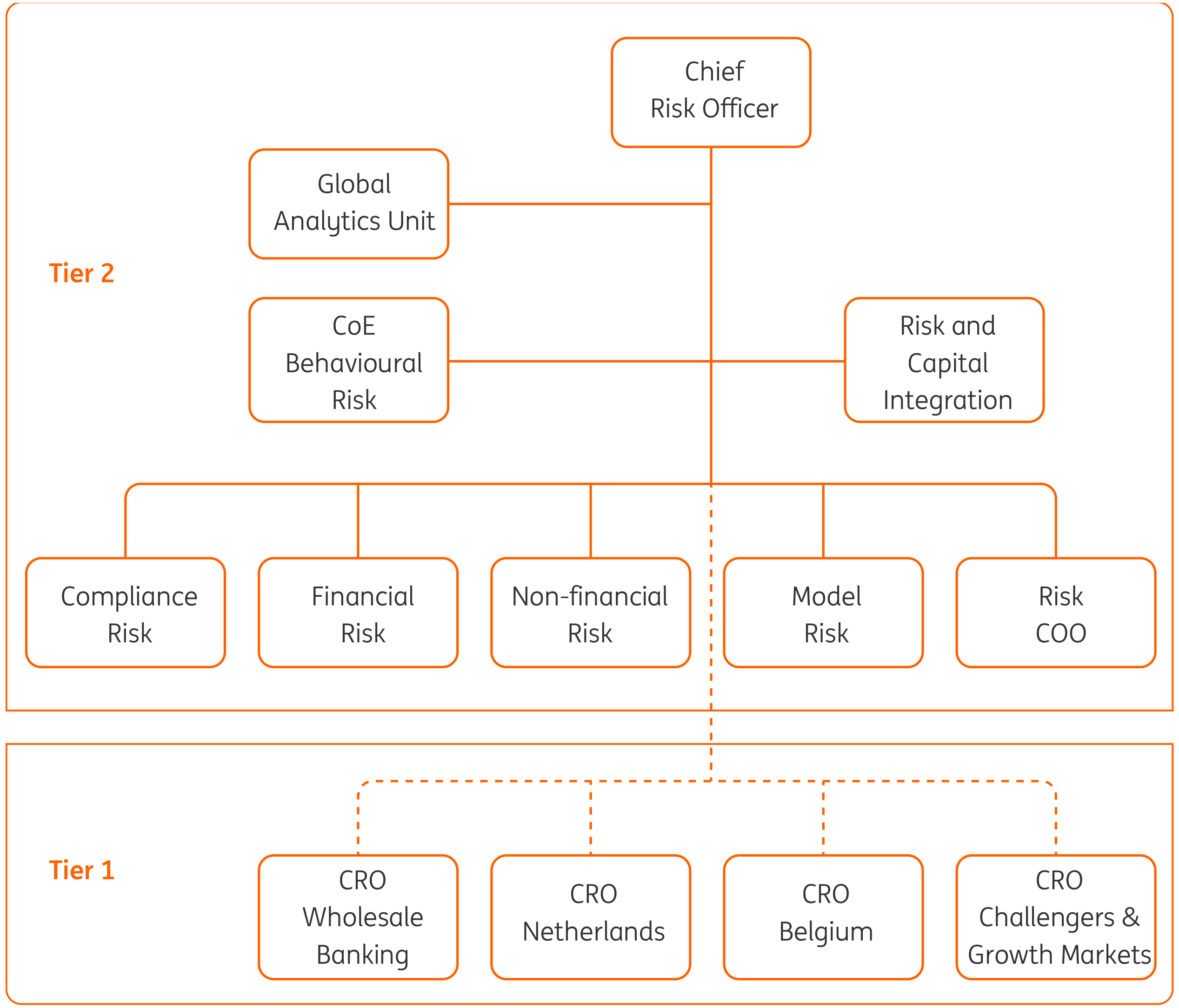
ING's regional and/or business unit management have primary responsibility for the management of risks (credit, market, funding and liquidity, operational, IT, compliance and model) that arise in their daily operations. They are accountable for the implementation and execution of appropriate risk frameworks affecting their businesses in order to comply with procedures and processes at the corporate level. Where necessary, the implementation is adapted to local requirements.
The regional and/or business unit CROs are involved in these activities. The local (regional and BU) CRO is responsible for the analysis, monitoring and management of risks across the whole value chain (from front to back office). The local risks are discussed in local risk committees that roll up to the key risk committees at executive level. Local Client Integrity Risk Committees (CIRCs) assess client integrity risk and they have a final decision on client acceptance or client off-boarding, from a risk-based perspective, in the areas of financial economic crime (FEC), Foreign Account Tax Compliance Act (FATCA), Common Reporting Standard (CRS) and environmental and social risk (ESR).

Organisational structure (*)

Over the past years, banks have been faced with regulatory and public pressure with regard to their risk management policies, processes and systems. A raft of new requirements and regulations has been introduced and implemented. To address these internal and external (market and regulatory) developments and challenges effectively, ING regularly reviews the set-up of its risk-management organisation. This allows for better support of the Bank's Think Forward strategy and enhances the interconnectedness of the risk oversight responsibilities in business units with global risk functions. The following organisation chart illustrates the reporting lines in 2020 for the risk organisation:

(*)

Risk function



Risk policies, procedures and standards (*)

ING has a framework of risk management policies, procedures, and minimum standards in place to create consistency throughout the organisation, and to define requirements that are binding for all business units. The goal of the governance framework of the local business units is to align with ING's framework and to meet local (regulatory) requirements. Senior management is responsible for the implementation of and adherence to policies, procedures and standards. Policies, procedures and standards are regularly reviewed and updated via the relevant risk committees to reflect changes in requirements, markets, products and practices.

Internal control framework

ING has organised its internal control framework (ICF) so as to translate regulations and internal requirements into policies articulating specific risks and control objectives. These policies form the basis for translation into process control standards, which are used by the business to support and promote an effective risk and control environment. The ICF includes binding principles, definitions, process steps, and roles and responsibilities to create consistent bank-wide policies and control standards.

Global policies and control standards are developed and maintained or updated within the ICF. These global documents are designed by head-office functions and are to be adhered to by all ING entities and support functions. In line with the Enterprise Risk Management approach, ownership for policies will be with the 2nd Line of Defence (2nd LoD), while control standards are to be owned by the 1st LoD. Global policy and control standard documents are approved by relevant approval bodies (e.g. Supervisory Board, Executive Board, Managing Banking Board and Bank Non-Financial Risk Committee).

The policies are based on the risk taxonomy, which is designed to prevent overlaps in policy control objectives. The control standard owners are responsible for defining the key controls that mitigate the significant inherent risks in the business processes. The ICF aims to achieve single key-control testing for multiple purposes, where controls mitigate more than one risk.

The process of developing policy and process control standard documents includes the following steps: identify the document owner, determine the relevant stakeholders, define a risk-based approach, perform an impact assessment, involve relevant stakeholders and (local) entities for sounding on key and expected controls, and determine an approval body. This overall process is currently being further strengthened by implementing an updated Regulatory Management Process also covering horizon scanning.

At the end of 2019, the ICF gatekeeper function was split into a first and a second LoD gatekeeper function. The 2nd LoD gatekeeper oversees the policy design process, while the first LoD gatekeeper oversees the design process for the process control standard. The principal role of these gatekeepers is to provide quality assurance and to advise on the relevant approval bodies. The ICF gatekeepers challenge document owners on the alignment of internal control documents with the agreed methodology and risk taxonomy, and verify that the development and communication of those documents are in line with the agreed process.

All policies, control standards, and procedures are published on ING's intranet. New and updated documents are periodically communicated by means of a dedicated policy update bulletin to the country managers and senior heads of business departments.

Risk culture

At ING we attach great importance to a sound risk culture, which is essential for performing our role in society responsibly and to keep the bank safe, secure and compliant. Our risk culture determines the way in which employees identify, understand, discuss, and act on the risks we are confronted with and the risks we take. In 2020, we conducted a self-assessment of our risk culture and are working on developing our envisaged risk culture, built on the foundation of our Orange Code and Global Code of Conduct, and in line with our Think Forward strategy.

To support ING's ambition to safeguard a sound risk culture, several enhancement projects are ongoing in areas such as our approach to monitoring risk culture, our escalation behaviour and further linking non-financial risk related topics to our purpose and strategy.

Orange Code and the global Code of Conduct

As mentioned above, the Orange Code and the global Code of Conduct are the foundation of ING's risk culture. In February 2020 ING launched a new global Code of Conduct linking the Orange Code to its main ING policies, minimum standards and guidelines. In addition to the Orange Code, it further defines the most essential conduct principles expected from ING employees in their daily activities, to create additional risk awareness and better meet expectations stated in external rules and guidelines. Additionally, the global Code of Conduct will be linked to the employees' performance management cycle to ensure continuous attention to the Global Code of Conduct, and dialogue on how to apply it in the daily work practice of our employees.

The Orange Code is a declaration of who we are. It describes what we can expect from each other when we turn up to work each day. It is a set of standards that we collectively value, strive to live up to, and invite others to measure us by.

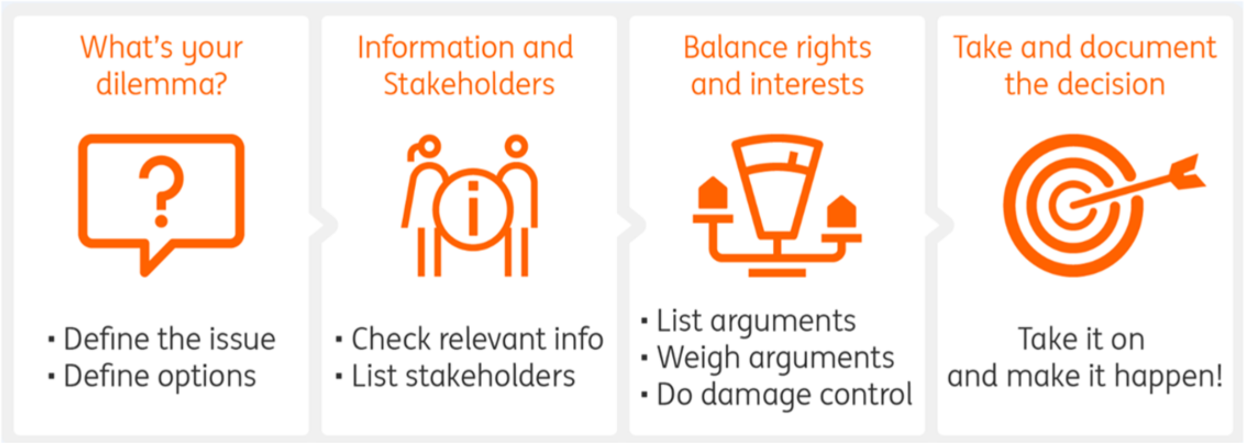
The Orange Code is the sum of two parts, the ING values and ING behaviours, with integrity being the overarching principle. The ING values (being honest, prudent and responsible) are designed to be non-negotiable promises we make to the world, principles we seek to stick to, no matter what. The ING behaviours (take it on and make it happen, help others to be successful, and always be a step ahead) represent our way to differentiate ourselves. The Orange Code is embedded in commitments we make to each other and the standards by which we will measure each other's performance.

To reinforce the values and behaviours in our Orange Code, which puts integrity above all, we invite all (new) employees to participate in e-learnings that aim to equip them to make the right decisions when faced with a dilemma or issue. In 2020, we developed and rolled out new e-learnings on the Global Code of Conduct, Sanctions, Getting Data Protection Right and Keeping up with KYC.

Orange Code decision-making

To enhance risk awareness, we continued to support monitoring risk culture and compliance risk in the business. This included training by compliance and data experts to enhance balanced decision-making in line with the Orange Code decision-making model (introduced in 2017) to support moral learning and well-balanced decision-making. This four-step model helps to delay judgement and aims to find out where the moral weight lies for a potential decision.

The model is already embedded in some decision-making processes (such as the data ethics governance process and the global Product Approval and Review Process policy) and we are exploring how to embed it in other decisive governance processes within the bank. Compliance is continuing to train experts in this area within the local Compliance teams to support the organisation in properly applying the model in practice in their respective countries.



Global data ethics

Data ethics is key for an enhanced and sustainable trusted relationship with ING customers and society. Our vision is to integrate data ethics as part of our culture, behaviours and decision-making process. We have defined values that should guide our employees' behaviours. Furthermore, we have set up data ethics councils that help ensure we use data responsibly.

Learning

In 2020 we continued to strengthen and expand our learning offering on risk topics and the governance around this. The learning focuses on compliance, non-financial risk and risk.

We established a board to approve and monitor progress on the required learning that is taken by all staff. This will ensure improved learner engagement, bank-wide alignment, and connection between learning, business impact and management actions and also improved feedback and evidencing of outputs. The board brings together content owners, learning experts and corporate communications teams to ensure the best fit for the training need.

We also took steps to expand our learning for risk professionals, with the Risk Academy which provides focused learning for Risk staff. These take the form of various online learning modules and frameworks that support employees in developing their knowledge, skills and behaviours.

Banker's Oath

In the Netherlands, all employees of ING take the Banker's Oath and pledge this in a meaningful ceremony. The oath came into force in the Netherlands on 1 April 2015 as part of a joint approach from all banks. The introduction of social regulations, the revision of the Dutch Banking Code, and the implementation of the Banker's Oath (with the associated rules of conduct and disciplinary law), are a way for Dutch banks to show society what they stand for and are accountable for, both as individual banks and as a sector. In 2020, due to the Covid-19 crisis, ING NL developed a virtual Banker's Oath ceremony via Skype/Teams– in addition to the physical one – to ensure that all new employees (around 400 a month) can still take the Banker's Oath in timely fashion and in a meaningful ceremony. Before taking the oath, its importance is discussed, as well as dilemmas employees may come across in their daily work, to ensure a careful balancing of the interests of all our stakeholders, in the decisions they make. In 2020, the whole Banker's Oath programme was revised and updated, to keep it aligned with the current external circumstances as well as with ING's do your thing branding.

Remuneration

ING aims to align its remuneration policy with its risk profile and the interests of all stakeholders. For more information on ING's compensation and benefits policies and its relation to the risk taken, please refer to the Capital Requirements Regulation (CRR) Remuneration Disclosure published on the corporate website ing.com.

Centre of Expertise on Behavioural Risk Management (BRM)

Behavioural risk is an increasingly important risk area for ING and across the financial industry. It arises when behavioural patterns are at the root of financial and non-financial risks in the organisation.

The complexity of this type of risk is that it is less tangible compared to other risk areas because it focuses on behavioural patterns and their drivers. Patterns in how decisions are made, how people communicate and whether they can take ownership. Behaviour is driven by formal and informal mechanisms. Examples of formal drivers are the processes ING applies and how its governance is structured. Informal drivers are less tangible, such as group dynamics or underlying beliefs that influence behaviour.

At ING, behavioural risk management (BRM) is positioned in the second line of defence, reporting directly to the CRO. The global BRM Centre of Expertise not only assesses behavioural risk in the organisation, but also has the mandate to direct, challenge and support business owners to intervene on behavioural patterns and their underlying drivers.

Behavioural risk assessments

Behavioural risk assessments (BRAs) identify and analyse undesired behaviours within ING and provide management with specific direction on how to change these behaviours. They focus on the effectiveness of groups rather than individuals, the role of leadership and on less visible aspects such as team dynamics and unwritten social norms. The goal is to understand and systematically assess what drives undesired habits at ING. The BRM model of behavioural risk is used as the standard across ING to signal behavioural risks going forward.

Behavioural risk interventions

Based on the results of the executed behavioural risk assessments (BRAs), BRM mitigates behavioural risk in a focused manner. Effective mitigation requires a deep understanding of what drives undesired behaviours. Theory and evidence-based techniques and tools developed in behavioural science play an important role in designing and evaluating interventions. Given the crucial role of leaders in creating the right conditions for employees, interventions are first initiated at leadership level. These include leadership labs, which address topics such as 'connection, alignment and trust', as well as bringing together the 'whole system in the room'. Here senior leaders delve into the outcomes of the assessments, identifying deeply rooted and often complex issues for improvement.

In addition, interventions are also set in motion that focus on enabling employees to build awareness on behavioural risk and support them in initiating solutions to mitigate the potential behavioural risks. After each assessment the results are shared with the management teams of the assessed units and with the participants of the BRA in a so-called 'feedback session'. This feedback session is followed up with a dialogue starter toolkit, enabling teams to reflect on the results, discuss opportunities for improvement and call for first steps towards sustainable solutions.

A ‘nudge lab’ can be organised to co-create effective nudges (i.e. a gentle push in the right direction, based on behavioural insight) for solutions to issues that were identified during a BRA. The solutions that have been developed are now being scaled up globally.

The BRM team works closely with the business units and departments such as HR, Audit, and Compliance to align on and embed desired leadership and risk behaviours (i.e. speak up, psychological safety, communication, guiding leadership).

Risk cycle process

ING uses a step-by-step risk management approach to identify, manage and mitigate its financial and non-financial risks. The approach consists of a cycle of five recurrent activities: risk identification, risk assessment, risk control, risk monitoring, and risk reporting. The cycle is designed to determine what the risks are, assess which of these risks can really do harm, take mitigating measures to control these risks, monitor the development of the risk to see if the measures taken are effective, and report the findings to management at all relevant levels to enable them to take action when needed.

The cycle recurs in two ways. First, the identification, assessment, review, and update of mitigating measures are repeated periodically. Second, this periodic monitoring exercise may indicate emerging risks, known risks that are changing, risk levels that are changing, or current control measures that are not effective enough. Further analyses of these findings may then result in renewed and more frequent risk identification, and/or assessment, and/or change of mitigating measures.

Risk identification

Risk identification is a joint effort of the business and the risk management functions. Its goal is to detect potential new risks and determine changes in known risks. Regular risk identification is essential for effective risk management. Potential risks that are not identified, will not be controlled and monitored and may lead to surprises later. Known risks may have changed over time and as a consequence the existing mitigating measures and monitoring may be inadequate or obsolete.

Risk identification is performed periodically. In case of material internal or external change, additional ad hoc risk identification can be performed.

Risk assessment

Each identified risk is assessed qualitatively or quantitatively to determine its importance. This enables ING to decide which of the identified risks need control measures and how strict or tolerant these measures should be. Known risks are re-assessed to detect any change in the risk level.

The importance of a risk is based on both the likelihood that the risk materialises and the subsequent financial or reputational impact that may occur should the risk arise. Unlikely risks with a potentially high impact need to be controlled. A risk that is likely to happen regularly but expected to have a modest financial impact may not need to be mitigated if the consequences are accepted by management.

Risk control

Risks can be controlled by mitigating measures that lower the likelihood the risk occurs, lower the impact when it occurs or both. The ultimate measure to lower a risk is to stop the activity or service that causes the risk (risk avoidance). Risk control and mitigation measures are defined and maintained at both the bank-wide and local level.

Monitoring and reporting

ING monitors the risk-control measures by checking if they are executed, complied with and have the expected mitigating effects and by following the development of the risks and their risk levels. Risk reporting provides senior and local management with the information they need to manage risks.

Risk Appetite Framework

The Risk Appetite Framework (RAF) is one of the pillars of the Enterprise Risk Management (ERM) Framework. Its objective is to set the appropriate risk appetite at the consolidated level across the different risk categories and to allocate the risk appetite throughout the organisation.

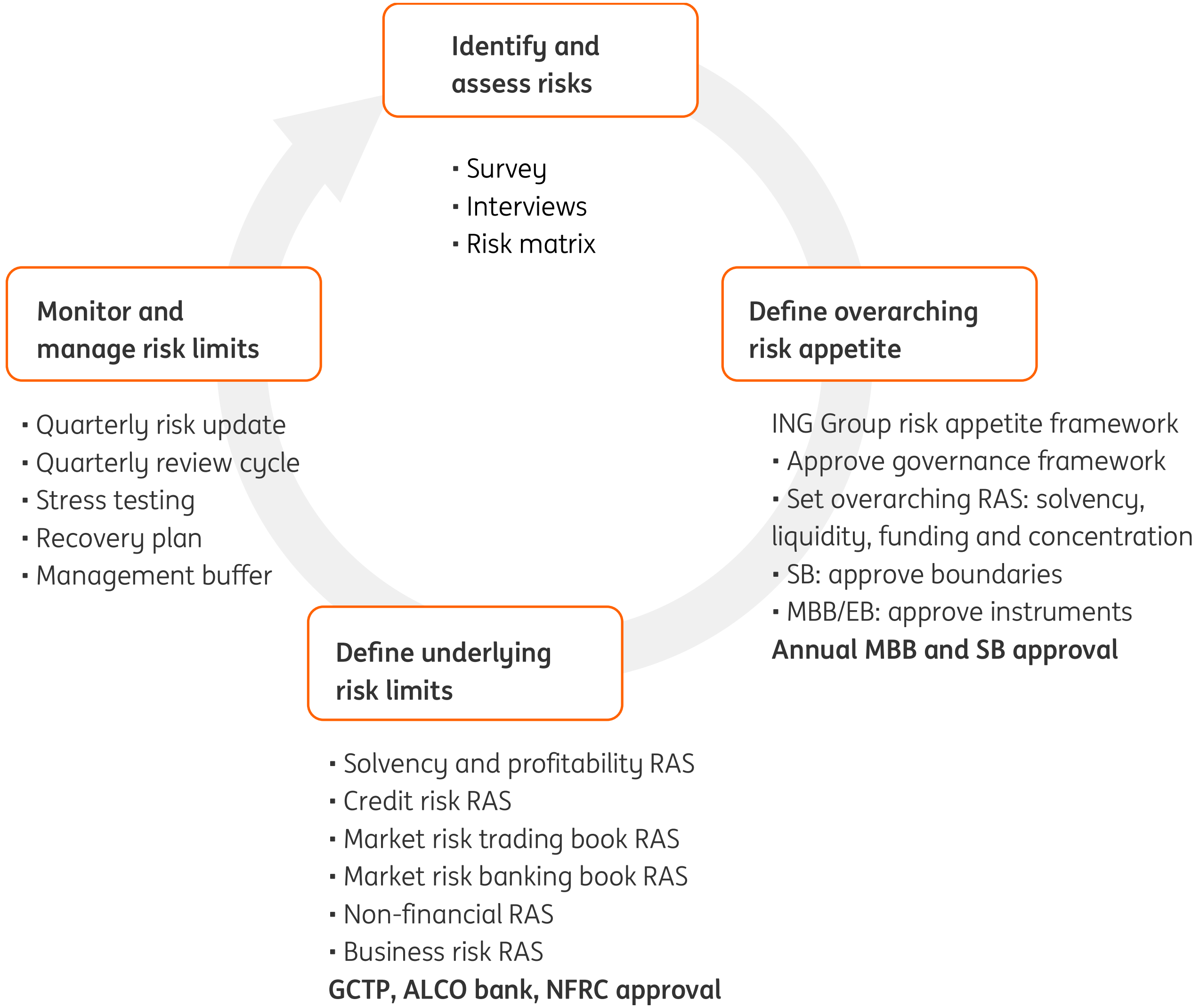
Policy

The RAF policy states the overarching global risk appetite. Within the RAF, ING monitors a range of financial and non-financial risk metrics to ensure that our risk profile is in line with our risk appetite while executing our strategy. ING's RAF, which is approved by the Supervisory Board (SB), defines the desired risk profile that is to be integrated in the strategic decision-making and financial planning process. It is designed to be able to withstand market volatility and stress, while meeting regulatory requirements. The framework, including underlying assumptions and metrics, is regularly reviewed so that it remains relevant. The RAF combines various financial and non-financial risk appetite statements (RASs) into a single, coordinated approach to provide the business with a clear overview of the relevant risks and the tools to manage them. This view allows the Executive Board (EB), the Management Board Banking (MBB) and senior management to form an opinion on the adequacy of internal risk management and control systems for the risks ING faces while pursuing its strategy.

Process

The RAF is focused on setting the risk appetite at the consolidated level and across the different risk categories, and provides the principles for cascading this risk appetite down into the organisation. The RAF and underlying limit allocation are reviewed on an annual basis, or more frequently if necessary, based on their quarterly review in the EB, the MBB and the SB. It is therefore a top-down process, which bases itself on the ambition of the bank in terms of its risk profile, the regulatory environment and the economic context. The set of limits used is split according to the approval levels needed for them. Limits that need SB approval are called boundaries and the underlying metrics supporting the boundaries which need EB and MBB approval are called instruments. Since the outbreak of the Covid-19 virus, ING re-assessed its risk appetite to take into account the potential impact of the virus and the uncertainties caused by the virus.

Risk appetite framework process



Step 1. Identify and assess ING's key risks

The outcome of the risk identification and risk assessment process is used as the starting point for the review of the RAF. Within this step, the risks ING faces when executing its strategy are identified in the context of the current economic, political, regulatory and technological environment. The assessment identifies whether the potential impact is material and if it is sufficiently controlled within ING's risk management function. It benchmarks the current risk framework against regulatory developments. Known risks are re-assessed either to confirm risk levels or to take account of potential changes. The assessment is contextualised by the current set of risk appetite statements.

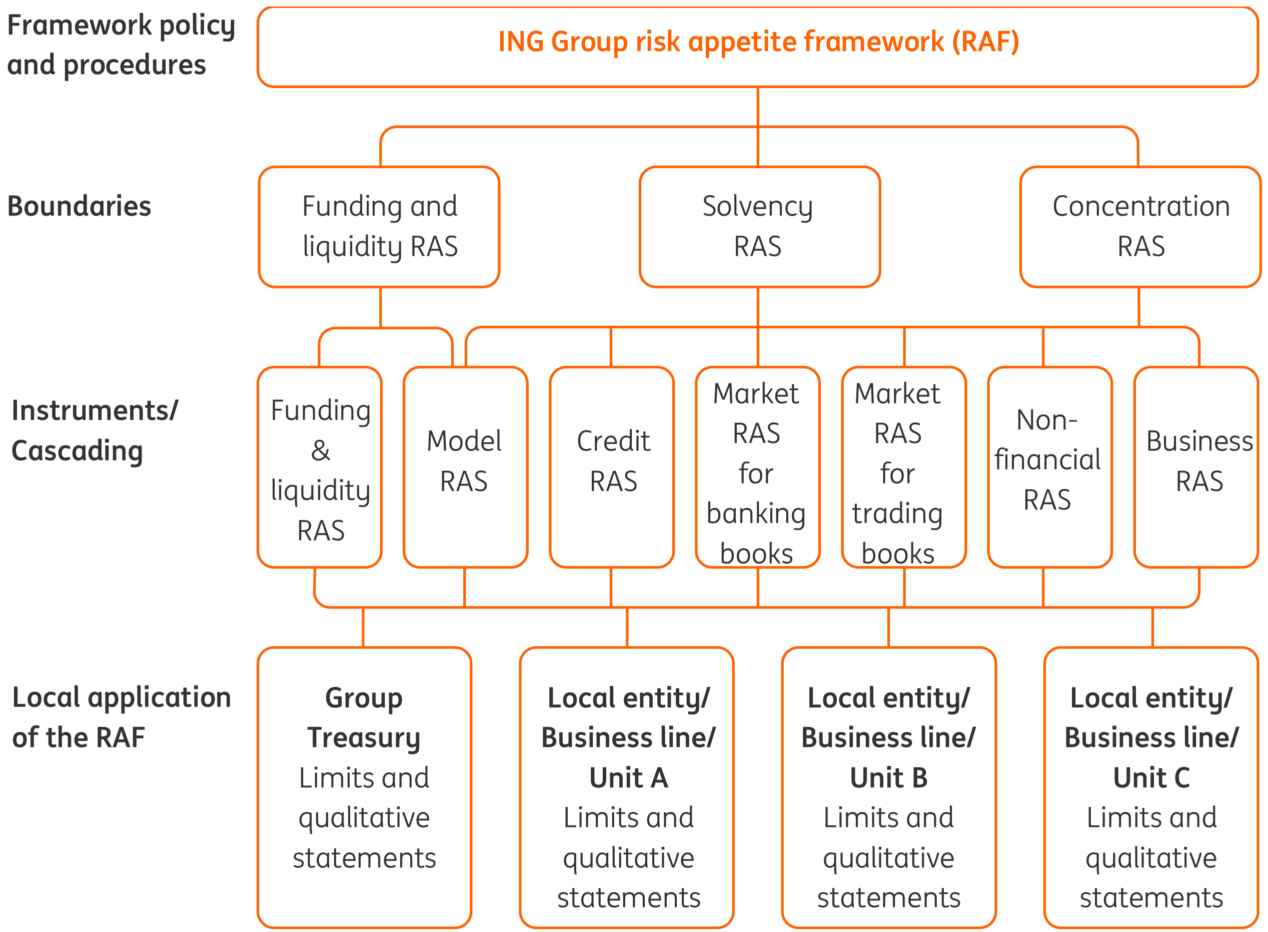
Step 2. Set Risk Appetite Framework

Based on ING's risk assessment and risk purpose, boundaries for the overarching risk frameworks are set. Once the overarching risk appetite thresholds have been set and approved by EB/MBB and subsequently by SB, the statements are translated into risk-type-specific statements and lower level thresholds which are set and approved by senior risk committees, ALCO Bank, GCTP and Bank NFRC. Cascading is done via a number of detailed risk appetite statements which have been defined per risk type, the combination of which ensures compliance with the overarching Solvency, Concentration and Funding and Liquidity RASs.

Step 3. Cascade into statements per risk type and business unit

The bank-wide risk appetite is translated per risk type, which is further cascaded into the organisation to the lowest level. Risk appetite statements are then translated into dedicated underlying risk limits that are used for the day-to-day monitoring and management of ING's risks. The risk appetite statements serve as inputs for the quarterly planning process as well as for the establishment of key performance indicators and targets for senior management.

Risk appetite framework policy



Risk Appetite Statements

Boundaries	Underlying risk metrics
Solvency	CET1 ratio Leverage ratio Economic capital utilisation MREL TLAC Total capital ratio
Funding and liquidity	Liquidity coverage ratio Net liquidity position – internal stress test Stable funding-to-loans ratio
Concentration	Concentration event risk (LGD) Event risk
Instruments	**Underlying risk metrics**
Solvency and profitability	IFRS P&L-at-risk
Funding and liquidity	Asset encumbrance Economic counterbalancing capacity Stable funding surplus Liquidity coverage ratio surplus Funding mix Interbank market stress up to one year
Credit risk	EAD RWA ECL INCAP
Market risk (trading book)	Value-at-risk / stressed value-at-risk Incremental risk charge Regulatory/ economic market risk capital
Market risk (banking book)	IFRS P&L-at-risk NPV-at-risk Customer behavior/market risk economic capital Revaluation-reserve-at-risk
Non-financial risk	Expected loss Regulatory/ economic operational risk capital Overdue iRisk RWA
Business risk	IFRS P&L-at-risk Economic capital RWA

Step 4. Monitor and manage underlying risk limits

In order to verify that it remains within the Risk Appetite Framework, ING reports its risk positions vis-à-vis its limits on a regular basis to senior management committees. The Quarterly Risk Update reflecting the exposure of ING against the risk appetite is submitted quarterly to the EB and the MBB and to the (Risk Committee of the) SB. Moreover every quarter the financial plan is checked for potential limit breaches within a one-year horizon, where in the strategic dialogue the MBB can take mitigating measures or adjustments to the dynamic plan can be made.

Stress testing

Stress testing is an important risk management tool that provides input for strategic decisions and capital planning. The purpose of stress testing is to assess the impact of plausible but severe stress scenarios on ING's capital and liquidity position. Stress tests provide complementary and forward-looking insights into the vulnerabilities of certain portfolios, with regards to adverse macroeconomic circumstances, stressed financial markets, and changes in the (geo)political climate. Since the outbreak of the Covid-19 pandemic, ING assessed the potential impact on its financial position via different types of stress tests. In addition to assessing P&L, capital and liquidity position of ING for a range of different scenarios, idiosyncratic risks were also included. The outcome of these Covid-19 stress tests helped management to get insight into the potential impact and to define actions to mitigate this potential impact.

Types of stress tests

Within ING, different types of stress tests are performed. The most comprehensive type of stress tests are the firm-wide scenario analyses, which involve setting scenario assumptions for all the relevant macroeconomic and financial market variables in all countries relevant to ING. These assumptions usually follow a qualitative narrative that provides a background to the scenario. In addition to firm-wide scenario analyses, ING executes scenario analyses for specific countries or portfolios. Furthermore, sensitivity analyses are performed, which focus on stressing one or more risk drivers; usually without an underlying scenario narrative. Finally, ING performs reverse stress tests, which aim to determine scenarios that could lead to a pre-defined severe adverse outcome.

Process

The stress testing process of ING consists of several stages, which are:

- Risk identification and risk assessment: It identifies and assesses the risks ING or the relevant entity is facing when executing its strategy based on the current and possible future economic, political, regulatory and technological environment. It provides a description of the main risks and risk drivers related to the nature of ING's business, activities and vulnerabilities.
- Scenario definition and parameterisation: Based on the outcome of the previous step, a set of scenarios is determined with the relevant scope and set of risk drivers for each scenario, as well as its severity, the key assumptions and input parameters. The output of this phase includes a quantitative description of the stress scenarios to be analysed, the relevant output metrics and, when applicable, a narrative description.
- Impact calculation and aggregation: Based on the quantitative description of the stress scenarios determined in the previous step, the impact is determined for the relevant scenario, scope and horizon. The impact calculation and aggregation can be part of a recurring process or part of a specific process set-up for one-off stress tests.
- Scenario reporting: For each stress test, a report is prepared after each calculation which describes the results of the scenario, and gives a recap of the scenario with its main assumptions and parameters. The stress test report is sent to the relevant risk committees and/or senior management. It is complemented, if needed, with advice for management action based on the stress testing results.
- Scenario control and management assessment: Depending on the outcomes of the stress test and the likelihood of the scenario, mitigating actions may be proposed. Mitigating actions may include, but are not limited to, sales or transfers of assets and reductions of risk limits.

Methodology

Detailed and comprehensive models are used to calculate the impact of the scenarios. In these models, statistical analysis is combined with expert opinion to make sure that the results adequately reflect the scenario assumptions. The methodologies are granular and portfolio-specific and use different macroeconomic and market variables as input variables. The calculations are in line with our accounting and regulatory reporting frameworks. The stress-testing models are subject to review by Model Risk Management.

Developments in the regulatory environment

CRRII/CRDV and BRRDII

On 27 June 2019, a series of measures referred to as the Banking Reform Package (including certain amendments to CRR and CRDIV commonly referred to as 'CRR II' and CRD V') came into force, subject to various transitional and staged timetables. The adoption of the Banking Reform Package concluded a process that began in November 2016 and marks an important step toward the completion of the European post-crisis regulatory reforms, drawing on a number of international standards agreed by the Basel Committee, the Financial Stability Board and the G20. CRDV was implemented in Dutch law in 2020. The Banking Reform Package updates the framework of harmonized rules established following the financial crisis of 2008 and introduces changes to the CRR, CRDIV, the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR). The Banking Reform Package covers multiple areas, including the Pillar 2 framework, the introduction of a leverage ratio requirement of 3% and a leverage ratio buffer requirement of 50% of the G-SIB buffer requirement (applicable per 1 January 2023), a binding Net Stable Funding (NSFR) ratio based on the Basel NSFR standard but including adjustments with regard to e.g. pass-through models and covered bonds issuance, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, a new category of 'non-preferred' senior debt, the minimum requirement for own funds and eligible liabilities (MREL) and the integration of the TLAC standard into EU legislation. Further, the EBA obtained a mandate to investigate how to incorporate environmental, social, and governance (ESG) risks into the supervisory process and what the prudential treatment of assets associated with environmental or social objectives should look like.

Basel III revisions and upcoming regulations

In December 2017, revisions to Basel III were formally announced by the Basel Committee. These revisions to Basel III establish new prudential rules for banks, including a revision to the standardised approach to credit risk, the introduction of a capital floor based on standardised approaches, the use of internal models, limitation of options for modelling operating risks, and new rules for the establishment of risk-weighted items and unused credit lines at the banks. Such revisions have a long implementation phase and are not yet fully transposed into EU regulation. The revisions are commonly referred to as "Basel III Reform" or "Basel IV". In Europe, this will be implemented through the 'CRR III' / 'CRD VI' in the coming years. With this long implementation phase and the transposition into EU regulation still pending, some question marks remain on how this will shape up.

Targeted review of internal models

In order to make capital levels more comparable and to reduce variability in banks' internal models, in June 2017 the European Central Bank (ECB) introduced the Targeted Review of Internal Models (TRIM) to assess the reliability and comparability between banks' models. The TRIM aims to create a level playing field by harmonising the regulatory guidance around internal models with the ultimate goal of restoring trust in European banks' use of internal models.

In July 2019, the ECB published the final chapters of the guide to internal models, covering credit risk, market risk and counterparty credit risk. These risk-type-specific chapters are intended to ensure a common and consistent approach to the most relevant aspects of the regulations on internal models for banks directly supervised by the ECB. Additionally, they provide transparency on how the ECB understands the regulations on the use of internal models to calculate own funds requirements for the three risk types. Impact on ING is through more stringent regulation on the end-to-end process and governance around internal models as well as an increase of risk weighted assets (RWA).

In 2020, the last TRIM ECB inspection ended. Per rating system the ECB has sent and will send final TRIM decision letters, which will include obligations that ING shall remediate. Also certain limitations such as restrictions on PD and/or LGD, effectively resulting in higher capital requirements, have or might be put in place until these obligations are fully addressed and closed.

Solvency risk

Introduction

Solvency risk is the risk of lacking sufficient capital to fulfil the business objectives, regulatory requirements or market expectations. A bank that is completely insolvent is unable to pay its debts and will be forced into bankruptcy.

The level and quality of capital is crucial for the resilience of individual banks. Banks are expected to assess the risks they face, and in a forward-looking manner ensure that all material risks are identified, managed and covered sufficiently by loss absorbing capital to ensure continuity in case of materialisation of unexpected risks in times of stress. Given the interdependencies to other financial and non-financial risks this balancing act of capital adequacy needs to be done within a sound and integrated management approach coherently linking all moving parts of the bank in line with the long-term business strategy.

Solvency risk management

ICAAP Framework

ING's Internal Capital Adequacy Assessment Processes (ICAAP) aims to ensure that capital levels are adequate to cover all material risks at all levels and to ensure compliance with regulations. ING follows an integrated approach to assess the adequacy of its capital position in relation to its business activities, underlying business strategy, market positioning risk profile and operating environment. This implies taking into account the interests of its various stakeholders such as regulators, shareholders, investors, rating agencies, clients and customers.

The continued strength of ING's capital position, the adequacy of the financial position and the risk management effectiveness are essential for achieving the Think Forward strategy. ING's ICAAP ultimately supports this strategy and contributes thereby to the continuity of ING Group, ING Bank and all its business units.

Managing ING's capital requirements and allocation entails finding a balance between the forces governing supply and demand. The uncertainties surrounding these factors are a reflection of changing market circumstances and continuous unpredictability in regulatory and macroeconomic forces. The process of balancing these strategic goals is captured in the ICAAP framework and enabled by the building blocks and elements facilitating the ICAAP. The following building blocks have been defined in the ICAAP Framework, which are applied for both the 'normative' and 'economic' perspective as defined in the ECB Guide to ICAAP that was published in November 2018:

- Risk identification and assessment
- Risk appetite
- Capital planning
- Capital management
- Stress testing
- Continuity

Solvency risk related to Covid-19

The outbreak of the Covid-19 stress tests resulted in several additional analyses to assess the potential impact of the virus on the actual and future solvency position. For instance, in 2020 ING performed a sequence of Covid-19 stress tests to assess potential scenarios of how the virus would develop and how it may impact society and economies. These Covid-19 stress tests were used to prepare potential mitigating actions, but also served as starting point for the review of ING's risk appetite and of the financial and capital planning. In light of this, ING also updated the management actions in the Contingency Capital & Funding Plan and the Recovery Plan and assessed potential additional mitigating actions to counter this very specific crisis.

Risk identification and assessment

ING's capital management and solvency risk management starts with the risk identification & risk assessment process. Its main purpose is to detect potential new risks and to identify changes in the potential impact of known risks. On an annual basis, ING performs a thorough review of its solvency risks or risks to capital. Within this assessment, bottom-up assessments are combined with top-down assessments, including a questionnaire and interviews with senior management. The results of the risk assessment are discussed in ALCO Bank which comprises almost the full Management Board Banking. Once approved, the conclusions of the risk assessment feed into the annual review of the Risk Appetite Framework, the Stress Testing Framework and the Economic Capital Framework. In addition to this annual process, ING also re-assesses its risks as part of its Capital Adequacy Statement, a quarterly process to assess ING's capital adequacy.

Solvency risk appetite

As explained in the Risk Appetite Framework section in the previous chapter, ING has established overarching solvency risk boundaries. Boundaries are risk appetite statements that are essential for risk management activity, making it of paramount importance to keep these boundaries within the defined level. The SB is responsible for approving and monitoring the boundaries. These boundaries are complemented by a sequence of risk-type-specific instruments. These underlying risk appetite statements are cascaded down into the organisation to the lowest level deemed necessary and dedicated risk thresholds are set that are used for day-to-day monitoring and management of ING's risks. ING has solvency risk appetite statements in place for the following metrics: CET1 ratio, Total capital ratio, leverage ratio, TLAC RWA/leverage ratio and economic capital utilisation.

Capital planning

The capital and funding plan is an integral part of the dynamic plan, ING's financial and business planning process. Its objective is to inform and advise the management on the capital development and need of ING Group and ING Bank, under base case and adverse scenarios. It describes how ING shall finance the expected capital constraints taking into consideration growth projections, capital and risk evolution, macro and market conditions, both under the normative and economic perspective. The capital & funding plan is updated at least twice a year, and discussed and approved by ALCO Bank. Within these updates, ING takes into account recent market and risk developments and ensures that the capital planning adheres to the solvency risk appetite set by the SB.

Capital management

Among the solvency management tools the formulation of the CET1 ambition forms a key element. The target ratio which is based on the management buffer concept enables ING's senior management to steer, benchmark and assess the bank's current and future capital levels much more efficiently while the ambition level clearly supports trust building among ING's key stakeholders (e.g. regulators, investors, customers and clients).
The capital management buffer aims to protect the interests of key stakeholders (e.g. shareholders, investors) and plays an important role in the overall capital adequacy governance.

The rationale behind the concept of the management buffer is that it provides an additional cushion on top of the (local) regulatory minimum requirements (e.g. SREP requirements) to withstand a certain level of stress and to facilitate awareness and preparedness to take management actions. ING reviews its capital management buffer on a regular basis to determine its effectiveness and robustness, and updates it as appropriate.

Stress testing

Solvency stress testing allows a bank to examine the effect of exceptional but plausible future events on the solvency position and provides insight into which entities or portfolios are vulnerable to which type of risks or in which type of scenarios. Solvency stress testing is an important tool in identifying, assessing, measuring and controlling risks to capital, providing a complementary and forward-looking perspective to other solvency risk management tools.

ING distinguishes the following three types of stress test analyses:

- Sensitivity analysis: Within these analyses, ING assess the impact of a pre-defined shock in one or more risk drivers. The key purpose of sensitivity analyses is to monitor the impact of this pre-defined (or standardised) shock over time to get an understanding of how the risk profile of the bank has developed.
- Scenario analysis: Scenario analyses are used to assess an integral impact of historical, statistical and/or hypothetical circumstances on the financial position of ING. These stress tests often build on a qualitative scenario narrative and reflect risk topics that are deemed relevant for ING given, for example, its business model. Scenarios can be derived from historical realisations, but also reflect e.g. potential macroeconomic, geopolitical or climate risk related events. These scenarios can be used for one-off analyses, but can also be translated into a set of regular or standardised stress tests that are assessed on a quarterly basis.
- Reverse stress testing: The purpose of reverse stress testing is to identify scenarios that could lead to a pre-defined outcome. This could for example be a pre-defined solvency level. The added value of reverse stress testing is to explore risk drivers and stress scenarios outside the existing range.

The outcomes of solvency stress test analyses are taken into account in capital planning, but also for setting risk appetite statements and the capital management buffer.

Contingency and recovery Planning

Contingent capital events are unexpected situations or business conditions that may increase the risk with respect to ING's capital position. These events may be ING-specific, or arise from external factors. The Contingency Capital and Funding Plan (CCFP) sets out the organisation and actions in case of contingency events. The CCFP has a suite of monitoring metrics that are aligned with the risk appetite statements that are in place for managing ING's capital, liquidity and funding position. The Recovery Plan is designed by ING to detect and act upon possible major and unforeseen deterioration of its solvency position in a timely fashion. This plan has integrated several risk appetite statements to allow timely identification of possible stress on the company. Incorporating risk appetite statements into both plans ensures a seamless continuum between the ING's business-as-usual management and its contingency or recovery management.

Assessing capital adequacy: Capital Adequacy Statement (CAS)

The Capital Adequacy Statement (CAS) is ING Group's quarterly assessment of its capital adequacy and takes into account different elements with respect to its capital position. The degree to which ING's capital position is considered to be adequate depends on a variety of internal and external drivers:

- Current supervisory requirements and (expected) requirements going forward;
- Current internal requirements and (expected) requirements going forward;
- Coherence of the available capital with the (realisation of) strategic plans; and
- The ability to meet internal and external requirements in the case of stressed events or should a risk materialise.

The CAS assesses the adequacy of ING's capital position in relation to above-mentioned drivers and states the extent to which the capital position consequently is considered as adequate. On a quarterly basis the CAS document is prepared. Additionally each year, the management body signs and provides a comprehensive assessment of ING's capital adequacy, supported by the ICAAP outcomes, in the form of a Capital Adequacy Statement.

Credit risk

Introduction

Credit risk is the risk of loss from the default and/or credit rating deterioration of clients. Credit risks arise in ING's lending, financial markets and investment activities. The credit risk section provides information on how ING measures, monitors and manages credit risk and gives an insight into the portfolio from a credit risk perspective.

Governance (*)

ING's credit risk strategy is to maintain an internationally diversified loan and bond portfolio, while avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of a top-down risk appetite framework, which sets concentration limits for countries, individual clients, sectors, products, secondary risk (collateral/guarantees) and investment activities. The aim is to support relationship-banking activities, while maintaining internal risk/reward guidelines and controls.

ING has organised support functions at two levels: Tier 1, operational unit level, and Tier 2, head office level. Credit risk is a Tier 1 level risk function within ING and is part of the second line of defence. It is managed by regional and/or business unit CROs. The CRO Wholesale Banking (WB), CRO Challengers & Growth Markets (C&G), CRO Netherlands and CRO Belux focus on specific risks in the geographical and/or business areas of their responsibilities. The Financial Risk department is a Tier 2 level risk function, which is responsible for the consolidated risk appetite setting, risk frameworks, model development and policies.

The credit risk function encompasses the following activities:

- Measuring, monitoring and managing credit risks in the bank's portfolio, including the measures taken since the start of the Covid-19 crisis;
- Challenging and approving new and modified transactions and borrower reviews;
- Managing the levels of provisioning and risk costs, and advising on impairments; and
- Providing consistent credit risk policies, systems and tools to manage the credit lifecycle of all activities.

Credit risk categories (*)

Credit risk uses the following risk categories to differentiate between the different types of credit risk:

- **Lending risk:** is the risk that the client (counterparty, corporate or individual) does not pay the principal, interest or fees on a loan when they are due, or on demand for letters of credit (LCs) and guarantees provided by ING.
- **Investment risk**: is the credit default and risk rating migration risk that is associated with ING's investments in bonds, commercial paper, equities, securitisations, and other similar publicly traded securities. This can be viewed as the potential loss that ING may incur as a result of holding a position in underlying securities whose issuer's credit quality deteriorates or defaults. All investments in the banking book are classified in the investment risk category. The primary purpose of ING's investments in the banking books is for liquidity management.
- **Money market (MM) risk**: arises when ING places short-term deposits with a counterparty in order to manage excess liquidity. In the event of a counterparty default, ING may lose the deposit placed.
- **Pre-settlement (PS) risk**: arises when a client defaults on a transaction before settlement and ING must replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. This credit risk category is associated with derivatives transactions (exchange-traded derivatives, over-the-counter (OTC) derivatives and securities financing transactions).
- **Settlement risk**: is the risk that arises when there is an exchange of value (funds or instruments) for the same value date or different value dates and receipt is not verified or expected until after ING has given irrevocable instructions to pay or has paid or delivered its side of the trade. The risk is that ING delivers but does not receive delivery from its counterparty. ING manages settlement risk in the same way as other credit risks by setting a risk limit per client. Due to the short-term nature (typically one day), ING does not hold provisions for settlement risk. Although a relatively low risk, ING increasingly uses DVP (delivery versus payment) and safe settlement payment techniques to reduce settlement risk.

For the reconciliation between credit risk outstandings categories and financial assets, refer to the table below:

Reconciliation between credit risk categories and financial position (*)

Credit risk categories	Mainly relates to:	Notes in the financial statements		
Lending risk	-Cash and balances with central banks	Note	2	Cash and balances with central banks
	-Loans and advances to banks	Note	3	Loans and advances to banks
	-Loans and advances to customers	Note	4	Financial assets at fair value through profit or loss
	-Off-balance sheet items e.g. obligations under financial guarantees and letters of credit and undrawn credit facilities	Note	5	Financial assets at fair value through other comprehensive income
		Note	7	Loans and advances to customers
		Note	42	Contingent liabilities and commitments
Investment risk	-Debt securities	Note	4	Financial assets at fair value through profit or loss
	-Equity securities	Note	5	Financial assets at fair value through other comprehensive income
		Note	6	Securities at amortised cost
Money market (MM) risk	-Cash and balances with central banks	Note	2	Cash and balances with central banks
	-Loans and advances to banks	Note	3	Loans and advances to banks
	-Loans and advances to customers	Note	7	Loans and advances to customers
Pre-settlement (PS) risk	-Financial assets at fair value through profit or loss (trading assets and non-trading derivatives)	Note	4	Financial assets at fair value through profit or loss
	-Financial liabilities at fair value through profit or loss (trading assets and non-trading derivatives)	Note	14	Financial liabilities at fair value through profit or loss
	-Securities financing	Note	41	Offsetting financial assets and liabilities
Settlement risk	-Financial assets at fair value through profit or loss (trading assets and non-trading derivatives)	Note	4	Financial assets at fair value through profit or loss
	-Financial liabilities at fair value through profit or loss (trading assets and non-trading derivatives)	Note	11	Other assets
	-Amounts to be settled	Note	14	Financial liabilities at fair value through profit or loss
		Note	16	Other liabilities

Credit risk appetite and concentration risk framework (*)

The credit risk appetite and concentration risk framework is designed to prevent undesired high levels of credit risk and credit concentrations within various levels of the ING portfolio. It is derived from the concepts of boundaries and instruments as described in the ING Risk Appetite Framework.

Credit risk appetite is the maximum level of credit risk ING is willing to accept for growth and value creation. The credit risk appetite is linked to the overall bank-wide risk appetite framework. The credit risk appetite is expressed in quantitative and qualitative measures. Having a credit risk appetite achieves:

- Clarity about the credit risks that ING is prepared to assume, target setting and prudent risk management;
- Consistent communication to different stakeholders;
- Guidelines on how to align reporting and monitoring tools with the organisational structure and strategy; and
- Alignment of business strategies and key performance indicators of business units with ING's credit risk appetite through dynamic planning.

Credit risk appetite is set at different levels within ING and specifies the scope and focus of the credit risk of ING, and the composition of the credit portfolio, including its concentration and diversification objectives in relation to business lines, sectors and products.

The credit risk appetite and concentration risk framework is composed of:

- **Country risk concentration**: Country risk is the risk that arises due to events in a specific country (or group of countries). In order to manage the maximum country event loss ING is willing to accept, boundaries are approved by the SB. The estimated level is correlated to the risk rating assigned to a given country. Actual country limits are set by means of country instruments, which are reviewed monthly and updated when needed. For countries with elevated levels of geopolitical or severe economic cycle risk, monitoring is performed on a more frequent basis with strict pipeline and exposure management.
- **Single name and industry sector concentration**: ING has established a credit concentration risk framework in order to identify, measure and monitor single name concentration and industry sector concentration (systemic risk). The same concept of boundaries and instruments is applicable.
- **Product and secondary risk concentration**: ING has established a concentration framework to identify, measure and monitor product concentration and secondary risk.
- **Scenarios and stress tests**: Stress testing evaluates ING's financial stability under severe, but plausible stress scenarios, and supports decision-making that assures ING remains a financially going concern even after a severe event occurs. In addition to the bank-wide stress testing framework described above, ING performs regularly sensitivity analyses to assess portfolio risks and concentrations. These sensitivity analyses are consistent with the stress scenario established in the Group-wide credit risk appetite framework. In light of Covid-19 ING incorporated pandemic specific scenarios for the stress tests to gain insight into the potential effects of Covid-19 on the credit risk in the portfolios.
- **Product approvals**: The product approval and review process (PARP) assesses and manages risks associated with the introduction of new or modified products. It ensures that sound due diligence is performed by relevant stakeholders and the relevant risks (credit, operational, compliance, etc.) are addressed appropriately.
- **Sector strategy and risk appetite papers**: These are detailed analyses of defined products and/or industries. They identify the major risk drivers and mitigants, the internal business mandate, and propose the risk (including business) parameters – and potentially the maximum product and/or portfolio limit - to undertake that business. A sector strategy and risk appetite paper is always prepared by the front office responsible for the internal business mandate and requires an approval from the designated approval authority. Sector strategy and risk appetite papers may carry various names and/or may have geographical and/or business limitations (e.g. local vs global).

- **Credit approval process**: The purpose of the credit approval process is that individual transactions and the risk associated with these transactions are assessed on a name-by-name basis. For each type of client there is a dedicated process with credit risk managers specialised along the business lines of ING, including the use of automated decision-making in certain cases. The credit approval process is supported by a risk rating system and exposure monitoring system. Risk ratings are used to indicate a client's creditworthiness which translates into a probability of default. This is used as input to determine the maximum risk appetite that ING has for a given type of client (reference benchmark). The determination of the delegated authority (the amount that can be approved at various levels of the organisation) is a function of the risk rating of the client and ING's credit risk exposure on the client. Where necessary, underwriting standards were reviewed and refined to limit the credit risk to portfolios particularly sensitive to Covid-19.

Credit risk models (*)

Within ING, internal Basel compliant models are used to determine probability of default (PD), exposure at default (EAD) and loss given default (LGD) for regulatory and economic capital purposes. These models also form the basis of ING's IFRS 9 loan loss provisioning (see 'IFRS 9 models' below). Bank-wide, ING has implemented around 100 credit risk models, for regulatory capital, economic capital and loan loss provisioning purposes.

There are two main types of PD, EAD and LGD models used throughout the Bank:

- **Statistical models** are created where a large set of default or detailed loss data is available. They are characterised by a sufficient number of data points that facilitate meaningful statistical estimation of the model parameters. The model parameters are estimated with statistical techniques based on the data set available;
- **Hybrid models** contain characteristics of statistical models combined with knowledge and experience of experts from risk management and front-office staff, literature from rating agencies, supervisors and academics. These models are especially appropriate for 'low default portfolios', where limited historical defaults exist.

Credit risk rating process (*)

In principle, all risk ratings are based on a Risk Rating (PD) Model that complies with the minimum requirements detailed in CRR/CRDIV, ECB Supervisory Rules and EBA guidelines. This concerns all borrower types and segments.

ING's PD rating models are based on a 1-22 scale (1=highest rating; 22=lowest rating) referred to as the 'Master scale', which roughly corresponds to the rating grades that are assigned by external rating agencies, such as Standard & Poor's, Moody's and Fitch. For example, an ING rating of 1 corresponds to an S&P/Fitch rating of AAA and a Moody's rating of Aaa; an ING rating of 2 corresponds to an S&P/Fitch rating of AA+ and a Moody's rating of Aa1, and so on.

The 22 grades are composed of the following categories:

- Investment grade (risk rating 1-10);
- Non-investment grade (risk rating 11-17);
- Sub-standard (risk rating 18-19); and
- Non-performing (risk rating 20-22).

The three first categories (1-19) are risk ratings for performing loans. The ratings are calculated in IT systems with internally developed models based on data that is either manually or automatically fed. Under certain conditions, the outcome of a manually fed model can be challenged through a rating appeal process. Risk ratings for non-performing loans (NPL) (20-22) are set by the global or regional credit restructuring department. For securitisation portfolios, the external ratings of the tranche in which ING has invested are leading.

Risk ratings assigned to clients are reviewed at least annually, with the performance of the underlying models monitored regularly. Some of these models are global in nature, such as models for large corporates, commercial banks, insurance companies, central governments, local governments, funds, fund managers, project finance and leveraged companies. Other models are more regional- or country-specific: there are PD models for small medium enterprise (SME) companies in Central Europe, the Netherlands, Belgium, Luxembourg, as well as residential mortgage and consumer loan models in the various retail markets.

Rating models for retail clients are predominantly statistically driven and automated, such that ratings can be updated on a monthly basis. Rating models for large corporates, institutions and banks include both statistical characteristics and manual input, with the ratings being manually updated on at least an annual basis. During 2020, portfolios and clients most at risk of being affected by the pandemic were subject to more frequent (e.g. quarterly) reviews to closely monitor the development of credit risk.

Credit risk systems

Credit risk tools and data standards

The acceptance, maintenance, measurement, management and reporting of credit risks at all levels of ING is executed through single, common credit risk data standards using shared credit risk tools that support standardised and transparent credit risk practices. ING has chosen to develop credit risk tools centrally with the philosophy of using a single source of data in an integrated way. This includes applying a combination of the ING policy, the regulatory environment in which we operate and the daily processes that are active throughout the Group. Disciplined application in these three areas is essential for achieving high data quality standards.

In 2020, ING established a Credit Risk Control Unit (CRCU), which is part of the Financial Risk department, with the main objective to contribute to compliant and continuously improving rating systems.

Credit risk portfolio (*)

ING's credit exposure is mainly related to lending to individuals and businesses followed by investments in bonds and securitised assets, and money market. Loans to individuals are mainly mortgage loans secured by residential property. Loans (including guarantees issued) to businesses are often collateralised, but may be unsecured based on the internal analysis of the borrower's creditworthiness. Bonds in the investment portfolio are generally unsecured, but predominantly consist of bonds issued by central governments and EU and/or OECD based financial institutions. Secured bonds, such as mortgage backed securities and asset backed securities are secured by the underlying diversified pool of assets (commercial or residential mortgages, car loans and/or other assets) held by the securities issuer. For money market, exposure is mainly deposits to central banks. The last major credit risk source involves pre-settlement (PS) exposures which arise from trading activities, including derivatives, repurchase transactions and securities lending/borrowing transactions. This is also commonly referred to as counterparty credit risk.

The prior period outstandings by economic sector (industry) have been updated reflecting improved classification of clients. This is applicable to all following tables in the sections credit risk portfolio, credit risk mitigation and credit quality that includes outstandings by economic sectors with prior period comparatives.

Portfolio analysis per business line (*)

Outstandings per line of business (*)[1, 2, 3, 4]

in EUR million		Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Corporate Line		Total	
Rating class		**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Investment grade	1 (AAA)	74,735	31,859	357	372	34,782	18,973	2,375	24,774	112,248	75,978
	2-4 (AA)	63,239	46,394	6,119	5,853	38,586	36,460	18	1,832	107,961	90,539
	5-7 (A)	66,537	66,756	23,143	20,922	54,381	48,587	431	529	144,491	136,794
	8-10 (BBB)	104,987	115,888	120,714	115,192	53,346	49,681	2,400	2,872	281,447	283,632
Non-Investment grade	11-13 (BB)	65,832	86,342	61,797	63,993	39,823	41,584	0	31	167,451	191,950
	14-16 (B)	20,925	22,929	17,759	15,845	10,299	14,755			48,983	53,528
	17 (CCC)	1,822	1,081	2,543	2,223	844	933	128	98	5,338	4,335
Substandard grade	18 (CC)	1,690	1,228	1,170	1,409	514	531			3,374	3,168
	19 (C)	518	659	1,306	1,056	600	672			2,423	2,387
NPL grade	20-22 (D)	4,415	4,516	5,614	4,316	3,203	2,399	295	275	13,526	11,506
Total		**404,699**	**377,651**	**240,520**	**231,180**	**236,377**	**214,575**	**5,647**	**30,411**	**887,243**	**853,818**
Industry											
Private Individuals		25	31	160,884	164,466	172,390	167,262			333,299	331,759
Central Banks		84,697	34,044			27,921	8,383	632	23,339	113,250	65,766
Real Estate		26,271	38,338	24,064	13,205	3,297	2,732			53,632	54,275
Commercial Banks		42,088	44,152	201	250	8,211	8,884	3,092	3,502	53,591	56,788
Central Governments		43,753	37,449	1,691	1,364	4,482	6,356	1,697	3,131	51,623	48,300
Natural Resources		43,905	54,113	1,090	976	553	806			45,549	55,895
Non-Bank Financial Institutions		40,581	37,695	1,488	1,396	323	378	164	400	42,556	39,869
Transportation & Logistics		24,692	27,334	3,571	2,882	696	764			28,960	30,980
Food, Beverages & Personal Care		14,706	16,691	6,162	5,960	1,975	2,151			22,843	24,802
Services		8,878	10,252	11,302	10,929	808	862	4	3	20,993	22,046
Lower Public Administration		5,698	3,594	4,756	5,619	9,010	8,184			19,464	17,397
Utilities		17,062	16,377	1,358	741	136	145			18,556	17,263
General Industries		10,943	12,599	4,346	4,269	2,359	2,764			17,648	19,632
Other		41,398	44,982	19,607	19,123	4,214	4,906	58	36	65,279	69,046
Total		**404,699**	**377,651**	**240,520**	**231,180**	**236,377**	**214,575**	**5,647**	**30,411**	**887,243**	**853,818**

Outstandings per line of business (*) - continued[1, 2, 3]

in EUR million		Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Corporate Line		Total	
Region		**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Europe	Netherlands	72,236	41,255	149,686	142,547	645	905	3,047	25,547	225,614	210,253
	Belgium	36,517	33,936	84,104	82,368	642	572	19	18	121,282	116,894
	Germany	21,102	18,067	542	485	119,032	99,966	45	43	140,722	118,561
	Poland	18,296	15,713	55	66	20,750	20,377			39,101	36,156
	Spain	9,157	8,849	66	68	25,255	21,838	35	30	34,512	30,785
	United Kingdom	30,582	27,026	193	277	170	225	73	1,872	31,018	29,400
	Luxemburg	20,080	22,209	4,373	4,051	864	1,554	13	13	25,330	27,827
	France	15,651	13,914	618	519	6,447	6,267	6	3	22,721	20,703
	Rest of Europe	61,213	65,432	525	406	20,573	22,816	13	25	82,324	88,679
Americas		64,688	67,893	210	223	1,535	1,457	20	21	66,454	69,593
Asia		44,961	52,065	91	103	166	180	2,376	2,840	47,594	55,188
Australia		8,134	8,622	22	27	40,294	38,416	0	1	48,451	47,066
Africa		2,082	2,671	36	40	3	2			2,121	2,713
Total		**404,699**	**377,651**	**240,520**	**231,180**	**236,377**	**214,575**	**5,647**	**30,411**	**887,243**	**853,818**

1 Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities.
2 Based on the total amount of credit risk in the respective column using ING's internal credit risk measurement methodologies. Economic sectors (industry) below 2% are not shown separately but grouped in Other.
3 Geographic areas are based on country of residence, except for private individuals for which the geographic areas are based on the primary country of risk.
4 The prior period outstandings by economic sector (industry) have been updated reflecting improved classification of clients.

Overall portfolio (*)

During 2020, ING's portfolio size increased by €33.4 billion (+ 3.91%) to €887.2 billion outstandings. The net volume growth was concentrated in the Money Market and Lending risk categories and was mainly due to growth in exposures to Central Banks relating to participation in TLTRO III. Excluding Central Banks, the portfolio size decreased by €14.0 billion, driven by a reduction in Lending exposures and FX impact mainly due to the weakening of the US dollar against euro.

Foreign exchange rate changes had a negative impact on portfolio growth and reduced total outstanding by €13.9 billion. This was driven by the depreciation of the US dollar (-8.45%), Polish new zloty (-6.64%), New Turkish lira (-26.65%) and the British pound (-5.36%) against the euro.

Rating distribution (*)

In 2020, governments and banks introduced numerous measures to financially support individuals and businesses during the Covid-19 pandemic. These support measures in many case prevent or delay financial difficulties of customers. As a result, Covid-19 did not materially affect the overall rating distribution in the portfolio per 31 December 2020. Refer to 'Covid-19 sensitive sectors' for the impact on the portfolios most sensitive to Covid-19.

Overall, the rating class concentration slightly improved. The share of investment grade rating classes increased from 68.7% to 72.8%, while the share of non-investment grade decreased, from 29.3% to 25.0%. Substandard grade outstanding remained stable at 0.7% of total portfolio, whereas the non-performing loans (NPL) grade increased share from 1.3% to 1.5%.

With respect to the rating distribution within the business lines, in Wholesale Banking AAA and AA rated assets increased driven by Central Banks exposures, mainly due to the transfer of the reserve deposit with the Dutch central bank (DNB) from Corporate Line Bank to Wholesale Banking. Further decrease in BBB rating class for Wholesale Banking was seen with Commercial Banks' exposures, while for BB rating the outstanding decreased primarily in natural resources and transportation and logistics industries.

The rating distribution for Retail Benelux improved mostly because of Dutch residential mortgages, shifting from rating class BB to ratings A and BBB, driven by continuing increase of the NVM house price index and improving LTVs, despite Covid-19. Additionally, a trend of early repayments was visible in the Dutch mortgage portfolio, further reducing the share of BB rating class. Residential mortgages in Belgium also improved in rating distribution, reducing concentration in BB and B ratings, while increasing in AA, A and BBB. On the other hand, the retail mid-corporates portfolio showed a worsening of rating distribution both in Belgium and the Netherlands, shifting volumes from BBB to B rating.

In Retail Challengers & Growth Markets, the increase in AAA-rating was explained by increased reserve deposits the central banks of Germany and Australia. Similarly, rating class A increased due to exposures to Banco de Espana. Further, the increase in AA is partially explained by Australian residential mortgages . In Germany residential mortgage loans grew steadily, mainly in rating classes A and BBB, with Poland and Spain also contributing to the growth of A-rated residential mortgages.

Corporate line decreased concentration in AAA rating class due to the transfer of the reserve deposit with the Dutch central bank (DNB) to Wholesale Banking.

Industry (*)

The industry composition within Retail is concentrated in private individuals with 67% for Retail Benelux and 73% for Retail Challengers & Growth. Dutch residential mortgages continued to decrease driven by run-off at Westland Utrecht bank and higher regular repayments, partly mitigated by stable new production at Domestic Bank NL throughout 2020. In Belgium, residential mortgages slightly decreased in total volume, while an increase was seen with lease products in Belgium mid-corporate portfolio.

In C&G, apart from mortgage volumes growth, an increased outstanding was seen in Lower Public Administration (seen in Germany, France and Australia) and in Real Estate (Australia).

Within Wholesale Banking, the sector development in Central Banks is consistent with the development in the investment grade category above. Exposures towards Central Governments increased due to higher bond investments with Italy, Poland and France, while Commercial Banks decreased exposure, driven by lower volumes of trade-related transactions, seen in Australia.

The most noticeable reduction in Wholesale Banking was seen in Natural Resources, where exposures decreased significantly, most visible in Singapore, Luxembourg, US, UK and UAE. Outstanding to Transportation & Logistics also decreased, seen in the Netherlands, Hong Kong and Belgium, partly mitigated by an increase in Germany. Apart from the above ING Wholesale increased its exposure to Lower Public Administration (Germany and France), while overall exposure decreased in Food, Beverages & Personal Care (Belgium and Argentina).

Covid-19 sensitive sectors (*)

Aviation (Transportation & Logistics): exposure amounted to €4.6 billion outstanding (0.52% of total portfolio). In terms of rating, the distribution of outstanding worsened compared to 2019, with main concentration shifting from BBB to BB and B rating classes. Substandard grade outstanding increased to 1.2% from 0% of Aviation portfolio, whereas the non-performing grade increased to 4.5% from 0%.

Hospitality & Leisure (Services and Food, Beverages & Personal Care): exposure amounted to €5.9 billion outstanding (0.67% of total portfolio). Rating distribution worsened compared to 2019, with outstanding shifting from BBB and BB ratings into B, CCC and CC rating classes. Substandard grade increased to 9.7% from 1.8%, whereas the NPL grade increased to 6.2% from 2.5%.

Non-food retail (Retail): exposure slightly reduced and amounted to €10.8 billion (1.22% of total portfolio). Rating distribution remained relatively stable, with concentration reducing in BBB, BB and B ratings and slightly increasing in A rating class. Substandard grade decreased to 0.7% from 0.9%, while NPL grade increased to 3.3% from 3.2%.

Outstandings by economic sectors and geographical area (*) [1]

in EUR million	Region													Total
Industry	Netherlands	Belgium	Germany	Poland	Spain	United Kingdom	Luxemburg	France	Rest of Europe	America	Asia	Australia	Africa	2020
Private Individuals	114,219	42,443	88,178	12,216	21,775	186	3,203	2,644	14,717	169	173	33,346	29	333,299
Central Banks	43,615	22,840	23,601	31	3,058	6,247	3,855	811	3,655	0	4,090	1,424	23	113,250
Real Estate	18,349	10,540	1,374	2,478	1,460	313	3,846	3,511	3,839	2,889	828	4,197	7	53,632
Commercial Banks	1,722	265	4,546	607	468	6,931	3,478	6,218	6,926	7,434	13,222	1,476	298	53,591
Central Governments	6,636	6,762	2,010	8,956	4,435	55	175	2,130	10,020	8,949	344	712	439	51,623
Natural Resources	2,830	1,214	1,102	626	286	3,435	959	316	13,542	8,193	11,442	821	782	45,549
Non-Bank Financial Institutions	2,743	940	3,301	1,502	126	6,348	4,054	1,547	4,096	14,435	3,089	376	0	42,556
Transportation & Logistics	4,162	2,016	1,503	1,018	539	1,934	641	782	6,229	3,628	5,468	743	295	28,960
Food, Beverages & Personal Care	6,623	2,783	306	1,932	515	782	1,663	789	2,202	3,975	1,072	191	10	22,843
Services	4,281	9,307	584	783	159	520	454	411	1,054	2,314	612	515	0	20,993
Lower Public Administration	432	4,875	7,526	721	0		583	1,693	528	1,026	30	2,050	0	19,464
Utilities	1,731	1,277	1,815	618	610	2,105	583	402	2,975	3,196	1,716	1,292	237	18,556
General Industries	4,176	2,802	1,030	2,134	252	234	266	194	3,014	2,477	1,053	16	0	17,648
Other	14,094	13,218	3,843	5,478	829	1,926	1,572	1,273	9,527	7,769	4,456	1,293	0	65,279
Total	**225,614**	**121,282**	**140,722**	**39,101**	**34,512**	**31,018**	**25,330**	**22,721**	**82,324**	**66,454**	**47,594**	**48,451**	**2,121**	**887,243**
Rating class														
Investment grade	169,193	78,294	118,082	26,045	26,622	25,924	19,528	16,688	51,233	43,987	35,879	34,545	127	646,147
Non-Investment grade	51,818	38,113	21,185	11,979	7,468	4,837	5,530	5,870	29,051	20,758	10,696	12,651	1,816	221,772
Substandard grade	1,794	1,159	516	215	102	101	191	37	679	476	94	349	83	5,798
NPL grade	2,808	3,715	939	862	320	156	81	126	1,360	1,232	925	905	95	13,526
Total	**225,614**	**121,282**	**140,722**	**39,101**	**34,512**	**31,018**	**25,330**	**22,721**	**82,324**	**66,454**	**47,594**	**48,451**	**2,121**	**887,243**

1 Geographic areas are based on country of residence, except for private individuals for which the geographic areas are based on the primary country of risk.

Outstandings by economic sectors and geographical area (*)[1, 2]

in EUR million	Region													Total
Industry	Netherlands	Belgium	Germany	Poland	Spain	United Kingdom	Luxemburg	France	Rest of Europe	America	Asia	Australia	Africa	2019
Private Individuals	117,194	43,057	84,281	11,296	20,758	248	3,019	2,242	15,626	222	179	33,602	36	331,758
Central Banks	21,635	16,651	7,573	211	370	1,867	5,048	796	6,454	0	4,951	200	8	65,766
Commercial Banks	1,918	358	4,231	254	743	7,206	3,771	5,945	7,398	7,682	13,576	3,353	352	56,788
Natural Resources	2,556	1,323	959	729	220	4,307	2,339	652	16,037	9,521	15,442	749	1,061	55,894
Central Governments	7,970	5,777	3,033	6,626	4,597	42	184	1,554	6,668	9,724	1,071	689	367	48,300
Non-Bank Financial Institutions	3,059	1,178	2,856	1,252	175	7,462	2,983	1,318	4,117	11,826	3,178	315	149	39,869
Real Estate	18,478	10,287	1,418	2,415	1,390	350	3,865	3,503	4,539	3,685	886	3,450	8	54,275
Transportation & Logistics	4,722	2,298	505	1,100	569	2,081	868	812	6,129	3,979	6,818	651	447	30,980
Food, Beverages & Personal Care	6,301	3,095	322	2,093	329	995	1,779	874	2,602	4,632	1,651	111	19	24,802
Services	4,683	9,272	574	822	162	774	646	711	1,109	2,264	604	426	0	22,046
General Industries	4,096	3,301	1,143	2,295	274	382	437	144	3,504	2,628	1,423	5	0	19,632
Lower Public Administration	522	5,949	5,798	727	4		728	471	536	958	18	1,686	0	17,397
Chemicals, Health & Pharmaceuticals	4,160	3,517	935	1,066	112	95	257	524	2,812	2,286	474	205	0	16,443
Other	12,959	10,830	4,933	5,269	1,081	3,592	1,902	1,157	11,148	10,187	4,916	1,625	267	69,866
Total	**210,253**	**116,894**	**118,561**	**36,156**	**30,785**	**29,400**	**27,827**	**20,703**	**88,679**	**69,593**	**55,188**	**47,066**	**2,713**	**853,818**
Rating class														
Investment grade	144,340	73,010	95,685	22,921	23,598	24,429	21,444	15,418	50,878	42,370	41,134	31,542	175	586,943
Non-Investment grade	60,937	39,994	21,616	12,219	6,832	4,807	6,229	5,163	35,775	25,660	13,553	14,573	2,457	249,814
Substandard grade	1,993	1,023	555	212	85	17	75	25	484	464	347	265	9	5,555
NPL grade	2,983	2,867	705	806	270	148	79	96	1,541	1,100	154	686	71	11,506
Total	**210,253**	**116,894**	**118,561**	**36,156**	**30,785**	**29,400**	**27,827**	**20,703**	**88,679**	**69,593**	**55,188**	**47,066**	**2,713**	**853,818**

1 Geographic areas are based on country of residence, except for private individuals for which the geographic areas are based on the primary country of risk.

2 The prior period outstandings by economic sector (industry) have been updated reflecting improved classification of clients.

Portfolio analysis per geographical area (*)

The portfolio analysis per geographical area re-emphasises the international distribution of the ING portfolio. The share of the Netherlands in the overall portfolio remained stable at 25%.

The most noticeable trend in the Netherlands was the increase in exposure with the central bank. Apart from that, lower volumes of residential mortgage loans were visible, as well as lower bond exposures towards the Dutch Central Government. For Belgium the increase in exposures towards the central bank was partially offset by reduced outstanding to Lower Public Administration and slight decrease in residential mortgage volumes.
In terms of rating distribution, the share of investment grade increased in both the Netherlands and Belgium (due to central banks), while non-investment grade reduced, mainly seen with private individuals (mortgages shifting to investment grade). For both countries substandard grade remained relatively stable (little below 1%). For the Netherlands, the NPL grade decreased to 1.2% from 1.4%, while for Belgium it increased to 3.1% from 2.5%.

In Germany, Spain and Poland, residential mortgages increased due to strong market position and stable business volume growth. Germany, Spain and Australia also showed increased exposures to central banks.

Rating distribution in Germany improved: the share of investment grade increased (central banks), while non-investment grade slightly decreased. Substandard grade (0.4%) also reduced share, while NPL grade slightly increased (0.7%). Poland and Spain also showed rating distributions improvement, as in both investment grade share increased (central banks and mortgages). Substandard grade remained stable at 0.6% for Poland and 0.3% for Spain, as for NPL grade, it was stable at 2.2% for Poland and 0.9% for Spain.

In Luxemburg despite the reduced overall exposure to central banks and Natural Resources, the rating distribution remained stable: investment grade at 77.1%, non-investment grade slightly decreased to 21.8%. Substandard grade increased to 0.8% from 0.3%, while NPL grade remained at 0.3%.

For Rest of Europe, the exposure decreased due to lower exposure with the central bank of the Czech Republic, lower outstanding in Turkey, mainly due to FX impact and a reduction of exposure in Switzerland, visible in Natural Resources.

The lower exposure in the Americas was mainly driven by FX impact and decreased volumes of term loans to US Corporates, mainly in Natural Resources, partly offset by higher outstanding to US Non-Bank FIs. A similar reduction in outstanding for Natural Resources was visible in Asia (mainly in Singapore and UAE), which was partially offset by increased exposure to Technology industry.

In Australia, outstanding increased, driven by Central Bank exposures and exposures in Real Estate, partly compensated by lower volumes of trade related transactions with Commercial Banks.

In terms of rating distribution for America region the share of investment grade increased to 66.3% from 61.1%, while non-investment grade decreased to 31.1% from 36.7%. Substandard grade remained at 0.7%, while NPL slightly increased to 1.8% from 1.6%. For Asia, investment grade moved slightly up to 75.4%, non-investment and substandard decreased to 22.5% and 0.2% respectively, while the NPL increased its share to 1.9% from 0.3% of outstanding in Asia. Australia's rating distribution remained stable with slight shift of outstanding from non-investment to investment grade.

The top five countries within Rest of Europe based on outstanding were: Italy (€17,544 million), Switzerland (€10,494 million), Turkey (€9,579 million), Romania (€8,484 million) and Russian Federation (€4,964 million).

Credit risk mitigation (*)

ING uses various credit risk mitigation techniques and instruments to mitigate the credit risk associated with an exposure and to reduce the losses incurred subsequent to a default by a customer. The most common terminology used in ING for credit risk protection is 'cover'. While a cover may be an important mitigant of credit risk and an alternative source of repayment, generally it is ING's practice to lend on the basis of the customer's creditworthiness rather than exclusively relying on the value of the cover.

Cover forms (*)

Within ING, there are two distinct forms of covers. First, where the asset has been pledged to ING as collateral or security, ING has the right to liquidate it should the customer be unable to fulfil its financial obligation. As such, the proceeds can be applied towards full or partial compensation of the customer's outstanding exposure. This may be tangible (such as cash, securities, receivables, inventory, plant and machinery, and mortgages on real estate properties) or intangible (such as patents, trademarks, contract rights and licences). Second, where there is a third-party obligation, indemnification or undertaking (either by contract and/or by law), ING has the right to claim from that third party an amount if the customer fails on its obligations. The most common examples are guarantees (such as parent guarantees and export credit insurances) or third-party pledged mortgages.

Cover valuation methodology (*)

General guidelines for cover valuation are established to ensure consistent application within ING. These also require that the value of the cover is monitored on a regular basis. Covers are revalued periodically and whenever there is reason to believe that the market is subject to significant changes in conditions. The frequency of monitoring and revaluation depends on the type of cover.

The valuation method also depends on the type of covers. For asset collateral, the valuation sources can be the customer’s balance sheet (e.g. inventory, machinery and equipment), nominal value (e.g. cash and receivables), market value (e.g. securities and commodities), independent valuations (commercial real estate) and market indices (residential real estate). For third-party obligations, the valuation is based on the value that is attributed to the contract between ING and that third party.

Cover values (*)

This section provides insight into the types of cover and the extent to which exposures benefit from collateral or guarantees. The disclosure differentiates between risk categories (lending, investment, money market and pre-settlement). The most relevant types of cover include mortgages, financial collateral (cash and securities) and guarantees. ING obtains cover that is eligible for credit risk mitigation under CRR/CRDIV, as well as cover that is not eligible. Collateral covering financial market transactions is valued on a daily basis, and as such not included in the following tables. To mitigate the credit risk arising from Financial Markets transactions, the bank enters into legal agreements governing the exchange of financial collateral (high-quality government bonds and cash).

The cover values are presented for the total portfolio of ING, both the performing and non-performing portfolio. Our definition of non-performing is explained in detail in ‘Credit restructuring’ (below). For additional insight, a breakdown of ING’s portfolio by industry and geography is provided.

Exposures are categorised into different value-to-loan (VTL) buckets that give insight in the level of collateralisation of ING’s portfolio. VTL is calculated as the cover value divided by the outstandings at the balance sheet date. The cover values are indexed where appropriate and exclude any cost of liquidation. Covers can either be valid for all or some of a borrower’s exposures or particular outstandings, the latter being the most common. For the purpose of aggregation, over-collateralisation is ignored in the total overview and VTL coverage of more than 100% is reported as fully covered. For VTL coverage in the tables for Dutch mortgages, consumer lending and business lending, each cover is subsequently assigned to one of the six defined VTL buckets: no cover, >0% to 25%, >25% to 50%, >50% to 75%, >75% to <100%, and ≥ 100%.

The next table gives an overview of the collateralisation of the ING’s total portfolio.

Cover values including guarantees received (*)

in EUR million		Cover type				Value to Loan		
2020	Outstandings	Mortgages	Financial Collateral	Guarantees	Other covers	No Cover	Partially covered	Fully covered
Consumer Lending	331,288	609,967	6,208	26,117	38,438	6.7%	7.5%	85.8%
Business Lending	388,060	161,474	20,431	94,913	302,357	43.1%	21.2%	35.7%
Investment and Money Market	121,809	95	121	782	245	99.2%	0.1%	0.7%
Total Lending, Investment and Money Market	**841,157**	**771,536**	**26,761**	**121,811**	**341,039**	**36.9%**	**12.7%**	**50.4%**
Pre-settlement	46,086							
Total Bank	**887,243**							

Cover values including guarantees received (*)

in EUR million		Cover type				Value to Loan		
2019	Outstandings	Mortgages	Financial Collateral	Guarantees	Other	No Cover	Partially covered	Fully covered
Consumer Lending	329,949	574,786	3,775	26,766	36,774	6.9%	7.6%	85.5%
Business Lending	378,214	154,351	21,073	93,407	296,286	36.6%	24.3%	39.1%
Investment and Money Market	94,866	33	133	64	266	96.0%	3.9%	0.1%
Total Lending, Investment and Money Market	**803,029**	**729,171**	**24,981**	**120,236**	**333,326**	**31.4%**	**15.0%**	**53.6%**
Pre-settlement	50,789							
Total Bank	**853,818**							

In 2020, the collateralisation level of the portfolio slightly decreased as a result of an increase in unsecured Central Bank reserves which are included in Business lending. Excluding the pre-settlement portfolio, 50.4% of ING's outstandings were fully collateralised in 2020 (2019: 53.6%). Since investments traditionally do not require covers, the percentage for 'no covers' in this portfolio is above 90%. However, 99% of the investment outstanding is investment grade. Improved economic conditions in ING's main markets contributed to improved collateral valuations, observed in consumer lending.

Consumer lending portfolio (*)

The consumer lending portfolio accounts for 37.3% of ING's total outstanding, primarily consisting of residential mortgage loans and other consumer lending loans, which mainly comprise term loans, revolvers and personal loans to consumers. As a result, most of the collateral consists of mortgages. The mortgage values are collected in an internal central database and in most cases external data is used to index the market value (e.g. mortgage values for the Netherlands are updated on a quarterly basis using the NVM/CBS house price index).

A significant part of ING's residential mortgage portfolio is in the Netherlands (36.6%), followed by Germany (25.9%), Belgium and Luxembourg (13.4%) and Australia (10.7%). Given the size of the Dutch mortgage portfolio, the valuation methodology to determine the cover values for Dutch residential mortgages is provided below.

Dutch mortgages valuation (*)

When a mortgage loan is granted in the Netherlands, the policy dictates maximum loan to market value (LTMV) for an existing property and for construction property financing of 100 percent.

In case of newly built houses usually the building /purchase agreement is sufficient as valuation. In the case of existing houses three types of valuations are allowed. If the LTMV is below 90 percent, either WOZ (fiscal market value, determined by government authorities) or an automated model valuation (the Calcasa ING Valuation) are permitted.
In most cases, a valuation is performed by certified valuers that are registered at one of the organisations accepted by ING. In addition, the valuer must be a member of the NVM (Nederlandse Vereniging van Makelaars – Dutch Association of Real Estate Agents), VBO (Vereniging Bemiddeling Onroerend Goed – Association of Real Estate Brokers), VastgoedPRO (Association of Real Estate Professionals) or NVR (Nederlandse Vereniging van Rentmeesters).

Consumer lending portfolio – cover values (*)

The below tables show the values of different covers and the VTL split between performing and non-performing loans.

Cover values including guarantees received - Consumer lending portfolio (*)

in EUR million		Cover type				Value to Loan					
2020	Outstandings	Mortgages	Financial Collateral	Guarantees	Other covers	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
Performing											
Residential Mortgages (Private Individuals)	294,642	594,073	5,147	23,210	30,927			0.1%	0.7%	7.3%	92.0%
Residential Mortgages (SME) [1]	5,681	9,010	151	126	1,532		0.3%	0.7%	1.4%	6.1%	91.5%
Other Consumer Lending	25,780	197	861	2,619	4,336	81.5%	0.3%	0.1%	0.2%	0.3%	17.6%
Total Performing	**326,103**	**603,281**	**6,160**	**25,955**	**36,795**	**6.4%**	**0.0%**	**0.1%**	**0.7%**	**6.7%**	**86.1%**
Non-performing											
Residential Mortgages (Private Individuals)	3,698	6,379	45	141	1,414	0.2%	0.1%	0.4%	1.2%	5.9%	92.2%
Residential Mortgages (SME) [1]	184	301	0	9	54	0.1%	0.2%	0.5%	1.8%	7.7%	89.7%
Other Consumer Lending	1,303	6	4	12	175	91.8%	0.3%	0.2%	0.3%	0.6%	6.7%
Total Non-performing	**5,185**	**6,686**	**49**	**162**	**1,643**	**23.2%**	**0.1%**	**0.3%**	**1.0%**	**4.6%**	**70.6%**
Total Consumer Lending	**331,288**	**609,967**	**6,208**	**26,117**	**38,438**	**6.7%**	**0.0%**	**0.1%**	**0.7%**	**6.7%**	**85.8%**

1 Consists mainly of residential mortgages to small one man business clients

Cover values including guarantees received - Consumer lending portfolio (*)

in EUR million		Cover type				Value to Loan					
2019	Outstandings	Mortgages	Financial Collateral	Guarantees	Other covers	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
Performing											
Residential Mortgages (Private Individuals)	294,658	561,766	2,897	24,281	30,541			0.1%	0.8%	7.2%	91.8%
Residential Mortgages (SME) [1]	5,687	8,786	258	145	1,402		0.2%	0.8%	1.4%	8.0%	89.6%
Other Consumer Lending	26,025	183	603	2,204	3,980	83.8%	0.3%	0.1%	0.1%	0.3%	15.4%
Total Performing	**326,370**	**570,734**	**3,759**	**26,630**	**35,922**	**6.7%**	**0.0%**	**0.1%**	**0.8%**	**6.7%**	**85.7%**
Non-performing											
Residential Mortgages (Private Individuals)	2,477	3,804	14	121	720	0.2%	0.2%	0.7%	2.3%	9.6%	87.1%
Residential Mortgages (SME) [1]	147	240		7	36	0.2%	0.3%	0.8%	2.9%	6.0%	89.8%
Other Consumer Lending	956	7	2	8	96	94.0%	0.4%	0.2%	0.4%	0.5%	4.6%
Total Non-performing	**3,579**	**4,052**	**16**	**136**	**852**	**25.3%**	**0.2%**	**0.5%**	**1.8%**	**7.0%**	**65.2%**
Total Consumer Lending	**329,949**	**574,786**	**3,775**	**26,766**	**36,774**	**6.9%**	**0.0%**	**0.1%**	**0.8%**	**6.7%**	**85.5%**

1 Consists mainly of residential mortgages to small one man business clients

The collateralisation levels of the consumer lending portfolio continued to improve during 2020. The rise in collateralisation levels was due to rising housing prices observed in different mortgage markets, specifically noticeable in the Netherlands.

ING's residential mortgage outstanding increased mainly in Germany (4.9%), Spain (7.4%) and Poland (10.3%). In 2019 the increases where respectively 3.1%, 14.8% and 23.2%. Mortgage outstanding in the Netherlands decreased slightly (2.3%). For the residential mortgages portfolio, the cover type guarantees relate to mortgages covered by governmental insurers under the Dutch national mortgage guarantee (NHG) scheme in the Netherlands. The NHG guarantees the repayment of a loan in case of a forced property sale.

Business lending portfolio (*)

Business lending accounts for 43.8% of ING's total outstanding (44.3% in 2019). In line with our objective to give stakeholders insight into the portfolio, we present the business lending portfolio per industry breakdown in accordance with the NAICS definition and per region and main market. Business lending presented in this section does not include pre-settlement, investment and money market exposures, which are outlined in the next sections.

Cover values including guarantees received - Business lending portfolio (*)

in EUR million

2020

		Cover type				Value to Loan					
Industry	Outstandings	Mortgages	Financial Collateral	Guarantees	Other covers	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
Central Banks	79,464		23			100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Real Estate	52,743	99,824	1,176	6,644	28,378	3.3%	0.7%	2.1%	1.5%	7.4%	85.1%
Natural Resources	43,209	1,453	2,192	23,503	35,739	24.5%	14.4%	13.0%	7.2%	15.9%	25.0%
Transportation & Logistics	27,395	7,251	182	7,487	37,220	18.2%	5.1%	2.4%	3.9%	11.7%	58.8%
Non-Bank Financial Institutions	21,934	1,139	10,771	3,766	46,286	42.1%	3.6%	2.3%	3.6%	4.6%	43.7%
Food, Beverages & Personal Care	20,594	8,346	430	9,473	33,918	25.0%	5.1%	5.9%	9.6%	14.0%	40.3%
Services	19,632	10,623	1,855	8,394	23,917	27.9%	5.8%	7.0%	5.3%	7.2%	46.9%
Commercial Banks	18,012	313	107	1,546	3,868	75.0%	1.0%	3.4%	1.7%	8.1%	10.8%
Utilities	16,948	185	1,011	4,464	9,723	42.3%	19.1%	5.2%	4.3%	3.0%	26.0%
General Industries	16,417	5,563	241	5,736	20,781	31.5%	4.0%	5.7%	9.6%	9.9%	39.3%
Chemicals, Health & Pharmaceuticals	14,120	7,558	194	4,391	12,332	26.0%	5.7%	3.6%	7.7%	13.6%	43.5%
Builders & Contractors	13,895	7,583	309	4,490	15,711	26.3%	6.2%	6.4%	8.9%	10.4%	41.7%
Others [1]	43,696	11,635	1,938	15,020	34,484	40.0%	5.1%	4.3%	6.1%	10.5%	34.1%
Total Business Lending	**388,060**	**161,474**	**20,431**	**94,913**	**302,357**	**43.1%**	**4.9%**	**4.2%**	**4.2%**	**7.9%**	**35.7%**
of which Total Non-performing	***8,261***	***3,027***	***230***	***3,803***	***6,915***	***29.1%***	***5.2%***	***5.0%***	***8.5%***	***14.2%***	***38.1%***

1 'Others' comprises industries with outstandings lower than €10 billion.

Cover values including guarantees received - Business lending portfolio (*)[1]

in EUR million
2019

		Cover type				Value to Loan					
Industry	Outstandings	Mortgages	Financial Collateral	Guarantees	Other covers	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
Natural Resources	53,796	1,197	2,426	22,041	35,691	26.6%	15.3%	9.6%	11.6%	12.9%	24.1%
Real Estate	53,564	98,238	1,589	6,869	20,353	4.0%	0.6%	2.1%	1.8%	8.7%	82.9%
Central Banks	42,087	–	7	–	–	100.0%	–	–	–	–	–
Non-Bank Financial Institutions	22,363	1,434	11,339	5,638	41,084	30.2%	3.7%	5.2%	6.6%	7.2%	47.1%
Transportation & Logistics	29,303	3,293	168	7,519	36,223	17.0%	6.4%	2.3%	4.1%	11.3%	58.9%
Food, Beverages & Personal Care	22,585	8,030	407	8,777	34,633	24.5%	5.2%	7.8%	10.3%	12.8%	39.5%
Commercial Banks	22,508	331	129	1,656	6,062	72.4%	3.3%	2.0%	1.6%	5.9%	14.8%
Services	21,044	10,090	1,519	8,799	29,470	30.7%	5.0%	6.3%	6.5%	6.9%	44.6%
General Industries	18,849	5,031	246	5,369	22,154	32.2%	5.1%	4.3%	8.3%	9.6%	40.6%
Utilities	15,952	242	1,036	3,785	7,928	41.7%	19.7%	3.9%	5.5%	2.0%	27.3%
Chemicals, Health & Pharmaceuticals	15,410	8,361	203	3,744	12,439	26.4%	6.7%	3.9%	7.5%	11.8%	43.7%
Builders & Contractors	15,054	7,449	201	3,802	15,704	27.5%	6.7%	7.2%	8.6%	8.7%	41.2%
Others [2]	45,698	10,655	1,800	15,407	34,546	41.5%	4.9%	4.6%	5.8%	7.7%	35.4%
Total Business Lending	**378,214**	**154,351**	**21,073**	**93,407**	**296,286**	**36.6%**	**6.0%**	**4.4%**	**5.7%**	**8.2%**	**39.1%**
of which Total Non-performing	**7,856**	**2,600**	**281**	**2,643**	**6,305**	**32.6%**	**3.6%**	**7.9%**	**9.2%**	**16.5%**	**30.2%**

1 The prior period outstandings by economic sector (industry) have been updated reflecting improved classification of clients.
2 'Others' comprises industries with outstandings lower than €10 billion.

Cover values including guarantees received - Business lending portfolio (*)

2020			Cover type				Value to Loan					
Region		Outstandings	Mortgages	Financial Collateral	Guarantees	Other covers	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
	Netherlands	101,000	61,180	3,298	9,245	59,268	51.7%	1.6%	2.5%	3.9%	8.6%	31.8%
	Belgium	50,245	36,071	1,174	22,424	53,041	24.8%	1.6%	3.0%	3.1%	6.9%	60.7%
	Germany	35,069	3,233	118	2,711	4,788	80.4%	4.0%	2.1%	1.4%	1.2%	10.9%
	Luxembourg	16,332	8,403	1,671	2,849	29,875	46.4%	1.5%	6.0%	1.5%	3.4%	41.1%
Europe	Poland	16,176	9,414	168	3,720	25,652	28.3%	4.5%	3.8%	7.9%	11.3%	44.2%
	United Kingdom	13,864	4,659	1,971	4,028	9,906	44.6%	16.1%	7.2%	3.0%	8.3%	20.8%
	Switzerland	9,544	46	684	3,540	6,980	27.2%	21.7%	16.6%	7.1%	7.2%	20.3%
	France	9,513	7,543	150	2,021	4,096	39.2%	5.1%	4.1%	2.7%	2.0%	46.8%
	Rest of Europe	46,302	13,817	2,460	18,446	41,326	35.4%	7.7%	4.6%	4.7%	9.1%	38.5%
America		40,508	5,967	6,872	7,442	40,815	37.9%	7.4%	6.1%	5.5%	10.2%	33.0%
Asia		37,435	978	1,728	15,174	23,607	40.6%	5.0%	5.5%	6.6%	11.9%	30.5%
Australia		10,019	10,153	83	1,650	2,273	26.4%	7.7%	2.1%	2.4%	4.7%	56.8%
Africa		2,053	10	53	1,661	730	8.0%	6.6%	3.0%	19.9%	26.8%	35.7%
Total Business Lending		**388,060**	**161,474**	**20,431**	**94,913**	**302,357**	**43.1%**	**4.9%**	**4.2%**	**4.2%**	**7.9%**	**35.7%**
of which Non-performing		**8,261**	**3,027**	**230**	**3,803**	**6,915**	**29.1%**	**5.2%**	**5.0%**	**8.5%**	**14.2%**	**38.1%**

Cover values including guarantees received - Business lending portfolio (*)

2019			Cover type				Value to Loan					
Region		Outstandings	Mortgages	Financial Collateral	Guarantees	Other covers	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
Europe	Netherlands	81,472	60,334	3,265	8,845	52,909	37.5%	2.8%	3.6%	5.3%	10.7%	40.1%
	Belgium	51,881	35,937	1,231	23,583	51,204	25.4%	1.8%	2.6%	4.0%	6.7%	59.5%
	Germany	18,366	3,143	95	1,237	4,916	62.7%	9.2%	2.4%	2.2%	2.5%	20.9%
	Luxembourg	19,013	7,076	1,690	3,780	31,685	48.3%	2.3%	6.6%	3.2%	3.0%	36.7%
	Poland	17,498	8,896	135	3,053	27,356	30.1%	3.4%	4.6%	7.0%	11.4%	43.4%
	United Kingdom	14,919	1,132	1,128	4,381	10,159	39.0%	18.0%	5.7%	8.9%	5.3%	23.0%
	Switzerland	11,328	83	656	2,950	6,085	35.7%	13.7%	12.3%	7.4%	11.7%	19.2%
	France	10,015	6,843	147	2,003	4,661	39.5%	5.7%	5.5%	3.5%	1.3%	44.6%
	Rest of Europe	48,494	15,504	2,873	17,219	40,243	32.1%	7.8%	4.9%	4.7%	10.2%	40.2%
America		47,729	7,253	7,856	8,827	39,792	39.3%	6.1%	5.0%	6.7%	9.2%	33.6%
Asia		45,131	920	1,941	14,051	24,632	37.2%	8.4%	4.5%	9.2%	7.2%	33.5%
Australia		9,731	7,219	4	1,640	1,867	37.3%	9.6%	1.5%	3.0%	5.5%	43.1%
Africa		2,638	9	51	1,838	778	9.2%	16.5%	9.6%	13.2%	12.2%	39.3%
Total Business Lending		**378,214**	**154,351**	**21,073**	**93,407**	**296,286**	**36.6%**	**6.0%**	**4.4%**	**5.7%**	**8.2%**	**39.1%**
of which Non-performing		**7,856**	**2,600**	**281**	**2,643**	**6,305**	**32.6%**	**3.6%**	**7.9%**	**9.2%**	**16.5%**	**30.2%**

The tables above describe the collateralisation of ING's business lending portfolio. Breakdowns are provided by industry as well as by geographical region or market, based on the residence of the borrowers.

Broken down by industry, the largest increase in outstanding is attributable to Central Banks (€37.4 billion, 88.8%) followed by Utilities (€1.0 billion, 6.2%). The largest decrease in outstanding was observed in Natural Resources (€10.6 billion), where the total cover percentage increased.

The proportion of the business lending portfolio in Australia and Switzerland with no cover decreased substantially year-on-year, respectively from 37.3% to 26.4% and from 35.7% to 27.2% in 2019. Most industry types experienced an increase in total covers. The largest increases in outstanding in absolute figures were seen in the Netherlands (23.9%) and Germany (90.9%). The increase in Germany (€16.7 billion) was primarily due to increases in regulatory reserve deposits and nostro accounts. As these deposits and nostro accounts are not collateralised, this increase had only a small impact on total cover amounts.

Credit quality (*)

Credit risk categories (*)

	Regular	Watch List	Restructuring [1]	Non-performing [1]
Possible ratings	1–19	1–19	11–20	20-22
Typical ratings	1–14	15–17	18–20	20-22
Deterioration in risk	Not significant	Significant	Significant	Significant
Significant intervention	Not required	Not required	Required	Required
Account Ownership	Front Office	Front Office	Front Office	Front Office
Credit Risk Management	Regular	Regular	Credit Restructuring	Credit Restructuring
Primary Manager	Front Office	Front Office	Credit Restructuring	Credit Restructuring
Accounting provisioning	Stage 1/2	Stage 1/2	Stage 2/3	Stage 3

1 More information on the Restructuring and Non-performing categories can be found in the Credit restructuring section.

Credit quality outstandings (*)

in EUR million	2020	2019
Neither past due nor non-performing	863,296	831,227
Business lending past due but performing (1–90 days)	7,831	7,747
Consumer lending past due but performing (1–90 days)	2,619	3,367
Non-performing [1]	13,497	11,477
Total	**887,243**	**853,818**

1 Based on lending and investment activities

Total group outstanding increased by 4% (€+33.4 billion), mainly visible in the Investment grade rating class (€+59.2 billion) partly offset by the decrease in the non-investment grade rating class outstanding (€-28 billion). Business lending past due but performing remained stable at €7.8 billion, whereas consumer lending past due but performing decreased by 22% (€-0.7 billion). The €2.0 billion non-performing outstanding increase was distributed as follows; Retail Benelux (€+1.1 billion) and Retail Challengers & Growth Markets (€+0.9 billion). Within Retail Banking Benelux the private individuals outstanding increase accounted for €+0.7 billion, mainly driven by the introduction of the new definition of default for mortgages. while for retail business this was €+0.4 billion in Builders & Contractors and the Services sectors. Within Retail Challengers & Growth Markets the increase was seen for private individuals. This was mainly driven by mortgages forbearance measures granted to clients in the form of payment holidays not in scope of the European Banking Association (EBA) moratoria guidelines and classified as in default, as well as the implementation of new definition of default for secured consumer lending.

Past due obligations (*)

Retail Banking continuously measures its portfolio in terms of payment arrears and on a monthly basis determines if there are any significant changes in the level of arrears. This methodology is principally extended to loans to private individuals, such as residential mortgage loans, car loans and other consumer loans, as well as business lending. An obligation is considered 'past due' if a payment of interest or principal is more than one day late. ING aims to help its customers as soon as they are past due by communicating to remind them of their payment obligations. In its contact with the customers, ING aims to solve the (potential) financial difficulties by offering a range of measures (e.g. payment arrangements, restructuring). If the issues cannot be cured, for example because the customer is unable or unwilling to pay, the contract is sent to the recovery unit. The facility is downgraded to risk rating 20 (non-performing) when the facility or obligor – depending on the level at which the non-performing status is applied - is more than 90 days past due and to risk rating 21 or 22 when the contract is terminated.

ING has aligned the regulatory concept of non-performing with that of the definition of default. Hence, in Wholesale Banking, obligors are classified as non-performing when a default trigger occurs:

- ING believes the borrower is unlikely to pay; the borrower has evidenced significant financial difficulty, to the extent that it will have a negative impact on the future cash flows of the financial asset. The following events could be seen as indicators of financial difficulty:
  - The borrower (or third party) has started insolvency proceedings;
  - A group company/co-borrower has NPL status;
  - Indication of fraud (affecting the company's ability to service its debt);
  - There is doubt as to the borrower's ability to generate stable and sufficient cash flows to service its debt;
  - Restructuring of debt.

- ING has granted concessions relating to the borrower's financial difficulty, the effect of which is a reduction in expected future cash flows of the financial asset below current carrying amount.
- The obligor has failed in the payment of principal, interest or fees, the total past due amount is above the materiality threshold and this remains the case for more than 90 consecutive days.

Further, Wholesale Banking has an individual name approach, using early warnings indicators to signal possible future issues in debt service.

Ageing analysis (past due but performing): Consumer lending portfolio, outstandings [1] (*)

in EUR million	2020	2019
Past due for 1–30 days	2,129	2,564
Past due for 31–60 days	402	639
Past due for 61–90 days	88	163
Total	**2,619**	**3,367**

1 Based on consumer lending. The amount of past due but performing financial assets in respect of non-lending activities was not significant.

Ageing analysis (past due but performing): Consumer lending portfolio by geographic area, outstandings [1] (*)

in EUR million				2020
Region		Residential Mortgages	Other retail	Total
Europe	Netherlands	713	12	725
	Belgium	469	107	576
	Germany	359	71	430
	Poland	84	62	146
	Spain	24	30	55
	Luxemburg	7	18	25
	France	1	7	7
	United Kingdom	2	0	2
	Rest of Europe	136	119	255
America		0	0	1
Asia		4	0	4
Australia		388	6	394
Total		**2,186**	**433**	**2,619**

1 Based on consumer lending. The amount of past due but performing financial assets in respect of non-lending activities was not significant.

Ageing analysis (past due but performing): Consumer lending portfolio by geographic area, outstandings [1] (*)

in EUR million				2019
Region		Residential Mortgages	Other retail	Total
Europe	Netherlands	829	11	840
	Belgium	733	166	899
	Germany	372	104	476
	Poland	145	90	236
	Spain	21	36	56
	Luxemburg	3	24	27
	France	2	10	13
	United Kingdom	3		3
	Rest of Europe	194	290	484
America		3		3
Asia		3		3
Australia		310	18	328
Total		**2,618**	**749**	**3,367**

1 Based on consumer lending. The amount of past due but performing financial assets in respect of non-lending activities was not significant.

The consumer lending decrease in past due but performing was distributed as follows; Retail Benelux (€-0.4 billion) and Retail Challengers & Growth Markets (€-0.3 billion). Within Retail Benelux the decrease was noticeable in the 1-30 days bucket for Belgium (€-0.2 billion) mainly driven by the implementation of the new definition of default via the introduction of the unlikely to pay assessment by which short arrears result in defaults, as well as the Covid-19 related payment holidays granted after which days past due counting stops, and the Netherlands (€-0.1 billion), due to the good payment behaviour of our clients which is facilitated by strict underwriting rules, low interest rates, low unemployment and low bankruptcy, as well as the financial aid measures granted by the Dutch government to employees and employers because of the Covid-19 pandemic. Within Retail Challengers & Growth Markets the largest decrease was mainly witnessed in the 31-60 days bucket for Germany (€-0.1 billion).

Ageing analysis (past due but performing): Business lending, outstandings (*)

in EUR million	2020	2019
Past due for 1–30 days	7,038	6,681
Past due for 31–60 days	712	658
Past due for 61–90 days	82	408
Total	**7,831**	**7,747**

Ageing analysis (past due but performing): Business lending portfolio by geographic area, outstandings (*)

in EUR million		2020	2019
Region		Total	Total
Europe	Netherlands	770	751
	Belgium	912	1,028
	Germany	204	385
	United Kingdom	959	820
	Spain	339	688
	France	106	639
	Luxemburg	301	340
	Poland	206	279
	Rest of Europe	1,214	1,445
America		2,538	1,159
Asia		151	187
Australia		128	23
Africa		3	2
Total		**7,831**	**7,747**

Total past due but performing outstanding remained stable for business loans. Although, there was a similar sized but opposite difference visible in the 1-30 days bucket (€+0.4 billion) and the 61-90 days bucket (€-0.3 billion). The largest contributors in the 1-30 days bucket were seen in America (€+1.3 billion), Bermuda (€+0.2 billion) on some larger client names. This was partially offset by the decreases witnessed in France (€-0.5 billion), Spain (€-0.3 billion) and Belgium (€-0.3 billion). The largest contributors to the decrease in the 61-90 days bucket were Sweden (€-0.1 billion) and America (€-0.1 billion).

Credit restructuring (*)

Global Credit Restructuring (GCR) is the dedicated and independent department that deals with non-performing loans and loans that hold a reasonable probability that ING will end up with a loss, if no specific action is taken. GCR handles accounts or portfolios requiring an active approach, which may include renegotiation of terms and conditions and business or financial restructuring. The loans are managed by GCR or by units in the various regions and business units.

ING uses three distinct statuses to categorise the management of clients with (perceived) deteriorating credit risk profiles, i.e. there is increasing doubt as to the performance and the collectability of the client's contractual obligations:

- **Watch List**: Usually, a client is first classified as Watch List when there are concerns of any potential or material deterioration in credit risk profile that may affect the ability of the client to adhere to its debt service obligations or to refinance its existing loans. Watch List status requires more than usual attention, increased monitoring and quarterly reviews. Some clients with a Watch List status may develop into a Restructuring status or even a Recovery status.
- **Restructuring**: A client is classified in Restructuring when there are concerns about the client's financial stability, credit worthiness, and/or ability to repay, but where the situation does not require the recall or acceleration of facilities or the liquidation of collateral. ING's actions aim to maintain the going concern status of the client by:
  - Restoring the client's financial stability;
  - Supporting the client's turnaround;
  - Restoring the balance between debt and equity; and
  - Restructuring the debt to a sustainable situation.
- **Recovery**: A client is classified as in Recovery when ING and/or the client concludes that the client's financial situation cannot be restored and a decision is made to end the (credit) relationship or even to enter into bankruptcy. ING will prefer an amicable exit, but will enforce and liquidate the collateral or claim under the guarantees if deemed necessary.

Watch List, Restructuring and Recovery accounts are reviewed at least quarterly by the front office, GCR and the relevant credit risk management executives.

Forbearance (*)

Forbearance occurs when a client is unable to meet their financial commitments due to financial difficulties it faces or is about to face and ING grants concessions towards this client. Forborne assets are assets in respect of which forbearance measures have been granted.

Forbearance may enable clients experiencing financial difficulties to continue repaying their debt.

For business customers, ING mainly applies forbearance measures to support clients with fundamentally sound business models that are experiencing temporary difficulties with the aim of maximising the client's repayment ability and therewith avoiding a default situation or helping the client to return to a performing situation.

For ING retail units, clear criteria have been established to determine whether a client is eligible for the forbearance process. Specific approval mandates are in place to approve the measures, as well as procedures to manage, monitor and report the forbearance activities.

ING reviews the performance of forborne exposures at least quarterly, either on a case-by-case (business) or on a portfolio (retail) basis.

All exposures are eligible for forbearance measures, i.e. both performing (Risk Ratings 1-19) and non-performing (Risk Ratings 20-22) exposures. ING uses specific criteria to move forborne exposures from non-performing to performing or to remove the forbearance statuses that are consistent with the corresponding EBA standards. An exposure is reported as forborne for a minimum of two years. An additional one-year probation period is observed for forborne exposures that move from non-performing back to performing.

During 2020, ING supported clients affected by the Covid-19 pandemic among others by providing payment holidays. In line with European Banking Authority (EBA) Guidelines, exposures subject to these payment holidays are not classified as forborne. Refer to 'Payment holidays' below for more information on payment holidays.

Summary Forborne portfolio (*) [1]

in EUR million	2020				2019			
Business Line	Outstandings	Of which: performing	Of which: non-performing	% of total portfolio	Outstandings	Of which: performing	Of which: non-performing	% of total portfolio
Wholesale Banking	10,176	7,849	2,327	3.2%	4,632	2,699	1,932	1.7%
Retail Banking	9,640	6,341	3,299	2.0%	4,861	2,686	2,175	1.1%
Total	**19,816**	**14,190**	**5,626**	**2.5%**	**9,492**	**5,385**	**4,107**	**1.3%**

1 Undrawn commitments are excluded.

Summary Forborne portfolio by forbearance type (*)[1]

in EUR million	2020				2019			
Forbearance type	Outstandings	Of which: performing	Of which: non-performing	% of total portfolio	Outstandings	Of which: performing	Of which: non-performing	% of total portfolio
Loan modification	17,877	12,937	4,940	2.3%	8,285	4,800	3,485	1.1%
Refinancing	1,939	1,252	686	0.2%	1,208	585	622	0.2%
Total	**19,816**	**14,190**	**5,626**	**2.5%**	**9,492**	**5,385**	**4,107**	**1.3%**

1 Undrawn commitments are excluded.

As per December 2020 ING's total forborne assets increased by €10.3 billion (108.8%) against December 2019 to €19.8 billion, largely as a result of the Covid-19 crisis, driven by both Wholesale and Retail Banking.

Wholesale Banking (*)

As per December 2020, Wholesale Banking forborne assets amounted to €10.2 billion, which represented 3.2% of the total Wholesale Banking portfolio.

Wholesale Banking: Forborne portfolio by geographical area (*) [1]

in EUR million		2020			2019		
Region		Outstandings	Of which: performing	Of which: non-performing	Outstandings	Of which: performing	Of which: non-performing
Europe	Netherlands	842	700	142	822	410	412
	Belgium	255	175	81	41	16	25
	Germany	845	676	170	246	182	63
	United Kingdom	1,738	1,606	132	332	251	81
	Italy	353	317	36	197	115	83
	Ukraine	88	5	82	169	77	93
	Norway	78	32	47	151	124	27
	Poland	199	101	98	134	31	103
	Rest of Europe	2,317	2,144	173	502	322	180
America		2,338	1,541	796	1,315	759	556
Asia		555	194	362	316	206	109
Australia		365	251	113	214	85	129
Africa		202	109	94	192	122	71
Total		**10,176**	**7,849**	**2,327**	**4,632**	**2,699**	**1,932**

1 Undrawn commitments are excluded.

Wholesale Banking: Forborne portfolio by economic sector (*)[1, 2]

in EUR million	2020			2019		
Industry	Outstandings	Of which: performing	Of which: non-performing	Outstandings	Of which: performing	Of which: non-performing
Natural Resources	2,370	1,397	973	1,587	909	678
Transportation & Logistics	1,453	1,253	201	674	362	313
General Industries	661	605	55	427	286	142
Food, Beverages & Personal Care	1,475	1,216	260	375	227	148
Real Estate	529	365	165	392	217	175
Chemicals, Health & Pharmaceuticals	394	364	30	212	209	3
Builders & Contractors	449	370	78	195	79	116
Utilities	290	141	149	188	55	133
Services	750	643	106	129	69	60
Retail	346	296	49	114	92	22
Automotive	768	714	54	108	72	36
Other	691	485	206	230	124	106
Total	**10,176**	**7,849**	**2,327**	**4,632**	**2,699**	**1,932**

1 Undrawn commitments are excluded.
2 The prior period outstandings by economic sectors (industry) have been updated reflecting improved classification of clients.

The main concentration of forborne assets in a single country was in the United Kingdom with 17% (2019: 7%) of the total Wholesale Banking forborne assets and 6% (2019: 4%) of the total non-performing forborne assets.

Wholesale Banking forborne assets increased by €5.5 billion compared to 2019, of which the performing forborne assets increased by €5.1 billion. The increase of the performing forborne assets was visible across all industries and locations, as a result of the pandemic outbreak.

Wholesale Banking forborne assets were mainly concentrated in Natural Resources, Food Beverages & Personal Care- and Transportation & Logistics. Together they accounted for 52% of the total Wholesale Banking forborne assets and 62% of the total Wholesale Banking non-performing forborne assets. Back in 2019, the main concentration was witnessed in Natural Resources, Transportation & Logistics and General Industries with 58% of the total Wholesale Banking forborne. A significant increase in forborne assets was visible in the Food, Beverages & Personal Care industry (€+1.1 billion) during 2020, followed by Transportation & Logistics (€+0.8 billion) and Natural Resources (€+0.8).

Retail Banking (*)

As per year-end 2020, Retail Banking forborne assets amounted to a total of €9.6 billion, which represented 2.0% of the total Retail Banking portfolio.

Retail Banking: Forborne portfolio by geographical area (*)[1]

in EUR million		2020			2019		
Region		Outstandings	Of which: performing	Of which: non-performing	Outstandings	Of which: performing	Of which: non-performing
	Netherlands	4,415	3,447	968	2,212	1,367	845
	Belgium	2,672	1,621	1,051	1,149	435	714
	Germany	578	410	168	425	294	131
	Turkey	307	218	89	314	184	130
Europe	Poland	349	112	237	209	101	109
	Romania	114	59	55	101	55	46
	Italy	49	13	37	25	13	12
	Spain	22	10	12	25	13	12
	Rest of Europe	80	42	37	43	22	22
America		10	9	1	2	1	1
Asia		3	1	2	1		1
Australia		1,041	399	643	354	201	153
Total		**9,640**	**6,341**	**3,299**	**4,861**	**2,686**	**2,175**

1 Undrawn commitments are excluded.

The main concentration of forborne assets in a single country was in the Netherlands with 46% (2019: 46%) of the total Retail Banking forborne assets and 29% (2019: 39%) of the non-performing forborne assets. Belgium followed with 28% (2019: 24%) of the total Retail Banking forborne assets.

Payment holidays

Globally, 2020 has been dominated by the Covid-19 pandemic and the distressing human and economic cost thereof. The shutdown of various businesses immediately affected banking customers and as such various measures have been and continue to be implemented in order to minimise short- and long-term economic and customer impacts. 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 by ING 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-December, in line with the European Banking Association (EBA) moratoria guidelines, approximately 196,000 customers had been granted payment holidays under schemes that were eligible under the EBA moratoria guidelines. The total exposure of loans for which a payment holiday was granted amounts to €19.4 billion, of which over 55% were for customers located in the Netherlands and Belgium. At the end of 2020, 93% of granted payment holidays had expired.

The payment holiday schemes offered in the various countries differ in terms of scope, benefit duration and key conditions. Generally, underlying conditions differ per country in terms of tenor, deferment of principal and interest payments. The payment holidays are applied to business lending, 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 recognised.

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 that expired on 30 September 2020, which defined eligibility criteria for a payment holiday arrangement offered to a large group of customers to be classified as a “general payment moratorium”. Based on the guidelines, the granting of these payment holidays did not lead to forbearance classifications. Therefore, it did not automatically trigger recognition of lifetime Expected Credit Loss (ECL) either. A small number of payment holidays were granted outside this scheme and were flagged as forborne. ING followed the EBA guidelines and when a payment holiday was provided to a customer as part of a “general payment moratorium”, ING did not consider this measure to classifiable as forbearance. EBA further extended these guidelines in the first week of December 2020, valid until 31 March 2021, with certain extra conditions. ING decided not to make use of the extension of these guidelines and has taken a prudent decision to treat all payment holiday requests under new or extended schemes (after September 2020) as stage 2 or stage 3 exposures.

Non-performing loans (*)

ING’s loan portfolio is under constant review. Loans to obligors that are considered more than 90 days past due on material exposure are reclassified as non-performing. For commercial lending portfolios, there generally are reasons for declaring a loan non-performing prior to the obligor being 90 days past due. These reasons include, but are not limited to, ING’s assessment of the customer’s perceived inability to meet its financial obligations, or the customer filing for bankruptcy or bankruptcy protection.

The table below represents the breakdown by industry of credit risk outstandings for lending and investment positions that have been classified as non-performing.

Non-performing Loans: outstandings by economic sector and business lines (*)[1, 2]

in EUR million	Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Corporate Line		Total	
Industry	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Private Individuals			2,879	2,173	2,480	1,573			5,359	3,746
Natural Resources	1,434	1,108	63	35	36	53			1,533	1,196
Food, Beverages & Personal Care	668	599	420	351	138	168			1,226	1,119
Transportation & Logistics	786	651	201	96	44	40			1,031	787
Services	313	320	474	357	58	60			844	737
Builders & Contractors	148	265	398	258	133	168			680	691
Real Estate	217	312	416	329	21	9			655	649
General Industries	138	248	232	204	133	153			502	605
Non-Bank Financial Institutions	18	426	26	16	3	2			47	444
Retail	85	89	170	172	54	63			309	325
Other[3]	579	467	335	326	103	110	295	275	1,312	1,178
Total	**4,386**	**4,487**	**5,614**	**4,316**	**3,203**	**2,399**	**295**	**275**	**13,497**	**11,477**

1 Based on Lending and Investment outstandings.

2 The prior period outstandings by economic sector (industry) have been updated reflecting improved classification of clients.

3 Economic sectors not specified in above overview are grouped in Other.

Non-performing Loans: outstandings by economic sectors and geographical area (*)

in EUR million	Region													Total
Industry	Netherlands	Belgium	Germany	Poland	Spain	United Kingdom	France	Luxemburg	Rest of Europe	America	Asia	Australia	Africa	2020
Private Individuals	1,040	1,760	712	214	239	7	18	38	555	5	4	766	1	5,359
Natural Resources	75	48	0	20		25	0	0	171	659	394	93	49	1,533
Food, Beverages & Personal Care	324	165	80	114	15	11	68	1	76	240	132	1	0	1,226
Transportation & Logistics	346	54	1	42	47	18	0	3	110	40	352	18	0	1,031
Services	190	495	0	42	5	0	1	4	28	73	6		0	844
Builders & Contractors	66	361	1	93		0	0	4	107	47		0	0	680
Real Estate	144	255		86	15	80	15	17	26			16		655
General Industries	111	161	7	91		0	5	0	93	32	1	1	0	502
Non-Bank Financial Institutions	9	13		3		0	0	4	13	4		1		47
Retail	66	140	0	41		3	6	1	36		13	3	0	309
Other [1]	427	259	138	116	0	12	14	8	143	120	23	7	45	1,312
Total	**2,799**	**3,710**	**939**	**862**	**320**	**156**	**126**	**81**	**1,359**	**1,220**	**925**	**905**	**95**	**13,497**

1 Economic sectors not specified in above overview are grouped in Other.

Non-performing Loans: outstandings by economic sectors and geographical area (*)[1]

in EUR million	Region													Total
Industry	Netherlands	Belgium	Germany	Poland	Spain	United Kingdom	France	Luxemburg	Rest of Europe	America	Asia	Australia	Africa	2019
Private Individuals	840	1,271	585	134	195	4	14	24	411	4	3	261	1	3,746
Natural Resources	83	21		28		63			254	533	84	111	20	1,196
Food, Beverages & Personal Care	315	153	63	117	1	12	68	1	109	254	26			1,119
Transportation & Logistics	432	48	1	31	47	49		3	88	32	10	46		787
Services	224	377		36				3	49	42	6			737
Builders & Contractors	88	226	1	103	1			3	230	39				691
Real Estate	237	225		96	19		7	28	27	8		4		649
General Industries	176	148	12	89		3		1	127	48	1			605
Non-Bank Financial Institutions	35	8		3	7			5	14	107		264		444
Retail	74	147		40		4	7	1	52					325
Other [2]	464	239	44	130		10	1	9	173	34	23		51	1,177
Total	**2,968**	**2,864**	**705**	**805**	**270**	**144**	**96**	**79**	**1,533**	**1,099**	**154**	**686**	**71**	**11,477**

1 The prior period outstandings by economic sector (industry) have been updated reflecting improved classification of clients.
2 Economic sectors not specified in above overview are grouped in Other.

The non-performing portfolio increased in 2020, as a result of ING's introduction of a new definition of default (€1.0 billion) and due to developments with respect to certain large individual files. The increase is visible in all businesses and also in almost all the sectors. More specifically in Retail Benelux and in Retail Challengers & Growth, the increase is explained by private individuals, whereas in Wholesale the main increase is visible in the sector Natural Resources, in Transportation and Logistics, and in Other.

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.

IFRS 9 models (*)

The IFRS 9 models leverage the advanced internal rating-based (AIRB) models (PD, LGD, EAD), which include certain required conservatism. In order to include IFRS 9 requirements, such regulatory conservatism is removed from the ECL parameters (PD, LGD and EAD). The IFRS 9 models apply two types of adjustments to the ECL parameters: (1) to economic outlook and (2) for stage 2 and stage 3 assets only, to the lifetime horizon. The IFRS 9 model parameters are estimated based on statistical techniques and supported by expert judgement.

ING has aligned the definition of default for regulatory purposes with the definition of ‘credit-impaired’ financial assets under IFRS 9 (Stage 3). To comply with the 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. More information can be found in section 1.6 of the Consolidated Financial Statements.

Portfolio quality (*)

The table below describes the portfolio composition over the different IFRS 9 stages and rating classes. The Stage 1 portfolio represents 91.8% (2019: 94.0%) of the total gross carrying amounts, mainly composed of investment grade, while Stage 2 makes up 6.8% (2019: 4.7%) and Stage 3 makes up 1.5% (2019: 1.3%) total gross carrying amounts, respectively.

Gross carrying amount per IFRS 9 stage and rating class (*)[1,2,3]

in EUR million
2020

Rating class		12-month ECL (Stage 1) Gross Carrying Amount	12-month ECL (Stage 1) Provisions	Lifetime ECL not credit impaired (Stage 2) Gross Carrying Amount	Lifetime ECL not credit impaired (Stage 2) Provisions	Lifetime ECL credit impaired (Stage 3) Gross Carrying Amount	Lifetime ECL credit impaired (Stage 3) Provisions	Total Gross Carrying Amount	Total Provisions
Investment grade	1 (AAA)	109,734	3	46	0			109,780	3
	2-4 (AA)	108,776	6	646	0			109,422	6
	5-7 (A)	137,901	27	797	1			138,698	28
	8-10 (BBB)	294,713	88	7,418	12			302,131	100
Non-Investment grade	11-13 (BB)	159,076	239	18,513	133			177,588	372
	14-16 (B)	28,335	208	23,742	570			52,077	777
	17 (CCC)	2,817	9	5,113	259			7,930	269
Substandard grade	18 (CC)			3,384	248			3,384	248
	19 (C)			2,323	254			2,323	254
NPL grade	20-22 (D)					13,398	3,797	13,398	3,797
Total		**841,352**	**581**	**61,981**	**1,476**	**13,398**	**3,797**	**916,732**	**5,854**

1 Compared to the credit risk portfolio, the differences are mainly undrawn committed amounts (€118.4 billion) not included in Credit outstandings and non-IFRS 9 eligible assets (€89.1 billion, mainly guarantees, letters of credit and pre-settlement exposures) included in Credit outstandings.

2 For a reference to the Notes in the consolidated financial statements, we refer to the table 'Reconciliation between credit risk categories and financial position'.

3 IAS 37 provisions (€74.8 million) are excluded.

Gross carrying amount per IFRS 9 stage and rating class (*)[1,2,3]

in EUR million

2019

Rating class		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
Investment grade	1 (AAA)	75,144	1	0	0	0	0	75,144	1
	2-4 (AA)	82,992	3	28	0	0	0	83,020	3
	5-7 (A)	131,931	11	273	0	0	0	132,204	11
	8-10 (BBB)	295,130	55	4,905	6	0	0	300,035	61
Non-Investment grade	11-13 (BB)	194,643	209	7,925	54	0	0	202,568	263
	14-16 (B)	36,683	202	18,416	367	0	0	55,099	569
	17 (CCC)	405	7	4,067	146	0	0	4,472	153
Substandard grade	18 (CC)	0	0	3,253	160	0	0	3,253	160
	19 (C)	0	0	2,216	148	0	0	2,216	148
NPL grade	20-22 (D)	0	0	0	0	10,955	3,275	10,955	3,275
Total		**816,928**	**490**	**41,082**	**881**	**10,955**	**3,275**	**868,965**	**4,646**

1 Compared to the credit risk portfolio, the differences are mainly undrawn committed amounts (€115 billion) not included in Credit outstandings and non-IFRS 9 eligible assets (€100 billion, mainly guarantees, letters of credit and pre-settlement exposures) included in Credit outstandings.

2 For a reference to the Notes in the consolidated financial statements, we refer to the table 'Reconciliation between credit risk categories and financial position'.

3 IAS 37 provisions (€93.3 million) are excluded.

Changes in gross carrying amounts and loan loss provisions (*)

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 represent 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:

- Stage 3 gross carrying amount increased by €2.4 billion from €11.0 billion as per 31 December 2019 mainly as a result of ING's introduction of a new definition of default (€1.0 billion) and due to developments with respect to certain large individual files in the first half of 2020. For further background on implementation of the new definition of default, please refer to section 1.6 of the Consolidated Financial Statements;
- Stage 2 gross carrying amount increased by €20.9 billion from €41.1 billion as per 31 December 2019. This is mainly caused by the Watch List trigger (€10.2 billion) and the forbearance trigger (€9.5 billion) and to a lesser extent to other triggers such as 30 Days Past Due and the significant lifetime PD trigger, primarily in Wholesale Banking and Retail Market Leaders;

- 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 €4.5 billion, €3.7 billion, €3.7 billion and €2.2 billion respectively. These sectors represent 10%, 11%, 10% and 9% of the total stage 2 gross carrying amounts respectively;
- The net re-measurement of loan loss provisions in stage 1 and stage 2 of €109 million and €450 million respectively and the transfer into lifetime ECL not credit impaired of €651 million were significantly impacted by the worsened macroeconomic outlook, including management adjustments of €269 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 and €394m overlays to address for the delay in observed defaults as a result of the Government support measures.

Additional information on macroeconomic 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]

in EUR million	12-month ECL (Stage 1)		Lifetime ECL not credit impaired (Stage 2)		Lifetime ECL credit impaired (Stage 3)		Total	
2020	**Gross carrying amount**	**Provisions**	**Gross carrying amount**	**Provisions**	**Gross carrying amount**	**Provisions**	**Gross carrying amount**	**Provisions**
Opening balance	**816,928**	**490**	**41,082**	**881**	**10,955**	**3,275**	**868,965**	**4,646**
Transfer into 12-month ECL (Stage 1)	9,139	24	-8,899	-200	-240	-18	0	-194
Transfer into lifetime ECL not credit impaired (Stage 2)	-39,093	-76	39,601	651	-509	-57	0	518
Transfer into lifetime ECL credit impaired (Stage 3)	-3,592	-30	-1,879	-163	5,471	1,518	0	1,325
Net remeasurement of loan loss provisions		109		450		700		1,259
New financial assets originated or purchased	161,333	178					161,333	178
Financial assets that have been derecognised	-116,035	-85	-6,987	-107	-897	-236	-123,919	-428
Net drawdowns and repayments	12,672		-938		-181		11,444	
Changes in models/risk parameters				7				7
Increase in loan loss provisions		**119**		**638**		**1,908**		**2,666**
Write-offs					-1,200	-1,200	-1,200	-1,200
Recoveries of amounts previously written off						39		39
Foreign exchange and other movements		-28		-42		-226		-297
Closing balance	**841,352**	**581**	**61,981**	**1,476**	**13,398**	**3,797**	**916,732**	**5,854**

1 At the end of December 2020, the gross carrying amounts included loans and advances to central banks (€109.2 billion), loans and advances to banks (€25.4 billion), financial assets at FVOCI (€34.0 billion), securities at amortised cost (€50.6 billion), loans and advances to customers (€604.1 billion) and contingent liabilities (credit replacements) in scope of IFRS 9 (€118.4 billion) and excludes receivables related to securities in reverse repurchase transaction (€-6.4 billion), cash collateral in respect of derivatives (€-8.3 billion), the value adjustment hedged items (€-5.2 billion), a receivable that is offset by a liquidity facility (€-2.2 billion), on-demand bank balances (€-2.2 billion) and other differences amounting to €-0.7 billion.

2 Stage 3 Lifetime credit impaired includes €3 million Purchased or Originated Credit Impaired.

3 At the end of December 2020, the stock of provisions included provisions for loans and advances to central banks (€3 million), loans and advances to banks (€23 million), financial assets at FVOCI (€14 million), securities at amortised cost (€17 million), provisions for loans and advances to customers (€ 5,779 million) and provisions for contingent liabilities (credit replacements) recorded under Provisions (€17 million).

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

in EUR million	12-month ECL (Stage 1)		Lifetime ECL not credit impaired (Stage 2)		Lifetime ECL credit impaired (Stage 3)		Total	
2019	**Gross carrying amount**	**Provisions**	**Gross carrying amount**	**Provisions**	**Gross carrying amount**	**Provisions**	**Gross carrying amount**	**Provisions**
Opening balance	**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	**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 contingent liabilities (credit replacements) in scope of IFRS 9 (€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 (€-3.9 billion), a receivable that is offset by a liquidity facility (€-1.3 billion), on-demand bank balances (€-1.8 billion) and other differences amounting to €-0.7 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).

Modification of financial assets

The table below provides the following information:
- Financial assets that were modified during the year (i.e. qualified as forborne) while they had a loss allowance measured at an amount equal to lifetime ECL.
- Financial assets that were reclassified to stage 1 during the period.

Financial assets modified (*)		
in EUR million	2020	2019
Financial assets modified during the period		
Amortised cost before modification	2,840	1,510
Net modification results	-144	-35
Financial assets modified since initial recognition		
Gross carrying amount at 31 December of financial assets for which loss allowance has changed to 12-month measurement during the period	312	689

The prior period has been updated to improve consistency and comparability.

Modifications that have been provided in 2020 under general payment moratoria (payment holidays) are not included in this analysis. For details refer to the section 'payment holidays'.

Macroeconomic 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 this section. 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 macroeconomic scenarios are applicable to the whole ING portfolio in the scope of IFRS 9 ECLs.

The introduction of IFRS 9, with its inherent complexities and potential impact on the carrying amounts of our assets and liabilities, represents a key source of estimation uncertainty. In particular, ING's reportable ECL numbers are most sensitive to the forward-looking macroeconomic forecasts used as model inputs, the probability-weights applied to each of the three scenarios, and the criteria for identifying a significant increase in credit risk. As such, these crucial components require consultation and management judgement, and are subject to extensive governance.

Baseline scenario (*)

As a baseline for IFRS 9, ING has adopted a market-neutral view combining consensus forecasts for economic variables (GDP, unemployment) with market forwards (for interest rates, exchange rates and oil prices). The Oxford Economics' Global Economic Model (OEGEM) is used to complement the consensus with consistent projections for variables for which there are no consensus estimates available (most notably house prices and – for some countries - unemployment), to generate alternative scenarios, to convert annual consensus information to a quarterly frequency and to ensure general consistency of the scenarios. As the baseline scenario is consistent with the consensus view it can be considered as free from any bias.

The relevance and selection of macroeconomic variables is defined by the ECL models under credit risk model governance. The scenarios are reviewed and challenged by two panels. The first panel consists of economic experts from Global Markets Research and risk and modelling specialists, while the second panel consists of relevant senior managers.

Alternative scenarios and probability weights (*)

Two alternative scenarios are taken into account; an upside and a downside scenario. The alternative scenarios have, to a large extent, a technical character as these are based on the forecast errors of the OEGEM.

To understand the baseline level of uncertainty around any forecast, Oxford Economics keeps track of all its forecast errors of the past 20 years. The distribution of forecast errors for GDP, unemployment, house prices and share prices is applied to the baseline forecast creating a broad range of alternative outcomes. In addition, to understand the balance of risks facing the economy in an unbiased way, Oxford Economics runs a survey with respondents from around the world and across a broad range of industries. In this survey the respondents put forward their views of key risks. Following the survey results, the distribution of forecast errors (that is being used for determining the scenarios) may be skewed.

For the downside scenario, ING has chosen for the 90th percentile of that distribution because this corresponds with the way risk management earnings-at-risk is defined within the Group. The upside scenario is represented by the 10th percentile of the distribution. The applicable percentiles of the distribution imply a 20% probability for each alternative scenario. Consequently, the baseline scenario has a 60% probability weighting. Please note that, given their technical nature, the downside and upside scenarios are not based on an explicit specific narrative.

Macroeconomic scenarios applied (*)

The provisions are based on the December consensus forecasts.

Baseline assumptions (*)

The December 2020 consensus anticipates global output (ING definition), after declining sharply in 2020 by 3.6%, to bounce back to 5.0% growth in 2021 and 3.8% in 2022. The consensus reflects that near-term economic weakness - resulting from a re-imposition of restrictions on mobility and firms, in order to prevent a further spread of the coronavirus – will be followed by an economic recovery underpinned by the start of a vaccination program in many parts of the world enabling a lifting of lockdowns. This could bring world real GDP back to pre-crisis levels by mid-2021. China is in the lead with the economy touching pre-crisis levels again already in the second half of 2020. But the US economy may not reach that level before the third quarter of 2021 and the eurozone not before the second quarter of 2022. Lagging the economic recovery, unemployment in a number of countries may continue to increase up to the third quarter of 2021 as government policy measures to preserve jobs may end. Most countries are expected to end the forecast period with higher unemployment rates than observed before the outbreak of the coronavirus pandemic. Further out in the forecast horizon, the unemployment rate is generally expected to fall back as the economic recovery continues (3.8% growth of world output in 2022).

When compared to the June 2020 consensus forecast, used for the second quarter interim reporting, the December forecast assumes a smaller shrink in 2020 global GDP (-3.6% compared to -4.8%) following a generally stronger than expected economic rebound. The fourth quarter re-imposition of lockdown measures to contain the spread of the coronavirus results, compared to June, in a less strong global recovery in 2021 (5.0% versus 5.1%) but the likely roll-out of an effective vaccine brightens the outlook further out (global growth in 2022 3.8% versus 3.2% in June).

When compared to the consensus forecast used for the final 2019 reporting, the current outlook is substantially different as at that time no assumptions with respect to the possible consequences of the spread of the coronavirus have been incorporated. The baseline scenario at the time assumed continued world economic growth close to 2.5% per year in 2020-2022.

Alternative scenarios and risks (*)

Uncertainty around the base case is high as new cases of Covid-19 remain high in many countries and restrictions to mobility have been tightened again, increasing the risk that the economic recovery falls back. There is also uncertainty around the degree to which government support schemes will continue to limit the increase in unemployment. And while there is positive news about the efficacy of a vaccine, many logistical and production challenges lie ahead.

To reflect the heightened uncertainty, the dispersion of the forward-looking distributions – from which the alternative scenarios are being derived – has been increased while maintaining a downward skew following on from the outcomes of Oxford Economics' Global Risk Survey. Specifically, the forecast bandwidths projected for the end of the forecast horizon have now been applied to the near term as well.

The upside scenario – though technical in nature - implies a quick return of output to its pre-coronavirus baseline forecast and more positive medium-term prospects than envisaged in the baseline scenario. In this scenario, unemployment rates quickly fall back from their peaks in 2020. In spirit it is a scenario where medical advances allow for a more rapid easing of lockdowns. A faster restoration of confidence among business and households would result in private spending and business activity accelerating more markedly in 2021 and beyond.

The downside scenario, while being equally technical in nature, represents an even more pronounced near-term global downturn than expected in the baseline scenario. The downside scenario reflects the risk of the coronavirus pandemic not only posing significant risks to the near-term outlook but also having longer-lasting negative effects on economic growth (e.g. because of faster de-leveraging and weaker productivity growth).

Management adjustments applied this year (*)

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

An overlay of €394 million was taken in December 2020 because of time lags in defaults occurring in this crisis, as a result of support programmes, while GDP growth forecasts were improving as 2020 is now over and more favourable 2021 GDP growth forecasts (and subsequent years) are now being taken into account in the models. As it is expected that additional defaults as a result of the crisis will still come in, the overlay was taken which was calculated using a scenario with a time lag between GDP growth forecasts deteriorating and defaults occurring.

As mentioned above, per the guidance from EBA, Covid-19 related payment holidays granted until September 2020 have not automatically been classified as forbearance, and hence, have not automatically triggered recognition of lifetime ECL in stage 2. Looking forward, it is expected that the phasing out of the support measures in the course of 2021 could 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 IFRS 9 models, a management adjustment has been recognised.

This management adjustment has been recognised for SME and mid-corporate 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 €85 million in the Netherlands and €131 million in Belgium as they are the largest SME portfolios and not significantly impacted by macroeconomic forecasts updates. Furthermore, a management adjustment of €28 million has been recognised in Australia for the mortgage portfolio which is also a portfolio where relative many payment holidays are granted and which is considered at risk.

In addition, as the oil price remains volatile, as well as exposed to the impact of the Covid-19 crisis and subject to political decisions, ING recognised a management adjustment for the upstream oil book of €25 million.

Analysis on sensitivity (*)

The table below presents the 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. The countries included in the analysis are the most significant geographic regions, in terms of both gross contribution to reportable ECL, and sensitivity of ECL to forward-looking macroeconomics. Accordingly, ING 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. ING also observes that, in general, the Wholesale Banking business is more sensitive to the impact of forward-looking macroeconomic scenarios.

The purpose of the sensitivity analysis is to enable the reader to understand the extent of the impact on model based reportable ECL from the upside and downside scenario. The table does not include any management adjustments, except for the overlay for time lag in defaults of €394 million as at 31 December 2020.

In the table below the Real GDP is presented in percentage year-on-year change, the unemployment in percentage of total labour force and the house price index (HPI) in percentage year-on year change.

While the table does give a high-level indication of the sensitivity of the outputs to the different scenarios, it does not provide insight into the interdependencies and correlations between different macroeconomic variable inputs. On total ING level, the unweighted ECL for all collective provisioned clients in the upside scenario was €2,770 million, in the baseline scenario €3,082 million and in the downside scenario €4,362 million compared to €3,276 reportable collective provisions currently accounted for (including time lag overlay, excluding other management adjustments).

When compared to the sensitivity analysis of 2019 the macroeconomic inputs are substantially different, as at that time no assumptions with respect to the possible consequences of the spread of the coronavirus had been incorporated. The macroeconomic inputs used in the 2020 sensitivity analysis reflect that, after declining sharply in 2020, a bounce back in Real GDP is expected in 2021 and 2022. Furthermore the downside scenario has an increased downward skew, reflecting the continuing uncertainty related to the impact of Covid-19.

Sensitivity analysis as at december 2020 (*)

		2021	2022	2023	Un-weighted ECL (Eur mln)	Probability-weighting	Reportable ECL (Eur mln)[1]
Netherlands	Real GDP	5.3	3.3	2.8			
	Unemployment	5.1	3.9	3.0	383	20%	
Upside scenario	HPI	8.1	6.3	4.7			
	Real GDP	2.8	2.9	1.9			
Baseline Scenario	Unemployment	5.8	5.2	4.7	441	60%	468
	HPI	-1.9	-1.6	4.5			
	Real GDP	-4.9	4.8	1.4			
Downside scenario	Unemployment	7.7	7.8	7.9	636	20%	
	HPI	-12.3	-11.0	4.3			
Germany	Real GDP	7.6	3.3	1.5			
	Unemployment	3.0	2.2	1.8	504	20%	
Upside scenario	HPI	3.5	8.3	6.6			
	Real GDP	3.9	3.4	1.6			
Baseline Scenario	Unemployment	4.1	3.5	3.5	541	60%	558
	HPI	0.4	4.8	3.1			
	Real GDP	-2.4	3.5	1.3			
Downside scenario	Unemployment	5.6	5.3	5.6	662	20%	
	HPI	-3.5	0.8	-0.9			
Belgium	Real GDP	6.9	3.3	2.4			
	Unemployment	7.3	6.2	5.8	494	20%	
Upside scenario	HPI	-0.2	4.2	4.8			
	Real GDP	4.5	3.3	2.3			
Baseline Scenario	Unemployment	7.5	6.3	6.3	540	60%	559
	HPI	-1.7	3.5	3.8			
	Real GDP	-0.4	4.0	2.2			
Downside scenario	Unemployment	9.4	9.1	8.8	681	20%	
	HPI	-3.6	2.5	2.9			
United States	Real GDP	5.6	4.1	3.8			
	Unemployment	5.0	3.0	1.9	93	20%	
Upside scenario	HPI	6.2	9.4	9.3			
	Real GDP	4.0	3.2	2.5			
Baseline Scenario	Unemployment	6.0	4.7	4.1	134	60%	189
	HPI	4.3	4.1	4.0			
	Real GDP	-6.3	6.8	1.9			
Downside scenario	Unemployment	8.5	7.9	7.6	7	20%	
	HPI	1.2	-1.9	-2.3			

1 Sensitivity does only include the effect of time lag overlay, other management adjustments are excluded.

Sensitivity analysis as at december 2019 (*)

		2020	2021	2022	Un-weighted ECL (Eur mln)	Probability-weighting	Reportable ECL (Eur mln)[1]
Netherlands	Real GDP	2.3	3.5	3.2			
	Unemployment	2.8	2.4	2.3	370	20%	
Upside scenario	HPI	14.1	11.3	2.9			
	Real GDP	1.4	1.5	1.6			
Baseline Scenario	Unemployment	3.6	3.9	4.2	416	60%	428
	HPI	3.3	2.9	2.8			
	Real GDP	-0.7	-0.9	0.5			
Downside scenario	Unemployment	5.0	6.3	7.1	520	20%	
	HPI	-7.5	-7.0	2.7			
Germany	Real GDP	2.6	2.8	1.8			
	Unemployment	2.4	1.7	1.4	458	20%	
Upside scenario	HPI	9.7	7.0	6.4			
	Real GDP	0.8	1.1	1.3			
Baseline Scenario	Unemployment	3.2	3.2	3.3	495	60%	502
	HPI	6.1	3.5	2.9			
	Real GDP	-1.2	-1.7	0.5			
Downside scenario	Unemployment	4.3	4.8	5.2	567	20%	
	HPI	2.5	-0.3	-1.1			
Belgium	Real GDP	2.3	2.6	2.0			
	Unemployment	5.5	5.4	5.3	323	20%	
Upside scenario	HPI	5.1	4.2	4.3			
	Real GDP	1.1	1.2	1.3			
Baseline Scenario	Unemployment	5.8	5.9	6.1	350	60%	357
	HPI	3.5	3.4	3.4			
	Real GDP	-0.4	-0.2	1.0			
Downside scenario	Unemployment	7.5	8.4	8.4	411	20%	
	HPI	1.5	2.6	2.4			
United States	Real GDP	2.6	4.1	3.8			
	Unemployment	2.6	1.7	1.5	74	20%	
Upside scenario	HPI	5.0	8.0	8.1			
	Real GDP	1.8	1.8	1.9			
Baseline Scenario	Unemployment	3.7	3.7	3.8	127	60%	144
	HPI	2.6	2.6	2.8			
	Real GDP	-0.6	-0.5	0.3			
Downside scenario	Unemployment	5.2	6.5	7.1	267	20%	
	HPI	0.1	-3.1	-3.4			

1 Excluding management adjustments.

Criteria for identifying a significant increase in credit risk (*)

All assets and off-balance sheet items that are in scope of IFRS 9 impairment and which are subject to collective ECL assessment are allocated a 12-month ECL if deemed to belong in stage 1, or a lifetime ECL if deemed to belong in stages 2 and 3. An asset belongs in stage 2 if it is considered to have experienced a significant increase in credit risk since initial origination or purchase. The stage allocation process involves an asset's derived scenario weighted average PD being assessed against a set of PD threshold bandings, which determines the appropriate staging and ECL. Stage 2 is triggered when either a threshold for absolute change in lifetime PD or relative change in lifetime PD is hit. The thresholds for the absolute change in lifetime PD vary between 75bps for Retail portfolios, 100bps for Wholesale and 250bps for SMEs, based on the characteristics of the specific portfolio. We are however in a transition phase to determine this on a portfolio level, which has been implemented for a few Turkish and Polish models which already have deviating lifetime PD thresholds. The threshold for the relative change in lifetime PD is inversely correlated with the PD at origination; the higher the PD at origination, the lower the threshold. Despite this, the relative threshold is punitive for investment grade assets while the absolute threshold primarily affects speculative grade assets. On ING Bank level, the total ECL collective-assessment for performing assets is €1,678 million (2019: €1,291 million) (without taking management adjustments into account).

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 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 hypothetical collective-assessment ECLs of €1,242 million (2019: €866 million) and €3,552 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, being on a Watch List or being forborne, among other triggers. Refer to section 1.7.8 of Note 1 'Basis of preparation and accounting policies' for an exhaustive list. Furthermore, this analysis is rudimentary in that other parameters would change when an asset changes stages.

Market risk

Introduction (*)

Market risk is the risk that movements in market variables, such as interest rates, equity prices, foreign exchange rates, credit spreads and real estate prices negatively impact the bank's earnings, capital, market value or liquidity position. Market risk either arises through positions in banking books or trading books. The banking book positions are intended to be held for the long term (or until maturity) or for the purpose of hedging other banking book positions. The trading book positions are typically held with the intention of short-term trading or in order to hedge other positions in the trading book. This means that financial instruments in the trading books should be free of trade restrictions. Policies and processes are in place to monitor the inclusion of positions in either the trading or banking book as well as to monitor the transfer of risk between the trading and banking books.

ING recognises the importance of sound market risk management and bases its market risk management framework on the need to identify, assess, control and manage market risks. The approach consists of a cycle of five recurring activities: risk identification, risk assessment, risk control, risk monitoring and risk reporting.

(*)

- Risk identification is a joint effort of the first and second lines of defence. The goal of risk identification is to detect potential new risks and any changes in known risks. See 'Risk Governance' for more on our 'three lines of defence' governance model;
- Identified risks are assessed and measured by means of various risk metrics to determine the importance of the risk to ING and subsequently to identify the control measures needed;
- Risk control measures used by ING include policies, procedures, minimum standards, limit frameworks, buffers and stress tests;
- Risk monitoring occurs to check if the implemented risk controls are executed, complied with across the organisation, and are effective; and
- Market risk management results and findings are reported to the necessary governing departments and approval bodies.

Governance (*)

A governance framework has been established defining specific roles and responsibilities of business management units, market risk management units, and internal approval bodies per activity.

Supervision of market risk falls under the responsibility of the MBB and is delegated to the ALCO function, where ALCO Bank is the highest approval authority and sets the market risk appetite. ALCO Bank monitors ING's adherence to the risk appetite for market risk and sets additional limits where appropriate. These limits are cascaded through the organisation through lower level ALCOs. This ALCO structure facilitates top-down risk management, limit setting, and the monitoring and control of market risk.

The monitoring and control of market risk is the responsibility of the Financial Risk (FR) department and Financial Institutions – Financial Markets (FI-FM) Risk. FR and FI-FM Risk are the designated departments of the second line of defence that report to the CRO function and are responsible for the design and execution of the bank's market risk and counterparty credit risk management functions in support of the ALCO function. FR focuses on the market risks in the banking books, whereas FI-FM Risk is responsible for counterparty credit risk and market risks resulting from the Financial Markets trading books. FR and FI-FM Risk are responsible for determining adequate policies and procedures for actively managing market risk in the banking and trading books and for monitoring ING's compliance with these guidelines.

FR and FI-FM Risk also maintain a limit framework in line with ING's Risk Appetite Framework. The businesses are responsible for adhering to limits that are ultimately approved by the ALCO Bank. Limit excesses are reported to senior management on a timely basis and the business is required to take appropriate actions based on management decisions. To adhere to the established limit framework, ING implements hedging and risk mitigation strategies that range from the use of traditional market instruments, such as interest rate swaps, to more sophisticated hedging strategies to address a combination of risk factors arising at the portfolio level.

The organisational structure facilitates top-down risk management by recognising that risk taking and risk management to a large extent occur at the regional/local level. Bottom-up reporting from regional/local units to head office units allows each management level to fully assess the market risks relevant at the respective levels.

Several committees govern communication between the parties involved in market risk management, such as MRMC and CTRC. These committees have a functional reporting line to ALCO Bank. The Market Risk Model Committee (MRMC) is the dedicated authority within ING for the approval of all trading and banking risk models, methodologies and parameters related to market risk. The Trading Pricing Model Committee (TPMC) approves pricing models for trading and banking books. Financial Risk and FI-FM Risk departments provide systematic risk reporting to the EB and MBB, the ALCO Bank and the senior executive management of related business functions.

The FI-FM risk management framework governs the boundary between trading books and banking books. It defines the activities ING considers to be trading according to a regulatory definition and for own funds requirement purposes. Trading activity is systematically reviewed and positions are assessed against the mandates jointly by the first and second lines of defence. As specified in the framework, the transfer of risk or the transfer of positions between banking and trading books is in principle not allowed. In exceptional cases when a re-designation is deemed necessary, the re-designation should be approved by senior management.

The following sections elaborate on the various elements of the risk management framework for:
- Market risk economic capital (trading and banking books);
- Market risks in banking books; and
- Market risks in trading books.

Market risk economic capital (trading and banking books)

Economic capital for market risk is the economic capital necessary to withstand unexpected value movements due to changes in market variables and model risk.

Economic capital for market risk is calculated for exposures both in trading portfolios and banking portfolios and includes interest rate risk, credit spread risk, equity price risk, foreign exchange rate risk, customer behaviour risk, real estate risk, model risks and pension risk. Economic capital for market risk is calculated using internally developed methodologies with a 99.9% confidence level and a horizon of one year.

For the trading books and the linear interest rate risk and equity investments in the banking books, the Value at Risk (VaR) is taken as a starting point for the economic capital calculations for market risk. The VaR is measured at a 99% confidence level with a one-day holding period.

To arrive at the economic capital for market risk, a simulation-based model is used which includes scaling to the required confidence level and holding period. In determining this scaling factor, other factors are also taken into account like the occurrence of large market movements (events).

Embedded options, e.g. the prepayment option and offered rate option in mortgages in the banking books, result in non-linear interest rate risk in the banking books. Embedded options are economically hedged using a delta-hedging methodology, leaving the mortgage portfolio exposed to convexity risk, volatility risk and model risk. For the calculation of economic capital for this non-linear interest rate risk, ING performs a Monte Carlo simulation.

Real estate price risk includes the market risks in both the real estate investment and the development portfolio of the ING Wholesale Banking business line. The economic capital for real estate price risk is calculated by stressing the underlying market variables.

While aggregating the different economic capital market risk figures for the different portfolios, diversification benefits (based on stressed correlations) are taken into account as it is not expected that all extreme market movements will appear at the same moment.

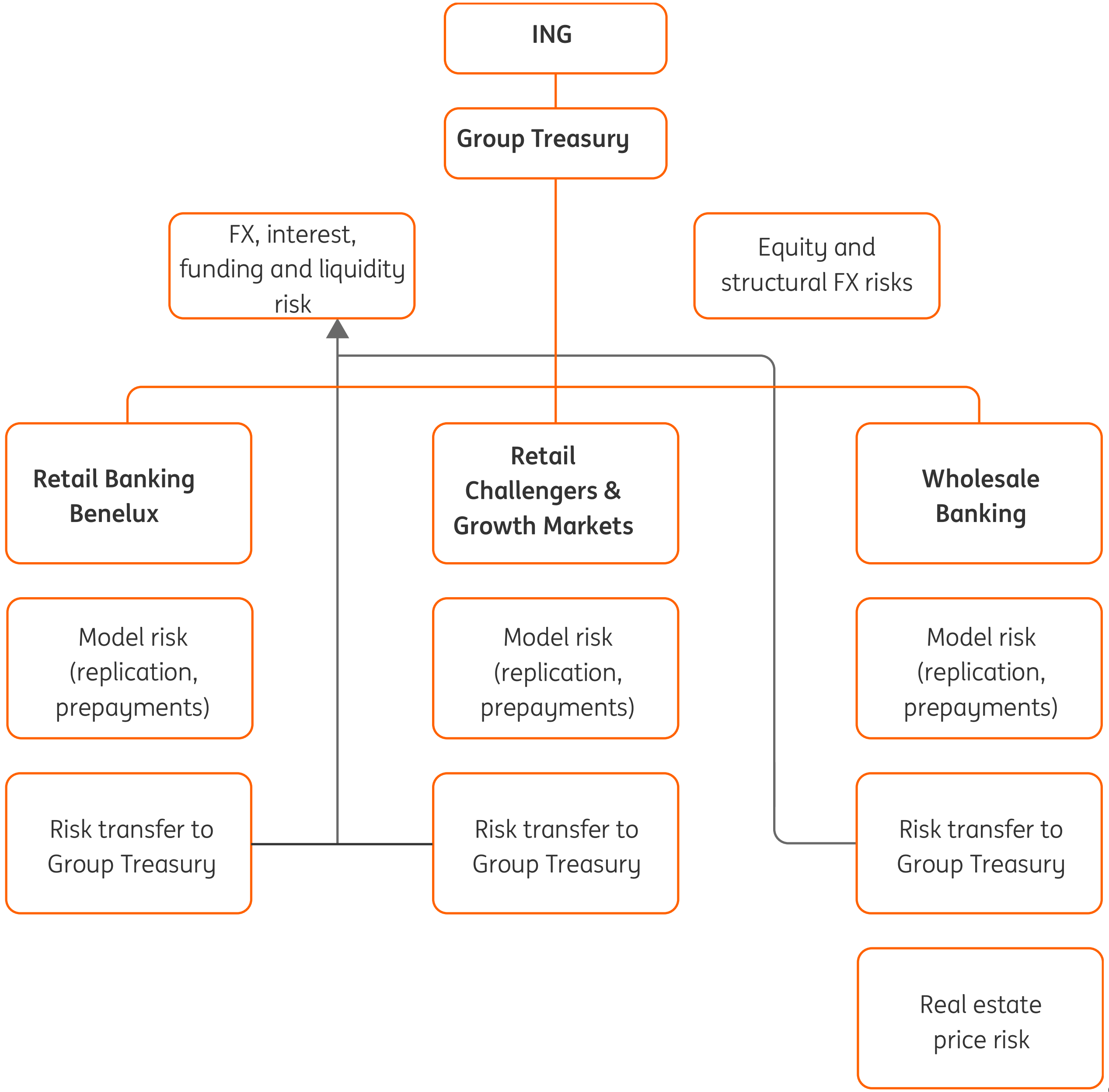
Market risk in banking books (*)

ING makes a distinction between the trading and banking (non-trading) books. Positions in banking books originate from the market risks inherent in commercial products that are sold to clients, Group Treasury exposures, and from the investment of our own funds (core capital). Both the commercial products and the products used to hedge market risk exposures in these products are intended to be held until maturity, or at least for the long term.

Risk transfer (*)

An important element of the management of market risks in the banking book is the risk transfer process. In this process the interest rate, FX, funding and liquidity risks are transferred from the commercial books through matched funding to Group Treasury, where it is centrally managed. The scheme below presents the transfer and management process of market risks in the banking books:

(*)
Risk transfer



Risk measurement (*)

The main concepts and metrics used for measuring market risk in the banking book are described below per risk type.

Interest rate risk in banking book (*)

Interest rate risk in the banking book is defined as the exposure of a bank's earnings, capital, and market value to adverse movements in interest rates originated from positions in the banking book.

Governance (*)

The management of interest rate risk follows the Interest Rate Risk in the Banking Book (IRRBB) framework as approved by ALCO Bank. This framework describes roles, responsibilities, risk metrics, and the policies and procedures related to interest rate risk management. Furthermore ALCO Bank sets the risk appetite for interest rate risk, which is then translated into limits for the interest rate risk metrics.

As a result of this framework, ING centralises interest rate risk management from commercial books (that capture the products sold to clients) to globally managed interest rate risk books. This enables a clear demarcation between commercial business results and results based on unhedged interest rate positions.

ING distinguishes between three types of activities that generate interest rate risk in the banking book:

- Investment of own funds;
- Commercial business; and
- Group Treasury exposures including strategic interest rate positions.

Below the three activities are described in more detail:

Group Treasury is responsible for managing the investment of own funds (core capital). Capital is invested for longer periods to keep earnings stable. The main objective is to maximise the economic value of the book and to generate adequate and stable annual earnings within the risk appetite boundaries set by ALCO Bank.

Commercial activities can result in linear interest rate risk, for example, when re-pricing causes the tenors of assets to differ from those of liabilities. Also, interest rate risk can arise from customer behaviour and/or convexity risk, depending on the nature of the underlying product characteristics. customer behaviour risk is defined as the potential future value loss due to deviations in the actual behaviour of clients versus the modelled behaviour towards the embedded options in commercial products. General sources of customer behaviour risk, amongst others, include the state of the economy, competition, changes in regulation, legislation and tax regime, and developments in the housing market. Since these risk factors cannot be (fully) mitigated, ING holds capital to be able to absorb possible losses as a result of unforeseen customer behaviour.

From an interest rate risk perspective, commercial activities can typically be divided into three main product types: savings and demand deposits, mortgages, and loans.

- Savings and demand deposits are generally invested so as to hedge their value and minimise the sensitivity of the margin to market interest rates. Interest rate risk can arise when there is a lag between savings rate adjustments and the adjustments experienced through market rates or when market rate changes cannot be passed on to clients. Interest rate risk is modelled based on the stability of the deposit and the pass-through rate. This takes into account different elements, such as pricing strategies, volume developments and the level and shape of the yield curve. Savings volumes are typically assumed to be relatively stable and not sensitive to rate changes;
- Interest rate risk for mortgages arises through prepayment behaviour. In modelling this risk, both interest rate dependent pre-payments and constant prepayments are considered. Next to the dependence on interest rates, modelled prepayments may include other effects such as loan-to-value, seasonality and the reset date of the loan. In addition, the interest sensitivity of embedded offered rate options is considered; and
- Wholesale Banking loans typically do not experience interest rate dependent prepayment behaviour; these portfolios are matched-funded taking the constant prepayment model into account. They typically do not contain significant convexity risk. Wholesale banking loans can have an all-in rate floor or a floor on a reference rate.

Customer behaviour in relation to mortgages, loans, savings and demand deposits is modelled, based on extensive research. Per business unit and product type, exposures are typically segmented into different portfolios based on expected client behaviour. For each of the segments, model parameters for example for the pass-through rate and customer behaviour are determined based on historical data and expert opinion. Models are backtested and updated when deemed necessary in an annual procedure. Model parameters and the resulting risk measures are approved by (local) ALCO.

Linear risk transfers take place from commercial business books to the treasury book (Group Treasury), if necessary, by using estimations of customer behaviour. The originating commercial business is ultimately responsible for estimating customer behaviour, leaving convexity risk and (unexpected) customer behaviour risk with the commercial business. Risk measurement and the risk transfer process take place on a monthly basis. However, if deemed necessary additional risk transfers can take place, for instance due to volatile markets.

The commercial business manages the convexity risk that is the result of products that contain embedded options, like mortgages. Here the convexity risk is defined as the optionality effects in the value due to interest rate changes, excluding the first-order effects. In some cases, convexity risk is transferred from the commercial books to treasury books using cap/floor contracts.

In the following sections, the interest rate risk exposures in the banking books are presented. ING uses risk measures based on both an earnings and a value perspective. Net interest income (NII)-at-risk is used to provide the earnings perspective and the net present value (NPV)-at-risk and basis point value (BPV) figures provide the value perspective. Please note that corrective management actions are not taken into account in these figures although price adjustments are included in the earnings risk measure.

During 2020, the following refinements to the risk measurement for IRRBB were made:

- Review of the risk appetite for IRRBB;
- Further insights in sub-risk types such as vega optionality risk, tenor basis risk and a client behaviour risk earnings and value metrics
- Annual review of the interest rates scenarios used for calculating NII-at-Risk and NPV-at-Risk;
- Savings/ current account model updates and prepayment model updates for market developments; and
- Specific Covid-19 related stress test.

Net interest income (NII) at Risk (*)

NII-at-Risk measures the impact of changing interest rates on net interest income (before tax) of the banking book with a time horizon of one year (expanding to a horizon of three years). This excludes credit spread sensitivity and fees. The NII-at-Risk figures in the tables below reflect a parallel interest rate shock under the assumption of the balance sheet development in line with the dynamic plan with a time horizon of one year. As well as parallel scenarios, IRRBB monitoring and management includes the impact of non-parallel scenarios and the impact over a longer horizon. NII-at-Risk asymmetry between the downward and upward ramped scenarios is primarily caused by the asymmetry between pricing behaviour of mortgages and savings products due to embedded options and pricing constraints.

NII-at-Risk banking books per business - year one (*)

in EUR million	2020		2019	
	Ramped, unfloored		Ramped, unfloored	
	parallel ▼	parallel ▲	parallel ▼	parallel ▲
By business				
Wholesale Banking	135	-83	-12	12
Retail Banking Benelux	-114	105	-91	40
Retail Challengers & Growth Markets	-52	-14	-3	-3
Corporate Line Banking	-52	52	-30	30
Total	**-83**	**60**	**-136**	**79**

EUR ramped is at +/- 100bps in 1 year

USD ramped is at +/- 120bps in 1 year

The NII-at-Risk is primarily driven by the difference in sensitivity of client liabilities, mainly savings, versus the sensitivity of client assets and investments to rate changes. The investment of own funds only impacts the earnings sensitivity marginally, as only a relatively small part has to be (re)invested within the one-year horizon.

NII-at-Risk banking book per currency - year one (*)

in EUR million

	2020		2019	
	Ramped, unfloored		Ramped, unfloored	
	parallel ▼	parallel ▲	parallel ▼	parallel ▲
By currency				
Euro	-146	120	-134	65
US Dollar	41	-36	25	-24
Other	23	-25	-27	39
Total	**-83**	**60**	**-136**	**79**

EUR ramped is at +/- 100bps in 1 year

USD ramped is at +/- 120bps in 1 year

Year-on-year variance analysis (*)

The change in NII-at-Risk is primarily visible for Retail Challengers & Growth Markets and Wholesale Banking. This is driven by balance sheet developments, the low interest rate environment and savings model updates for market developments mainly in ING Germany, ING Spain and ING Poland. The annual update of the interest rate scenarios also led to a limited increase in the NII-at-Risk for year one.

Net Present Value (NPV) at Risk (*)

NPV-at-Risk measures the impact of changing interest rates on value. The NPV-at-Risk is defined as the outcome of an instantaneous increase and decrease in interest rates from applying currency-specific scenarios. The NPV-at-Risk asymmetry between the downward and upward shock is mainly caused by convexity risk in the mortgage and savings portfolio. The NPV-at-Risk figures are also calculated using the updated interest rate scenarios.

The full value impact cannot be directly linked to the financial position or profit or loss account, as fair value movements in banking books are not necessarily reported through the profit or loss account or through other comprehensive income (OCI). The value mutations are expected to materialise over time in the profit and loss account if interest rates develop according to forward rates throughout the remaining maturity of the portfolio.

NPV-at-Risk banking books per business (*)

in EUR million

	2020		2019	
	unfloored		unfloored	
	parallel ▼	parallel ▲	parallel ▼	parallel ▲
By business				
Wholesale Banking	-68	171	182	400
Retail Banking Benelux	-1,425	541	-1,431	268
Retail Challengers & Growth Markets	-506	-17	-259	-452
Corporate Line Banking	1,946	-1,820	1,819	-1,731
Total	**-54**	**-1,125**	**310**	**-1,514**

The prior period has been updated to improve consistency and comparability.

EUR +/- 100bp shock scenario

USD +/- 120bp shock scenario

Year-on-year variance analysis (*)

The change in NPV-at-Risk is primarily visible for Retail Challengers & Growth Markets and Wholesale Banking. This is driven by balance sheet developments, the low interest rate environment and savings model updates for market developments mainly in ING Germany, ING Spain and ING Poland. Main sensitivity can be attributed to Corporate Line, in which core capital is represented in line with the regulations, assuming a zero duration. Corporate Line Banking has been included retroactively in the measurement of NPV-at-Risk since 2019 for better alignment with regulatory IRRBB measurements.

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 current LIBOR rates with alternative, nearly risk-free rates. For example RFR Working Groups in the US and UK have recommended to replace USD LIBOR and GBP LIBOR with SOFR and SONIA respectively when these LIBOR rates cease to exist. This process is at different stages, and is progressing at different speeds, across several major currencies.

The reform of EURIBOR was completed in 2019 and consisted of a change to the underlying calculation methodology. The Belgian Financial Services and Markets Authority granted authorisation with respect to EURIBOR under the EU Benchmarks Regulation. This allows market participants to continue to use EURIBOR after 1 January 2020 for both existing and new contracts. ING expects that EURIBOR will continue to exist as a benchmark rate for the foreseeable future. In addition, the Working Group on Euro Risk-Free Rates is continuing its work on developing recommended fallback rates based on the €STR for EURIBOR contracts.

EONIA will cease to be published by 3 January 2022 and the European Money Markets Institute (EONIA's administrator) has indicated that EONIA cannot be used in any contracts that may be outstanding as of 1 January 2022. The transition of existing contracts and products that still rely on EONIA is ongoing. As both EONIA and €STR are overnight rates and the spread between them was established in 2019 this transition is considered less complex than that for LIBOR.

The ICE Benchmark Administration, as the administrator of LIBOR, issued a consultation with respect to its plans for the cessation for most LIBOR rates at the end of 2021, with an 18 month extended period of publication for USD LIBOR to support legacy products. ING is in the process of amending or preparing to amend contractual terms in response to this, and there is still some uncertainty over the timing and the methods of transition. ING is proactively reaching out to industry participants, counterparties and clients to create awareness and offer support on the ongoing transition.

During 2020 the financial sector issued a number of interim targets, guidance papers and other initiatives to help phase in key components of this transition. For example significant progress was made to address deficiencies in existing derivative fallback clauses. ISDA issued an IBOR fallbacks supplement that sets out how the transition to alternative benchmark rates (e.g. SOFR, SONIA) will be accomplished. The effect of the supplement is to create clear fallback rates that will apply on the permanent discontinuation of certain key IBORs. From the effective date of 25 January 2021, all new derivatives that reference these ISDA definitions include these robust fallbacks. The Bank and many other parties have also adhered to a protocol to implement these fallbacks into derivative contracts that were entered into before the effective date. If both counterparties adhere to the protocol, these new fallbacks will be automatically implemented into existing derivative contracts. For loans, various recommendations have been made to help drive consistent use of robust fallbacks for new contracts. These industry recommendations are incorporated into our contract templates used for new lending.

Public authorities have also recognised that certain LIBOR contracts do not contain any alternatives, contain inappropriate alternatives, or cannot be renegotiated or amended prior to the expected cessation of LIBOR. In response, the European Commission announced that it intends to implement legislation that gives market participants the confidence to transition these 'tough legacy' contracts to the recommended benchmark replacement without the fear of legal repercussions. In addition, the UK government announced that it would grant powers to the FCA to enable continued publication of a "synthetic" LIBOR using a different methodology and inputs, and therefore could reduce disruption to any holders of these tough legacy contracts. However, there is no certainty as to whether the FCA will exercise these powers or what form the revised methodology would take, and the FCA has consequently encouraged users of LIBOR to renegotiate or amend as many contracts as possible before the relevant LIBOR. There is no guarantee that regulators will implement measures to address such legacy contracts, or that such measures will be effective in avoiding business disruption or contractual disputes.

ING Bank has significant exposures to IBORs on its financial instruments that will be reformed as part of this market-wide initiative. The potential discontinuation of interest rate benchmarks, or changes in the methodology or manner of administration of any benchmark, could result in a number of risks for ING Bank, its customers, and the financial services industry more widely. These risks include legal risks in relation to changes required to documentation for new and existing transactions that may be required. Financial risks (predominantly limited to interest rate risk) may also arise from any changes in the valuation of financial instruments linked to benchmark rates, and changes to benchmark indices could impact pricing mechanisms on some instruments. Changes in valuation, methodology or documentation may also result into complaints or litigation. The Bank may also be exposed to operational risks or incur additional costs due to the potential requirement to adapt IT systems, trade reporting infrastructure and operational processes, or in relation to communications with clients or other parties and engagement during the transition period. Particularly, one of the main risks to which the Bank is exposed as a result of IBOR reform is operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR and revision of operational controls related to the reform.

The ING IBOR programme has a robust governance in place, with progress being tracked by business line steering committees reporting into a central IBOR steering committee. The programme assesses and coordinates the actions necessary to manage the required changes to internal processes and systems, including pricing, risk management, legal documentation, hedge arrangements, as well as the impact on our customers. ING continues to monitoring market developments, and the outcome of several remaining uncertainties such as the availability of term rates, to anticipate the impact on the program, our customers and any related risks.

As at 31 December 2020 the following financial instruments have yet to transition to alternative benchmark rates, summarised by significant benchmark rate. The table below excludes exposures that will expire before transition is required. For all rates this has been taken as 31 December 2021, despite some recent developments that indicate that USD LIBOR will be available until mid-2023. The table below also excludes off-balance sheet commitments.

Non derivative Financial instruments to transition to alternative benchmarks

in EUR million	Financial Assets non-derivative	Financial Liabilities non-derivative
2020	Carrying value (in EUR mln)	Carrying value (in EUR mln)
By benchmark rate		
GBP LIBOR	6,912	259
USD LIBOR	42,279	5,188
CHF LIBOR	345	42
JPY LIBOR	225	41
EUR LIBOR	422	8
EONIA	100	728
Total	**50,283**	**6,265**

Derivative Financial instruments to transition to alternative benchmarks

2020	Nominal value (in EUR mln)
By benchmark rate[1]	
GBP LIBOR	26,851
USD LIBOR	474,457
CHF LIBOR	9,710
JPY LIBOR	60,592
EONIA	28,592
Total	**600,203**

1. For cross currency swaps all legs of the swap are included that are linked to a main IBOR that is significant to ING Bank.

The table above does not include EURIBOR exposures as the reformed EURIBOR is compliant with the EU Benchmarks Regulation and there are no plans to discontinue.

ING Bank also has exposure to interest rate benchmark reform in respect of its cash collateral balances across some of its Credit Support Annex agreements. This exposure is not included within the table above.

Given that IBOR reform may have various accounting implications, the International Accounting Standards Board (IASB) has undertaken a two phase project. Phase 1 addresses those issues that affect financial reporting before the replacement of an existing benchmark. Phase 1 amendments to IFRS were issued by the IASB in 2019. Phase 2 focuses on issues that may affect financial reporting when the existing benchmark rate is reformed or replaced. Phase 2 amendments to IFRS were issued by the IASB in 2020. In 2019, ING early adopted the Phase 1 amendments to IFRS which allowed ING to apply a set of temporary exceptions to continue hedge accounting even when there is uncertainty about contractual cash flows arising from the reform. Under these temporary exceptions, interbank offered rates are assumed to continue unaltered for the purposes of hedge accounting until such time as the uncertainty is resolved. Refer to Note 37 'Derivatives and hedge accounting' for the disclosures relating to the application of the amendments as part of Phase 1.

The Phase 2 amendments to IFRS relating mainly to accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities due to the IBOR reform and impact on hedge accounting when an existing benchmark rate is reformed or replaced with an alternative risk free rate. The Phase 2 amendments are effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. ING did not early adopt Phase 2 amendments in 2020. Refer to section 1.4.2 of Note 1 'Basis of preparation and accounting policies' of the financial statements.

Foreign exchange (FX) risk in banking books (*)

FX exposures in banking books result from core banking business activities (business units doing business in currencies other than their base currency), foreign currency investments in subsidiaries (including realised net profit and loss), and strategic equity stakes in foreign currencies. The policy regarding these exposures is briefly explained below.

Governance – Core banking business (*)

Every business unit hedges the FX risk resulting from core banking business activities into its base currency. Consequently, assets and liabilities are matched in terms of currency.

Governance – FX translation result (*)

ING's strategy is to keep the target CET1 ratio within a certain range when FX rates fluctuate, while limiting volatility in the profit and loss account due to this CET1 hedging. Therefore, hedge accounting is applied to the largest extent possible. Taking this into account, the CET1 ratio hedge can be achieved by deliberately taking foreign currency positions equal to certain target positions, such that the target CET1 capital and risk-weighted assets are equally sensitive in relative terms to changing FX rates. For a selection of emerging market currencies ING decided not to enter into foreign currency hedges as allowed under the policy.

Risk profile – FX translation result (*)

The following table presents the currency exposures in the banking books for the most important currencies for the FX translation result. Positive figures indicate long positions in the respective currency. As a result of the strategy to hedge the CET1 ratio an open structural FX exposure exists.

In order to measure the sensitivity of the target CET1 ratio against FX rate fluctuations, an historical Value-at-Risk approach is used. It measures the drop in the CET1 ratio based on historical FX rates. The impact is taken into account under the solvency RAS.

Foreign currency exposures banking books (*)

in EUR million	Foreign Investments		Hedges		Net exposures	
	2020	2019	2020	2019	2020	2019
US Dollar[1]	7,126	8,031	-10	-11	7,117	8,020
Pound Sterling[2]	1,285	-22			1,285	-22
Polish Zloty	2,631	2,522	-369	-278	2,262	2,244
Australian Dollar	3,544	3,565	-2,269	-2,033	1,275	1,532
Turkish Lira	1,078	1,337			1,078	1,337
Chinese Yuan	1,912	2,255			1,912	2,255
Russian Rouble	344	540	-126	-85	218	455
Other currency	5,992	4,742	-3,456	-1,834	2,536	2,907
Total	**23,913**	**22,969**	**-6,231**	**-4,242**	**17,683**	**18,727**

1 US Dollar net exposure move is mainly driven by EURUSD FX rate.

2 The net exposure move in Pound Sterling is related to capital injection in UK Branch.

Equity price risk in banking books (*)

Governance (*)

ING maintains a strategic portfolio with substantial equity exposure in its banking books. Local offices are responsible for the management of the equity investment positions. Financial Risk is responsible for monitoring the regulatory capital for equity investments on a monthly basis and acts independently from ING / local management when monitoring these positions.

Risk Profile (*)

Equity price risk arises from the possibility that an equity security's price will fluctuate, affecting the values of the equity security itself as well as other instruments whose value react similarly to the particular security, a defined basket of securities, or a securities index. ING's equity exposure mainly consists of the investments in associates and joint ventures of EUR 1,475 million (2019: EUR 1,790 million) and equity securities held at fair value through other comprehensive income (FVOCI) of EUR 1,862 million (2019: EUR 2,306 million). The value of equity securities held at FVOCI is directly linked to equity security prices with increases/decreases being recognised in the revaluation reserve. Investments in associates and joint ventures are measured in accordance with the equity method of accounting and the balance sheet value is therefore not directly linked to equity security prices.

Year-on-year variance analysis (*)

The revaluation reserve relating to equity securities at FVOCI moved from EUR 1,580 million per year-end 2019 to EUR 1,181 million per year-end 2020. In 2020 the securities at FVOCI decreased by EUR 443 million. This was mainly due to the revaluation of shares in Bank of Beijing (EUR -339 million).

Revaluation reserve equity securities at fair value through other comprehensive income (*)

in EUR million	2020	2019
Positive re-measurement	1,201	1,582
Negative re-measurement	-20	-2
Total	**1,181**	**1,580**

Real estate price risk in banking books (*)

Real estate price risk arises from the possibility that real estate prices fluctuate. This affects both the value of real estate assets and the earnings related to real estate activities.

Governance (*)

Real estate is a run-off business consisting of real estate development and real estate investment management activities which are being wound down by sale of assets, strict execution of contract maturity, or through portfolio sales.

Market risk in trading books (*)

Within the trading portfolios, positions are maintained in the financial markets. These positions are often a result of transactions with clients and may benefit from short-term price movements. In 2020, ING continued its strategy of undertaking trading activities to develop its client-driven franchise and deliver a differentiating experience by offering multiple market and trading products.

Governance (*)

The Financial Markets Risk Committee (FMRC) is the market risk committee that, within the risk appetite set by ALCO Bank, sets market risk limits both on an aggregated level and on a desk level, and approves new products. FI-FM Risk advises both FMRC and ALCO Bank on the market risk appetite of trading activities.

With respect to the trading portfolios, FI-FM Risk focuses on the management of market risks of Wholesale Banking (mainly Financial Markets) as this is the only business line within ING where trading activities take place. Trading activities include facilitation of client business and market making. FI-FM Risk is responsible for the development and implementation of trading risk policies and risk measurement methodologies, and for reporting and monitoring risk exposures against approved trading limits. FI-FM Risk also reviews trading mandates and limits, and performs the gatekeeper role in the product review process. The management of market risk in trading portfolios is performed at various organisational levels. The FI-FM Risk Management Framework defines policies and procedures for the overall management of trading books. Trading activity is systematically reviewed and positions against the mandates are assessed jointly by the first and second lines of defence.

Risk measurement (*)

ING uses a comprehensive set of methodologies and techniques to measure market risk in trading books: Value at Risk (VaR) and Stressed Value at Risk (SVaR), Incremental Risk Charge (IRC), and Event Risk (stress testing). Systematic validation processes are in place to validate the accuracy and internal consistency of data and parameters used for the internal models and modelling processes.

Value at Risk (*)

FI-FM Risk uses the historical simulation VaR methodology (HVaR) as its primary risk measure. The HVaR for market risk quantifies, with a one-sided confidence level of 99%, the maximum overnight loss that could occur in the trading portfolio of ING due to changes in risk factors (e.g. interest rates, equity prices, foreign exchange rates, credit spreads, implied volatilities) if positions remain unchanged for a time period of one day. Next to general market movements in these risk factors, HVaR also takes into account market data movements for specific moves in e.g. the underlying issuer of securities. A single model that diversifies general and specific risk is used. In general, a full revaluation approach is applied, and for a limited number of linear trading positions and risk factors in commodity and equity risk classes a sensitivity-based approach is applied. The potential impact of historical market movements on today's portfolio is estimated, based on equally weighted observed market movements of the previous year (260 days). When simulating potential movements in risk factors, depending on the risk factor type, either an absolute or a relative shift is used. The data used in the computations is updated daily. ING uses HVaR with a one-day horizon for internal risk measurement, management control, and backtesting, and HVaR with a ten-day horizon for determining regulatory capital. To compute HVaR with a ten-day horizon the one-day risk factor shifts are scaled by the square root of ten and then used as an input for the revaluation. The same model is used for all legal entities within ING with market risk exposure in the trading portfolio.

Limitations (*)

HVaR has some limitations: HVaR uses historical data to forecast future price behaviour, but future price behaviour could differ substantially from past behaviour. Moreover, the use of a one-day holding period (or ten days for regulatory capital calculations) assumes that all positions in the portfolio can be liquidated or hedged in one day. In periods of illiquidity or market events, this assumption may not hold. Also, the use of a 99% confidence level means that HVaR does not take into account any losses that occur beyond this confidence level.

Backtesting (*)

Backtesting is a technique for the ongoing monitoring of the plausibility of the HVaR model in use. Although HVaR models estimate potential future trading results, estimates are based on historical market data. In a backtest, the actual daily trading result (excluding fees and commissions) is compared with the one-day HVaR. In addition to using actual results for backtesting, ING also uses hypothetical results, which exclude the effects of intraday trading, fees, and commissions. When an actual or a hypothetical loss exceeds the HVaR, an 'outlier' occurs. Based on ING's one-sided confidence level of 99%, an outlier is expected once in every 100 business days. On an overall level in 2020 there were four outliers for hypothetical P&L and five outliers for actual P&L. Following the approval of ECB, the March 2020 backtest outliers caused by market volatility of Covid-19 has been excluded from capital multiplier calculations as of 30 June 2020. This applies to four hypothetical and four actual outliers for ING Bank. ING reports backtesting results on a quarterly basis to the ECB.

Stressed HVaR (*)

The Stressed HVaR (SVaR) is intended to replicate the HVaR calculation that would be generated on the bank's current portfolio with inputs calibrated to the historical data from a continuous 12-month period of significant financial stress relevant to the bank's portfolio. To calculate SVaR, ING uses the same model that is used for 1DHVaR, with a ten-day horizon. The data for the historical stress period used currently includes the height of the credit crisis around the fall of Lehman Brothers, and this choice is reviewed regularly. The historical data period is chosen so that it gives the worst scenario loss estimates for the current portfolio. The same SVaR model is used for management purposes and for regulatory purposes. The same SVaR model is used for all legal entities within ING with market risk exposure in the trading portfolio.

Incremental risk charge (*)

The Incremental risk charge (IRC) for ING is an estimate of the default and migration risks for credit products (excluding securitisations) in the trading book, over a one-year capital horizon, with a 99.9% confidence level. The same IRC model is used for all legal entities within ING with market risk exposure in the trading portfolio. Trading positions (excluding securitisations) of ING, which are subject to specific interest rate risk included in the internal model approach for market risk regulatory capital, are in scope of the IRC model. By model choice, equity is excluded from the model. For the calculation of IRC, ING performs a Monte-Carlo simulation based on a Gaussian copula model. The asset correlations used in the Gaussian copula model are determined using the IRB correlation formula. The rating change is simulated for all issuers over the different liquidity horizons (i.e. time required to liquidate the position or hedge all significant risks) within one year. Movements across different rating categories and probabilities of default are governed by a credit-rating transition matrix. An external transition matrix is obtained from Standard & Poor's (S&P). The financial impact is then determined for the simulated migration to default, or for the simulated migration to a different rating category, based on LGD or credit spread changes, respectively.

The liquidity horizon has been set to the regulatory minimum of three months for all positions in scope. ING reviews the liquidity horizons regularly based on a structured assessment of the time it takes to liquidate the positions in the trading portfolio.

ING periodically assesses the compliance of the IRC model with regulatory requirements by performing gap analyses, substantiating the modelling choices, and quantifying the impact of alternative approaches.

Stress testing and event risk (*)

Stress testing and event risk are valuable risk management tools. In addition to the bank-wide stress test framework as described in the stress-testing section, FI-FM Risk performs additional assessments, specific to the Trading Book, with various frequencies: sensitivity analyses (single-risk factor and multi-risk factor), ad-hoc stress tests (e.g. Covid-19 scenarios) and structured stressed scenario tests under the event risk framework - to monitor market risks under extreme market conditions. Event risk is calculated because HVaR in general does not produce an estimate of the potential losses that can occur as a result of extreme market movements, i.e. beyond the confidence level. Event risk evaluates the bank's financial stability under severe but plausible stress scenarios and assists in decision-making aimed at maintaining a financially healthy going-concern institution after a severe event occurs. Event risk is based on historical as well as hypothetical extreme scenarios. The result is an estimate of the profit and loss caused by a potential event and its worldwide impact for ING. The event risk number for ING trading activity is generated on a weekly basis. As with HVaR, the risk appetite for event risk is limited by ALCO Bank.

ING's event risk policy is based on a large set of possible stress scenarios per risk type. In stress scenarios, shocks are applied to prices (credit spreads, interest rates, equity, commodities, and fx rates) and volatilities. Depending on the type of the stress test, additional scenario assumptions can be made, for example on correlations, dividends, or recovery rates. For equity products, for example, both a crisis scenario (prices decrease) as well as a bull scenario (prices increase) are assumed. Scenarios are calculated based on events happening independently, jointly by region, or in all countries simultaneously. This way, for each risk type, a large set of scenarios is calculated. The worst scenarios per market are combined across markets by assessing both independent events per market, and the worst events happening in all markets at the same time.

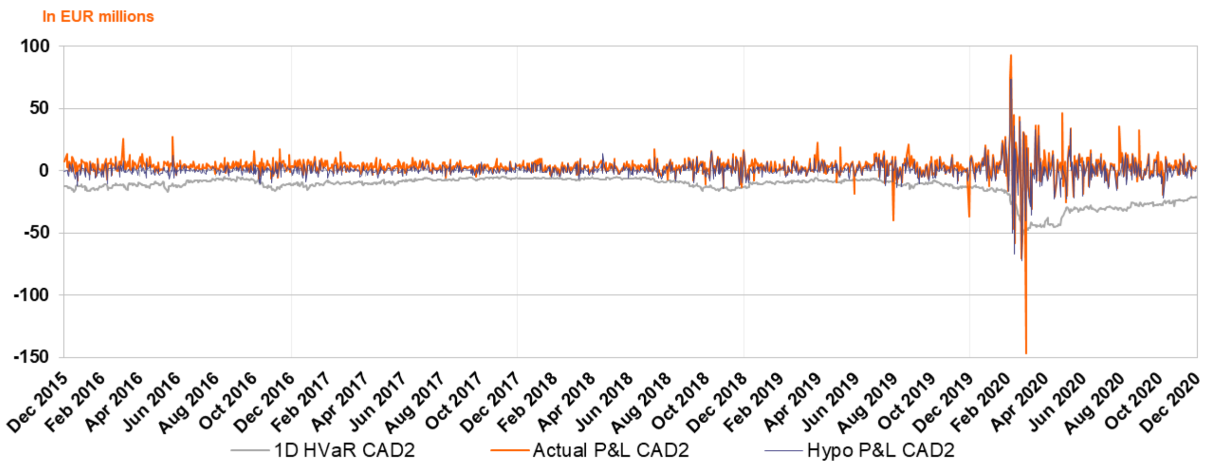
Other trading controls

HVaR and event risk limits are the most important limits to control the trading portfolios. Additionally, limits have been set on SVaR and IRC. Furthermore, ING uses a variety of other controls to supplement these limits. Position and sensitivity limits are used to prevent large concentrations in specific issuers, sectors, or countries. Moreover, other risk limits are set with respect to the activities in complex derivatives trading. The market risk of these products is controlled by product-specific limits and constraints.

Risk profile

The following chart shows the development of the overnight HVaR under a 99% confidence level and a one-day horizon versus actual and hypothetical daily trading profits and losses. In calculation of the hypothetical daily profit and loss, the trading position is kept constant and only the market movement is taken into account. The overnight HVaR is presented for the ING trading portfolio from 2015 to 2020. In the graph below, it can be seen that the market volatility in March 2020 lead to a sharply increased HVaR as the new scenarios entered the 1 year history. In addition it shows significant P&L volatility with the largest loss coming from a significant increase in Valuation Adjustments booked end of March 2020.

EU MR4: Consolidated trading HVaR[1]



1 CVA risk is not included in VaR.

The risk figures in the backtesting graph above and in the table below relate to all trading books for which the internal model approach is applied, i.e. all trading books, including Credit Exposure Management books.

1d VaR for Internal Model Approach trading portfolios

in EUR million	Minimum		Maximum		Average		Year end	
	2020	2019	2020	2019	2020	2019	2020	2019
Interest rate [1]	12	3	42	13	26	6	15	12
Equity and commodity	1	1	14	7	3	2	3	1
Foreign exchange	1	1	7	11	3	2	2	1
Credit spread	4	4	32	7	15	6	7	5
Diversification [2]					-17	-6	-4	-6
Total VaR [2]	**12**	**6**	**52**	**15**	**29**	**10**	**22**	**13**

1 For calculation of HVaR per risk class the full valuation is performed according to HVaR methodology using a set of scenario changes for the risk factors for the particular risk class, while risk factors for all other risk classes are kept unchanged.
2 The total HVaR for the columns Minimum and Maximum cannot be calculated by taking the sum of the individual components since the minimum/maximum observations for both the individual markets as well as for total HVaR may occur on different dates. Therefore, diversification is not calculated for the minimum and maximum categories.
3 CVA risk is not included in VaR.

Average 1D/10D HVaR, 10D SVaR over 2020 increased compared to 2019, due to the increase in market volatility, while IRC remained in line with 2019. The average for interest rate and credit spread increased compared to 2019, both driven mainly by market movements. The VaR at the period end of 2020 increased to 22 mln from 13 mln at period end of 2019, the main driver of the move was the increased market volatility throughout 2020. The main components of the risk were interest rate and credit spread.

EU MR3: Internal Model Approach values for trading portfolios		
in EUR million	2020	2019
VaR (10 day 99%)		
1 Maximum value	161	42
2 Average value	83	27
3 Minimum value	31	16
4 Period end	60	33
Stressed VaR (10 day 99%)		
5 Maximum value	304	126
6 Average value	116	72
7 Minimum value	72	47
8 Period end	83	76
Incremental Risk Charge (99.9%)		
9 Maximum value	134	169
10 Average value	74	76
11 Minimum value	38	42
12 Period end	89	64
Comprehensive Risk capital charge (99.9%)		
13 Maximum value	n/a	n/a
14 Average value	n/a	n/a
15 Minimum value	n/a	n/a
16 Period end	n/a	n/a

Regulatory capital

According to the Capital Requirements Regulation (CRR/CRD IV), regulatory capital (own funds requirements) for market risk can be calculated using the standardised approach or an internal model approach. ING received regulatory approval to use an internal model to determine the regulatory capital for the market risk in all trading books of ING. Market risk capital of trading books is calculated according to the CRR, using internal HVaR, SVaR, and IRC models, where diversification is taken into account. Capital for foreign exchange risk from the banking books and for collective investment undertakings (CIUs) exposures in trading books are calculated using the standardised approach with fixed risk weights. ING does not have a correlation trading portfolio or any other securitisations in the trading book.

Standardised approach

EU MR1: Market risk under Standardised Approach				
in EUR million	2020		2019	
	RWA	Capital requirements	RWA	Capital requirements
Outright products				
1 Interest rate risk (general and specific)	2	0	14	1
2 Equity risk (general and specific)				
3 Foreign exchange risk				
4 Commodity risk				
Options				
5 Simplified approach				
6 Delta-plus method				
7 Scenario approach				
8 Securitization (specific risk)				
9 **Total**	**2**	**0**	**14**	**1**

The MRWA under standardised approach slightly decreased compared to end of 2019. The FX exposure continued to be lower than the 2% own funds threshold. According to Art. 351 CRR, in such a case, the calculation of Market Risk regulatory capital is not required. As of the third quarter of 2020, collective investment undertakings are capitalised in market risk under standardised approach under interest rate risk and foreign exchange risk.

Internal model approach

Market risk regulatory capital increased during 2020 compared to 2019. The increase is driven by an increase in HVaR and SVaR due to increased market volatility as a result of the Covid-19 pandemic, while IRC slightly decreased.

EU MR2-A: Market risk under Internal Model Approach

in EUR million	2020		2019	
	RWA	Capital requirements	RWA	Capital requirements
1 **HVaR (higher of values a and b)**	**3,214**	**257**	**1,261**	**101**
(a) Previous day's VaR (Article 365(1) (VaRt-1))	744	60	404	32
(b) Average of the daily VaR (Article 365(1)) on each of the preceding sixty business days (VaRavg) x multiplication factor ((mc) in accordance with Article 366)	3,214	257	1,261	101
2 **SVaR (higher of values a and b)**	**4,419**	**354**	**3,011**	**241**
(a) Latest SVaR (Article 365(2) (sVaRt-1))	1,036	83	902	72
(b) Average of the SVaR (Article 365(2) during the preceding sixty business days (sVaRavg) x multiplication factor (ms) (Article 366)	4,419	354	3,011	241
3 **Incremental risk charge -IRC (higher of values a and b)**	**1,113**	**89**	**1,278**	**102**
(a) Most recent IRC value (incremental default and migration risks section 3 calculated in accordance with Section 3 articles 370/371)	1,113	89	799	64
(b) Average of the IRC number over the preceding 12 weeks	967	77	1,278	102
4 **Comprehensive Risk Measure – CRM (higher of values a, b and c)**				
(a) Most recent risk number for the correlation trading portfolio (article 377)				
(b) Average of the risk number for the correlation trading portfolio over the preceding 12-weeks				
(c) 8 % of the own funds requirement in SA on most recent risk number for the correlation trading portfolio (Article 338(4))				
Other	**180**	**14**		
5 **Total**	**8,925**	**714**	**5,550**	**444**

Sensitivities (*)

As part of the risk monitoring framework, FI-FM Risk 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, interest rate risk per currency, and credit spread risk per country, 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 year-end trading positions (*)

in EUR million	2020		2019
Foreign exchange		Foreign exchange	
US Dollar	**203**	US Dollar	116
Chinese Yuan Renminbi	**-63**	Chinese Yuan Renminbi	-21
Japanese Yen	**-44**	South Korean Won	20
British Pound	**-37**	Brazilian Real	-15
Romanian Leu	**-16**	Japanese Yen	-10

Most important interest rate and credit spread sensitivities at year-end (*)

in EUR thousand	2020		2019
Interest Rate (BPV) [1]		**Interest Rate (BPV)** [1]	
Euro	**-787**	Euro	-740
US Dollar	**-319**	US Dollar	-325
British Pound	**-120**	Russian Ruble	-105
Russian Ruble	**-86**	British Pound	-68
Australian Dollar	**-64**	Australian Dollar	-31
Credit Spread (CS01) [2]		**Credit Spread (CS01)** [2]	
Germany	**134**	United States	360
Republic of Korea	**-129**	Germany	163
United States	**118**	France	117
Belgium	**115**	Russian Federation	73
Netherlands	**50**	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 at year-end (*)

in EUR thousand	2020 Corporate	2020 Financial Institutions	2019 Corporate	2019 Financial Institutions
Credit Spread (CSO1) [1]				
Risk classes				
1 (AAA)	4	-4	1	-1
2–4 (AA)	2	-120	-15	-63
5–7 (A)	80	-14	143	32
8–10 (BBB)	301	-14	273	1
11–13 (BB)	55		148	9
14–16 (B)	18	-6	51	1
17–22 (CCC and NPL)	2		26	
Not rated	1			
Total	**462**	**-158**	**626**	**-21**

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

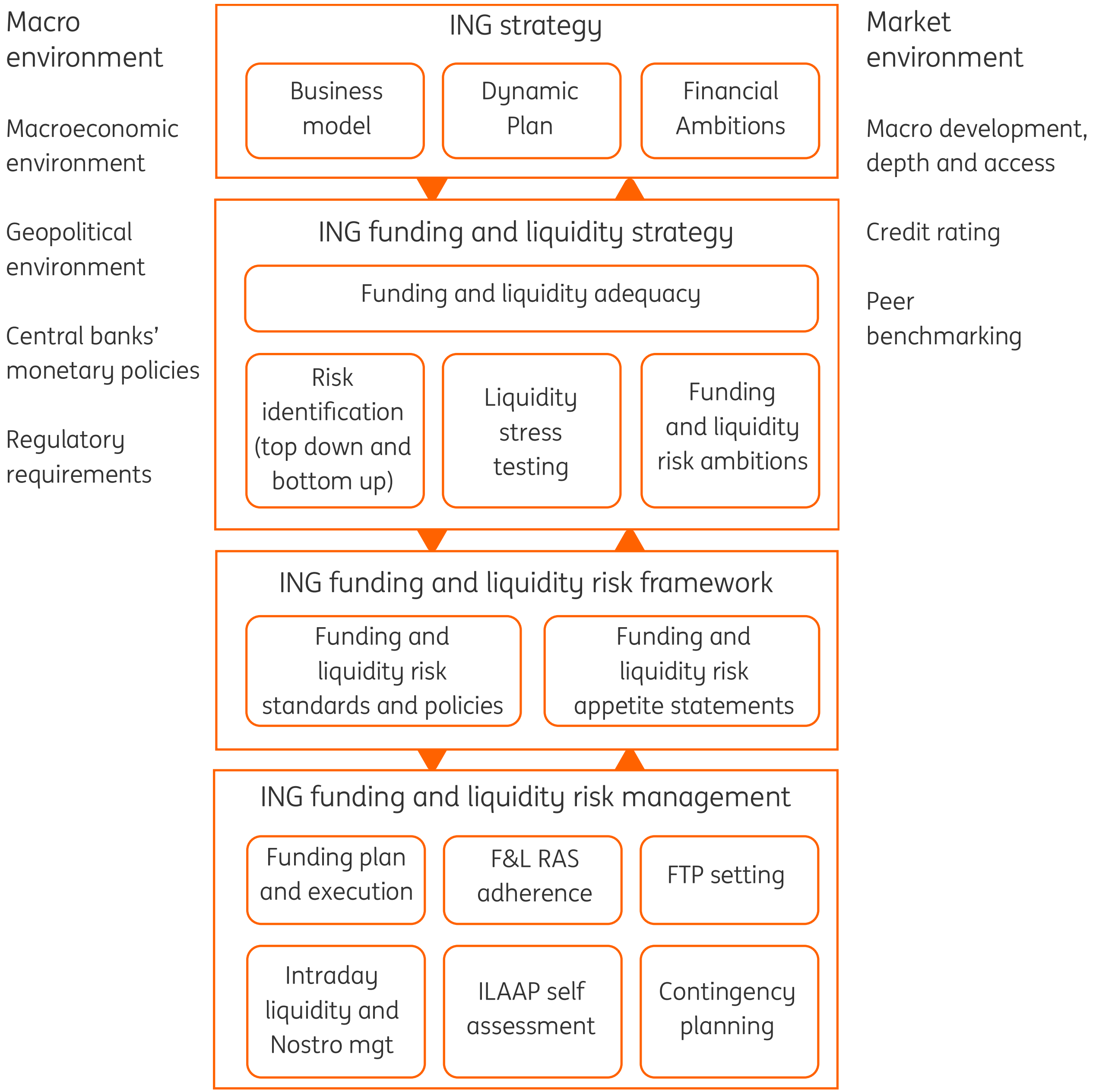
Funding and liquidity risk (*)

Introduction (*)

Funding and liquidity (F&L) risk is the risk that ING or one of its subsidiaries cannot meet its financial liabilities when they are due at reasonable cost and in a timely manner. ING incorporates funding and liquidity management in its business strategy and has established a funding and liquidity risk framework to manage risks within pre-defined boundaries.

A high-level overview of the F&L framework is provided in the next figure.

(*)
Funding and liquidity framework



Governance (*)

Funding and liquidity risk management within ING falls under the supervision of the ALCO Bank function that approves the funding and liquidity risk appetite and subsequently cascades it throughout the organisation. ALCO Bank has delegated the responsibilities concerning the Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP) and documents, as per the ICLAAP framework of ING, to the ICLAAP Committee. The ICLAAP Committee therefore focuses on technical liquidity documents and oversees business processes and deliverables concerning ILAAP. The EB, MBB, staff departments from the CRO and CFO domain as well as Group Treasury have oversight of and are responsible for managing funding and liquidity risks.

ING's funding and liquidity risk governance is based on the three lines of defence structure to ensure a clear division of responsibilities as well as an independent risk control challenging process.

Group Treasury and the business lines have the first line of defence functions. Group Treasury's main responsibility is to manage ING's (regulatory) liquidity and funding position by executing ING's funding plan, maintaining access to both the short- and the long-term professional funding markets and managing the liquidity buffer. Business lines are responsible for managing the funding and liquidity positions from the originated business, a large part of which is replicated with Group Treasury.

At the second line of defence, Financial Risk is responsible for developing and maintaining ING's policies, standards and guidelines on F&L risk management as well as for setting the F&L risk appetite. Furthermore, the Financial Risk function measures funding and liquidity risks, executes stress testing, provides management information and controls the liquidity and funding requirements on commercial products. The Finance function is responsible for management information and regulatory reporting related to funding and liquidity risk management.

For the third line of defence Corporate Audit Services is responsible for independently assessing the design, effectiveness and implementation of the funding and liquidity framework.

Funding and liquidity management strategy and objectives (*)

The main objective of ING's funding and liquidity risk management is to maintain sufficient liquidity to fund the commercial activities of ING both under normal and stressed market circumstances across various geographies, currencies and tenors. This requires a diversified funding structure considering relevant opportunities and constraints.

ING's funding consists mainly of retail and corporate deposits contributing around 50 percent and 20 percent of total funding respectively. These funding sources provide a relatively stable funding base. The remainder of the required funding is attracted primarily through a combination of long-term and short-term professional funding. Group Treasury manages the professional funding in line with the F&L risk appetite to ensure a sufficiently diversified and stable funding base.

Funding mix[1] (*)

	2020	2019
Funding type		
Customer deposits (retail)	52%	51%
Customer deposits (corporate)	24%	24%
Interbank	6%	4%
Lending/repurchase agreement	9%	5%
CD/CP	2%	5%
Long-term senior debt	5%	8%
Subordinated debt	2%	2%
Total	**100%**	**100%**

1 Liabilities excluding trading securities and IFRS equity

ING's long-term professional funding is well diversified across maturities and currencies. The main part of it is EUR and USD denominated which is in line with the currency composition of customer lending. The increase in 'Interbank' funding type is related to ING's participation in the TLTRO III.

Funding and liquidity adequacy and risk appetite (*)

ING distinguishes between several key drivers of future liquidity and funding needs:
- Refinancing needs resulting from maturing debt and asset growth;
- Current and future regulatory requirements;

- Risk appetite statements set by ING's funding and liquidity risk function;
- The outcomes of various stress tests;
- Ability to distribute and transfer liquidity across the Group.

Taking into consideration the abovementioned factors, ING regularly assesses its current and future liquidity adequacy and, if deemed necessary, takes steps to further improve ING's liquidity position and to ensure sufficient counterbalancing capacity. A liquidity adequacy statement is formulated at least quarterly to substantiate and reflect the management's view on the current funding and liquidity position as well as the potential future challenges. The quarterly adequacy statement is an important part of ING's ILAAP process.

ING assesses its F&L adequacy through three lenses – stress, sustainability and regulatory:

- ING evaluates its ability to withstand a period of prolonged F&L stress (idiosyncratic, market-wide, combined idiosyncratic and market-wide) which is characterised by customer deposit outflows, deterioration of funding markets access and lower liquidity value of the counterbalancing capacity;
- ING assesses the extent to which its customers, professional counterparties and investors are comfortable with extending funding in tenors, currencies and instruments necessary to sustainably fund ING under a going-concern situation;
- ING ascertains that it is in a position to meet both current and future regulatory requirements.

For each lens, ING has established a related set of risk appetite statements which define ING's risk appetite commensurate with the principles of liquidity adequacy. These risk appetite statements are summarised in the next graph.

(*)
Funding and liquidity adequacy

Stress

The bank's counter-balancing capacity should be sufficient in adverse and stressed market circumstances	The 'time to survive' in a F&L stress situation must be sufficient

Sustainable

Funding of longer term assets and investments must be done by stable and longer-term liabilities	Funding of short term assets may not lead to too much dependency on short-term professional markets	Diversification must be in place of funding profile, across funds providers, instrument types, geographic markets, tenors and currencies	Geographic dependencies with respect to intra-group funding are to be limited	The Bank should be able to meet payment and settlement obligations on a timely basis

Regulatory

We comply with home and host regulatory funding and liquidity requirements

The F&L risk appetite statements are translated into a number of metrics with appropriate boundaries and instruments which are used to measure and manage ING's funding and liquidity risk.

The risk appetite with respect to the stress lens is set to ensure there is sufficient counterbalancing capacity under various internally defined stress scenarios. Regarding the sustainability perspective, an internally defined stable funding to loans (SFL) ratio (supplemented by other metrics) is used to ensure a diversified funding base and to prevent overreliance on professional funding. Finally, the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) regulatory metrics are monitored in terms of both ING's risk appetite and regulatory requirements.

The LCR compares the volume of available high-quality liquid assets (HQLA) to net outflows (outflows minus inflows) over a 30-day stress scenario defined by the regulator. ING's liquidity buffer forms a part of the counterbalancing capacity which serves as a liquidity cushion under normal and stressed conditions.

The liquidity buffer consists mainly of Level 1 assets such as government and central bank assets and are of the highest liquidity quality. Only assets that are freely available (not pledged under existing contracts) for liquidity purposes are included in the buffer. The size and composition of the liquidity buffer are driven by ING's internal risk appetite limits as well as by regulatory requirements.

The macroeconomic and market environment are also important considerations in ING's funding and liquidity framework.
The macroeconomic environment comprises various exogenous factors over which ING has no control but which may have a material impact on ING's F&L position. The main macroeconomic factors analysed on a regular basis include:

- Global and local economic performance: e.g. shifts in GDP, inflation rate, unemployment rates and public deficit/surplus;
- Changing geopolitical trends;
- Monetary policy with a focus on the unconventional monetary measures employed by central banks in recent years including the measures taken since the start of the Covid-19 crisis; and
- Regulatory requirements: e.g. understanding the changing regulatory landscape as well as the impact of ING's actions on existing regulatory boundaries.

The strategic ambitions of ING, together with the design and execution of the funding plan, are assessed under both current and projected market conditions. Key emphasis is placed on understanding overall market trends and developments, credit rating changes and peer comparison.

Liquidity stress testing (*)

Funding and liquidity stress testing forms part of the overall F&L framework. It allows ING to examine the effects of exceptional but plausible future events on ING's liquidity position and provides insight into which entities, business lines or portfolios are vulnerable to which types of risk or scenarios.

The stress-testing framework encompasses the funding and liquidity risks of the consolidated balance sheet of ING Bank including all entities, business lines as well as on and off-balance sheet positions. The net liquidity position and time-to-survive are the two main stress-testing measures. Both measures may be impacted differently under specific F&L stress scenarios and parameterisation.

The stress-testing framework considers idiosyncratic, market-wide and combined (idiosyncratic plus market-wide) stress scenarios. Moreover, it differentiates between stress events that develop in a gradual and in a fast manner. The design of the framework is based on empirical evidence supplemented by expert judgment. The framework can be extended to additional ad hoc scenarios. For example, it can be used as input for firm-wide stress testing and reverse stress testing.

In response to the Covid-19 crisis, ING has developed a dedicated corona liquidity stress-test framework that focuses on the key vulnerabilities of the crisis and their potential impact on ING's net liquidity position and LCR. The current framework calculates the impact of severe macroeconomic stress combined with turmoil on financial markets due to a prolonged lockdown.

The outcomes of the stress testing are taken into account in all the key aspects of ING's F&L risk framework and F&L risk management:

- Risk Appetite Framework (through risk appetite statements);
- risk identification and assessment;
- monitoring the liquidity and funding position;
- business actions (if needed);
- contingency funding plan; and
- early warning indicators.

The funding and liquidity stress-testing framework is also subject to regular internal validation.

In line with supervisory expectations, ING's liquidity position is stress tested at least monthly using scenarios that form part of the F&L risk appetite statement. In addition, the results of all internal stress scenarios are monitored and assessed on a regular basis. They also serve as input in the decision on additional contingency measures.

Contingent F&L risks are addressed in the contingency funding plan with a focus on early warning indicators as well as organisation and planning of liquidity management in times of stress. The contingency funding measures are developed in conjunction with the ING Recovery Plan and are tested on a regular basis.

Environmental, social and governance risk

Introduction

Regulatory changes in relation to environmental, social and governance (ESG) risk practices have continued at an accelerated pace since the UN Paris Agreement and the United Nations Sustainable Development Goals (UN SDGs) were signed by world leaders in 2015. The G20 Taskforce on Climate-related Financial Disclosures (TCFD) Working Group has outlined a set of principles for financial entities, while the European Commission released an Action Plan for Financing Sustainable Growth and most recently, the new Green Deal, which provides an action plan to boost the efficient use of resources by moving to a clean, circular economy, restoring biodiversity and cutting pollution. Since the introduction of the United Nations Guiding Principles and the OECD Guidelines for Multinational Enterprises there is a clear shift towards a more regulated environment and impact management on social risks. Legislation aimed at preventing human rights violations along the supply chain is being introduced in several countries, including a proposal at EU level for mandatory human rights due diligence.

Other key developments in the regulatory landscape include the latest EU Taxonomy Regulation that requires compliance to minimum social and governance safeguards and the EBA consultation on ESG risks launched recently which aims to incorporate ESG risks into the governance, risk management and supervision of credit institutions and investment firms. The effects of the recent pandemic also bring a renewed focus on the importance of health and safety measures on the ground for the projects we finance as well as for the workforce of our clients.

Since 2017, ING has been communicating its progress on climate risks and opportunities according to the TCFD in its Annual Report. Further, ING has set its climate risk management ambition based on other relevant materials, such as the ECB's recent Guide on Climate-related and Environmental risks. This includes integrating climate change as part of our risk appetite framework. We plan to commence integrating this progressively in the second half of 2021.

Meanwhile, the Dutch Banking Sector Agreement on Human Rights (DBA) was successfully completed in 2019. ING updated its human rights policy to reflect its commitment to the United Nations Guiding Principles, and improved transparency through regular human rights reporting. We continue to work within the framework of this agreement; we are currently in the process of developing a tool that will help assess portfolio and client exposure to salient human rights issues, enabling identification of issues and client engagement. The tool is expected to be launched in 2021.

During 2020, ING has also cooperated with other banks and the Equator Principles (EP) working groups on the implementation of the EP 4, which brings a new set of requirements related to human rights, climate change, biodiversity and impacts on Indigenous Peoples.

The ESR Framework

ING's ESR policy framework helps us make transparent choices about how, where and with whom we do business. In 2019 we released the updated ESR Framework based on input from internal as well as external stakeholders while during 2020 we also made several updates, which are briefly summarised in the next section. Through these regular updates we keep abreast of social norms and regulation relating to sustainability and challenge our own increasingly strong commitments on the topics of human rights and climate change.

ESR in practice in 2020

The ESR policy framework includes standards and best practice guidance for ESR-sensitive sectors. It includes explicit restrictions on activities not in line with ING's values and harmful to people or the environment (for example companies involved in clearance of primary forest), which we do not finance.

The next table gives insight into the ESR policies that are part of the ESR framework and where they are applied.

Credit risk portfolio per economic sector and application of ESR framework

in percentage	2020 outstandings	Conduct and ethics	Human rights	Environmental compliance	Animal welfare	Defence	Equator principles	Forestry and Agrocommodities	Mining and Metals	Tobacco[1]	Infrastructure	Generic engineering[1]	Manufacturing	Chemicals	Energy[2]	Fisheries[1]
Consumer lending	31,5%	•														
Financial institutions	23,86%	•														
Governments	7,29%	•														
Other	2,37%	•														
Corporates	35,02%	•	•	•												
Real estate	6,13%	•	•	•			•									
Natural resources	5,14%	•	•	•			•		•						•	
Transportation & logistics	3,30%	•	•	•		•	•						•			
Services	4,18%	•	•	•		•	•				•		•			
Food, beverages & personal care	2,82%	•	•	•	•		•	•		•		•				•
General industries	2,86%	•	•	•		•	•	•					•			
Builders & contractors	1,75%	•	•	•			•						•			
Chemicals, health & pharmaceuticals	1,80%	•	•	•	•		•					•		•		
Other sectors	0,36%	•	•	•			•									
Utilities	2,09%	•	•	•			•								•	
Media and telecom	1,38%	•	•	•		•	•				•					
Retail	1,33%	•	•	•			•									
Automotive	1,04%	•	•	•		•	•						•			
Technology	0,85%	•	•	•		•	•						•	•		

1 Fully or partially excluded activities.
2 Includes policies on Oil and Gas, Coal, Nuclear Energy and Power Generation.

The way the ESR Framework is applied in practice differs per product type. The largest potential environmental and social impacts come from large corporates within our Wholesale Banking (WB) segment. WB is therefore the primary focus of our assessments and where we promote active ESR dialogue and knowledge sharing. We have been working with wholesale clients for more than 15 years to support them in understanding and managing their environmental and social impact. A simplified version of the ESR policy framework, following the same rationale and principles, applies to ING's mid-corporate and small medium enterprise client segments. The ESR framework minimum requirements are also included in ING's procurement policy and apply to the screening of suppliers of ING's global procurement activities.

The ESR policy framework is incorporated in ING's KYC policy framework, meaning the ESR client assessment is part of regular client on-boarding and review. The ESR policy framework also triggers a dedicated ESR transaction assessment to corporate clients which will indicate if such transaction is categorised as 'ESR high risk', and thus require a separate in-depth advice from the ESR team.

While we have a strong ESR policy framework and made progress in enhancing the automation of the checks and controls in the ESR assessment processes, we acknowledge that we need to further improve our processes in order to ensure accuracy and completeness of the data.

Of all Wholesale Banking engagements in scope of the ESR policy framework in 2020, 83 percent were considered ESR low-risk, 8 percent ESR medium-risk and 9 percent ESR high-risk. ESR high-risk cases require specialised advice from the global ESR team. The team now consists of 11 dedicated ESR advisors, 10 of whom are in Amsterdam and one in Geneva. The ESR advice assesses the specific product offered and environmental and social impacts associated with it, the sector, operating context and geography of the engagement and other relevant factors. Based on this in-depth research, a binding advice is given that can only be overruled at Global Credit Committee level. Of the 292 ESR advices given in 2020, which are related to new requests, 60 percent were positive, 25 percent positive subject to conditions and 15 percent negative. Conditions can play an important role in helping clients transition towards improved environmental and social performance on the ground.

The ESR team mainly focuses on policy development and transaction advisory. However the team also provides training (both in-person and via webinars) to hundreds of colleagues around the world every year in risk, front-office, KYC and compliance teams, so that ESR knowledge is built on and spread.

Key updates to the ESR framework

The renewed ESR framework incorporates the updates that took place in December 2019 and July 2020, respectively. The new release, includes the following updates in the policy:

- ESR restriction on small arms and light weapons (SALW) was strengthened. For more information please see the ESR framework published on the corporate website ing.com.
- Equator Principles: We have adopted EP4 in line with the new updated EP guidelines.

In 2020, the ESR team, together with the retail business, started the implementation of a new ESR self-declaration approach for business banking. The concept is already approved by GCTP and it entails an alternative ESR client assessment implementation for business banking clients where lending and pre-settlement limits exceed €1 million and where the client is active in any of the pre-identified sectors (e.g. employment agencies). Such clients will be required to confirm their compliance with specific statements related to safeguarding labour rights and/or environmental regulations that are specific for that sector. The implementation of this initiative is expected to be finalised in 2021.

Following any key ESR policy updates on restrictions, we engage with affected existing clients and provide them with the opportunity to reduce their exposure to the new restrictions; in case a reduction is not feasible, we implement an exit strategy.

Developing international best practice and stakeholder engagement

Our ESR approach helps us and our clients to gradually enhance the implementation of key standards like the UN Guiding Principles on Business and Human Rights and the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises. But beyond stimulating better environmental and social performance in our own portfolio, ING actively collaborates with other institutions, peers and regulators to address the environmental, social and human rights challenges we face:

- **ING and the Equator Principles (EPs):** The EPs are an environmental and social risk management framework adopted by 110 financial institutions worldwide. The EPs were updated in 2019, and the new version (EP4) became effective in October 2020. EP4 contains new and stronger commitments on human rights, climate change, Indigenous Peoples and biodiversity, as well as an increased scope. ING is active in several EP working groups covering social risks, climate change and scope. ING also co-leads the capacity building and training workgroup, which is focussing on updating the EP learning tool with the changes included in EP4.

- **The Covid-19 pandemic** has also had material implications for our clients and peers to continually meet the environmental and social requirements of the EPs. ING participated in the development of a guidance note to provide practical guidelines for both Equator Principle financial institutions and clients on how to manage Covid-19 related risks to EP compliance.

- **Dutch Banking Sector Agreement**: The Dutch multi-stakeholder platform to implement the Dutch Banking Sector Agreement on International Responsible Business Conduct Regarding Human Rights formally came to an end in December 2019. The agreement was in place for three years and was finalised with a conclusive report published in August 2020 and a closing statement confirming that all agreed deliverables were completed. During the period covered by the agreement, we updated our human rights policy and published ING's first human rights report in 2018. In 2019, we issued an update of the report, highlighting the pilot on proactive client engagement carried out and the actions resulting from this pilot. In 2020, a follow-up of the 2019 human rights report was shared, providing an update of the client engagement model presented in 2019 and the current human rights landscape.

- **Thun Group**: ING participates in the Thun Group, an informal group of banking representatives focusing on human rights. The group was initially established in 2011 to support the integration of the UN Guiding Principles on Business and Human Rights into banking activities, and is now further evolving as a formal group promoting human rights and sharing best practices among its participant members.

- **OECD**: ING's active role in promoting and integrating human rights is reflected in our participation as a formal advisory member to the OECD Working Party on responsible business conduct in our sector. In 2020 we started to develop the third and final OECD due-diligence guidance documentation for asset based finance transactions. This guidance is expected to be finalised in 2021. We also participated in the Export Credit Agencies annual meetings for practitioners from financial institutions where we actively promoted ING's ESR framework and due-diligence process with export credit agencies, EP financial institutions, commercial banks, and development institutions.

By taking part in the above-mentioned initiatives, we aim to contribute our viewpoint and those of our clients, employees and other stakeholders to help form a consensus and develop clear guidelines that can serve as a standard for our industry.

Task Force on Climate-Related Financial Disclosures (TCFD)

ING endorses the recommendations of the Financial Stability Board's (FSB) Task Force on Climate-Related Financial Disclosures. This voluntary disclosure outlines the progress made to date. To further strengthen our understanding and adoption of the TCFD recommendations, ING is part of the UNEP FI TCFD project.

Governance

ING's Climate Change Committee (CCC) is mandated to oversee and set priorities for the implementation of the TCFD recommendations and other strategic climate-related topics that impact the group. For details please refer to our approach to climate governance (Sustainability governance) published on our corporate website ing.com.

Strategy

Climate change impacts companies and companies have an impact on climate change. As banks, we need to understand the risk climate change poses for our clients and be ready to safeguard our business by taking the implications of climate change into account in our risk processes. We also have a role to play in financing the transition to a low-carbon, climate-resilient economy. At ING, we have chosen an integrated strategy that allows us to translate the risks associated with climate change into opportunities.

In 2017, we started to develop in-house energy transition scenarios based on the drivers of policy and technology. These scenarios formed the basis for the energy transition assessment we undertook for particularly sensitive sectors within the Transportation, Industrials, Power and Real Estate sectors. ING is committed to continuously reviewing and monitoring its policies and strategies as climate-related risks and opportunities emerge. As a result of transition risk ING further refined its coal policy in 2017, targeting near-zero coal exposure by 2025.

In 2020, we published our second Terra Progress Report that provided an update on how we steer our lending portfolio in line with the goals of the Paris Agreement for all nice sectors in scope, including quantitative results. For an overview of how we capitalise on climate-related opportunities, please refer to Responsible Finance (section 'Our performance and strategy').

Risk management

At ING we already have several processes in place to identify and assess climate-related risks. An example is our environmental and social risk (ESR) framework, including its climate change policy, reviewing risk on a client and transaction basis. We also monitor sector-specific developments associated with the energy transition. For upstream oil and gas, our credit assessments include a strong focus on production costs. By focusing on low-cost production, we work with our clients to ensure their businesses are resilient to the risk of stranded assets.

In the course of 2020, we worked on further identifying climate risk within our portfolio. We use scenarios to understand the various climate pathways that can potentially affect sectors. In addition, ING conducted an internal firm-wide stress test, including the assessment of both physical and transition risk. To better understand the potential impact across sectors we developed an initial transition risk heatmap. We also started to conduct pilots for specific portfolios, for instance on our global mortgages portfolio with the aim to identify potential exposure towards physical risks. These types of investigations can inform our approach towards incorporating climate risk in our risk management framework. For details please refer to our stand-alone 'Climate Risk Report 2020' published on our corporate website ing.com.

Metrics and targets

We have set climate-related targets in our lending portfolio. This includes exiting thermal coal by 2025 and steering our portfolio towards meeting the Paris Agreement's well-below two degree goal (Terra approach). Under Terra, we set one target per sector for each of the nine sectors. For details on the approach refer to our '2020 Terra Progress Report' and for our approach to setting opportunity-related metrics and targets please refer to 'Climate Finance' both published on our corporate website ing.com. Within the UNEP FI TCFD project we worked towards methodologies to translate the impact of climate change on financial rations.

Next steps

In 2021, we aim to further progress with our efforts regarding climate-related risks and opportunities by refining our methodologies, working towards standard setting and expanding the scope. For instance, we aim to expand the scope of our physical risk assessment for real estate and investigate the impact of transition risk on various sectors.

Non-financial risk

Introduction

Non-financial risk (NFR) is defined as the risk of financial loss, legal or regulatory sanctions, or reputational damage due to inadequate or failing internal processes, people and systems; a failure to comply with laws, regulations and standards; or external events. The NFR function encompasses Operational Risk Management (ORM), Information Risk Management (IRM), the Independent Validation Unit (IVU), Professional Practice Unit (ERM PPU) and Corporate Security & Investigations (CSI).

Governance

The head of Corporate ORM, Corporate IRM, IVU, CSI, ERM PPU and NFR Strategy, Central Services & Digitalisation Unit report to the global head of NFR, who directly reports to the chief risk officer. The global head of NFR is responsible for developing the framework of NFR policies and standards within ING, and for monitoring the quality of non-financial risk management in the ING entities.

Non-Financial risk measurement

ING uses an internal model in line with the Advanced Measurement Approach (AMA) to determine the regulatory and economic capital amounts that are necessary to cover potential losses as a result of non-financial risks. This model predicts non-financial risk losses by combining a forward-looking and a backward-looking view on non-financial risk events. ING reports the outcome of its AMA model on a quarterly basis.

Risk categories

ING categorises non-financial risks in a number of areas:

- *Information (technology) risk* is the risk of financial loss, regulatory sanctions or reputational damage due to breaches of confidentiality, integrity or availability within business processes, the supporting IT systems, of information or lack of information quality;
- *Continuity risk* is the risk of financial loss, regulatory sanctions or reputational damage due to business disruptions (loss of people, processes, systems, data, premises);
- *Control risk* is the risks of financial loss, regulatory sanctions or reputational damage due to ineffective organisational structures and governance procedures (including unclear roles and responsibilities and inadequate reporting structure);
- *Processing risk* is the risk of financial loss, regulatory sanctions or reputational damage due to failed (transaction) processing (input, execution, output) or failing process management;
- *Unauthorised activity risk* is the risk of financial loss, regulatory sanctions or reputational damage due to employees performing outside the normal course of their business, intentionally giving unauthorised approvals or overstepping their authority;
- *Personal and physical security risk* is the risk of financial loss, regulatory sanctions or reputational damage due to criminal and environmental threats that might endanger the security or safety of ING personnel at work, people in ING locations, ING assets or assets entrusted to ING, people at ING event locations, or might have an impact on ING organisation's confidentiality, integrity or availability;
- *Employment practice risk* is the risk of financial loss, regulatory sanctions or reputational damage due to acts that are inconsistent with employment, health and/or safety laws, regulations or agreements, from payment of personal injury claims, or from diversity/discrimination events; and
- *Fraud* is the deliberate abuse of procedures, systems, assets, data, products and/or services of ING by those who intend to deceitfully or unlawfully benefit themselves and/or others. This definition of fraud is specified in the following two categories of fraud:
  Internal fraud: acts of fraud which involves at least one internal party performed by or in collusion with an ING employee or agent with the consequence of financial loss, regulatory fines, litigation loss, business disruption and/or reputational damage for ING.
  External fraud: acts of fraud or scams by individuals and/or parties excluding ING staff (including contractors), with the consequence of financial loss, regulatory fines, litigation loss, business disruption and/or reputational damage for ING.

Main developments in 2020

Covid-19

From the start of the global outbreak of the Covid-19 virus in January 2020, ING's priority has been to protect its employees and their families and to continue servicing its customers as before, and put extra effort into supporting them in difficult times. To ensure this ING employees have put immediate focus on ensuring the bank's operational resilience and continuity. ING has mobilised a global crisis management organisation – engaging with all ING entities worldwide – to monitor and manage Covid-19 related operational, health and safety challenges. In the first weeks of 2020 the bank was able to transfer around 80% of its employees, including external employees, to a working-from-home (WFH) environment. Throughout the year, ING continued to monitor developments in employee well-being and local BCM threat levels and aimed to identify, monitor and manage Covid-19 related risks through specific risk assessments. In addition to internally focused risk assessments, risk assessments were also performed on critical suppliers of ING. The financial health of these suppliers has been monitored throughout the entire year.

Cybercrime and fraud

Controls and monitoring continue to be embedded in the organisation as part of the overall internal control framework and are continuously re-assessed against existing and new threats. The identification and monitoring of new threat actors and campaigns relevant to ING also informs this process as does the closer alignment between IT security and fraud teams. In addition, ING continues to strengthen its global cybercrime and fraud resilience through collaboration with financial industry peers, law enforcement authorities, government (e.g. National Cybersecurity Centre) and internet service providers (ISPs).

General concerns over the potential impact of insider threats continues to increase. However the impact of external instances or trends remain limited in the financial industry where collaboration within the sector is improving.

The further digitalisation of banking services, increasing electronic exchange of information via different consumer channels, use of and dependency on third-party vendors for services, and the implementation of PSD2 are likely to present ongoing cybercrime resilience, fraud management and IT-security challenges; both in the short- and medium-term as criminal actors target financial and sensitive (payment) data, such as customer user credentials outside the traditional banking environment. Sensitive (payment) or personal data can be obtained by criminals via social forums such as WhatsApp and by screen scraping user credentials when a fallback procedure within PSD2 is allowed. In 2020, these challenges have further increased due to Covid-19, which resulted in more sophisticated phishing attempts, improved social engineering fraud attempts, an increased risk of external fraud in the lending portfolio and people working from home.

Dealing with current and emerging fraud threats, especially given the ever-increasing use of digital and on-line banking, effectively requires continuous improvement of fraud management capabilities such as real-time transaction monitoring and response capabilities. In addition, better alignment and standardisation of cross-border fraud management across ING and related platforms as well as exchanging data cross border. With legislation such as EBA PSD2 and the continuing emphasis on duty of care, financial institutions are potentially becoming more and more responsible for losses incurred by clients, and taking on more of the burden of reclaiming those losses.

Data risk management

The drivers for ING's data management come from the Think Forward strategy, where data management is one of the key enablers, and from the increasing regulatory focus on data.
ING has the enterprise data lake in place (part of the target infrastructure) and is implementing data management capabilities including data definitions, data quality, data governance and data ethics, for use by ING entities, to support, amongst others, statutory and regulatory reporting. ING is continuously improving its data governance, the execution of its data quality framework controls at a consistent level across the bank and prioritising the implementation of the target infrastructure to further simplify, standardise and modernise its activities.

In 2020, the Global Data Committee was established as a key Management Board Banking committee, to provide guidance to the global data function, comprising the chief data management officer and the data management organisations of all entities. Its purpose is consistent with BCBS239's stipulation of 'strong governance' (Principle 1) as well as ING's own ambition of being a data-driven bank. The Global Data Committee, chaired by the CRO, oversees the global data function and its contribution to wider society by providing decisions, endorsements and priorities for ING's data management strategy and data-related initiatives.

Enterprise risk management

The enterprise risk management ('ERM') framework is the overarching risk management framework. ERM assembles common risk principles for all risk types and domains: financial, non-financial (including compliance and model risks) and strategic risks. It aims to ensure standardisation of all risk frameworks and applies to all businesses lines and entities across ING.

In 2020, the ERM Professional Practice Unit (PPU) was established to set standards for the management and implementation of the ERM framework and to assure consistent use of the policy governance and risk library for all risk domains within ING. The PPU is introducing ING's global documentation governance by providing definitions and guidance for global policy documentation and global policy development, update and approval processes.

User access management (UAM)

UAM is one of the focus areas of ING and an important element in our control framework to mitigate the risk of unauthorised and / or inappropriate access to systems, processes and the data and information contained therein. Consequently, the UAM processes, controls and practices are periodically reviewed, tested, adapted and improved by a dedicated UAM team to address ongoing developments both within and outside ING. In 2020, ING continued to mature, with attention to tooling, standardisation and harmonisation of processes and workflows and further automation of UAM controls. This will continue in 2021.

Personal data protection

As per 25 May 2018, the European General Data Protection Regulation (GDPR) became effective. ING is bound by the GDPR that affords greater protection to individuals and requires more control on data and transparency regarding the use of data by companies. In 2020, ING continued working on structural solutions to support further enhancing the data protection of our clients and employees.

Sourcing Risk

In 2019, a renewed sourcing policy became effective, outlining the inherent critical and high risks that can materialise during the sourcing life-cycle. In addition, a sourcing guideline was issued to support updated requirements, issued by EBA in 2019. The controls defined in the support control framework (SCF) sourcing have been implemented and tested. The scope of sourcing encompasses outsourcing to external providers as well as intra-group sourcing.

BCBS 239

In January 2013 the Basel Committee on Banking Supervision published the Principles for Effective Risk Data Aggregation and Risk Reporting (BCBS 239), which is adopted by the ECB and became effective for all Global Systemically Important Banks (G-SIBs) as of January 2016 and for all D-SIBs depending on the date of designation. In 2020, ING continued with the extension of scope, continuous implementation improvements and further embedding into business as usual.

Compliance risk

Introduction

Compliance risk is defined as a threat posed to ING's standing resulting from failure to act in line with applicable laws and regulations, internal rules (including ING's Orange Code and global Code of Conduct) and/or societal expectations. A failure to adequately mitigate compliance risk may lead to damage to ING's reputation and/or legal/regulatory sanctions, and/or financial loss.

The mission of Compliance is to support ING in conducting its business activities in line with applicable laws and regulations, taking into account ING's internal code of conduct and societal expectations. Compliance wants to drive compliance risk management by desire and design throughout the organisation, unleashing the power of our data, risk expertise, and people to keep the bank safe and sound, and help drive new and sustainable ways of doing business.

Within ING, compliance risks are defined as those risks that are within the scope of the ING Compliance Risk Catalogue. The following three risk categories apply:

- Financial crime risk refers to the risks of the bank's products and services being abused for illicit purpose generating or disguising financial and/or economic crimes (FEC).
- Conduct risk refers to the compliance risks arising from potential or perceived misconduct by ING or its employees towards its customers, market integrity, business partners and other stakeholders.
- Organisational risk refers to the compliance risks arising from actual, potential or perceived flaws in the way that ING is organised and structured including its regulatory and reporting framework.

Governance roles and responsibilities

The Compliance organisation (comprised of four roles: Group Compliance, business segment compliance, geographical compliance and country compliance) is part of ING's second line of defence refer to 'Risk Governance'. Group Compliance together with business segment compliance set the priorities, standards and boundaries for the business segments (Retail and Wholesale Banking). Geographical compliance (Challengers & Growth Markets / Wholesale Banking / Market Leaders) together with the functional lines in the countries are responsible for the execution of these priorities, standards and control framework, within the boundaries set.

Compliance is tasked with instructing, advising, challenging and having oversight of the first line of defence in their management of compliance risks as well as raising awareness (via training and communication), influencing and stimulating a sound compliance risk culture. The scope of the compliance risks is outlined in the ING Compliance Risk Charter.

Compliance is headed by the chief compliance officer (CCO) who reports directly to the CRO. The CCO has direct access to the Risk Committee of the Supervisory Board. The CCO and the chairman of the Risk Committee had regular bilateral consultations in 2020.

Update on key compliance matters

Strengthening the compliance function

In 2020 ING introduced measures to strengthen the compliance function. These measures were implemented as part of a multi-year, global compliance strategy and transformation programme that started in October 2019. The programme encompasses the whole compliance function and particularly aims at enhancing and integrating governance, an end-to-end framework and monitoring capabilities of the compliance function. As we operate in a dynamic and challenging environment we are continuously learning and improving while getting to a more sustainable and mature level within the compliance function.

Financial economic crime

Knowing who we do business with helps us to prevent the financial system from being misused, and is an important obligation to help gain trust in the financial markets. As gatekeepers of the financial system we have an obligation to prevent criminals from misusing it or detect and respond when it is being misused. We believe we can be even more effective in safeguarding the financial system if we join forces and work with other banks and with national, European and global authorities and law enforcement agencies to tackle financial economic crime. In 2020, ING continued to execute and update policies and procedures to further enhance our know your customer (KYC) activities. In addition, ING set up a special taskforce to monitor transactions for financial economic crime related to Covid-19. ING is continuously working to strengthen its implementation of KYC and build sustainable KYC practices. One of the ways we do this is through our global KYC enhancement programme which aims to:

- Improve customer due diligence, perform on-going transaction monitoring and report on unusual activities should these be identified.
- Make structural improvements in five areas: policy and risk appetite statements, digital tooling, governance, monitoring and screening, and KYC knowledge and behaviour.

It is important to continuously enhance our FEC controls framework given the dynamic nature of the threats and regulations. In 2020, the FEC controls maturity programme (FCMP) was initiated in order to further mature the framework over time.

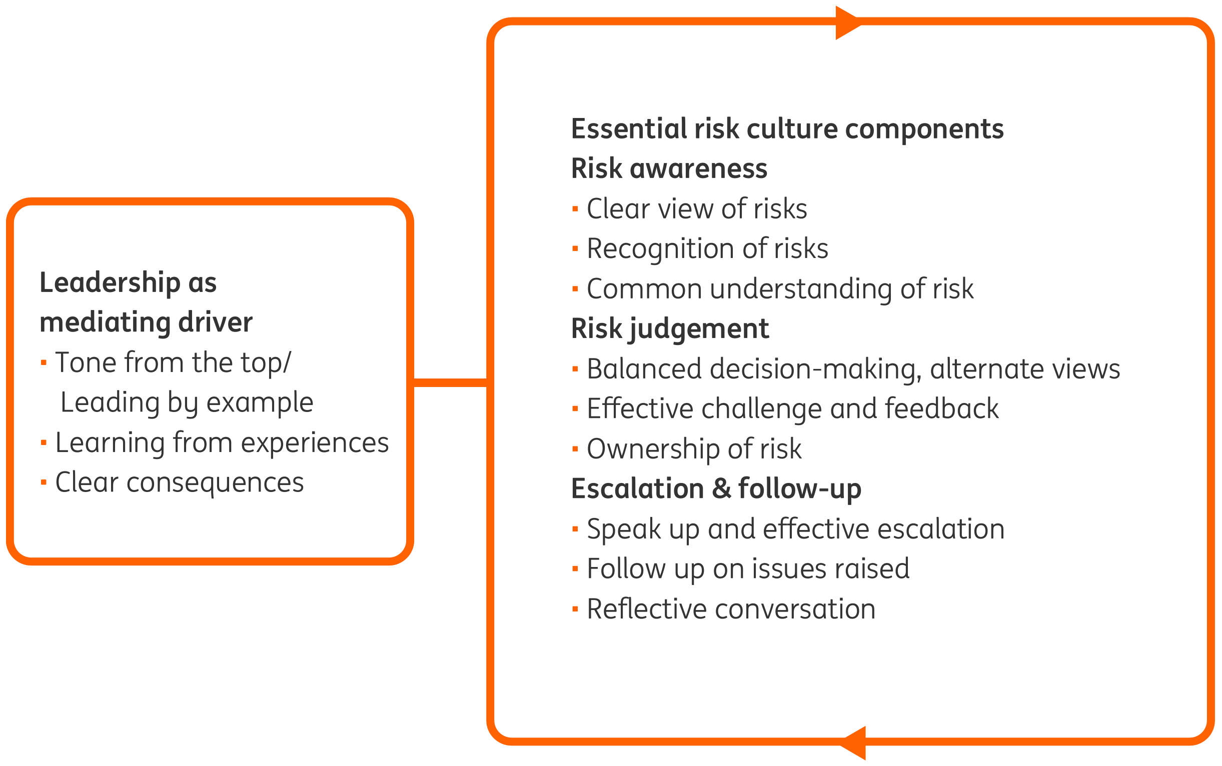
Risk culture

At ING we attach great importance to a sound risk culture. ING's risk culture determines the way in which employees identify, understand, discuss and act on the risks we are confronted with and the risks we take. In 2019, ING initiated a global risk culture project to understand and measure where our level on the mentioned aspects is. The Management Board Banking and Supervisory Board are closely involved in this project and are strongly committed to safeguarding a sound risk culture for ING. Key characteristics of ING's risk culture are:

- Our Orange Code and global Code of Conduct define the most essential conduct principles expected from ING employees in their daily activities; (see 'Conduct risk')
- Our leadership plays an active role in offering an environment of open communication and challenge;
- Having a robust risk management framework is key;
- Managing non-financial risk is as important as managing financial risk;
- We take time to learn from best practices and incidents from the past;
- We all are accountable for sound risk management and take time to actively educate ourselves; and
- Our reward and remuneration system reflects our ING values and our desired risk culture.

The project includes specific enhancement assignments in areas such as monitoring risk culture, our escalation culture and further linking non-financial risk related topics to our purpose and strategy.

Risk culture



RegTech

The large number of regulations impacting financial institutions shows no sign of slowing down, leading to an increasing need within the compliance function for innovative solutions to support our business processes. A notable area of interest is horizon scanning, covering the timely spotting of rules and regulations, identifying risks and obligations resulting from these regulations, and creating policies to support the organisation on being compliant. A wide range of innovative tooling (such as Ascent, SparQ, Corlytics) is being assessed for horizon scanning and interoperability of solutions is a key factor in our consideration.

Regulators are showing a growing recognition of the value of RegTech solutions to manage Compliance Risk. In response, ING is running a diverse portfolio of RegTech initiatives. This ranges from making investments (e.g. Ascent, Eigen), close collaboration on solutions (e.g. Privitar, DuCo, Regtek Solutions) and creation of home-grown solutions (e.g. CoorpID). Our focus is on RegTech solutions that create positive impact on compliance effectiveness and cost.

Financial crime risk and know your customer

Financial crime risk refers to the risk of the bank's products and services being abused for an illicit purpose; either generating or disguising FEC. Keeping ING safe, secure and compliant is a top priority. Know your customer (KYC) and financial crime compliance play a major role and aim to ensure we only engage and do business with people and companies that meet regulatory requirements and are within our risk appetite. This is important, not only for ING but for wider society, with governments around the globe having identified financial crime as a major concern in modern society.

Fighting financial crime in a constantly changing environment requires ongoing updates to regulations and requirements to keep banking safe. However, according to the European Banking Authority, increased regulations and scrutiny can also have unintended consequences, with some customers and clients no longer being able to get their financial needs met.

KYC policy framework

ING strives to play its part in safeguarding the integrity of the financial system by combatting financial crime through utilisation of an overarching policy and control framework which is continuously enhanced. The KYC policy and related control standards (the KYC policy framework) set the minimum requirements and control objectives for all ING entities to guard against involvement in financial crime activity. The KYC policy Framework reflects relevant national and international laws, regulations, guidance documents and guidelines from national, European and international authorities, (supra)national risk assessments, and industry standards related to:

- financial economic crime, covering money laundering, terrorist financing, bribery and corruption, export trade controls, proliferation financing, sanctions (economic, financial and trade), countries designated by ING as ultra-high-risk countries (UHRC)
- customer tax compliance, covering customer tax integrity (CTI), FATCA, CRS, mandatory disclosure requirements (MDR)
- environmental and social risk (ESR) client assessment, specifically the initial customer screening for environmental and social risk. For more information see the Credit risk chapter.

The KYC policy framework is mandatory and applies to all ING entities (i.e. all branches and majority-owned subsidiaries of ING Groep N.V. (including ING Bank N.V.) or where ING exercises control), their corporate functions and their branches, including outsourcing partners to whom ING entities have sourced KYC-related responsibilities. The KYC policy framework also reflects relevant national and international laws, regulations and industry standards related to business partners and overarching requirements with regards to record retention, training and awareness. ING entities have local procedures in place, aimed at enabling them to comply with local laws and regulations and the KYC policy framework. Where local laws and regulations are more stringent, these have to be applied.

As a result of frequent evaluation of the businesses from economic, strategic and risk perspectives, ING continues to believe that for business reasons doing business involving certain specified countries should be discontinued. In that respect, ING has a policy not to enter into new relationships with clients from these countries and processes remain in place to discontinue existing relationships involving these countries. At present, these countries are Cuba, Iran, North Korea, Sudan, Syria and Crimea region.

KYC enhancement programme

ING is continuously working to strengthen its implementation of KYC and build sustainable KYC practices. One of the ways we do this is through our global KYC enhancement programme which aims to:

- Improve customer due diligence files (documentation, data and identity verification), assess selected past transactions and report on unusual activities should these be identified.
- Make structural improvements in five areas: policy and risk appetite statements, digital tooling, governance, monitoring and screening, and KYC knowledge and behaviour.

Global approach

ING updated its KYC policy in line with external regulatory developments in anti-money laundering and financial sanctions. We also updated our ESR framework to incorporate new policies on human rights, climate change and financing infrastructure projects. This framework updates and standardises our policies by expanding the list of restricted activities ING will not finance. It also clarifies roles, responsibilities as well as the products and clients in scope.

In addition, we refreshed and further enhanced our systematic integrated risk analysis (SIRA). This allows us to measure and monitor adherence to our KYC risk appetite and ensures consistent KYC integrity risk assessments across the bank. Our risk appetite statements (RAS) which incorporate ING's risk appetite and tolerance towards KYC integrity risks were also updated.

We changed the structure of our global KYC organisation introducing three pillars that oversee customer due diligence, transaction monitoring and screening. Each pillar has a dedicated team with expert leads. This brings greater focus, strengthens steering and ensures end-to-end responsibility.

We also continued to introduce uniform global transaction monitoring solutions in 2020. These include standardised transaction monitoring tooling, supported by risk-based scenarios, handling alerts and reporting suspicious activities where required. The countries in scope have been connected to our global pre-transaction screening tool. Our adverse media screening tool is now available in most of the countries and will be available across the network of countries in early 2021. This allows us to continuously screen customers against news intelligence related to financial and economic crime. We implemented continuous name screening in several countries. Substituting local tools with centralised global tools enables us to further improve the way we onboard, monitor and screen customers using a consistent approach across the world.

We have also established a financial economic crime Covid-19 taskforce within ING aimed at identifying potential criminal schemes and assessing if the coronavirus pandemic influenced payment patterns or created new channels for money laundering. The taskforce worked with other parts of the bank to protect customers from fraud and further strengthen cybersecurity, during the pandemic. It also identified and analysed new behavioural patterns of customers in the Netherlands, which resulted in new cases of unusual transactions being reported. These findings are used to determine if similar patterns exist in other ING countries.

In 2020, five Dutch banks, including ING, proceeded with Transaction Monitoring Netherlands (TMNL), following a successful proof of concept that explored the feasibility and effectiveness of joint transaction monitoring. Monitoring transactions with a combined database provides greater insights into potential criminal money flows and networks, which will further boost monitoring and alert detection.

Similarly, we are working with four banks and payment provider Isabel Group in Belgium to use the blockchain application KUBE to share corporate data as part of the KYC process. KUBE is currently being built and is expected to be operational next year, and will help streamline the verification and maintenance of corporate identities.

In Germany, ING joined the public-private partnership Anti-Financial Crime Alliance (AFCA) to foster mutual exchange of information within the financial system. The alliance consists of 30 members, amongst them public authorities, the largest financial institutions as well as representatives from the real estate sector.

Digitalisation and innovation

Criminals are harnessing technologies like artificial intelligence and machine learning to become ever more sophisticated. These same technologies can also help us to counter this threat. For example, Hunter is an AI-powered anti-money laundering tool that has the predictive capability to detect (emerging) suspicious patterns and entities. It helps identify clients with a high concentration of suspicious behaviour and points out hidden relationships, delivering on the promise to always be a step ahead. And we've developed a centralised digital vault where corporate clients can store and share their KYC documentation in a secure way. Similarly, the ING Lab in Singapore is working on a tool to help banks that serve other financial institutions eradicate the duplication of KYC documentation.

Knowledge and behaviour

Increasing our knowledge of KYC, providing training and carrying out behavioural risk assessments aimed at detecting impeding behavioural patterns and intervening where necessary is also key.

A global KYC academy was set up last year to equip employees with the skills and knowledge they need to effectively protect customers, the bank and society against financial economic crimes. This year, the academy partnered with ACAMS (Association of Certified Anti-Money Laundering Specialists) and developed learning modules for employees working on KYC to raise their KYC awareness. Almost 8,000 employees enrolled for these modules. Trainings on sanctions also took place.

Behavioural risk assessments were carried out to identify impeding behavioural patterns and their drivers and give direction to any necessary interventions. Since 2018, several KYC teams in various business lines have been assessed.

Leadership labs (workshops with senior leaders) were organised in APAC, EMEA and Americas to address impeding behavioural patterns identified in the assessments and develop the right conditions to manage risks.

We also conducted two Nudge Labs this year for Wholesale Banking globally, developing subtle triggers that encourage desired behaviours to further strengthen our KYC processes and execution. Co-created by our Wholesale Banking and behavioural risk experts, the Nudge Labs are another follow-up from our KYC behavioural risk assessments.

Staying safe, secure and compliant

Fighting financial economic crime is a challenge the financial industry faces globally. The scope of the problem was illustrated in media reports in September 2020, in which several banks, including ING, were mentioned in respect of SARs filed some years ago.

As a gatekeeper to the financial system, we have an important role in the collective fight against financial economic crimes. By performing customer due diligence and monitoring transactions we aim to detect and prevent the financial system from being misused in criminal activities, including money laundering and terrorist financing, for the safety and security of our customers and society. We take this responsibility extremely seriously. As part of our ongoing anti-money laundering efforts, we assess relationships with customers and screen transactions. Potentially unusual/suspicious transactions are reviewed and, where applicable, reported to the relevant authorities. Over the past few years, we have increasingly discontinued customer relationships which do not fit our risk profile. This approach is also applied to acquisitions such as Payvision. ING was aware when it acquired Payvision that its customer base partly did not meet ING's desired risk profile. Hence, arrangements were made during the acquisition to exit customers in the 'adult' entertainment and gambling segments. Steps were also needed to better align Payvision with ING's risk profile, strengthening Payvision's governance, policies and processes. For example, Payvision's risk and compliance functions were reinforced, its chief risk officer is now a member of its board and there is a formal programme in place, including governance, to ensure that Payvision's compliance meets requirements. The programme involves a series of initiatives, including working on various structural improvements in compliance, tooling, monitoring, governance, knowledge and conduct.

In September 2020, Banca d'Italia announced that the ban on onboarding new customers at ING in Italy, imposed in March 2019 was removed. The decision followed comprehensive steps undertaken by ING in Italy to strengthen its processes and management of KYC compliance risks. Following an inspection by Banca d'Italia, which identified shortcomings in AML processes, ING in Italy was banned from taking on new customers in March 2019. Existing customers in Italy continued to be fully served throughout the period of the ban.

Keeping banking safe and secure for the longer term, requires staying ahead in the area of financial economic crime compliance. Hence, we are building on the foundation of our global KYC enhancement programme by organising and integrating all regulatory developments and activities in the area of financial crime compliance within our regular controls framework.

Bribery and corruption

Corruption curbs economic growth and impedes the development of peaceful and sustainable societies. It undermines business confidence and corporate integrity, impedes fair business competition and harms international trade. It can also severely damage the reputation of companies and thus erode both public trust and investor confidence. We take these risks seriously and take steps in our organisation to identify and to minimise the risk of being involved in or associated with bribery or corruption.

We expect all ING employees at every level of the organisation to always do business in accordance with the values and behaviours of our Orange Code. We have a zero-tolerance approach when it comes to bribery and corruption. Our zero tolerance statement and more information regarding our anti-bribery and corruption (AB&C) policy can be found on our website.

Bribery and corruption risks are part of our non-financial risk framework, are included in the client and third-party due diligence and monitoring measures in our KYC framework and will be integrated into our systematic integrity risk analysis alongside our KYC and other integrity risks in 2021. An enhancement programme to further improve our AB&C risk assessment, controls and reporting is in progress.

Our people receive training which includes how to recognise warning signs of bribery and corruption and in order to ensure they understand our zero-tolerance approach and the mandatory control measures in place. Our training framework will be enhanced to provide more targeted and specialist training on bribery and corruption risks from 2021 onwards. We encourage employees to speak up if they have concerns relating to bribery and corruption.

5th EU AML Directive

The 5th AML Directive was implemented in the Dutch Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft) in May 2020. Furthermore, in the battle against financial economic crime, including money laundering, the Dutch UBO-(ultimate beneficial owner) register went live in September 2020. These developments have been incorporated in ING's KYC policy framework.

Looking ahead, ING keeps abreast and takes relevant action on other external developments. In this context, reference is made, among other things, to the 6th AML Directive, as well as regulatory proposals from the European Commission following from its action plan for a comprehensive union policy on preventing money laundering and terrorism financing. Moreover, the execution of the Dutch action plan for the prevention of money laundering through the Dutch financial system and for tracking and prosecuting criminals and their enablers is in progress. This action plan was presented by the Dutch Minister of Justice and Security and Minister of Finance. Anticipating regulatory developments in this area, ING and four other Dutch banks established Transaction Monitoring Netherlands (TMNL) in the collective fight against money laundering and the financing of terrorism. This organisation is a first of its kind: it is anticipated that within TMNL transactions of those banks are jointly monitored with advanced analytics techniques like network analytics and anomaly detection.

Common Reporting Standard (CRS)

Similarly, the Organisation for Economic Cooperation and Development (OECD) has developed a Common Reporting Standard (CRS) and model competent authority agreement to enable the multilateral and automatic exchange of financial account information. CRS requires financial institutions to identify and report the tax residency and account details of non-resident customers to the relevant authorities in CRS-compliant jurisdictions. As of 29 September 2020, 109 jurisdictions ('signatory countries'), including the Netherlands, have signed a multilateral competent authority agreement to automatically exchange information pursuant to CRS. The majority of countries where ING has a presence have committed to CRS. The EU has made CRS mandatory for all its member states.

The OECD has also introduced two additional new measures to tackle global tax avoidance/evasion:

- Mandatory Disclosure Rules for Addressing CRS Avoidance Arrangements and Opaque Offshore Structures
- Preventing Abuse of Residence by Investment (RBI) and Citizenship by Investment (CBI) Schemes to Circumvent the CRS.

These measures are in the process of being implemented in local laws. With regard to the mandatory disclosure rules for EU jurisdictions, this was done via the amendment to Directive 2011/16 (DAC6).

Tax risk

Tax policies, procedures and a tax control framework have been implemented to support management in mitigating potential tax risks in a prudent manner. Internal monitoring, control and reporting of tax-related risks take place on a continuous basis with regular reporting to various stakeholders. For 404/SOX purposes (section 404 of the Sarbanes-Oxley Act), an 'effectiveness of internal control statement' with respect to tax controls has been provided. Tax risk management is subject to Corporate Audit testing and evaluation. In the Netherlands and also in other countries, ING's position is to be cooperatively tax compliant, this implies to have transparency about and disclosure of relevant tax risks towards tax authorities. Tax risks not only refer to ING's own tax position, but also to the risks in relation to the tax positions of our customers. In this respect, we have integrated a tax integrity assessment in our overall customer risk assessment process.

Conduct risk

Culture and ethics

A sound risk culture is paramount at ING as it determines the way in which employees identify, understand, discuss, and act on the risks we are confronted with and the risks we take. In 2020, ING conducted a self-assessment of our risk culture and are working on developing the key characteristics of ING's risk culture.
To further enhance our risk management in the area of risk culture, ING added culture and ethics risk to its compliance conduct risk scope. The proper embedding of our global Code of Conduct, Orange Code and the whistle-blower policy are key to managing our culture and ethics risk.

Orange code and the global Code of Conduct

In February 2020, ING launched a new global Code of Conduct, clarifying the link between the existing Orange Code and our main policies. The global Code of Conduct further defines the most essential conduct principles expected from ING employees in their daily activities. It provides additional risk awareness and helps to better meet expectations stated in external rules and guidelines. To enhance monitoring on the global Code of Conduct, this code will be linked (like the Orange Code) to the employees' performance management cycle to ensure a continuous attention and dialogue on how to apply the global Code of Conduct in the daily work practice of our employees.

To preserve risk awareness in the area of risk culture, ING continued its efforts towards embedding the Orange Code decision making model (introduced in 2017) that supports ethical and well-balanced decision-making throughout ING. This included frequent training by Compliance towards the first line. In 2020 the model was also further embedded in ING's governance by adding the model to the Global Product Approval (PARP) Policy and the local PARP processes.

Conflict of Interest

Compliance will cover the risk of running deals and operations in a way where personal or organisational interests prevail over the interest of the client (e.g. when related to personal account dealing).
In 2020 our existing conflict of interest policy was revised in alignment with the standards as defined by enterprise risk management. The policy incorporates key requirements for both personal and organisational conflicts of interests in line with the EBA Guidelines on Internal Governance. Controls are defined in control standards owned by the first line of defence.

Market conduct risk

Market conduct risk is defined as running deals and operations not in line with good capital markets functioning along the product/service life cycle (i.e., pre-trade, execution and post-execution). A smooth functioning of markets and public confidence in markets are crucial for economic growth and wealth. The 2016 market abuse policy was revised to incorporate EU Regulation 2019/2115, which changed the requirements on market soundings for small and medium-sized enterprises. Furthermore, a full-fledged review of the 2016 market abuse policy was also conducted.

Treating customers fairly

Under conduct risk, ING includes the risk related to treating customers unfairly and not having their best interests in mind throughout the product life cycle (from design to advice and claims handling).

Our focus in 2020 was on strengthening compliance with the Markets in Financial Services Directive (MiFID). New key controls were rolled out throughout ING's EU entities and an extensive assessment was carried out to further align the implementation of MiFID rules in all locations and to enhance training and guidelines. INGs global Client Protection and Product Approval Committee (CPAC) oversees the embedding and monitoring of ING's global standards and risk appetite when offering investment services to our customers. Local and/or regional CPACs have been setup across the footprint representing Retail- and Wholesale Banking and allowing for a global framework that can be monitored and steered accordingly. 2020 also saw a big emphasis on the improvement of transaction reporting activities in order to fully align them with regulatory expectations.

Model risk

Introduction

Model risk is the risk that the financial or reputational position of ING is negatively impacted as a consequence of the use of models. Model risk can arise from errors in the development, implementation, use or interpretation of models, or from incomplete or wrong data etc., leading to inaccurate, noncompliant or misinterpreted model outputs.

A model is defined as:
a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates or whose inputs are partially or wholly qualitative or based on expert judgement.

A tool or solution (a candidate model) is considered a model when:

- it covers quantitative approaches whose inputs are partially or wholly qualitative or based on expert judgement, provided that the output is quantitative in nature;
- it is used multiple times without changing or reconsidering the assumptions, model parameters or weighting factors; and
- the outcome is used for decision-making.

Covid-19 impact

The outcome of models depends directly on the data that is used as input. As described throughout this report many sectors have been hit hard by the consequences of the pandemic and governments have taken extraordinary support measures to counteract the negative economic circumstances these sectors are experiencing. The same measures also cloud to a certain extent the reliability of the data that currently is being used as input for models. The support measures interfere with normal economic circumstances meaning that data currently used may not reflect the true nature of economic circumstances and may be positively biased. The increased model risk that is associated with this phenomenon has been acknowledged and is being managed by a range of management actions, such as management adjustments, and close monitoring of portfolio developments.

Models governance (*)

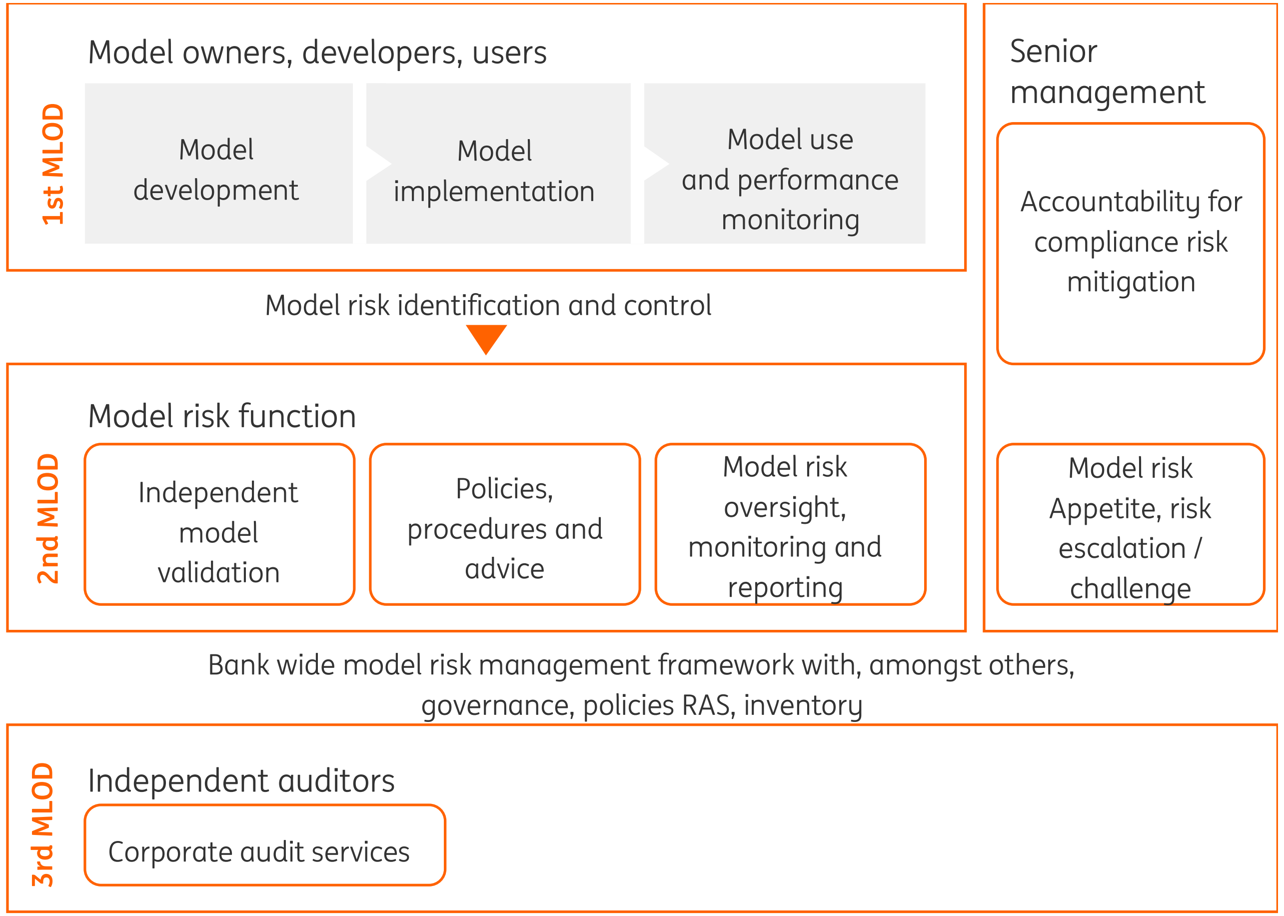
The growing complexity and number of models created and utilised every year for decision-making makes it important to manage and control the associated model risk accordingly. Within ING the overarching responsibility for this risk type lies within Model Risk Management (MoRM) department. The MoRM, is responsible for identifying, assessing, monitoring and reporting global model risk exposure at the aggregated level. The department sets and maintains a model risk management framework containing: (1) model governance, (2) model risk appetite, (3) model risk management policies and standards, and (4) the global model inventory tool. MoRM is responsible for providing independent validation of models in use within ING. For that purpose, the department has four specialised dedicated teams, each focusing on different family of models, namely: Credit Risk Model Validation, Banking Book Risk Model Validation, Trading Book Risk Model Validation and Data Science Model Validation.

The Model Risk Management Committee (MoRMC) is in place to align the overall model strategy and approve the model risk appetite, model risk management policies and methodologies. MoRMC is mandated by the MBB and chaired by the CRO of ING, the MoRMC meets monthly.

Model lines of defence (*)

ING's model risk and control structure is based on the three model lines of defence (MLoD) approach. This approach aims to provide a sound governance framework for model risk management by defining and implementing three different management layers with distinct roles and oversight responsibilities.

Model lines of defence (*)



In terms of composition and main activities within three model lines of defence (MLoD):

- The 1st MLoD is composed of the model owners, model users, data management and model development, and is accountable for, among others, the development, implementation and use of the models as well as monitoring the effectiveness of models' performance;
- The 2nd MLoD is composed of model validation and model risk oversight, which owns the model risk management framework, proposes the model risk appetite and provides an independent validation of models used within ING;
- The 3rd MLoD is the internal audit, reviewing the quality of model risk management execution in all lines of defence and providing independent assurance.

An important difference with the financial and non-financial risk lines of defence is that models can also be owned by risk (normally a 2nd LoD), e.g. for bank-wide stress testing, or by the audit service (normally a 3rd LoD), e.g. to support prioritisation of their audits. In that case, both domains (risk or audit service) become 1st MLOD.

Model Risk Appetite (Model RAS) (*)

The model risk appetite is designed to determine the level of model risk ING is willing to accept in pursuit of its strategic objectives. The initial iteration of Model RAS was introduced in 2020 and it will be monitored and evaluated in 2021.

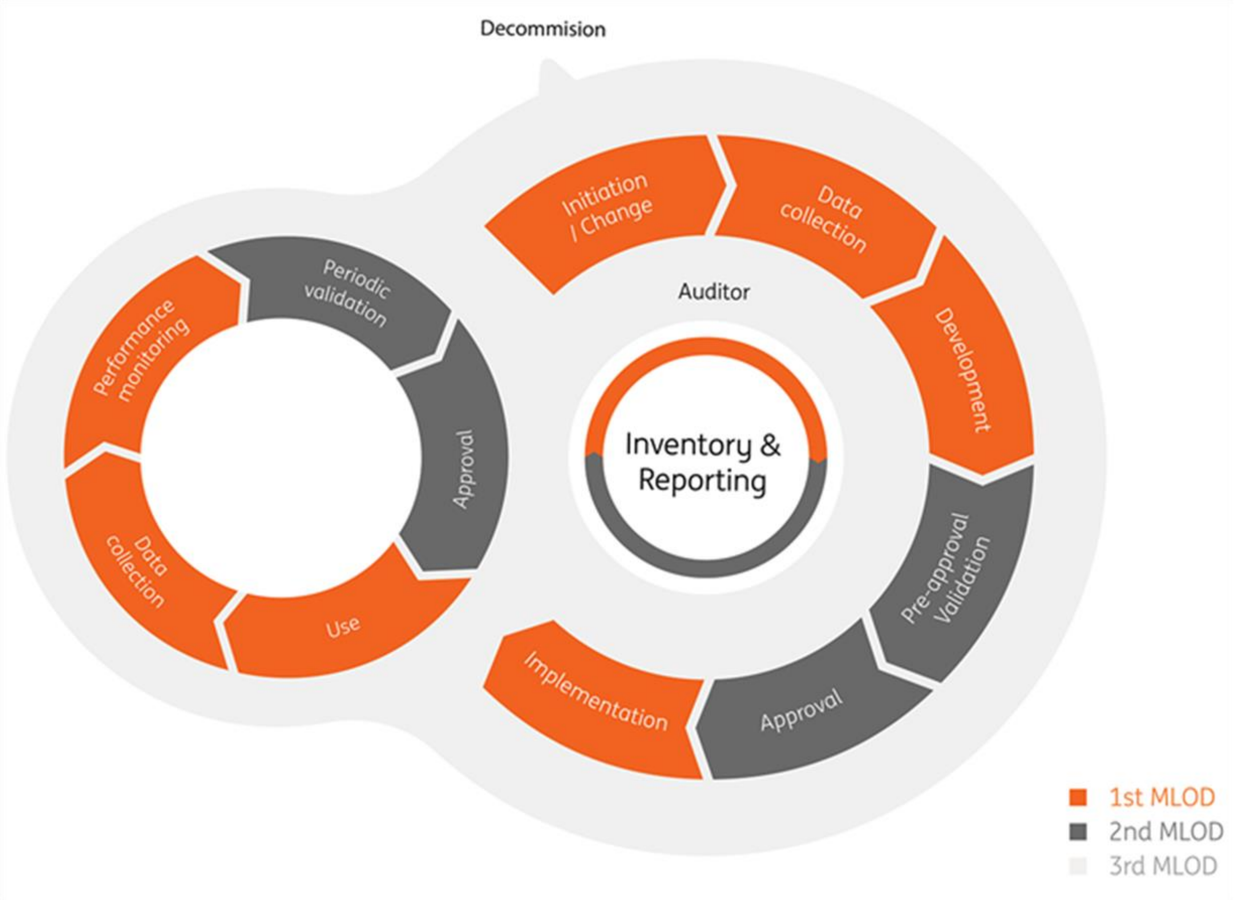
Model risk management (*)

Since models are by definition simplifications of reality, model risk is inherent in the use of models and therefore model risk must be identified and managed. Model risk management includes the identification, assessment, control (acceptance or mitigation) and monitoring (and reporting) of the risks related to applying models in various business processes.

Model risk management is to be executed for each individual model through the model life cycle via processes such as: model classification, model risk identification and assessment, and model validation. On an aggregated level model risk is monitored via analysis of data from the global model inventory. The insights, from aggregated data analysis, are reported to the MoRMC and to the MBB for senior management to take well-informed decisions on acceptance or further mitigation of model risk.

Model lifecycle (*)

The next figure provides a schematic overview of the model lifecycle, where orange represents the activities of the 1st MLoD, grey represents the 2nd MLoD and light grey is the 3rd. The objectives of the different processes are outlined below (reference).



Initiation or change: The initiation of the development of a new model or change of an existing model can be triggered by different factors. These may be (i) internal, such as the introduction of a new product that cannot be handled by the existing models, a change in ING's organisation, financial or commercial strategy or findings and issues by an auditor, validator or based on monitoring; or (ii) external, such as innovation/new technology that becomes available (for example the Fintech models), new or upcoming supervisory regulations or ongoing technical developments.

Data collection is the process of defining and collecting data that meets the defined data quality requirements for model development. The process includes the definition of the data needed, assessment of data availability and quality, assumptions and limitations, as well as the gathering of the data needed for the analyses, impact study and testing during the model development process.

Model development is a structured process that leads to a model that is ready for validation and subsequent use. Depending on the development approach these first stages can be separate or integrated. An example of the latter is data science based application development.

Pre-approval validation is the independent confirmation that the model is valid for its intended use, before the new or changed model is submitted for use approval. To ensure objectivity and effective challenge, the model validator is independent from other model parties such as the model developer, model owner or model approver. Model validation applies equally to in-house developed and third-party models.

The objective of the **model approval** stage is approval for use. The model owner submits the model for formal consent by the internal approver before being deployed and used. The recommendations and validation report prepared by the model validator are key inputs for approval for use.

During the **implementation** stage, the model is realised, tested and made available in a production environment.

In the **model use** stage the model is applied by the users for the specific purpose it was designed for. The model can only be used after formal validation and approval for use of the model.

The objective of model **performance monitoring** is to regularly check if the model is performing as intended, also after possible changes in the commercial, organisational or legal environment. Model performance monitoring begins when model use has started and continues until the model has officially been decommissioned.

Periodic validation: During the life time of a model its ongoing validity must be safeguarded. This is done by periodical independent (re)validation that assesses whether the model is still valid for its intended use. There are two types of validation: (1) periodic, such as annual, which is mandatory for regulatory models, or (2) ad hoc, for example triggered by changes in the model, the business or financial instruments etc. The actual frequency of periodic validation depends on the model risk, model type and applicable regulation.

A model that is / will no longer be used must be decommissioned. **Decommissioning** disables the model. It can, for example, be triggered because (1) the product, organisation or risk the model is made for has changed considerably or no longer exists, (2) the model is outdated, underperforming or better alternatives are available, (3) the model became obsolete due to standardisation or (4) the external approver withdraws its approval for the model.

Continuous model inventory and reporting: Keeping an inventory of all models and their status during their lifecycle is a continuous process. It supports management and control of the models in scope, both per individual model and the overarching management of all ING's models. Periodic model risk reporting provides the relevant internal and external stakeholders with an overview of the models in use and the associated model risk given the defined model risk appetite.

Business risk

Introduction

Business risk for ING has been defined as the exposure to value loss due to fluctuations in volumes/margins, net fee and commission income as well as expenses. It is the risk inherent to strategy decisions, internal efficiency and the business environment. Business risk capital is calculated via the variance-covariance methodology for these risks, covering the risk that volume/margins, net fee and commission income and operating expenses will deviate from the expected expenses over the horizon of the relevant activities.

Governance and risk management

ING applies an explicit risk appetite statement regarding business risk, focusing on earnings stability and diversification of the business mix. Avoiding putting all eggs in one basket reduces the risk that volumes and/or margins will suddenly drop due to unexpected changes in the business environment for certain markets and products. Furthermore, the underlying risk types (expense risk, volume-margin risk, and net fee and commission income risk) are mitigated and managed differently. Expense risk is monitored and managed via the financial performance of the bank and the local units, whereby the reported expense numbers are compared on a quarterly basis with the projected cost/income ratio. Deviations from this ambition are monitored as part of the financial projections that are discussed continuously within different parts of the organisation.

Corporate governance

This chapter, including the parts of this Annual Report incorporated by reference, along with the separate publication of 'ING's application of the Dutch Banking Code' comprise the Corporate Governance Statement.[1]

Dutch Banking Code

The Dutch Banking Code is applied by ING Bank N.V. The application by ING Bank is described in the 2020 publication 'Application of the Dutch Banking Code by ING Bank N.V.', dated 8 March 2021, available on ing.com. This is to be read in conjunction with and deemed to be incorporated in the Annual Report of ING Bank N.V.

The Banking Code can be downloaded from the website of the Dutch Banking Association (www.nvb.nl/english).

Financial reporting process

As ING Bank N.V. is a consolidated subsidiary of ING Groep N.V. ('ING Group') its policies and procedures for establishing and maintaining adequate internal control over financial reporting are the same as those applied by ING Group for its consolidated financial statements with respect to ING Bank N.V. and the entities included in the latter's own consolidated financial statements.

ING's internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ING;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorisations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of our assets that could have a material effect on our financial statements.

ING has a process in place where, under the supervision and with the participation of the CEO and CFO, ING assesses the effectiveness of internal control over financial reporting, based on the criteria of the Committee of Sponsoring Organisations of the Treadway Commission ('COSO') in Internal Reporting – Integrated Framework (2013 Framework).

Board composition

ING Bank aims to have an adequate and balanced composition of its Management Board. Thereto, annually, the Supervisory Board assesses the composition of the Management Board. In the context of such assessment, ING Bank aims to have a gender balance by having at least 30 percent men and at least 30 percent women amongst its Management Board members. The Management Board Banking met the abovementioned gender balance in 2020 (33% women, with the appointment of Pinar Abay per 1 January 2020). ING Bank will continue to strive for an adequate and balanced composition of its Management Board in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large stock-listed companies and experience in the political and social environment.

[1] As required in Section 2a of the decree with respect to the contents of the Annual Report (Besluit inhoud bestuursverslag).

Changes in the composition

Pinar Abay was appointed as member of the Management Board Banking and head of Market Leaders effective 1 January 2020. Her appointment was approved by the European Central Bank. Ralph Hamers stepped down from his position as chief executive officer of ING Groep N.V. and ING Bank N.V as of 30 June 2020, as announced on 20 February 2020. With the departure of Ralph Hamers on 30 June 2020, the Supervisory Board was faced with the challenge of appointing a successor. Considering all aspects, the Supervisory Board appointed Steven van Rijswijk as the successor of Ralph Hamers with effect from 1 July 2020 as chief executive officer and chairman of the Management Board Banking. The Supervisory Board concluded that Steven van Rijswijk has the right combination of experience, leadership skills and deep understanding of our ING's business to lead ING into the next phase of ING's strategic direction.

With the position change of Steven van Rijswijk on 1 July 2020, the chief risk officer position became vacant. ING appointed Ljiljana Čortan as chief risk officer of ING and member of the Management Board Banking with effect from 1 January 2021. In terms of the dimensions of diversity, Ljiljana Čortan will add both nationality and gender diversity to the Management Board Banking in line with our 70 percent principle.

Information on members of the Management Board Banking

S.J.A. (Steven) van Rijswijk, member and chief executive officer ('CEO')

(Born 1970, Dutch nationality, male; appointed in 2017)

Steven van Rijswijk has been a member of the Management Board Banking since 8 May 2017. He was appointed CEO and chairman of the Managing Board Banking with effect from 1 July 2020. Prior to this he was ING's chief risk officer Before becoming a member of the Management Board Banking, Steven van Rijswijk was global head of Client Coverage within ING Wholesale Banking. Steven van Rijswijk joined ING in 1995 in the Corporate Finance team holding various positions in the areas of Mergers and Acquisitions and Equity Markets.

Relevant positions pursuant to CRD IV

Chairman and CEO of the Management Board Banking of ING Bank N.V. and of the Executive Board of ING Groep N.V.

Other relevant ancillary positions

Member of the Management Board of the Dutch Banking Association (Nederlandse Vereniging van Banken), member of the Board of Directors of the Institute of International Finance, Inc.

T. (Tanate) Phutrakul, member and chief financial officer ('CFO')

(Born 1965, Thai nationality, male; appointed in 2019)

Tanate Phutrakul was appointed as CFO of ING Groep N.V. and ING Bank N.V. and member of the Management Board Banking of ING Bank on 7 February 2019. Subsequently, he was appointed as a member of the Executive Board of ING Groep N.V. at the Annual General Meeting on 23 April 2019.

Tanate Phutrakul is responsible for ING's financial departments, Group Treasury (including capital management activities), Investor Relations, Group Research and Regulatory and International Affairs. Prior to this appointment, Tanate Phutrakul was the ING Group controller.

Relevant positions pursuant to CRD IV

Member and CFO of the Management Board Banking of ING Bank N.V. and the Executive Board of ING Groep N.V., and Non-executive member of the board of ING Belgium N.V./S.A.

Other relevant ancillary positions

None.

P. (Pinar) Abay, member and head of Market Leaders

(Born 1977, Turkish nationality, female; appointed in 2020)

Pinar Abay was appointed a member of the management Board Banking with effect from 1 January 2020. She is also head of Market Leaders. Prior to this appointment, Pinar Abay was member of the board of ING in Turkey and non-executive member of the board of ING in Belgium.

Before joining ING, Pinar Abay worked in Istanbul, San Francisco and New York for McKinsey & Company, serving US-based banking clients.

Relevant positions pursuant to CRD IV

Member of the Management Board Banking of ING Bank N.V.

Other relevant ancillary positions

None.

A. (Aris) Bogdaneris, member and head of Challengers & Growth Markets

(Born 1963, Canadian nationality, male; appointed in 2015)

Aris Bogdaneris was appointed a member of the Management Board Banking on 1 June 2015. He is also head of Challengers & Growth Markets, responsible for all markets where ING is active in both retail and wholesale banking outside the Benelux.

Prior to this appointment, Aris Bogdaneris was a member of the Management Board Banking responsible for Retail Banking at Raiffeisen Bank International as well as Chief Operating Officer overseeing Information Technology and Operations/Shared Service Centers.

Relevant positions pursuant to CRD IV

Member of the Management Board Banking of ING Bank N.V., member of Management Board of ING Bank (Australia) Ltd and member of the Supervisory Board of ING DiBa.

Other relevant ancillary positions

None.

M.I. (Isabel) Fernandez Niemann, member and head of Wholesale Banking

(Born 1968, Spanish Dutch nationality, female; appointed in 2016)

Isabel Fernandez Niemann was appointed a member of the Management Board Banking with effect from 1 September 2016. She is also head of Wholesale Banking with effect from 1 November 2016. Prior to her appointment Isabel Fernandez Niemann was Global Commercial Leader and Head of Sales for General Electric. Isabel Fernandez stepped down from the Management Board Banking as of 31 December 2020.

Relevant position pursuant to CRD IV

Member of the Management Board Banking of ING Bank N.V.

Other relevant ancillary position

Member of the board of Stichting het Nationale Ballet Fonds.

R.M.M. (Roel) Louwhoff, member and COO Management Board

(Born 1965, Dutch nationality, male; appointed in 2014)

Roel Louwhoff was appointed a member and chief operations officer (COO) of the Management Board Banking on 1 May 2014. He was also appointed Chief Transformation Officer (CTO) per 1 October 2016. In this role, that he fulfils alongside his COO role, he is responsible for operations of the bank-wide transformation that was announced in 2016. Roel Louwhoff is responsible for Operations, IT (including standardisation), data management, transformation, KYC, information security and process management. Prior to this appointment, Roel Louwhoff was CEO of BT Operate.

Relevant position pursuant to CRD IV

Member of the Management Board Banking of ING Bank N.V.

Other relevant ancillary positions

None.

Supervisory Board

ING Bank needs to balance several relevant selection criteria when composing its Supervisory Board but strives for an adequate and balanced composition thereof, by taking into account all relevant selection criteria including, but not limited to experience in retail and wholesale banking, gender balance, executive experience, experience in corporate governance and experience in the political and social environment.

The Nomination Committee assesses the composition of the Supervisory Board, annually. In the context of such assessment, ING Bank aims to have a gender balance by having at least 30 percent men and at least 30 percent women amongst its Supervisory Board members. With regard to Supervisory Board succession planning, the Nomination and Corporate Governance Committee continued its search for potential suitable successors so as to maintain a balanced Supervisory Board composition, taking into account the evolving role of supervisory boards in general.

With respect to gender diversity, three female members currently serve on the Supervisory Board: Mariana Gheorghe, Margarete Haase and Herna verhagen, the latter appointed on 23 April 2019, her membership became effective as of 1 October 2019. With the appointment of Herna Verhagen in 2019 the Supervisory Board has met its 30 percent gender diversity target.

Ancillary positions

Members of the Supervisory Board may hold various other directorships, paid positions and ancillary positions and are required to provide details on these. CRD IV, restricts the total number of supervisory board positions or non-executive directorships with commercial organisations that may be held by a Supervisory Board member to four, or to two, if the Supervisory Board member also has an executive board position. The European Central Bank may, under special circumstances, permit a Supervisory Board member to fulfil an additional supervisory board position or non-executive directorship. Positions with, inter alia, subsidiaries or qualified holdings are not taken into account in the application of these restrictions. Such positions may not conflict with the interests of ING Bank N.V. It is the responsibility of the individual member of the Supervisory Board to ensure that the directorship duties are reported and performed properly and are not affected by any other positions that the individual may hold outside ING Bank N.V.

Information on members of the Supervisory Board

G.J. (Hans) Wijers (chairman)

(Born 1951, Dutch nationality, male, appointed in 2017, term expires in 2021)
Former position: chief executive officer and member of the Executive Board of AkzoNobel N.V.

Relevant positions pursuant to CRD IV

Chairman of the Supervisory Board of ING Groep N.V./ING Bank N.V. and member of the supervisory board of Hal Holding N.V.

Other relevant ancillary positions

Member of the Temasek European Advisory Panel of Temasek Holdings Private Limited.

A.M.G. (Mike) Rees

(Born 1956, British nationality, male; appointed in 2019, term expires in 2023)
Former position: Deputy CEO of Standard Chartered Bank PLC.

Relevant positions pursuant to CRD IV

Vice-chairman of the Supervisory Board of ING Groep N.V./ING Bank N.V., non-executive chairman of Athla Capital Management Ltd., non-executive chairman of Travelex Topco Limited and non-executive chairman of the board of Satsanga Fintech Holdings.

Other relevant ancillary positions

Non-executive chairman of Mauritius Africa FinTech Hub.

J.P. (Jan Peter) Balkenende

(Born 1956, Dutch nationality, male; appointed in 2017, term expires in 2021)
Former position: partner EY (on corporate responsibility).

Relevant positions pursuant to CRD IV

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V.

Other relevant ancillary positions

Professor of governance, institutions and internationalisation at Erasmus University Rotterdam (the Netherlands), external senior adviser to EY, member of the Supervisory Board of Goldschmeding Foundation, chairman of the Board of Maatschappelijke Alliantie (the Netherlands) and chairman of the Board of Noaber Foundation.

J. (Juan) Colombás

(Born 1962, Spanish nationality, male, appointed in 2020, term expires in 2024)
Former position: chief operating officer and executive board member of the board of directors of Lloyds Banking Group.

Relevant positions pursuant to CRD IV

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V.

Other relevant ancillary positions

None.

M. (Mariana) Gheorghe

(Born 1956, Romanian nationality, female, appointed in 2015, term expires in 2023)
Former position: CEO of OMV Petrom SA.

Relevant positions pursuant to CRD IV

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V. and non-executive director of ContourGlobal Plc.

Other relevant ancillary position

Member of the Advisory Council of the Bucharest Academy of Economic Studies, Romania.

M. (Margarete) Haase

(Born 1953, Austrian nationality, female; appointed in 2017, term expires in 2021)
Former position: CFO of Deutz AG.

Relevant positions pursuant to CRD IV

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V. , member of the supervisory board and chairwoman of the audit committee of Fraport AG, member of the supervisory board and chairwoman of the audit committee of Osram Licht AG, and member of the supervisory board and chairwoman of the audit committee of Marquard & Bahls AG.

Other relevant ancillary positions

Chairwoman of the Employers Association of Kölnmetall and member of the German Corporate Governance Commission.

H.A.H. (Herman) Hulst

(Born 1955, Dutch nationality, male, appointed in 2020, term expires in 2024)
Former position: global vice chair EY Japan and member of Global Practice Group.

Relevant positions pursuant to CRD IV

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V.

Other relevant ancillary positions

None.

H.H.J.G (Harold) Naus

(Born 1969, Dutch nationality, male, appointed in 2020, term expires in 2024)
Former position: global head of Trading Risk Management and general manager Market Risk management of ING Bank N.V.

Relevant positions pursuant to CRD IV

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V., CEO of Cardano Risk Management B.V. and CFO of Cardano Holding Ltd.

Other relevant ancillary positions

Chairman of the Curatorium VU Amsterdam “Risk Management for Financial Institutions”

H.W.P.M.A. (Herna) Verhagen

(Born 1966, Dutch nationality, female; appointed in 2019, term expires in 2023)
Former position: member of the Supervisory Board of SNS Reaal N.V. (now: SRH N.V.).

Relevant positions pursuant to CRD IV

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V., CEO of PostNL N.V. and non-executive Board member and chairwoman of the nomination committee of Rexel SA.

Other relevant ancillary positions

Member of the supervisory board, member of the audit committee of Het Concertgebouw N.V., member of the advisory council of Goldschmeding Foundation and member of the Board of VNO-NCW (inherent to her position at Post NL N.V.).

Changes in the composition

Eric Boyer de la Giroday and Hermann-Josef Lamberti retired from the Supervisory Board effective from the close of 2020 AGM. Juan Colombás, Herman Hulst and Harold Naus were appointed by the AGM of 28 April 2020. The appointments of Herman Hulst and Harold Naus became effective on this date. The appointment of Juan Colombás became effective on 1 October 2020.

Conformity statement

The Management Board Banking is required to prepare the Financial statements and the Annual Report of ING Bank N.V. for each financial year in accordance with applicable Dutch law and those International Financial Reporting Standards (IFRS) that were endorsed by the European Union.

Conformity statement pursuant to section 5:25c 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 5:25c 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. 2020 Financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of ING Bank N.V. and the enterprises included in the consolidation taken as a whole; and
- the ING Bank N.V. 2020 Annual Report gives a true and fair view of the position at the balance sheet date, the development and performance of the business during the financial year 2020 of ING Bank N.V. and the enterprises included in the consolidation taken as a whole, together with a description of the principal risks ING Bank N.V. is being confronted with.

Amsterdam, 8 March 2021

The Management Board Banking

S.J.A. (Steven) van Rijswijk
CEO, chairman of the Management Board Banking

T. (Tanate) Phutrakul
CFO

L. (Ljiljana) Čortan
CRO

P. (Pinar) Abay
Head of Market Leaders

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

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

Supervisory Board report

In 2020, the Supervisory Board and its committees continued to focus on overseeing and constructively challenging management in their ambition to keep transforming into a leading data-driven digital bank in line with the Think Forward strategy. Another important focus was how ING could help customers, employees and communities safely through the Covid-19 pandemic. ING's risk culture and the priority to further strengthen its global anti-money laundering (AML) and know your customer (KYC) activities remained key attention areas.

The Supervisory Board met 10 times in 2020 for its regular meetings. On average, 98 percent of the Supervisory Board members were present at the meetings. This attendance rate is slightly higher compared to previous years. In addition, many extra meetings have been held in view of addressing the Covid-19 pandemic. See the attendance matrix for the Supervisory Board meetings and committee meetings for more details. The continued high attendance in 2020 demonstrates that Supervisory Board members are continuously engaged with ING and are able to devote sufficient time and attention to overseeing ING's affairs. Since 2018, the Supervisory Board discusses and reconfirms all of its members' outside positions on an annual basis and approves any intended outside positions when they occur, among others to safeguard this level of engagement.

The Management Board Banking was present at each regular Supervisory Board meeting. Depending on the nature of the topics discussed, only the chief executive officer was present for some parts of these meetings. The Supervisory Board also had sessions with only its individual members, prior to its regular meetings when this was justified by the nature of the topics on the agenda. The purpose of these so-called pre-meetings and Supervisory Board-only meetings is to allow the Supervisory Board to reflect independently on and consider important matters in the absence of the Management Board Banking. The Supervisory Board aims to strike a balance between the interests of all stakeholders while maintaining an open dialogue with ING's internal organisation and external supervisors.

In addition to the topics mentioned in the introduction, the Supervisory Board also focused on the progress and delivery of ING's various transformation initiatives and how these relate to external developments in areas such as the regulatory domain. This is to ensure the right priorities continue to be set, with the appropriate allocation of resources. It became evident during the year that the challenging external environment requires ING to focus with increased rigour on 'how' and 'where' to deliver the Think Forward strategy. The strategic dialogues held in 2020 between the Supervisory Board and the Management Board Banking concluded that activities should be refocused to ensure the bank is making customer journeys simpler, faster and seamless and there is a continuously improving end-to-end digital customer experience.

The Supervisory Board also discussed the succession planning of the Management Board Banking – i.e. for the chief executive officer, chief risk officer and the head of Wholesale Banking (WB) – the impact of Covid-19 as has been detailed throughout this report, the impact of the continued negative interest rate environment on ING's performance and its stakeholders, sustainability from a strategic perspective, the outcome of and follow up to the European Central Bank's (ECB) Supervisory Review and Evaluation Process (SREP), the results of and learnings from the Variable Remuneration Accrual Model (VRAM), ING's financial risk, non-financial risk and compliance risks, the transformation programme of the compliance function resulting in the new integrated end to end coverage and responsibility per compliance risk area, ING's gatekeeper role and ensuring the security and compliance of the bank through enhancing and maturing ING's know your customer (KYC) priorities supported by structural solutions, the strong focus on further strengthening ING's risk culture the implementation of SRD II and several topical regulatory themes with a global ING scope such as ICAAP, data (including strategy, management, quality, data ingestion and ethics), IT, sourcing, the suitability requirements for boards and key function holders and the global implementation thereof.

Furthermore, the Supervisory Board discussed the financing of the company in accordance with our capital and liquidity adequacy in line with our annually updated Risk Appetite Framework (RAF), business continuity in light of the pandemic, ING's capital plan and ING's dividend distribution policy and ongoing supervisory developments. In addition, the Supervisory Board discussed the Management

Board Banking and the Supervisory Board annual self-evaluation. For further details on ING's AML/KYC measures, read more in the Risk Management section.

SB Attendance 2020 [1]

	SB	RiCo [2]	AC [3]	NCGcom [4]	RemCo	Covid-19 [5]
Wijers (chairman)	10/10	10/10	6/6	12/12	10/10	11/11
Rees (vice-chairman) [6]	10/10	10/10	6/6	1/1		11/11
Balkenende	10/10	10/10				11/11
Boyer	4/5	3/3	2/2			4/6
Colombás	1/1	4/4	1/1			
Gheorghe	10/10	10/10		12/12	10/10	11/11
Haase	10/10	7/7	6/6			11/11
Hulst [7]	5/5	7/7	4/4			5/5
Lamberti [7]	5/5	3/3	2/2			6/6
Naus [6]	5/5	7/7		1/1	6/6	5/5
Verhagen [6]	10/10	3/3		12/12	10/10	10/11
Total attendance [8]	**98%**	**100%**	**100%**	**100%**	**100%**	**96%**

1. This SB attendance overview shows the regular SB (committee) meetings that took place during the year. In addition to the regular meetings, there were 14 internal SB meetings that took place this year in view of nomination and remuneration matters, with a total attendance of 97%. These are not shown separately in the overview for year-on-year, like-for-like comparison purposes.
2. Additional RiCo meetings took place in 2020, three of which were in combination with the RemCo on remuneration matters that also required a risk view.
3. Additional NCGcom meetings took place in 2020, two of which were in combination with the RemCo, in view of medium to longer term board succession planning.
4. As of 2020 there is now an additional AC meeting, i.e. there are six instead of five standard AC meetings per year, to allow the AC to dedicate specific focus to thematic sessions on finance and audit related matters.
5. These additional SB meetings (that took place this year in view of Covid-19) were complemented by bi-weekly written updates.
6. Mike Rees and Harold Naus each participated once in a NCGcom meeting in combination with the RemCo. Herna Verhagen participated three times in a RiCo meeting in combination with the RemCo.
7. Eric Boyer de la Giroday and Hermann-Josef Lamberti retired from the SB as per the end of the AGM on 28 April 2020. At this AGM, Herman Hulst, Harold Naus and Juan Colombás were appointed to the SB. The appointment of Juan Colombás became effective on 1 October 2020. Their attendance is shown relative to their tenure.
8. The numbers exclude SB observers, if any. If SB members cannot join a meeting, they will – at all times – continue to receive the meeting materials to allow them to provide feedback prior to the meetings.

Abbreviations used: SB = Supervisory Board; RiCo = Risk Committee; AC = Audit Committee; NCGcom = Nomination and Corporate Governance Committee, RemCo = Remuneration Committee

Covid-19

Supervisory Board meetings

The Covid-19 pandemic and its impact on ING was an important topic that was dealt with during the regular and additional meetings of the Supervisory Board and its committees. The Management Board Banking provided the Supervisory Board with regular updates. Their discussions focused on how ING could help customers, employees and communities safely through the Covid-19 pandemic, while taking into account ING's business continuity, performance and its gatekeeper role to ensure the bank's continued security and compliance. In addition to discussions that took place during the meetings, the Management Board Banking provided interim written updates on the topic to the Supervisory Board. Outside of the collective meetings there was also frequent interaction between the chairs of the relevant Supervisory Board committees and the members of the Management Board Banking to ensure that everyone was up to date on the most recent developments at all times.

Continuous dialogue with stakeholders

ING aims to maintain continuous interaction with customers, shareholders, employees, society and other stakeholders. In general, the Supervisory Board has had periodic conversations with various internal and external stakeholders and it exercised its oversight role to ensure that necessary actions resulting from this cascaded down into the organisation and were followed up, including those actions related to risk culture and behaviour. Some 2020 examples in this respect relate to stakeholder interaction with regard to the new remuneration policies for the Executive Board of ING Groep N.V. and the Supervisory Board, the boards' succession planning, and ING's capital plan and distribution policy. The dialogue between ING and external supervisors was a standard agenda item for the Supervisory Board throughout the year. This included several discussions on the results of and follow-up to the annual SREP through which the ECB aims to promote a resilient banking system as a prerequisite for a sustainable and sound financing of the economy. The SREP involves a comprehensive assessment of banks' strategies, processes and risks, and takes a forward-looking view to determine how much capital each bank needs to cover its risks. Also, the topic of primary customer development and managing ING's reputation and brand was dealt with during the Supervisory Board's deliberations.

Strengthening ING's global AML/KYC priorities

Keeping ING safe, secure and compliant continues to be a top priority. Various initiatives have been launched to further enhance AML/KYC throughout the bank. Since November 2017, ING has been working to strengthen customer due diligence, transaction monitoring and screening and has become sustainably better in fighting financial economic crime through the global KYC enhancement programme. Among other things, this has led to standardised KYC policies, global KYC governance, consistent processes, tooling and training. Further developments are captured in the Financial Economic Crime (FEC) Control Maturity Programme, which defines ING's operational long-term FEC control framework to manage and mitigate financial and economic crime risks in a sustainable, risk-based way. The progress is being monitored by and discussed between the Supervisory Board, management and the relevant supervisors.

As part of the aforementioned efforts in view of KYC/AML and also part of the Supervisory Board's programme of lifelong learning, the Supervisory Board participated in various sessions ranging from overarching deep dives and thematic sessions to business visits. With regard to the latter, before the start of the Covid-19 outbreak, the Supervisory Board among others visited ING's local and centralised compliance/KYC operations in France and in the Netherlands. During these visits a dialogue took place with the teams involved, contributing to a better mutual understanding of the importance of the various initiatives and processes, the results of which led into subsequent discussions on the topic at ING Bank level.

The Supervisory Board and Management Board Banking also discussed ING's global AML/KYC governance and processes. Additional improvements were identified that are now being implemented. The boards reconfirmed their commitment to ensure ING continues to fulfil its gatekeeper role, complies with applicable regulatory requirements and continues taking the necessary actions to strengthen compliance risk management and culture throughout the organisation.

Permanent education and business visits

Permanent education including business visits is important for the members of the Supervisory Board as part of their continuous learning, aimed at maintaining their ING-related knowledge and expertise and expanding these where necessary. Educational activities help to keep the Supervisory Board up-to-date with and gain in-depth insight into the global and local economic, financial and political landscape and increase its understanding of and engagement with ING's business operations and stakeholders.

The annual Supervisory Board Knowledge Days, which took place in Amsterdam on 16 and 17 January 2020, were combined with regular Supervisory Board meetings and focused on the compliance maturity plan, AML/KYC, WB strategy update, Organisational Health Index and governance related matters (including the evolving role of the boards, suitability and risk culture).

The destinations for the Supervisory Board and Management Board Banking annual business visits in 2020 would have been Australia (Sydney) and the Philippines (Manilla) in order to gain a better understanding of local business challenges, with specific focus on AML/KYC and data security, as well as on sourcing, including the role of ING's shared service centres. Due to the global Covid-19 outbreak and measures imposed to prevent the spread, e.g. travel restrictions and social distancing, the Supervisory Board and the Management Board Banking decided to postpone the physical business visits until further notice.

Throughout the year, a number of other educational sessions on specific topics were organised for and at the request of the Supervisory Board. For 2020 a balance was sought between sessions focused on Compliance/KYC and other relevant topics, the latter including among others technology and IT platforms, sourcing, open banking, managing capital and liquidity risk with Covid-19, credit decision models and managing and developing talent. Additionally, at the request of the Supervisory Board, several deep dive sessions were organised on selected recurring key topics, such as KYC, IT and cyber security, modelling, Credit Valuation Adjustment (CVA) hedging and the impact on capital. These sessions had a substantial risk management relevance and contributed to a more in-depth understanding of the matters discussed.

Thematic sessions were organised to focus specifically on certain themes that needed further attention and/or were looking forward at emerging risks and developments. For 2020 these related to the SREP interim status update, data plan and quality, ECAP/ICAAP including stress testing and economic capital, Quality Assurance and residual risk in file enhancement (regarding KYC), payment-related initiatives and challenges, and sustainability (energy transition and climate change).

These visits and educational sessions provided ample opportunities for Supervisory Board members to interact with senior management and employees on location. Imposed Covid-19 measures have precluded dedicated speed-meet sessions since March 2020. The Supervisory Board will continue this practice in 2021 if the situation allows. Such interaction contributes to a better mutual understanding and alignment on what matters most to ING, both for its employees and for the Supervisory Board.

Strategy based on long-term value creation

In late 2016, ING announced the acceleration of the implementation of the Think Forward strategy, focusing on investing in the bank's digital transformation and creating a scalable banking platform. Several global transformation programmes were approved to accelerate the strategy.

ING's strategy, together with the transformation programmes, executes multiple initiatives to further improve ING's differentiating customer experience, earn primary customers, develop analytical skills to understand ING's customers better, increase the pace of innovation to serve changing customer needs, enhance efficiency, and think beyond traditional banking to develop new services and business models while growing our lending capabilities. Throughout 2020, the Supervisory Board monitored and discussed the progress of the strategy and its transformation and, as part of this, had an active dialogue with the Management Board Banking. The spread of Covid-19 has made the Think Forward strategy more relevant than ever. Through ING's transformation into a dynamic digital player, ING is continuing to empower people to stay a step ahead in life and in business – also in a time of social and economic disruption. With the Terra approach ING is further trying to positively influence society by steering ING's lending portfolio to align with the well-below two degrees goal of the Paris Climate Agreement.

Driving and delivering commercial momentum in a sustainable, safe and compliant way remains, among others, dependent on how ING allocates capital and resources, manages the transformation and manages (non-financial) risk. This is discussed at periodic meetings between the Supervisory Board and management. The Supervisory Board acknowledges it is important to take into account the duty of care towards those stakeholders of the bank who may be impacted by ING's transition throughout the transformation.

From the dialogue with management it became evident that the challenging external environment requires ING to focus with increased rigour on 'how' and 'where' to deliver the Think Forward strategy. The boards therefore concluded that refocusing activities should ensure faster delivery of products and services and a continuously improving end-to-end digital customer experience. In further developing ING's digital universal bank, ING will focus efforts on three things: the global use of ING's technology foundation – which includes shared data lakes, cloud and modular IT building blocks; the reuse where possible of already developed mobile app components; and the rollout of global digital product offerings in the areas of insurance, investments and consumer lending. All this will be done in accordance with, and while continuing to progress delivery on, ING's regulatory programmes; in line with our top priority to remain a safe, secure and compliant bank that places integrity above all else.

Financial and risk reporting

The Management Board Banking prepared the financial statements and discussed these with the Supervisory Board. The financial statements will be submitted for adoption at the 2021 Annual General Meeting as part of the 2020 Annual Report.

The 2020 quarterly results were discussed and approved in the months February, May, August and November, including the relevant press releases. The full-year 2019 financial results were discussed and approved in March 2020. In consultation with the Supervisory Board important decisions were made in 2020 with regard to ING's long-term CET1 ratio ambition level and dividend/capital policy. Read more in 'Audit Committee meetings' below.

The Supervisory Board approved the annual review of the Reward and Appointment Framework that reflects recent changes in regulatory requirements. Per standard practice, the Supervisory Board was informed in detail throughout the year of the potential financial and non-financial risks for ING, including the implications of Covid-19, subsequent political and economic developments in various countries and regions, updates on (upcoming) regulatory changes, and discussed how these could best be mitigated. As part of this ING undertook additional stress testing and the results were discussed with the Supervisory Board.

KPMG, in its role as ING's external auditor, audited ING's 2020 financial statements. As part of the standard procedures, KPMG declared itself independent from ING, in compliance with applicable rules and regulations. Based on the Audit Committee proposal, the Supervisory Board supported the audit plans of the internal and external auditor including a subsequent update due to Covid-19 impact, the latter including the updated scope and materiality of the external audit.

Internal Supervisory Board meetings

During the internal meetings of the Supervisory Board in 2020 (with the chief executive officer in attendance, except when matters concerning the chief executive officer were discussed), among others, the Management Board Banking annual targets and periodic performance assessments were reviewed and approved. Other recurring topics of discussions at these internal meetings were the future composition of the Management Board (including the succession of the chief executive officer, chief risk officer and the head of WB) and the Supervisory Board (including its committee composition). ING's broader talent and succession planning were also discussed in view of bench strength, including the outcome of ING's annual talent review. Other specific topics dealt with in 2020 concerned the approval and global implementation of ING's suitability policy framework and the proposed new remuneration policies for the Executive Board and the Supervisory Board.

Furthermore, as in previous years, the Supervisory Board conducted its annual self-evaluation over the reporting year, facilitated by an independent external party and with input from several executives and senior managers who regularly interact with the Supervisory Board and attend Supervisory Board meetings. The self-assessment specifically addressed the 'what' (roles and responsibilities) and the 'how' (culture and behaviour).

In 2020, the Supervisory Board self-evaluation was on the agenda multiple times. The topic was on the agenda at the start of the year to discuss the outcome over the previous year and to agree the positive points to keep and the points for further improvement. With regard to the latter, priorities and action points had been defined for follow-up during the year. The agreed 2020 priorities of the Supervisory Board included:

- an increased focus on ING's longer-term strategic ambition and the external/competitive landscape, with AML/compliance/regulatory matters as an integral part of this and increased execution focus;
- further strengthening the boards' succession pipelines and the depth and diversity of bench strength, that at least safeguards adequate knowledge and experience of potential suitable candidates in banking, operations/digital and regulation;
- continuation of building and maintaining trust with all stakeholders, including a thorough understanding of their needs and what drives them;
- expanding on professional challenge and advice towards the organisation to enable more clearly set expectations on prioritisation and milestones.

During a mid-year evaluation, the Supervisory Board reviewed progress on the action points. From this it was concluded that ample progress had been made in respect of all priorities. In the second half of the year the Supervisory Board, together with the Management Board Banking agreed to apply and follow the same approach, process and design over 2020, including continued alignment between the respective boards.

The Supervisory Board's overall reflection is that it underwent significant change over the past period, with a positive impact on its performance in general, despite the many uncertainties and challenges for ING and its stakeholders caused by the Covid-19 pandemic. The Supervisory Board is of the opinion it gave the pandemic appropriate attention immediately, and that it was effective in doing so by adjusting its focus and priorities. As more generic positive points it identified with respect to its performance are, among others, the following: (1) The recent changes to the composition of the Supervisory Board contributed to improved balance, with a more diversified spread in background, experience and competences, enhancing equal and candid contribution of all of its members and intensified interaction with the Management Board Banking; (2) The positive development of a further understanding of stakeholders' requirements and needs as well the continued dialogue between the Supervisory Board and its stakeholders; (3) Role clarity, through redesigned charters, contributing to increased transparency on the role and responsibilities of the Supervisory Board and its committees as well as to the effectiveness with which they supervise, challenge and advise the Management Board Banking; and (4) Effective meetings, through a good distribution of work between the Supervisory Board and its committees, supported by a comprehensive annual cycle of work.

To sustain and build on these positive points, the Supervisory Board's spearhead objectives for 2021 will be, among others, to: (1) Further guide and support the Management Board Banking in building an effective new team, while safeguarding the continued segregation of duties between the various boards; (2) Continue paying dedicated attention to embedding an organisation-wide change in (risk) culture mindset and behaviours, supported by a well-diversified employee base capable of delivering on ING's purpose and strategy; (3) Further re-balance focus in meetings on strategy and sustainability, business and financial performance, risk management and regulatory requirements, taking into account the continuously evolving demands and expectations of various stakeholders in relation to these key topics; and (4) Continue investing in the Supervisory Board's own lifelong learning, especially in the areas of technology, IT and cybersecurity in view of ING's ambition.

All of the above contribute to continue helping ING in transforming into a leading data-driven digital bank, to ensure faster client delivery and a continuously improving end-to-end digital customer experience.

Audit Committee meetings

The Audit Committee discussed the quarterly results, and the financial statements. Judgemental accounting topics were also regular topics of discussion as well as key audit matters, as included in the auditors' reports.

In addition to financial results, the Audit Committee's regular deliberations included financial reporting, the external auditor's audit plan/engagement letter/independence and fees, the overall internal control environment, the internal controls over financial reporting, the internal and external auditor reports, review of the internal audit function, and matters related to the financing of the company, including the assessment of ING's capital and liquidity position. The Audit Committee also reviewed the press releases related to the periodic results and the Annual Report and discussed and made recommendations for the approval of the internal and external audit plans.

Specific attention was paid to a variety of other related topics. These included ING's long-term CET1 ratio ambition level which the Audit Committee advised could be adjusted downward, to be around 12.5%. This translates into a ~200 bps buffer over current minimum regulatory requirements. ING intends to manage CET1 level well above this ambition level, while Covid-19-related uncertainties remain. ING's distribution policy was another important topic. ING is introducing a new distribution policy of a 50 percent pay-out ratio of resilient net profit, in the form of cash or a combination of cash and share repurchases, to offer a sustainable and attractive return, with periodic reviews of whether there is structural excess capital available to return to shareholders. In execution of the new dividend policy, ING will comply with prevailing ECB recommendations on shareholder distributions.

Other topics were generic IFRS-related developments and their potential impact on ING's disclosures, also in light of Covid-19, and legal proceedings. High priority and critical overdue issues, as reported by the internal audit function, were also discussed. The updated internal audit charter and the quarterly whistleblower report were also areas of attention. The Audit Committee performed a thorough assessment of the functioning of the external auditor and the scope and materiality of the audit plan and the principal risks identified in the audit plan. All relevant items discussed by the Audit Committee were reported to the Supervisory Board, with the Supervisory Board approving those items as required from a governance perspective.

Directly following the Audit Committee meetings, the members of the Audit Committee met in a closed meeting with the internal and external auditors to seek confirmation that – among others – all relevant topics were discussed in the Audit Committee meetings.

To properly prepare for the regular Audit Committee meetings, the chairperson of the Audit Committee held separate sessions with the external auditor, the general manager of the internal audit department, the chief financial officer and the Group Controller. The chairperson also met with various senior managers.

Risk Committee meetings

Similar as for the other committees, all relevant items discussed by the Risk Committee were reported to the Supervisory Board, with the Supervisory Board approving those items as required from a governance perspective. While transforming its organisation, ING needs to ensure that integrity continues to come first and that critical non-financial risk areas stay top of mind, because this is an integral part of who ING is. ING needs to build strong foundations with structural solutions that continue to earn and maintain the trust of our stakeholders, including its customers and society at large. Given the ever increasing importance of risk and how this is managed and supervised, the Risk Committee composition was expanded in 2020 to comprise almost all Supervisory Board members. In 2020, the number and length of periodic Risk Committee meetings was further increased: there are now 10 regular meetings per year, of which three are combined with the Remuneration Committee to address remuneration-related risk elements. In light of Covid-19, additional updates on financial, non-financial and compliance risk were provided.

In each quarterly Risk Committee meeting financial and model risks, non-financial and compliance risks were discussed, including the status of ING's accompanying metrics such as for risks in the areas of solvency, liquidity and funding, credit, country, market, IT, non-financial risk and compliance. The non-financial and compliance risk discussions were supported by updates of the bank-wide KYC enhancement and maturity efforts, a variety of topical dashboards (such as on KYC GDPR/GDPP, PSD2, MiFID II, risk culture, sourcing and data quality) and the status of implementation of related regulatory programmes.

In addition, throughout the year, a number of deep dives and thematic sessions took place on specific topics such as compliance/KYC, including risk culture, IT and cybersecurity; modelling; SREP; ECAP/ICAAP; stress testing; CVA hedging and the impact on capital MiFID II; sourcing; data; payment initiatives, and the energy transition and climate change. These sessions were in principally presented from a risk management angle and where relevant also addressed the impact of the pandemic. Members of the Supervisory Board that are not Risk Committee members received a standing invitation and they participated in several of these sessions.

In 2020 and as part of its annual work plan, the Risk Committee also discussed the annual review of the RAF and accompanying risk appetite statements, the update to the Recovery Plan, as well as the impact of upcoming regulations, and credit developments in certain countries and portfolios. Also on the agenda were the updates to the scope of ING's key policies, the KYC policy, the global Code of Conduct, the Compliance charter, the Investor Protection and Markets policy, and the implementation of the Conflicts of Interest policy.

During 2020, the Risk Committee also discussed the potential financial, non-financial and compliance risk implications of the Covid-19 outbreak. The discussions were supported by the different analyses conducted on the potential impact on ING's credit portfolio, capital and liquidity position and updates on credit developments in certain countries and portfolios. The non-financial and compliance risk discussions around Covid-19 included, among others, risks related to business continuity, business resilience, the working from home control environment, HR, IT, cybercrime and KYC.

The Risk Committee's feedback was also brought to bear on discussions regarding remuneration-related matters and practices. Among others, it considers remuneration related proposals from a risk perspective in view of the remuneration policies for the Executive Board and the Supervisory Board and the Variable Remuneration Accrual Model introduced in 2018 (see also 'Remuneration Committee meetings' in this section).

Read more in the Risk Management section.

Nomination and Corporate Governance Committee meetings

It is ING's aim to ensure that all of its boards' are at all times adequately composed to perform its duties. As is standard practice the Nomination and Corporate Governance Committee therefore discussed medium- to long-term succession planning for the Management Board Banking and the Supervisory Board.

With regard to the Management Board Banking, specific attention was paid in 2020 to the succession of the chief executive officer, the chief risk officer and the head of WB. With regard to the Supervisory Board, the Nomination and Corporate Governance Committee continued its search for potential suitable successors so as to maintain a balanced Supervisory Board composition, taking into account the evolving role of supervisory boards in general, resulting in an updated composition following the 2020 Annual General Meeting. Finding suitable board succession candidates remains challenging, as numerous requirements must be met in view of board composition, including regulatory requirements, suitability considerations, diversity, banking and other industry knowledge, outside positions, independence, no conflicts of interest, availability, etc. Diversity-related aspects that are being taken into account include the minimum and optimal size of a board and how to arrive at an appropriate balance in its representation of regions, age, gender, and knowledge and expertise. Read more on the boards' composition in the Composition of the Management Board Banking and Supervisory Board section that also includes a diversity and competence matrix.

The Nomination and Corporate Governance Committee focuses on ING's broader talent and succession planning in view of bench strength and improving diversity at the higher management levels – taking into account ING's diversity policy (70 percent principle for mixed teams) as published on ing.com –

and accelerating refreshment where possible without jeopardising business continuity. A continuing conversation on Management Board Banking succession planning is facilitated by the chief human resources officer as part of its regular meetings in the form of deep dives by function and business line. The committee also holds periodic conversations outside of its regular meetings with internal talented individuals who are considered to have the potential to assume more senior and complex roles in the organisation over time. The results of these conversations are fed into the individuals' coaching and development plans.

In terms of corporate governance, the committee discussed the 2020 Annual Report and the accompanying booklets on ING's application of the Dutch Corporate Governance Code and the Dutch Banking Code. It also discussed the approach and agenda for the 2020 Annual General Meeting, including the impact of the Covid-19 pandemic. During the year, the committee discussed the suitability policy framework and its global implementation, which embeds clear criteria and a process for assessing and re-assessing governing bodies and key function holders by bringing together several existing policies and procedures. Standard topics on the committee's agenda included board members' outside positions and the annual review and update of the corporate board charters, the latter which were re-written in 2020 with a new design for simplicity, transparency and consistency purposes. The charters were complemented with separate role descriptions.

All relevant items discussed by the committee were reported to the Supervisory Board, with the Supervisory Board approving those items as required from a governance perspective.

Remuneration Committee meetings

As an annual recurring topic, the Remuneration Committee reviewed the remuneration policies and procedures of the Management Board Banking. In 2020, the committee played a key role in finalising the new remuneration policies of the Executive Board and the Supervisory Board, taking into account stakeholder consultation feedback. The proposed policies were input for the 2020 Annual General Meeting of ING Groep N.V., resulting in the general meeting approving said policies.

In addition, the Remuneration Committee discussed the Management Board Banking annual targets for 2020. The periodic performance assessments over 2019 and mid-year 2020 were also reviewed and discussed. With regard to variable compensation and the application of ING's accompanying Variable Remuneration Accrual Model, the committee received input and advice from the Risk Committee following strengthened risk management governance. This served as input for a review of the predefined thresholds above which the pool for variable remuneration may be unlocked for those eligible as well as the accompanying individual variable remuneration proposals, including potential cases for holdback of deferred compensation by way of malus.

In 2020, the committee paid specific attention to:

- lessons learnt in relation to the application of the Variable Remuneration Accrual Model over 2019;
- potential implications of the Covid-19 pandemic on ING's target setting and remuneration policies, by closely monitoring developments in this regard. This includes the views and expectations of the ECB, in particular regarding the impact that such policies may have on the maintenance of a financial institution's sound capital base.

The Remuneration Committee reviewed the updates to ING's Remuneration Regulations Framework as part of an annual review. Throughout the year it assessed Identified Staff and High Earner-related remuneration matters, based on ING's accompanying governance framework.

All relevant items discussed by the committee were reported to the Supervisory Board, with the Supervisory Board approving those items as required from a governance perspective.

Composition of the Management Board Banking and Supervisory Board

Steven van Rijswijk, formerly the chief risk officer, succeeded Ralph Hamers as chief executive officer and chairman of the Management Board Banking on 1 July 2020. Ralph Hamers stepped down from his position and left ING as per 30 June 2020. After 29 years at ING, Ralph Hamers joined another financial institution on 1 September 2020.

The Supervisory Board initiated the succession planning for a new chief risk officer resulting in Ljiljana Čortan (formerly chief risk officer of another financial institution) being appointed as ING chief risk officer and member of the Management Board Banking per 1 January 2021. Until 1 January 2021, the day-to-day risk management activities were performed ad interim by Karst Jan Wolters, reporting to Tanate Phutrakul.

Pinar Abay was appointed head of Market Leaders and member of the Management Board Banking, effective from 1 January 2020. Isabel Fernandez, member of the Management Board Banking and head of ING WB, stepped down from her position as per 31 December 2020. Succession planning has been initiated for this role.

In 2020, the Supervisory Board proposed to appoint three new members to its board. This was driven by several factors, such as easing the possible consequences of the retirement schedule of the Supervisory Board. The aim is to ensure that the Supervisory Board is at all times adequately composed to perform its duties.

Robert Reibestein resigned from the Supervisory Board with effect from 1 January 2020 and Mike Rees took over his role as chairman of the Risk Committee. Eric Boyer de la Giroday and Hermann-Josef Lamberti (former vice-chairman of the Supervisory Board and chairman of the Audit Committee) retired from the Supervisory Board as per the end of the 2020 Annual General Meeting. From that same date, Mike Rees took over the role of vice-chairman of the Supervisory Board and Margarete Haase took over the role of chairperson of the Audit Committee.

At the Annual General Meeting in April 2020, Juan Colombás, Herman Hulst and Harold Naus were appointed as new Supervisory Board members. All these appointments were approved by the ECB. The membership of Herman Hulst became effective as per the end of the 2020 Annual General Meeting and he then also became a member of the Risk Committee and the Audit Committee. The membership of Harold Naus also became effective as per the end of the 2020 Annual General Meeting and he became a member of the Risk Committee and the Remuneration Committee. The membership of Juan Colombás became effective per 1 October 2020 and he became a member of the Risk Committee and the Audit Committee. In addition, Margarete Haase and Hans Wijers became members of the Risk Committee.

The Nomination and Corporate Governance Committee and the Supervisory Board will continue to strive for an adequate and balanced composition of the Supervisory Board when selecting and nominating new members for appointment, taking into account ING's diversity policy and other factors. Read more in the Corporate governance chapter on the composition of the Supervisory Board committees at year-end 2020.

The members of the Supervisory Board are requested to assess annually whether or not they are independent as set out in the Corporate Governance Code and to confirm this in writing. On the basis of these criteria, according to the Supervisory Board, all members of the Supervisory Board, are to be regarded as independent on 31 December 2020. On the basis of the NYSE listing standards, all members of the Supervisory Board are also to be regarded as independent.

Diversity and Competence Matrix (as at 31 December 2020)

Management Board

Competencies	 Steven van Rijswijk (EB/MBB) NL 1970	 Tanate Phutrakul (EB/MBB) TH 1965	 Pinar Abay (MBB) TR 1977	 Aris Bogdaneris (MBB) CA 1963	 Isabel Fernandez (MBB) ES 1968	 Roel Louwhoff (MBB) NL 1965
Executive experience	••	••	••	••	••	••
International experience	•	••	••	••	••	••
Banking/Finance/Audit/Risk	••	••	••	••	••	•
Operations a/o IT	••	•	••	••	•	••
Corporate governance	••	••	•	•	•	•

- • sufficient relevant knowledge/experience in the area
- •• (was) accountable and (had) executed for several years

Supervisory Board

	 Hans Wijers (chair) NL 1951	 Mike Rees (vice-chair) UK 1956	 Jan Peter Balkenende NL 1956	 Juan Colombás ES 1962	 Mariana Gheorghe RO/UK 1956	 Margarete Haase AT 1953	 Herman Hulst NL 1955	 Harold Naus NL 1969	 Herna Verhagen NL 1966
Executive experience	••	••	•	••	••	••	••	••	••
International experience	••	••	••	••	••	••	••	•	•
Banking/Finance/Audit/Risk	•	••	•	••	••	••	••	••	•
Operations a/o IT	••	••	•	••	•	•	•	••	••
Corporate governance	••	••	••	•	••	••	••	••	••

Please note the following: the competencies included in this matrix represent a non-exhaustive overview of the competencies that ING's corporate board members had before joining ING and/or developed during their position(s) at ING. The purpose of this matrix is to provide ING's stakeholders with an overview on the main aspects of diversity and competencies that ING considers to be the most relevant for its stakeholders. The contents of the matrix are subject to change in the light of ING's continually changing situation, markets and environment. Furthermore, for the appointments of new corporate board members, all relevant competencies are also shared with the ING's supervisors DNB/ECB based on their suitability matrix to assess the collective competence of members of the management/supervisory body.

The Supervisory Board

The Supervisory Board of ING Bank is responsible for controlling management performance and advising, supervising and constructively challenging the Management Board Banking. All Supervisory Board members, with the exception of not more than one person, shall qualify as independent as defined in the best practice provision 2.1.8 of the Dutch Corporate Governance Code. All current members of the Supervisory Board are qualified as independent.

Appreciation for the Management Board Banking and ING employees

The Supervisory Board would like to thank the members of the Management Board Banking for their hard work in 2020. Important milestones were the further steps taken towards digitalising our offering and growing our customer and primary relationships. The Supervisory Board would also like to thank all ING employees for their contribution in realising these achievements and for continuing to serve the interests of customers, shareholders and other stakeholders of ING. This was all done during times of great uncertainty for the entire global community, predominantly caused by the Covid-19 pandemic, with ING focusing on helping customers, employees and communities safely through this. The Supervisory Board is fully aware that ING and its stakeholders are still going through challenging times, with ING employees making an effort to safeguard ING's business continuity, its performance and its gatekeeper role in ensuring the continued security and compliance of the bank. The Supervisory Board would like to thank everyone again for their efforts and wishes everyone to stay safe and healthy.

Additional information

More information can be found in the Corporate governance chapter, which is deemed to be incorporated by reference here.

Amsterdam, 8 March 2021

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Consolidated statement of financial position

As at 31 December

in EUR million	2020	2019
Assets		
Cash and balances with central banks 2	111,087	53,202
Loans and advances to banks 3	25,363	35,133
Financial assets at fair value through profit or loss 4		
– Trading assets	51,361	49,264
– Non-trading derivatives	3,583	2,278
– Designated as at fair value through profit or loss	4,126	3,076
– Mandatorily at fair value through profit or loss	44,305	41,600
Financial assets at fair value through other comprehensive income 5	35,895	34,468
Securities at amortised cost 6	50,587	46,108
Loans and advances to customers 7	598,306	611,907
Investments in associates and joint ventures 8	1,475	1,790
Property and equipment 9	2,841	3,172
Intangible assets 10	1,394	1,916
Current tax assets	403	251
Deferred tax assets 35	773	730
Other assets 11	5,879	7,014
Total assets	**937,379**	**891,910**

	2020	2019
Liabilities		
Deposits from banks 12	78,098	34,826
Customer deposits 13	643,138	606,410
Financial liabilities at fair value through profit or loss 14		
– Trading liabilities	32,709	28,042
– Non-trading derivatives	1,629	2,217
– Designated as at fair value through profit or loss	48,445	47,685
Current tax liabilities	341	499
Deferred tax liabilities 35	584	695
Provisions 15	666	688
Other liabilities 16	11,605	12,796
Debt securities in issue 17	55,573	93,721
Subordinated loans 18	15,897	16,515
Total liabilities	**888,683**	**844,093**
Equity 19		
Share capital and share premium	17,067	17,067
Other reserves	2,334	4,000
Retained earnings	28,273	25,857
Shareholders' equity (parent)	**47,675**	**46,924**
Non-controlling interests	1,022	893
Total equity	**48,697**	**47,817**
Total liabilities and equity	**937,379**	**891,910**

References relate to the accompanying notes. These are an integral part of the Consolidated financial statements.

Consolidated statement of profit or loss

for the years ended 31 December

in EUR million	2020	2019	2018
Continuing operations			
Interest income using effective interest rate method	20,865	25,355	25,288
Other interest income	1,846	3,110	2,886
Total interest income	**22,711**	**28,465**	**28,174**
Interest expense using effective interest rate method	-7,507	-11,305	-11,222
Other interest expense	-1,603	-3,085	-3,002
Total interest expense	**-9,110**	**-14,391**	**-14,224**
Net interest income 20	**13,600**	**14,074**	**13,949**
Fee and commission income	4,514	4,439	4,240
Fee and commission expense	-1,503	-1,571	-1,437
Net fee and commission income 21	**3,011**	**2,868**	**2,803**
Valuation results and net trading income 22	852	765	1,031
Investment income 23	152	188	183
Share of result from associates and joint ventures 8	66	64	127
Impairment of associates and joint ventures 8	-235	-34	-3
Result on disposal of group companies 24	-3	117	-123
Net result on derecognition of financial assets measured at amortised cost 25	189	38	18
Other income 26	12	213	118
Total income	**17,645**	**18,295**	**18,102**

in EUR million	2020	2019	2018
Addition to loan loss provisions 7	2,675	1,120	656
Staff expenses 27	5,817	5,753	5,430
Other operating expenses 28	5,344	4,590	5,265
Total expenses	**13,835**	**11,463**	**11,351**
Result before tax from continuing operations	**3,810**	**6,831**	**6,751**
Taxation 35	1,317	1,889	2,036
Net result from continuing operations	**2,493**	**4,942**	**4,715**
Net result (before non-controlling interests)	**2,493**	**4,942**	**4,715**
Net result attributable to Non-controlling interests	78	99	108
Net result attributable to Shareholder of the parent	**2,415**	**4,843**	**4,607**
Dividend per ordinary share	0.09	6.06	5.41
Total amount of dividend paid (in million euros)	43	2,819	2,517

References relate to the accompanying notes. These are an integral part of the Consolidated financial statements.

Consolidated statement of comprehensive income

for the years ended 31 December

in EUR million	2020	2019	2018
Net result (before non-controlling interests)	2,493	4,942	4,715
Other comprehensive income			
Items that will not be reclassified to the statement of profit or loss:			
Realised and unrealised revaluations property in own use	-7	60	1
Remeasurement of the net defined benefit asset/liability 34	28	58	6
Net change in fair value of equity instruments at FVOCI	-335	139	-461
Change in fair value of own credit risk of financial liabilities at FVPL	-19	-116	198
Items that may subsequently be reclassified to the statement of profit or loss:			
Net change in fair value of debt instruments at FVOCI	36	-32	-163
Realised gains/losses on debt instruments at FVOCI reclassified to the statement of profit or loss	-34	-34	-55
Changes in cash flow hedge reserve	355	640	382
Exchange rate differences	-1,620	-5	-402
Share of other comprehensive income of associates and joint ventures and other income	7		13
Total comprehensive income	**904**	**5,651**	**4,234**
Comprehensive income attributable to:			
Non-controlling interests	133	142	132
Shareholders of the parent	770	5,509	4,102
	904	**5,651**	**4,234**

References relate to the accompanying notes. These are an integral part of the Consolidated financial statements.

For the disclosure on the income tax effects on each component of the other comprehensive income reference is made to Note 35 'Taxation'.

Consolidated statement of changes in equity

For the years ended 31 December

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 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		-399	62	-337	2	-335
Net change in fair value of debt instruments at fair value through other comprehensive income		31		31	5	36
Realised gains/losses on debt instruments at fair value through other comprehensive income reclassified to the statement of profit or loss		-33		-33	-1	-34
Changes in cash flow hedge reserve		242		242	112	355
Realised and unrealised revaluations property in own use		-33	26	-7	-0	-7
Remeasurement of the net defined benefit asset/liability 34		28		28		28
Exchange rate differences and other		-1,557		-1,557	-63	-1,620
Share of other comprehensive income of associates and joint ventures and other income		-37	44	7		7
Change in fair value of own credit risk of financial liabilities at fair value through profit or loss		-3	-16	-19		-19
Total amount recognised directly in other comprehensive income net of tax		**-1,760**	**115**	**-1,644**	**55**	**-1,589**
Net result		94	2,321	2,415	78	2,493
Total comprehensive income net of tax		**-1,666**	**2,436**	**770**	**133**	**904**
Dividends			-43	-43	-3	-46
Employee stock option and share plans			23	23	0	23
Changes in the composition of the group and other changes					-1	-1
Balance as at 31 December 2020	**17,067**	**2,334**	**28,273**	**47,675**	**1,022**	**48,697**

References relate to the accompanying notes. These are an integral part of the Consolidated financial statements.
Changes in individual Reserve components are presented in Note 19 'Equity'.

Consolidated statement of changes in equity - continued

For the years ended 31 December

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 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		-335	472	137	1	139
Net change in fair value of debt instruments at fair value through other comprehensive income		-33		-33	1	-32
Realised gains/losses on debt instruments at fair value through other comprehensive income reclassified to the statement of profit or loss		-33		-33	-1	-34
Changes in cash flow hedge reserve		604		604	36	640
Realised and unrealised revaluations property in own use		51	9	60	-0	60
Remeasurement of the net defined benefit asset/liability 34		58		58		58
Exchange rate differences and other		-11		-11	7	-5
Share of other comprehensive income of associates and joint ventures and other income		137	-137			
Change in fair value of own credit risk of financial liabilities at fair value through profit or loss		-123	6	-116		-116
Total amount recognised directly in other comprehensive income net of tax		316	350	666	44	709
Net result		180	4,663	4,843	99	4,942
Total comprehensive income net of tax		496	5,013	5,509	142	5,651
Dividends			-2,819	-2,819	-29	-2,848
Employee stock option and share plans			39	39	0	39
Changes in the composition of the group and other changes			22	22	-23	-1
Balance as at 31 December 2019	**17,067**	**4,000**	**25,857**	**46,924**	**893**	**47,817**

Consolidated statement of changes in equity - continued

For the years ended 31 December

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 2017	**17,067**	**4,304**	**22,291**	**43,662**	**715**	**44,377**
Effect of change in accounting policy due to implementation of IFRS 9		-648	-391	-1,038	-14	-1,053
Balance as at 1 January 2018	**17,067**	**3,656**	**21,901**	**42,624**	**700**	**43,325**
Net change in fair value of equity instruments at fair value through other comprehensive income		-518	56	-461	0	-461
Net change in fair value of debt instruments at fair value through other comprehensive income		-163		-163	0	-163
Realised gains/losses on debt instruments at fair value through other comprehensive income reclassified to the statement of profit or loss		-54		-54	-2	-55
Changes in cash flow hedge reserve		342		342	41	382
Realised and unrealised revaluations property in own use		-2	3	1	-0	1
Remeasurement of the net defined benefit asset/liability 34		6		6		6
Exchange rate differences and other		-386		-386	-16	-402
Share of other comprehensive income of associates and joint ventures and other income		264	-251	13		13
Change in fair value of own credit risk of financial liabilities at fair value through profit or loss		198		198		198
Total amount recognised directly in other comprehensive income net of tax		-312	-192	-505	24	-481
Net result		160	4,447	4,607	108	4,715
Total comprehensive income net of tax		-152	4,255	4,102	132	4,234
Dividends			-2,517	-2,517	-61	-2,578
Employee stock option and share plans			59	59	0	59
Changes in the composition of the group and other changes [1]			-96	-96	31	-65
Balance as at 31 December 2018	**17,067**	**3,504**	**23,602**	**44,173**	**803**	**44,976**

1 Includes an amount for the initial recognition of the redemption liability related to the acquisition of Payvision Holding B.V. and Makelaarsland B.V. that reduces the Retained earnings of the Group.

Consolidated statement of cash flows

for the years ended 31 December

in EUR million		2020	2019	2018
Cash flows from operating activities 29				
Result before tax		3,810	6,831	6,751
Adjusted for:	– Depreciation and amortisation	829	789	520
	– Addition to loan loss provisions	2,675	1,120	656
	– Other non-cash items in Result before tax	1,259	64	-1,646
Taxation paid		-1,735	-2,369	-1,600
Changes in:	– Net change in Loans and advances to/from banks, not available/payable on demand	53,076	-3,909	-212
	– Net change in Trading assets and Trading liabilities	2,571	-2,567	9,820
	– Loans and advances to customers	2,888	-16,696	-31,016
	– Customer deposits	40,576	24,828	31,241
	– Other29	-2,770	11,463	3,622
Net cash flow from/(used in) operating activities		**103,179**	**19,553**	**18,136**
Cash flows from investing activities				
Investments and advances:	- Acquisition of subsidiaries, net of cash acquired		-17	-111
	- Associates and joint ventures	-24	-686	-97
	- Financial assets at fair value through other comprehensive income	-16,949	-16,270	-10,517
	- Securities at amortised cost	-37,522	-12,268	-17,985
	– Property and equipment	-287	-355	-286
	– Other investments	-300	-395	-258
Disposals and redemptions:	– Associates and joint ventures	24	60	116
	– Disposal of subsidiaries, net of cash disposed	-3		
	- Financial assets at fair value through other comprehensive income	14,571	13,390	15,657
	- Securities at amortised cost	31,918	13,001	18,709
	– Property and equipment	75	81	17
	– Loans sold		744	206
	– Other investments	12	34	
Net cash flow from/(used in) investing activities		**-8,487**	**-2,681**	**5,451**
Cash flows from financing activities				
Proceeds from debt securities		63,269	84,641	141,214
Repayments of debt securities		-99,212	-94,497	-131,170
Proceeds from issuance of subordinated loans		2,138	3,440	1,828
Repayments of subordinated loans		-2,608	-931	-4,594
Repayments of principal portion of lease liabilities [1]		-273	-271	n/a
Dividends paid		-46	-2,848	-2,517
Other financing				
Net cash flow from/(used in) financing activities		**-36,732**	**-10,465**	**4,761**
Net cash flow		**57,960**	**6,406**	**28,348**
Cash and cash equivalents at beginning of year 31		54,029	47,528	18,976
Effect of exchange rate changes on cash and cash equivalents		-425	95	205
Cash and cash equivalents at end of year 31		**111,565**	**54,029**	**47,528**

1 The amount for the period ended 31 December 2020 and 2019 has been prepared in accordance with IFRS 16. Previous period amounts have not been restated.

Consolidated statement of cash flows - continued

As at 31 December 2020, Cash and cash equivalents includes cash and balances with central banks of EUR 111,087 million (2019: EUR 53,202 million; 2018: EUR 49,987 million). The increase in cash and balances with central banks were mainly driven by ING's participation of EUR 59.5 billion in the targeted longer-term refinancing operations (TLTRO III) in 2020, which were mainly placed on deposit with the ECB as at 31 December (reported as Cash and balances with Central Banks) and by increased customer deposits. Reference is made to Note 31 'Cash and cash equivalents'.

References relate to the accompanying notes. These are an integral part of the Consolidated financial statements.

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

	2020	2019	2018
Interest received	23,365	28,968	28,751
Interest paid	-9,690	-14,594	-14,937
	13,675	**14,374**	**13,814**
Dividend received [1]	144	212	180
Dividend paid	-46	-2,848	-2,517

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 Consolidated statement of cash flow. Dividend paid is included in financing activities in the Consolidated statement of cash flow.

Notes to the Consolidated financial statements

1 Basis of preparation and accounting policies

1.1 Reporting entity and authorisation of the Consolidated financial statements

ING Bank N.V. is a company domiciled in Amsterdam, the Netherlands. Commercial Register of Amsterdam, number 33031431. These Consolidated financial statements, as at and for the year ended 31 December 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.

The ING Bank Consolidated financial statements, as at and for the year ended 31 December 2020, were authorised for issue in accordance with a resolution of the Management Board Banking on 8 March 2021. The General Meeting of the Shareholder may decide not to adopt the financial statements, but may not amend these.

1.2 Basis of preparation of the Consolidated financial statements

The ING Bank Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the relevant articles of Part 9 of Book 2 of the Dutch Civil Code.

IFRS as adopted by the EU 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).

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 1.7.4 'Derivatives and hedge accounting' of this note and to note 37 'Derivatives and hedge accounting'.

The ING Bank Consolidated financial statements have been prepared on a going concern basis and there are no significant doubts about the ability of ING Bank to continue as a going concern. In 2020 ING Bank's capital and liquidity position remained strong despite the Covid-19 impact and ING Bank has sufficient buffers to withstand certain adverse scenarios without breaching currently applicable and likely future requirements.

The consolidated 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

To improve transparency, reduce duplication and present related information in one place, certain disclosures of the nature and extent of risks related to financial instruments required by IFRS 7 'Financial instruments: Disclosures' are included in the 'Risk management' section of the Annual Report.

These disclosures are an integral part of ING Bank Consolidated financial statements and are indicated in the 'Risk management' section by the symbol (*). Chapters, paragraphs, graphs or tables within the '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 consolidated financial statements.

1.3 Impact of Covid-19

After the outbreak of the Covid-19 pandemic, various governments issued programs offering guarantee schemes for borrowers impacted by Covid-19. As at 31 December 2020 ING Bank provided approximately EUR 1.5 billion of loans under these programs.

In Wholesale Banking the main schemes are being offered in the Netherlands (Corporate Finance Guarantee Scheme ("GO-C")), in France (state-guarantee scheme Bpifrance) and Germany (guaranteed by KWF).

In Retail Banking these facilities include in the Netherlands the SME Credit Guarantee Scheme ("BMKB-C") and the small credit facility ("Klein Krediet Corona" or KKC) for self-employed individuals. Similar facilities are offered by ING Bank in other countries, mainly in Belgium and Poland. ING Belgium provided in 2020 loans under the state guarantee scheme GS1 which establishes risk sharing between banks and the government. It applies to new loans to non-financial companies, SME and self-employed persons under certain conditions. ING Bank Poland signed an agreement with BGK (Polish State Development Bank) to support clients with individual guarantee schemes, provided by BGK as a collateral (equivalent to a state guarantee).

Loans that have been originated under the above programs have been recognized on the consolidated statement of financial position of ING Bank. Depending on the scheme, the guarantees received are either integral or non-integral to the origination of these loans. Following this, the guarantees are either reflected in the expected credit losses (ECL) associated with these loans or as separate reimbursement asset, respectively. In either case, such guarantees have a similar impact on the statement of profit or loss and both reduce the amount presented as 'addition to loan loss provisions'.

In November 2020 ING Bank announced an initiative with European Investment Bank to lend nearly EUR 800 million on favorable terms to Dutch small and medium-sized enterprises that are affected by the economic impact of Covid-19. Loans originated under this program will be recognized on the statement of financial position of ING Bank as from 2021.

Governments in almost all countries where ING Retail bank is active have adopted measures providing for payment holidays to private individuals and small business loans. As of the end of December 2020, approximately 196 thousand customers were granted payment holidays in the context of the Covid-19 pandemic. The total exposure of loans for which a payment holiday is granted amounts to EUR 19.4 billion as at 31 December 2020.

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. This did not have a material impact on the profit or loss statement of ING Bank.

The various measures by governments and ING Bank to alleviate the impact of Covid-19 also impacts the classification of assets as forborne. Based on European Banking Authority (EBA) Guidelines, assets that were subject to Covid-19 payment holidays granted before 30 September 2020 were not classified as forborne. As a result, these payment holidays did not automatically trigger recognition of lifetime Expected Credit Loss (ECL). Payment holidays granted that were outside the scope of these Guidelines or granted after 30 September 2020 did trigger the recognition of lifetime ECL. Reference is made to 'Credit risk' paragraph of 'Risk management' section chapter for further information.

As a result of the economic effects of Covid-19 estimation uncertainty and level of management judgement increased in 2020 in the areas of impairment assessment of loan loss provisions (including the need for management adjustments), non-financial assets and associated companies, and the determination of the fair values of financial assets and liabilities. Reference is made to paragraph 1.5 'Significant judgements and critical accounting estimates and assumptions' for further explanation.

Over the course of 2020 the European Central Bank (ECB) decided on a number of modifications to the terms and conditions of its Targeted Longer-term Refinancing Operations (TLTRO III) in order to support further the provision of credit to households and firms in the face of the current economic disruption and heightened uncertainty caused by the Covid-19 pandemic. ING Bank has borrowed EUR 59.5 billion under the TLTRO III program during 2020. Reference is made to paragraph 1.6 'Other Developments'.

1.4 Changes to accounting policies and presentation

ING Bank has consistently applied its accounting policies to all periods presented in these Consolidated financial statements, except for changes due to the introduction of IFRS 16 'Leases' in 2019. Comparatives were not restated when applying IFRS 16.

Furthermore, ING Bank has already early adopted in 2019 the Interest Rate Benchmark Reform (Phase 1) amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures'. These amendments have been adopted retrospectively to hedging relationships that existed at the start of 2019 or were designated thereafter. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The amendments require certain additional disclosures and have no further impact. Reference is made to paragraph 1.7.4 'Derivatives and hedge accounting' of this note and to note 37 'Derivatives and hedge accounting' for more information on the adoption of these amendments.

In 2020 ING Bank presented separately on the face of the Statement of Profit or Loss the following two lines (including comparatives): 'Impairment of associates and joint ventures' and 'Net result on derecognition of financial assets measured at amortised cost'. These lines were not presented separately in prior years given the size of the amounts, but were included in 'Share of result from associates and joint ventures' and 'Other income' respectively.

1.4.1 Changes in IFRS effective in 2020

The changes in IFRS that became effective in 2020 did not have a significant impact on ING Bank's accounting policies, ING Bank's results or financial position:

- Amendments to IFRS 3 'Business Combinations': Definition of a Business (issued in October 2018);
- Amendments to IAS 1 and IAS 8: 'Definition of Material' (issued in October 2018); and
- Amendments to References to the Conceptual Framework in IFRS Standards (issued in March 2018).

ING Bank has not early adopted any other standard, interpretation or amendment in 2020 which has been issued, but is not yet effective.

1.4.2 Upcoming changes in IFRS after 2020

The following published amendments are not mandatory for 2020 and have not been early adopted by ING Bank. ING Bank is still currently assessing the detailed impact of these amendments. However, the implementation of these amendments is expected to have no significant impact on ING Bank's Consolidated financial statements apart, from IBOR Phase 2 amendments, the impact of which is explained below.

The list of upcoming changes to IFRS, which are applicable for ING Bank:

<u>Effective in 2021:</u>

In May 2020 the IASB 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, endorsed by the EU, are effective for annual reporting periods beginning on or after 1 June 2020, with early application permitted. Once they become effective for ING Bank in 2021, the amendments will not have material impact on ING Bank's accounting policies, ING Bank's results or financial position. In 2020 ING Bank did not receive rent concessions as a lessee. This is why the amendments were not relevant and, hence, not early adopted by ING Bank in 2020.

In August 2020, the IASB issued amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 16 'Leases', IFRS 4 'Insurance Contracts' and IFRS 7 'Financial Instruments: Disclosures': 'IBOR Reform and its Effects on Financial Reporting – Phase 2'. Phase 2 amendments relate mainly to accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities due to the IBOR reform and impact on hedge accounting when an existing benchmark rate is reformed or replaced with an alternative risk free rate. Specifically, for ING Bank, the main elements of the Phase 2 amendments are that the effective interest rate on debt financial instruments will be adjusted, and hedge accounting will continue on transition to risk free rates, but only to the extent that the modifications made to financial instruments are those necessary to implement IBOR Reform and that the new basis for calculating cash flows is 'economically equivalent' to the previous basis. When ING Bank applies these amendments, ING Bank would avoid recognising modification gains and losses on debt instruments that would otherwise be required in the absence of Phase 2 amendments. In addition, when ING Bank applies Phase 2 amendments, ING Bank will avoid hedge accounting discontinuations when modifying both hedged items and hedging instruments as a consequence of IBOR reform that would otherwise be required in the absence of Phase 2 amendments. When ING Bank applies Phase 2 amendments, certain additional disclosures will need to be provided.

The Phase 2 amendments are effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted and have been endorsed by the EU.

ING Bank did not early adopt Phase 2 amendments in 2020 as Phase 2 reliefs were largely not yet relevant for ING Bank. During 2021, ING Bank commenced the process of amending contracts which reference LIBORs that are at risk, with a focus on those being decommissioned by 31 December 2021 with alternative benchmark rates. This is the period when Phase 2 amendments will become relevant (and mandatorily effective) for ING Bank.

Effective in 2022:

- Amendments to IFRS 3 'Business Combinations': Reference to the Conceptual Framework (issued in May 2020).
- Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use (issued in May 2020).
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets': Onerous Contracts — Cost of Fulfilling a Contract (issued in May 2020).
- Annual improvements to IFRS Standards 2018-2020 Cycle: Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standard', amendments to IFRS 9 'Financial Instruments' and amendments to IFRS 16 'Leases' (issued in May 2020).

Although ING Bank is currently assessing the detailed impact of the above amendments, it is expected that they will not have a significant impact on ING Bank's accounting policies, ING Bank's results or financial position.

Effective in 2023:

- Amendments to IAS 1 'Presentation of Financial Statements': Classification of Liabilities as Current or Non-current (issued in January 2020).
- Amendments to IAS 1 'Presentation of Financial Statements': Disclosure of Accounting Policies (issued in February 2021).
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors': Definition of Accounting Estimates (issued in February 2021).

Although ING Bank is currently assessing the detailed impact of the above amendments, it is expected that they will not have a significant impact on ING Bank's accounting policies, ING Bank's results or financial position.

The IASB has also issued IFRS 17 'Insurance Contracts'. The original effective date of IFRS 17 was 1 January 2021, but in June 2020 the IASB has published an Amendment confirming 1 January 2023 as the new effective date. ING Bank is currently assessing the detailed impact of IFRS 17.

1.5 Significant judgements and critical accounting estimates and assumptions

The preparation of the consolidated 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 year. The actual outcome may differ from these estimates. The process of setting assumptions is subject to internal control procedures and approvals.

ING Bank has identified 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. These areas are:

- Loan loss provisions (financial assets);
- The determination of the fair values of financial assets and liabilities;
- Impairment assessment of non-financial assets;
- Impairment assessment of an investment in associate;
- Provisions; and
- Accounting for Targeted Longer-Term Refinancing Operations (TLTRO).

In light of Covid-19 the estimation uncertainty and level of management judgement to determine the loan loss provisions and the fair values of financial assets and liabilities further increased in 2020.

The negative effects of Covid-19 gave rise to new significant judgements and critical accounting estimates and assumptions in 2020: 'Impairment assessment of non-financial assets' where estimates and judgements became more sensitive; and 'Impairment assessment of an investment in associate' where impairment indicators arose for the first time. In addition, ING Bank's participation in 2020 in a new series of Targeted Longer-Term Refinancing Operations (TLTRO III) also led to a new area of significant judgements. Recognition and measurement of provisions remained an area of significant judgement and estimation uncertainty in 2020 consistent with prior years.

For further discussion of the significant judgements and critical accounting estimates and assumptions in these areas, reference is made to the relevant parts in paragraph 1.7 'Financial instruments' (specifically 1.7.3 for 'Fair values of financial assets and liabilities' and 1.7.8 'Impairment of financial assets'), 1.11 'Investments in associates and joint ventures', 1.13 'Acquisitions, goodwill and other intangible assets', 1.17 'Provisions, contingent liabilities and contingent assets' of this note, section 1.6 'Other developments', 'Accounting for Targeted Longer-Term Refinancing Operations (TLTRO)' and the applicable notes to the Consolidated financial statements.

1.6 Other developments

Definition of Default

ING Bank 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 Bank updated its Definition of Default in 1Q 2020. Consequently, ING Bank updated this definition also for IFRS 9 purposes. From an accounting perspective, this represents a change in accounting estimate that is applied prospectively. This change had no material impact on ING Bank's expectation for credit losses, but impacted the classification of assets mainly between Stage 2 and Stage 3 resulting in an increase in Stage 3 assets (and mostly a decrease of Stage 2 assets) of approximately EUR 1 billion at the time of updating the definition.

Accounting for Targeted Longer-Term Refinancing Operations (TLTRO)

In 2020 ING Bank participated in a new series of Targeted Longer-Term Refinancing Operations (TLTRO III) and repaid outstanding amounts under TLTRO II, reference is made to Note 12 'Deposits from banks'.

ING Bank considers TLTRO funding provided by the ECB to banks to be on market terms on the basis that the ECB has established a separate market with TLTRO programmes. They have specific terms which are different from other sources of funding available to banks, including those provided by the ECB. Consequently, the rate under TLTRO is considered to be a market conforming rate and TLTRO funding is recognized fully as a financial liability.

ING Bank interprets the whole rate set by the ECB under TLTRO as a floating rate on the financial liability, being the market rate for each specific period in time. This results in discrete rates for discrete interest periods over the life of TLTRO. The change in the applicable rate between interest periods is seen as a change in the floating rate and is accounted for prospectively. Similarly, if the ECB announces changes in the rate for the amounts already drawn under the existing TLTRO, then such changes also represent a change in a floating rate. Following this, such changes lead to the recognition of an increased interest in the relevant period of life of the exposure, rather than by the recognition of an immediate modification gain or loss at the moment of the change of terms by the ECB.

Furthermore, the change in the TLTRO rate driven by changes in expectations of meeting the targets is also seen as a change in the floating rate. However, in this case, the effective interest rate is updated not only prospectively, but also partially retrospectively. As a result, the effect of the revised effective interest rate for the period that already passed until the moment when the change in expectations occurs, is recognised as a catch up adjustment in Profit or Loss. This change occurs only when ING Bank has a reasonable expectation that the lending targets will be met.

ING Bank views 'reasonable expectation' in case of TLTRO funding as a high hurdle. This is the moment when it becomes highly probable, i.e. the probability of meeting the lending targets is substantially greater than the probability that it will not. As a result, if interest income is recognised during the period based on the expectation of meeting the targets, there should only be a limited possibility that the interest may need to be reversed in future periods.

Reference is made to note 12 'Deposits from banks' and to note 20 'Net interest income' for the presentation of ING Bank's participation in TLTRO programmes.

Significant judgements and critical accounting estimates and assumptions:
Significant management judgement is exercised in determining the accounting treatment of TLTRO transactions. In particular, ING Bank applied judgement in:

- assessing and concluding that in ING Bank's view the rate under TLTRO is considered to be a market conforming rate and, hence, accounting for TLTRO in accordance with IFRS 9;
- selecting accounting policies regarding the calculation of the effective interest rate under TLTRO, including treatment of changes in expectations of meeting the lending targets;
- defining the moment when ING Bank has a reasonable expectation of meeting the targets;
- estimating future expected lending growth, which includes estimations around client behaviour. Changes in these estimations may lead to changes in the amount of interest recognized on TLTRO transactions.

ING Bank continuously monitors the actual and forecasted development of eligible loans under TLTRO programmes to assess the appropriate interest recognition in the statement of profit or loss and to minimise the risk of potential interest reversals due to the use of outdated or incorrect assumptions.

1.7 Financial instruments

1.7.1 Recognition and derecognition of financial instruments

Recognition of financial assets

Financial assets are recognised in the balance sheet when ING Bank becomes a party to the contractual provisions of the instrument. For a regular way purchase or sale of a financial asset, trade date and settlement date accounting is applied depending on the classification of the financial asset.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where ING Bank has transferred substantially all risks and rewards of ownership. If ING Bank neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset. The difference between the carrying amount of a financial asset that has been extinguished and the consideration received is recognised in profit or loss.

Recognition of financial liabilities

Financial liabilities are recognised on the date that the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished and the consideration paid is recognised in profit or loss.

1.7.2 Classification and measurement of financial instruments

Financial assets

ING Bank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortised cost (AC).

At initial recognition, ING Bank measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss (FVPL) are expensed in the statement of profit or loss.

Financial assets - Debt instruments

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows at initial recognition.

Business models

Business models are classified as Hold to Collect (HtC), Hold to Collect and Sell (HtC&S) or Other depending on how a portfolio of financial instruments as a whole is managed. ING Bank's business models are based on the existing management structure of the bank, and refined based on an analysis of how businesses are evaluated and reported, how their specific business risks are managed and on historic and expected future sales. Sales are permissible in a HtC business model when these are due to an increase in credit risk, take place close to the maturity date (where the proceeds from the sales approximate the collection of the remaining contractual cash flows), are insignificant in value (both individually and in aggregate) or are infrequent.

Contractual cash flows Solely Payments of Principal and Interest (SPPI)

The contractual cash flows of a financial asset are assessed to determine whether they represent SPPI. Interest includes consideration for the time value of money, credit risk and also consideration for liquidity risk and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

In assessing whether the contractual cash flows are SPPI, ING Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, terms such as the following are considered, with an example of an SPPI failure for each consideration:

- prepayment terms. For example a prepayment of an outstanding principal amount plus a penalty which is not capped to three or six months of interest;
- leverage features, which increase the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. An example is a Libor contract with a multiplier;
- terms that limit ING Bank's claim to cash flows from specified assets - e.g. non-recourse asset arrangements. This could be the case if payments of principal and interest are met solely by the cash flows generated by the underlying asset, for example instances in real estate, shipping and aviation financing; and
- features that modify consideration of the time value of money. These are contracts with for example an interest rate which is reset every month to a one-year rate. ING Bank performs either a qualitative or quantitative benchmark test on a financial asset with a modified time value of money element. A qualitative test is performed when it is clear with little or no analysis whether the contractual cash flows solely represent SPPI.

Based on the entity's business model for managing the financial assets and the contractual terms of the cash flows, there are three measurement categories into which ING Bank classifies its debt instruments:

- *Amortised Cost (AC):*
  Debt instruments that are held for collection of contractual cash flows under a HtC business model where those cash flows represent SPPI are measured at AC. Interest income from these financial assets is included in Interest income using the EIR method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as a separate line item in the Consolidated statement of profit or loss.
- *FVOCI:*
  Debt instruments that are held for collection of contractual cash flows and for selling the financial assets under a HtC&S business model, where the assets' cash flows represent SPPI, are measured at FVOCI. Movements in the carrying amount are recognised in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and presented in Investment income or Other income, based on the specific characteristics of the business model. Interest income from these financial assets is included in Interest income using the EIR method. Impairment losses are presented as a separate line item in the Consolidated statement of profit or loss.
- *FVPL:*
  Debt instruments that do not meet the criteria for AC or FVOCI are measured at FVPL. This includes debt instruments that are held-for-trading (presented separately as Trading assets) and all other debt instruments that do not meet the criteria for AC or FVOCI (presented separately as Mandatorily at FVPL). ING Bank may in some cases, on initial recognition, irrevocably designate a financial asset as classified and measured at FVPL. This is the case where doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise on assets measured at AC or FVOCI. Fair value movements on trading securities, trading loans and deposits (mainly reverse repo's) are presented fully within valuation result and net trading income, this also includes interest. The interest arising on financial assets designated as at FVPL is recognised in profit or loss and presented within Interest income or Interest expense in the period in which it arises. The interest arising on a debt instrument that is

part of a hedge relationship, but not subject to hedge accounting, is recognised in profit or loss and presented within Interest income or Interest expense in the period in which it arises.

ING Bank reclassifies debt investments when, and only when, its business model for managing those assets changes. Such changes in business models are expected to be very infrequent. There have been no reclassifications during the reporting period.

Financial assets - Equity instruments

All equity investments are measured at fair value. ING Bank applies the fair value through OCI option to investments which are considered strategic, consisting of investments that add value to ING Bank's core banking activities.

There is no subsequent recycling of fair value gains and losses to profit or loss following the derecognition of investments if elected to be classified and measured as FVOCI. However, the cumulative gain or loss is transferred within equity to retained earnings on derecognition of such equity instruments. Dividends from such investments continue to be recognised in profit or loss as Investment income when ING Bank's right to receive payments is established. Impairment requirements are not applicable to equity investments classified and measured as FVOCI.

Other remaining equity investments are measured at FVPL. All changes in the fair value are recognised in Valuation result and Net trading income in the Consolidated statement of profit or loss.

Financial liabilities

Financial liabilities are classified and subsequently measured at AC, except for financial guarantee contracts, derivatives and liabilities designated at FVPL. Financial liabilities classified and measured at FVPL are presented as follows:

- the amount of change in the fair value that is attributable to changes in own credit risk of the liability designated at FVPL is presented in OCI. Upon derecognition this Debit Valuation Adjustment (DVA) impact does not recycle from OCI to profit or loss; and
- the remaining amount of change in the fair value is presented in profit or loss in 'Valuation results and net trading income'. Interest on financial liabilities at FVPL is also recognised in the valuation result, except for items voluntarily designated as FVPL for which interest is presented within 'Other interest income (expense).

A financial guarantee contract is a contract that requires ING Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Such a contract is initially recognised at fair value and is subsequently measured at the higher of (a) the amount determined in accordance with impairment provisions of IFRS 9 'Financial instruments' (see section "Impairment of financial assets") and (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition principle of IFRS 15 'Revenue from contracts with customers'.

1.7.3 Fair values of financial assets and liabilities

All financial assets and liabilities are recognised initially at fair value. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a valuation technique that uses significant unobservable inputs, the entire day one difference (a 'Day One profit or loss') is deferred and recognised in the statement of profit or loss over the life of the transaction until the transaction matures or until the observability changes. In all other cases, ING Bank recognises the difference as a gain or loss at inception.

Subsequently, except for financial assets and financial liabilities measured at amortised cost, all the other financial assets and liabilities are measured at fair value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It assumes that market participants would use and take into account the characteristics of the asset or liability when pricing the asset or liability. Fair values of financial assets and liabilities are based on unadjusted quoted market prices where available. Such quoted market prices are primarily obtained from exchange prices for listed financial instruments. Where an exchange price is not available, quoted prices in an active market may be obtained from independent market vendors, brokers, or market makers. In general, positions are valued at the bid price for a long position and at the offer price for a short position or are valued at the price within the bid-offer spread that is most representative of fair value in the circumstances. In some cases where positions are marked at mid-market prices, a fair value adjustment is calculated.

For certain financial assets and liabilities, quoted market prices are not available. For such instruments, fair value is determined using valuation techniques. These range from discounting of cash flows to various valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings), and customer behaviour are taken into account. ING Bank maximises the use of market observable inputs and minimises the use of unobservable inputs in determining the fair value. It can be subjective dependent on the significance of the unobservable input to the overall valuation. All valuation techniques used are subject to internal review and approval. Most data used in these valuation techniques are validated on a daily basis when possible.

When a group of financial assets and liabilities are managed on the basis of their net risk exposures, the fair value of a group of financial assets and liabilities are measured on a net portfolio level.

To include credit risk in fair value, ING Bank applies both Credit and Debit Valuation Adjustments (CVA, DVA, also known as Bilateral Valuation Adjustments or BVA). Own issued debt and structured notes that are designated at FVPL are adjusted for ING Bank's own credit risk by means of a DVA. Additionally, derivatives valued at fair value are adjusted for credit risk by a BVA. The BVA is of a bilateral nature as both the credit risk on the counterparty (CVA) as well as the credit risk on ING Bank (DVA) are included in the adjustment. All input data that is used in the determination of the BVA is based on market implied data. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty deteriorates) and right-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty improves) are taken into account in the measurement of the valuation adjustment.

To include the funding risk, ING Bank applies an additional 'Funding Valuation Adjustment' (FVA) to the uncollateralised derivatives based on the market price of funding liquidity.

ING Bank also applies to certain positions other valuation adjustments to arrive at the fair value: Bid-Offer adjustments, Model Risk Adjustments and Collateral Valuation Adjustments (CollVA).

Significant judgements and critical accounting estimates and assumptions:
Even if market prices are available, when markets are less liquid there may be a range of prices for the same security from different price sources. Selecting the most appropriate price requires judgement and could result in different estimates of fair value.

Valuation techniques are subjective in nature and significant judgement is involved in establishing fair values for certain financial assets and liabilities. Valuation techniques involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value.

Price testing is performed to assess whether the process of valuation has led to an appropriate fair value of the position and to an appropriate reflection of these valuations in the statement of profit or loss. Price testing is performed to minimise the potential risks for economic losses due to incorrect or misused models.

The Covid-19 pandemic impacted the global financial markets in 2020. In the beginning of 2020, ING Bank observed large volatility in the market resulting in widened spreads, markets distortion and illiquidity in some specific markets which has stressed ING Bank's valuation processes and movements in level classifications. The volatility in the market has stabilised in the course of 2020 and has largely returned to pre-pandemic levels. Financial Assets and Liabilities, including Level 3, continued to be valued using agreed methodologies and ING Bank continued to limit the unobservable input to arrive at the most appropriate Fair Market value.

Reference is made to Note 36 'Fair value of assets and liabilities' and to the 'Market risk' paragraph in the 'Risk management' section of the Annual Report for the basis of the determination of the fair value of financial instruments and related sensitivities.

1.7.4 Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets, including market transactions and valuation techniques (such as discounted cash flow models and option pricing models), as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair value movements on derivatives are presented in profit or loss in Valuation result and net trading income, except for derivatives in either a formal hedge relationship and so-called economic hedges that are not in a formal hedge accounting relationship where a component is presented separately in interest result in line with ING Bank's risk management strategy.

Embedded derivatives are separated from financial liabilities and other non-financial contracts and accounted for as a derivative if, and only if:

a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
c) the combined instrument is not measured at fair value with changes in fair value reported in profit or loss.

If an embedded derivative is separated, the host contract is accounted for as a similar free-standing contract.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. ING Bank designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge), hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedge), or hedges of a net investment in a foreign operation. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction ING Bank documents the relationship between hedging instruments and hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. ING Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

ING Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU carve-out. The EU carve-out macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting. ING Bank applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU carve-out to its retail operations. The net exposures of retail funding (savings and current accounts) and retail lending (mortgages) are hedged. The hedging activities are designated under a portfolio fair value hedge on the mortgages. Changes in the fair value of the derivatives are recognised in the statement of profit or loss, together with the fair value adjustment on the mortgages (hedged items) insofar as attributable to interest rate risk (the hedged risk).

ING Bank applies also macro cash flow hedge accounting to hedge the variability in future cash flows of non-trading assets and liabilities due to the interest rate risk and foreign currency exchange rate risk. The designated hedged items are floating rated assets or liabilities, such as floating rate mortgages and corporate loans. The effective portion of changes in the fair value of the derivatives are recognised in the Other Comprehensive Income.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the statement of profit or loss, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortised through the statement of profit or loss over the remaining term of the original hedge or recognised directly when the hedged item is derecognised. For non-interest bearing instruments, the cumulative adjustment of the hedged item is recognised in the statement of profit or loss only when the hedged item is derecognised.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the Other Comprehensive Income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss. Amounts accumulated in the Other Comprehensive Income are recycled to the statement of profit or loss in the periods in which the hedged item affects net result. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the Other Comprehensive Income at that time remains in the Other Comprehensive

Income and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the Other Comprehensive Income is transferred immediately to the statement of profit or loss.

Net investment hedges

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the Other Comprehensive Income and the gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss. Gains and losses accumulated in the Other Comprehensive Income are included in the statement of profit or loss when the foreign operation is disposed.

IBOR Transition - specific policies applicable from 1 January 2019 for hedges directly affected by IBOR reform

As further explained in the 'IBOR Transition' paragraph in the 'Risk management' section, the financial markets are going through a significant reform of interbank offered rates (IBOR) and financial institutions are obligated to implement a replacement of major interest rate reference rates. This process is at different stages, and is progressing at different speeds, across several major currencies.

Given that IBOR reform may have various accounting implications, the International Accounting Standards Board (IASB) has undertaken a two phase project. Phase 1 addresses those issues that affect financial reporting before the replacement of an existing benchmark (Phase 1 amendments to IFRS were issued by the IASB in 2019). Phase 2 focuses on issues that may affect financial reporting when the existing benchmark rate is reformed or replaced (Phase 2 amendments to IFRS were issued by the IASB in 2020).

In 2019, ING Bank early adopted the Phase 1 amendments to IFRS which allowed ING Bank to apply a set of temporary exceptions to continue hedge accounting even when there is uncertainty about contractual cash flows arising from the reform. Under these temporary exceptions, interbank offered rates are assumed to continue unaltered for the purposes of hedge accounting until such time as the uncertainty is resolved.

More specifically, the following temporary reliefs are part of the Phase 1 amendments:

- Highly probable requirement for cash flow hedges
  When determining whether a forecast transaction is highly probable, it is assumed that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.
- Prospective assessment of hedge effectiveness
  When performing the prospective assessment it is assumed that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.
- Retrospective assessment of hedge effectiveness
  When performing the retrospective assessment hedges are allowed to pass the assessment even if actual results are outside the 80-125% range, during the period of uncertainty arising from the IBOR reform.
- Designation of a component of an item as a hedged item
  For hedges of the benchmark component of interest rate risk affected by the reform, the separately identifiable requirement only needs to be demonstrated at the inception of such hedging relationships (including macro hedges).

The amendments are relevant given that ING Bank hedges and applies hedge accounting to benchmark interest rate exposure part of IBOR reform. Hedging instruments and most of hedged items continue to be indexed by the IBOR benchmark rates. Therefore, there is still uncertainty in 2020 over the timing and the amount of the replacement rate cash flows and, thus, temporary exceptions under Phase 1 continued to be relevant for ING Bank in 2020. ING Bank will cease to apply the amendments when this uncertainty is no longer present or when the hedging relationship is discontinued. Reference is made to Note 37 'Derivatives and hedge accounting' for the disclosures relating to the application of the amendments as part of Phase 1.

In 2020 ING Bank did not early adopt Phase 2 amendments. Reference is made to paragraph 1.4.2 'Upcoming changes in IFRS after 2020' of this note.

Non-trading derivatives that do not qualify for hedge accounting

Derivative instruments that are used by ING Bank as part of its risk management strategies, but which do not qualify for hedge accounting under ING Bank's accounting policies, are presented as non-trading derivatives. Non-trading derivatives are measured at fair value with changes in the fair value taken to the statement of profit or loss.

1.7.5 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset, and the net amount reported, in the statement of financial position when ING Bank has a current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Offsetting is applied to certain interest rate swaps for which the services of a central clearing house are used.

1.7.6 Repurchase transactions and reverse repurchase transactions

Securities sold subject to repurchase agreements (repos), securities lending and similar agreements continue to be recognised in the consolidated statement of financial position. The counterparty liability is measured at FVPL (designated) and included in Other financial liabilities at FVPL if the asset is measured at FVPL. Otherwise, the counterparty liability is included in Deposits from banks, Customer deposits, or Trading, as appropriate.

Securities purchased under agreements to resell (reverse repos), securities borrowings and similar agreements are not recognised in the consolidated statement of financial position. The consideration paid to purchase securities is recognised as Loans and advances to customers, Loans and advances to banks, Other financial assets at FVPL or Trading assets, as appropriate. The difference between the sale and repurchase price is treated as interest and amortised over the life of the agreement using the effective interest method for instruments that are not measured at FVPL.

1.7.7 Credit risk management classification and maximum credit risk exposure

Credit risk management disclosures are provided in the 'Credit risk' paragraph 'Credit risk categories' of the 'Risk management' section in the Annual Report.

The maximum credit risk exposure for items in the statement of financial position is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 42 'Contingent liabilities and commitments' for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure.

The manner in which ING Bank manages credit risk and determines credit risk exposures for that purpose is explained in the Credit risk paragraph 'Credit Risk Appetite and Concentration Risk Framework' of the 'Risk management' section in the Annual Report.

1.7.8 Impairment of financial assets

An Expected Credit Loss (ECL) model is applied to financial assets accounted for at AC or 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. Under the ECL model ING Bank calculates the expected credit losses (ECL) by considering on a discounted basis the cash shortfall it would incur in case of a default and multiplying the shortfall by the probability of a default occurring. The ECL is the sum of the probability-weighted outcomes. The ECL estimates are unbiased and include reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions. ING Bank's approach leverages the Advanced Internal Ratings Based (AIRB) models that are used for regulatory purposes. Adjustments are applied to make these models suitable for determining ECL. ECL is recognised on the balance sheet as loan loss provisions (LLP).

Three stage approach

Financial assets are classified in one of the below three Stages at each reporting date. A financial asset can move between Stages during its lifetime. The Stages are based on changes in credit quality since initial recognition and defined as follows:

- Stage 1
  Financial assets that have not had a significant increase in credit risk since initial recognition (i.e. no Stage 2 or 3 triggers apply). Assets are classified as Stage 1 upon initial recognition (with the exception of purchased or originated credit impaired (POCI) assets) and ECL is determined by the probability that a default occurs in the next 12 months (12 months ECL);
- Stage 2
  Financial assets showing a significant increase in credit risk since initial recognition. For assets in Stage 2 ECL reflects an estimate on the credit losses over the remaining maturity of the asset (lifetime ECL); or

- Stage 3
  Financial assets that are credit-impaired. Also for these assets ECL is determined over the remaining maturity of the asset.

Significant increase in credit risk

ING Bank established a framework, incorporating quantitative and qualitative indicators, to identify and assess significant increases in credit risk (SICR). This is used to determine the appropriate ECL Stage for each financial asset.

The main determinate of SICR is a quantitative test, whereby the lifetime Probability of Default (PD) of an asset at each reporting date is compared against its lifetime PD determined at the date of initial recognition. If the delta is above pre-defined absolute or relative thresholds the item is considered to have experienced a SICR. Consequently, the item moves from Stage 1 to Stage 2 (unless the item is credit-impaired). In these instances, items are no longer assigned a 12 month ECL and instead are assigned a lifetime ECL. Items can return to Stage 1 if there is sufficient evidence that there is no longer a significant increase in credit risk.

ING Bank also relies on a number of qualitative indicators to identify and assess SICR. These include:

- Forbearance status;
- Watch List status. Loans on the Watch List are individually assessed for Stage 2 classification;
- Intensive care management;
- Substandard Internal rating; and
- Arrears status.

Credit-impaired financial assets (Stage 3)

Financial assets are assessed for credit-impairment at each reporting date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment includes arrears of over 90 days on any material credit obligation, indications that the borrower is experiencing significant financial difficulty, a breach of contract, bankruptcy or distressed restructuring.

An asset (other than a POCI asset) that is in Stage 3 will move back to Stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired. The asset will migrate back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly since initial recognition.

The definition of credit-impaired under IFRS 9 (Stage 3) is aligned with the definition of default used by ING Bank for internal risk management purposes, which is also the definition used for regulatory purposes.

Macroeconomic scenarios

ING Bank has established a quarterly process whereby forward-looking macroeconomics scenarios and probability weightings are developed for the purpose of ECL. ING Bank applies data predominantly from a leading service provider (Oxford Economics (OE)) enriched with the internal ING Bank view. A baseline, up-scenario and a down-scenario are determined to reflect an unbiased and probability-weighted ECL amount. As a baseline scenario, ING Bank applies the market-neutral view combining consensus forecasts for economic variables such as unemployment rates, GDP growth, house prices, commodity prices, and short-term interest rates. Applying market consensus in the baseline scenario ensures unbiased estimates of the expected credit losses.

The alternative scenarios are based on observed forecast errors in the past, adjusted for the risks affecting the economy today and the forecast horizon. The probabilities assigned are based on the likelihoods of observing the three scenarios and are derived from confidence intervals on a probability distribution. The forecasts for the economic variables are adjusted on a quarterly basis.

Measurement of ECL

ING Bank applies a collective assessment method to measure ECL for Stage 1, Stage 2, and certain Stage 3 assets. Other credit-impaired assets subject to ECL measurement apply the individual assessment method.

Collectively assessed assets (Stages 1 to 3)

For collective assessed assets, ING Bank applies a model-based approach. ECL is determined by, expressed simplistically, multiplying the probability of default (PD) with the loss given default (LGD) and exposure at default (EAD), adjusted for the time value of money. Assets that are collectively assessed are grouped on the basis of similar credit risk characteristics, taking into account loan type, industry, geographic location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated and the loss in case the debtor is not able to pay all amounts due.

For Stage 3 assets the PD equals 100% and the LGD and EAD represent a lifetime view of the losses based on characteristics of defaulted facilities.

For the purpose of ECL, ING Bank's expected credit loss models (PD, LGD, EAD) used for regulatory purposes have been adjusted. These adjustments include removing embedded prudential conservatism (such as floors) and converted through-the-cycle estimates to point-in-time estimates. The models assess ECL on the basis of forward-looking macroeconomic forecasts and other inputs. For most financial assets, the expected life is limited to the remaining maturity. For overdrafts and certain revolving credit facilities, such as credit cards, the maturity is estimated based on historical data as these do not have a fixed term or repayment schedule.

Individually assessed assets (Stage 3)

ING Bank estimates ECL for individually significant credit-impaired financial assets within Stage 3 on an individual basis. ECL for these Individually assessed assets are determined using the discounted expected future cash flow method. To determine expected future cash flows, one or more scenarios are used. Each scenario is analysed based on the probability of occurrence and include forward looking information.

In determining the scenarios, all relevant factors impacting the future cash flows are taken into account. These include expected developments in credit quality, business and economic forecasts, and estimates of if/when recoveries will occur taking into account ING Bank's restructuring/recovery strategy.

The best estimate of ECL is calculated as the weighted-average of the shortfall (gross carrying amount minus discounted expected future cash flow using the original EIR) per scenario, based on best estimates of expected future cash flows. Recoveries can arise from, among others, repayment of the loan, collateral recovery and the sale of the asset. Cash flows from collateral and other credit enhancements are included in the measurement of ECL of the related financial asset when it is part of or integral to the contractual terms of the financial asset and the credit enhancement is not recognised separately. For the individual assessment, with granular (company or asset-specific) scenarios, specific factors can have a larger impact on the future cash flows than macroeconomic factors.

When a financial asset is credit-impaired, interest is no longer recognised based on the accrual income based on the gross carrying amount of the asset. Rather, interest income is calculated by applying the original EIR to the AC of the asset, which is the gross carrying amount less the related loan loss provision.

Purchased or Originated Credit Impaired (POCI) assets

POCI assets are financial assets that are credit-impaired on initial recognition. Impairment on a POCI asset is determined based on lifetime ECL from initial recognition. POCI assets are recognised initially at an amount net of LLP and are measured at AC using a credit-adjusted effective interest rate. In subsequent periods any changes to the estimated lifetime ECL are recognised in profit or loss. Favourable changes are recognised as an impairment gain even if the lifetime ECL at the reporting date is lower than the estimated lifetime ECL at origination.

Modifications

In certain circumstances ING Bank grants borrowers postponement, reduction of loan principal and/or interest payments on a temporary period of time to maximise collection opportunities, and if possible, avoid default, foreclosure, or repossession. When such postponement, reduction of loan principal and/or interest payments is executed based on credit concerns it is also referred to as forbearance (refer to the 'Risk Management' section of the Annual Report for more details). In such cases, the net present value of the postponement, reduction of loan principal and/or interest payments is taken into account in the determination of the appropriate level of ECL. If the forbearance results in a substantial modification of the terms of the loan, the original loan is derecognised and a new loan is recognised at fair value at the modification date. ING Bank determines whether there has been a substantial modification using both quantitative and qualitative factors.

Write-off and debt forgiveness

If there is no reasonable expectation of recovery and/or collectability of amounts due a write-off can occur. The following events can lead to a write-off:

- After a restructuring has been completed and there is a high improbability of recovery of part of the remaining loan exposure (including partial debt forgiveness);
- In a bankruptcy liquidation scenario;
- After divestment or sale of a credit facility at a discount;
- Upon conversion of a credit facility into equity; or
- ING Bank releases a legal (monetary) claim it has on its customer.

When a loan is uncollectable, it is written off against the related loan loss provision. Subsequent recoveries of amounts previously written off are recognised in the statement of profit or loss.

Debt forgiveness (or debt settlement) involves write-off but additionally involves the forgiveness of a legal obligation, in whole or in part. This means that ING Bank forfeits the legal right to recover the debt. As a result, the financial asset needs to be derecognised. Distinction is made in situations where ING Bank ends the relationship with the client and situations where ING Bank (partially) continues the financing of the client.

Presentation of ECL

ECL for financial assets measured at AC are deducted from the gross carrying amount of the assets. For debt instruments at FVOCI, the ECL is recognised in OCI, instead of deducted the carrying amount of the asset. ECL also reflects any credit losses related to the portion of the loan commitment that is expected to be drawn down over the remaining life of the instrument. The ECL on issued financial guarantee contracts, in scope of IFRS 9 and not measured at FVPL, are recognised as liabilities and presented in Other provisions. ECL are presented in profit or loss in Addition to loan loss provision.

Significant judgements and critical accounting estimates and assumptions:
Considerable management judgement is exercised in determining the amount of LLP for financial assets assessed on both a collective and an individual basis. The need for management judgement has increased even further due to the Covid-19 pandemic. In particular, this judgement requires ING Bank to make various assumptions about the risk of default, the credit loss rates in case of a default and expected future cash flows. These assumptions are based on a combination of ING Bank's past history, existing market conditions and forward-looking estimates at the end of each reporting period. Changes in these assumptions may lead to changes in the LLP over time. Given they are subjective and complex in nature, and because the LLP and the underlying exposures subject to ECL are material, these assumptions are considered critical accounting assumptions. The sensitivity of these assumptions is assessed in the credit risk section of the 'Risk Management' section in the Annual Report.

The use of forward-looking macroeconomic scenarios in both collective and individual impairment assessments
Forward-looking macroeconomic scenarios are uncertain in nature. The process ING Bank follows involves two internal groups, the Macroeconomics Scenarios Team and the Macroeconomics Scenarios Expert Panel. The latter team consists of senior management representatives from the Business, Risk and Finance. These groups review inputs obtained from a third party provider and subject these to internal expert challenge to ensure the inputs used in the models reflect ING Bank's view on the macro economy. The use of alternate forward-looking macroeconomic scenarios can produce significantly different estimates of ECL. This is demonstrated in the sensitivity analysis in the 'Risk Management' section of the Annual Report, where the un-weighted ECL under each of the three scenarios for some significant portfolios is disclosed. The uncertainty around the expected macroeconomic recovery once Covid-19 induced lockdowns are lifted increased the judgement necessary in using macroeconomic scenarios. Furthermore, the specific nature of the Covid-19 crisis, which leads to a time lag between the effects of macroeconomic outlooks on model produced ECL and observed defaults, has further increased the judgements required in the use of forward-looking macroeconomic scenarios in 2020.

The probability weights applied to each of the three scenarios
This is a management judgement that ultimately requires estimation and consideration of the range of possibilities. This ensures a consensus view on the likelihood of each scenario materialising is appropriately reflected in the weights applied by ING Bank for collectively assessed ECL. The sensitivity analysis in the 'Risk Management' section of the Annual Report discloses these weights used.

The criteria for identifying a significant increase in credit risk

When determining whether the credit risk on a financial asset has increased significantly, ING Bank considers reasonable and supportable information to compare the risk of default occurring at reporting date with the risk of a default occurring at initial recognition of the financial asset. Whilst judgement is required in applying a PD rating to each financial asset, there is significant judgement used in determining the Stage allocation PD banding thresholds. The process of comparing a financial asset's PD with the PD banding thresholds determines its ECL Stage. Assets in Stage 1 are allocated a 12 month ECL, and those in Stage 2 are allocated a lifetime ECL, and the difference is often significant. As such, the judgement made in assigning financial asset PDs and the PD banding thresholds constitute a significant judgement. Analysis of the sensitivity associated with the assessment of significant increase in credit risk is presented in the 'Risk Management' section of the Annual Report. During 2020 ING Bank provided many customers with payment holidays. Traditional risk drivers in models used to determine LLP that are based on customers' payment behaviour may be ineffective for these assets, because customers with payment holidays are not required to make regular material payment and limited (if any) additional information is available. Hence, judgement was required to appropriately reflect the effect of payment holidays on LLP.

The definition of default

Judgement is exercised in management's evaluation of whether there is objective evidence that larger exposures are credit-impaired. Management judgement is required in assessing evidence of credit-impairment.

Impact from Covid-19 – management overlays and management adjustments

The increased uncertainty around ECL arising from Covid-19 in the use of forward-looking macroeconomic scenarios and determining significant increases in credit risk resulted in Covid-19 related management overlays and adjustments to the model-based ECL. The management adjustment related to payment holidays and management overlay related to time lag in expected defaults are EUR 638 million in total. Reference is made to the Credit risk paragraph in the 'Risk management' section of the Annual Report.

1.8 Consolidation

ING Bank comprises ING Bank N.V. (the Parent Company), and all other subsidiaries. Subsidiaries are entities controlled by ING Bank N.V. Control exists if ING Bank N.V. is exposed or has rights to variable returns and has the ability to affect those returns through the power over the investee. Control is usually achieved through situations including, but not limited to:

- Ownership, directly or indirectly, of more than half of the voting power;
- Ability to appoint or remove the majority of the board of directors;
- Power to govern operating and financial policies under statute or agreement; and
- Power over more than half of the voting rights through an agreement with other investors.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether ING Bank controls another entity.

For interests in structured entities, the existence of control requires judgement as these entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. This judgement includes, for example, the involvement in the design of the structured entity, contractual arrangements that give rights to direct the structured entities relevant activities and commitment to ensure that the structured entity operates as designed.

A list of principal subsidiaries is included in Note 45 'Principal subsidiaries'.

A list containing the information referred to in Section 379 (1), Book 2 of the Dutch Civil Code has been filed with the office of the Commercial Register of Amsterdam, in accordance with Section 379 (5), Book 2 of the Dutch Civil Code.

The results of the operations and the net assets of subsidiaries are included in the statement of profit or loss and the statement of financial position from the date control is obtained until the date control is lost. On disposal, the difference between the sales proceeds, net of directly attributable transaction costs, and the net assets is included in net result.

A subsidiary which ING Bank has agreed to sell but is still legally owned by ING Bank may still be controlled by ING Bank at the balance sheet date and therefore, still be included in the consolidation. Such a subsidiary may be presented as a held for sale disposal group if certain conditions are met.

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies are eliminated. Where necessary, the accounting policies used by subsidiaries are changed to ensure consistency with group policies. In general, the reporting dates of subsidiaries are the same as the reporting date of ING Bank.

ING Bank N.V. and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital and reserves required by law. Certain Group companies are also subject to other restrictions in certain countries, in addition to the restrictions on the amount of funds that may be transferred in the form of dividends, or otherwise, to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

1.9 Segment reporting

An operating segment is a distinguishable component of ING Bank, engaged in providing products or services, whose operating results are regularly reviewed by the Executive Board of ING Bank and the Management Board Banking (together the Chief Operating Decision Maker (CODM)) to make decisions about resources to be allocated to the segments and assess its performance. A geographical area is a distinguishable component of ING Bank engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The CODM examines ING Bank's performance both by line of business and geographic perspective and has identified five reportable segments by line of business and six by geographical area. The geographical analyses are based on the location of the office from which the transactions are originated.

1.10 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of ING Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Consolidated financial statements are presented in euros, which is ING Bank's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Exchange rate differences resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in equity as part of qualifying cash flow hedges or qualifying net investment hedges.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange rate differences on non-monetary items, measured at fair value through profit or loss, are reported as part of the fair value gain or loss. Non-monetary items are retranslated at the date the fair value is determined. Exchange rate differences on non-monetary items measured at fair value through other comprehensive income are included in other comprehensive income and get accumulated in the revaluation reserve in equity.

Exchange rate differences in the statement of profit or loss are generally included in 'Valuation results and net trading income'. Reference is made to Note 22 'Valuation results and net trading income', which discloses the amounts included in the statement of profit or loss. Exchange rate differences relating to the disposal of debt and FVPL equity securities are considered to be an inherent part of the capital gains and losses recognised in Investment income. As mentioned below, in Group companies relating to the disposals of group companies, any exchange rate difference deferred in equity is recognised in the statement of profit or loss in 'Result on disposal of group companies'. Reference is also made to Note 19 'Equity', which discloses the amounts included in the statement of profit or loss.

Group companies

The results and financial positions of all group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities included in each statement of financial position are translated at the closing rate at the date of that statement of financial position;
- Income and expenses included in each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange rate differences are recognised in a separate component of equity.

On consolidation, exchange rate differences arising from the translation of a monetary item that forms part of the net investment in a foreign operation, and of borrowings and other instruments designated as hedges of such investments, are taken to shareholder's equity. When a foreign operation is sold, the corresponding exchange rate differences are recognised in the statement of profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the balance sheet date.

1.11 Investments in associates and joint ventures

Associates are all entities over which ING Bank has significant influence but not control. Significant influence is the ability to participate in the financial and operating policies of the investee. It generally results from a shareholding of between 20% and 50% of the voting rights or through situations including, but not limited to one or more of the following:

- Representation on the board of directors;
- Participation in the policymaking process; and
- Interchange of managerial personnel.

Joint ventures are entities over which ING Bank has joint control. Joint control is the contractually agreed sharing of control over an arrangement or entity, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint control means that no party to the agreement is able to act unilaterally to control the activity of the entity. The parties to the agreement must act together to control the entity and therefore exercise the joint control.

Investments in associates and joint ventures are initially recognised at cost and subsequently accounted for using the equity method of accounting.

ING Bank's investment in associates and joint ventures (net of any accumulated impairment loss) includes goodwill identified on acquisition. ING Bank's share of its associates and joint ventures post-acquisition profits or losses is recognised in the statement of profit or loss, and its share of post-acquisition changes in reserves is recognised in equity. The cumulative post-acquisition changes are adjusted against the carrying amount of the investment. When ING Bank's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any long-term interests in the associate like uncollateralised loans that are neither planned nor likely to be settled in the foreseeable future, ING Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between ING Bank and its associates and joint ventures are eliminated to the extent of ING Bank's interest in the associates and joint ventures. Unrealised losses are also eliminated unless they provide evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by ING Bank.

Investments in associates and joint ventures are assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired. Goodwill on acquisitions of interests in associates and joint ventures is not tested separately for impairment, but is assessed as part of the carrying amount of the investment. Reversal of impairment is considered when the indicators of impairment no longer exist and the recoverable amount has improved above the carrying amount. The reversal of impairment cannot exceed the original impairment loss.

Significant judgements and critical accounting estimates and assumptions:
The most significant estimates and assumptions relate to the assessment of impairment of the investment in TMB which involves estimations of value in use.

Management's best estimate of TMB's expected future earnings are based on forecasts derived from broker consensus over the short to medium term and TMB observable targets for steady state earnings into perpetuity. A capital maintenance charge is applied, which is management's forecast of the earnings that need to be withheld in order for TMB to meet target regulatory requirements over the forecast period. Both of these factors are subject to a high degree of uncertainty.

Key assumptions used in estimating TMB's value in use and the sensitivity of the value in use calculations to different assumptions are described in Note 8 'Investments in associates and joint ventures'.

1.12 Property and equipment

Property in own use

Land and buildings held for own use are stated at fair value at the balance sheet date. Increases in the carrying amount arising on revaluation of land and buildings held for own use are credited to the revaluation reserve in shareholder's equity. Decreases in the carrying amount that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the statement of profit or loss. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the statement of profit or loss. Depreciation is recognised based on the fair value and the estimated useful life (in general 20–50 years). Depreciation is calculated on a straight-line basis. On disposal, the related revaluation reserve is transferred to retained earnings.

The fair values of land and buildings are based on regular appraisals performed by independent qualified valuers or by internal valuers. Subsequent expenditure is included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to ING Bank and the cost of the item can be measured reliably.

Equipment

Equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight line basis over their estimated useful lives, which are generally as follows: for data processing equipment two to five years, and four to ten years for fixtures and fittings. Expenditure incurred on maintenance and repairs is recognised in the statement of profit or loss as incurred. Expenditure incurred on major improvements is capitalised and depreciated.

Disposals of property and equipment

The difference between the proceeds on disposal and net carrying value is recognised in the statement of profit or loss under Other income.

Right-of-use assets

IFRS 16 'Leases' – Accounting policies applied from 1 January 2019

ING Bank as the lessee

A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a corresponding liability representing its obligation to make lease payments at the date at which the leased asset is available for use by ING Bank. Each lease payment is allocated between the repayment of the liability and finance cost. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. This rate is approximated by using the risk free rate applicable to the lease term, the currency of the lease payment and jurisdiction, with the

Fund Transfer Pricing (FTP) rate as an add-on. The FTP rate is used to transfer interest rate risk and funding and liquidity risk positions between the ING Bank business and treasury departments. It is determined by either ING Bank or Local Asset and Liability Committee (ALCO).

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received and any initial direct costs and restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise mainly IT-equipment (for example mobile phones or laptops) and small items of office furniture.

The right-of-use asset is included in the statement of financial position line-item ‘Property and equipment’, the lease liability is included in the statement of financial position line-item ‘Other liabilities’. Refer to Note 9 ‘Property and equipment’ and Note 16 ‘Other liabilities’.

Subsequent to initial recognition, the right-of-use asset amortises using a straight-line method to the income statement over the life of the lease. The lease liability increases for the accrual of interest and decrease when payments are made. Any remeasurement of the lease liability due to a lease modification or other reassessment results in a corresponding adjustment to the carrying amount of the right-of-use asset.

ING Bank as the lessor

When ING Bank acts as a lessor, a distinction should be made between finance leases and operating leases. For ING Bank as a lessor these are mainly finance leases. The present value of the lease payments is recognised as a receivable under Loans and advances to customers or Loans and advances to banks. The difference between the gross receivable and the present value of the receivable is unearned finance lease income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

Operating leases for lessees prior to 1 January 2019 under IAS 17

The comparative figures presented for 2018 are accounted for using the previous Standard, IAS 17 ‘Leases’. Under this Standard a distinction was made between finance leases and operating leases for both lessees and lessors. A lease was considered a finance lease if it transfers substantially all risks and rewards of the ownership of the asset. All other leases were considered to be operating leases.

Leases entered into by ING Bank as a lessee were primarily operating leases and therefore not recognised on the balance sheet. The total payments under operating leases were recognised in the statement of profit or loss on a straight-line basis over the period of the lease.

1.13 Acquisitions, goodwill and other intangible assets

Acquisitions and goodwill

ING Bank’s acquisitions are accounted for using the acquisition method of accounting. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. Goodwill, being the difference between the cost of the acquisition (including assumed debt) and the Bank’s interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. Goodwill is only recognised separately on acquisitions. The results of the operations of the acquired companies are included in the statement of profit or loss from the date control is obtained.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Contingent consideration arrangements classified as an asset or a liability, are subsequently measured at fair value and the changes in fair value will be recognised in the statement of profit or loss. Changes in the fair value of the contingent consideration classified as equity, are not recognised.

Where a business combination is achieved in stages, ING Bank’s previously held interests in the assets and liabilities of the acquired entity are remeasured to fair value at the acquisition date (i.e. the date ING Bank obtains control) and the resulting gain or loss, if any, is recognised in the statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the statement of profit or loss, where such treatment would be appropriate if that interest were disposed of. Acquisition related costs are recognised in the statement of profit or loss as incurred and presented in the statement of profit or loss as Other operating expenses.

The initial accounting for the fair value of the net assets of the companies acquired during the year may be determined only provisionally as the determination of the fair value can be complex and the time between the acquisition and the preparation of the Financial statements can be limited. The initial accounting shall be completed within a year after acquisition. Adjustments to the fair value as at the date of acquisition of acquired assets and liabilities, that are identified within one year after acquisition are recognised as an adjustment to goodwill; any subsequent adjustment is recognised as income or expense. On disposal of group companies where control is lost, the difference between the sale proceeds and carrying value (including goodwill) and the unrealised results (including the currency translation reserve in equity) is included in the statement of profit or loss.

Impairment of goodwill and other non-financial assets

ING Bank assesses at each reporting period, whether there is an indication that an intangible asset may be impaired. Irrespective of whether there is an indication of impairment, intangible assets with an indefinite useful life, including goodwill acquired in a business combination, and intangible assets not yet available for use, are tested annually for impairment. Goodwill is allocated to groups of CGUs (that is, the group of cash generating units or CGUs) for the purpose of impairment testing. These groups of CGUs represent the lowest level at which goodwill is monitored for internal management purposes. Goodwill is tested for impairment by comparing the carrying value of the group of CGUs to the recoverable amount of that group of CGUs. The carrying value is determined as the IFRS net asset value including goodwill. In compliance with IAS 36 'Impairment of assets', the carrying value is determined on a basis that is consistent with the way in which the recoverable amount of the CGU is determined. When the carrying values need to be allocated between Retail and Wholesale solvency (risk-weighted assets) are used as a basis. The recoverable amount is estimated as the higher of fair value less costs of disposal and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. Impairment of goodwill, if applicable, is included in the statement of profit or loss in Other operating expenses.

Computer software

Computer software that has been purchased or generated internally for own use is stated at cost less amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over its useful life. This period will generally not exceed five years. Amortisation is included in Other operating expenses.

Other intangible assets

Other intangible assets are capitalised and amortised over their expected economic life, which is generally between three and ten years. Intangible assets with an indefinite life are not amortised.

Significant judgements and critical accounting estimates and assumptions:
Impairment test of non-financial assets, mainly related to the assessment for potential impairment of goodwill and intangible assets, largely software, involves estimation of their recoverable amounts. The review of impairment of non-financial assets reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors.

The future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. The accuracy of the forecasted cash flows is subject to a high degree of uncertainty.

The rates used to discount future expected cash flows can have a significant effect on their valuation and are based on the costs of capital assigned to individual CGUs. Cost of capital is subject to fluctuations in external market rates and economic conditions beyond management's control.

Key assumptions used in estimating goodwill and software impairment are described in Note 10 'Intangible assets'.

1.14 Taxation

Income tax on the result for the year consists of current and deferred tax. Income tax is recognised in the statement of profit or loss but it is recognised directly in equity if the tax relates to items that are recognised directly in equity.

Deferred income tax

Deferred income tax is provided in full, using the liability method, for temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided for temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by ING Bank and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be utilised.

Fair value remeasurements of debt and equity instruments measured at FVOCI and cash flow hedges are recognised directly in equity. Deferred tax related to this fair value remeasurement is also recognised directly in equity and is subsequently recognised in the statement of profit or loss together with the deferred gain or loss.

Uncertain tax positions are assessed continually by ING Bank and in case it is probable that there will be a cash outflow; a current tax liability is recognised.

1.15 Other assets

Investment property

Investment properties are recognised at fair value at the balance sheet date. Changes in the carrying amount resulting from revaluations are recognised in the statement of profit or loss. On disposal, the difference between the sale proceeds and carrying value is recognised in the statement of profit or loss.

Property obtained from foreclosures

Property obtained from foreclosures is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price, less applicable variable selling expenses. Property obtained from foreclosures is included in Other assets - Property development and obtained from foreclosures.

Property development

Property developed and under development is included in Other assets – Property development and obtained from foreclosures. Depending on the intention of ING Bank after completion of the development, the property is measured as follows:

- Intention to sell: at the lower of cost and net realisable value;
- Intention to use as a real estate investment: at fair value.

1.16 Disposal groups held for sale and discontinued operations

Disposal groups (and groups of non-current assets) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is only the case when the sale is highly probable and the disposal group (or group of assets) is available for immediate sale in its present condition; management must be committed to the sale, which is expected to occur within one year from the date of classification as held for sale.

Upon classification as held for sale, the disposal group is measured at the lower of its carrying amount and fair value less costs to sell, except where specifically exempt from IFRS 5 ‘Non-current Assets Held for Sale and Discontinued Operations. An impairment loss is recognised for any initial or subsequent write-down of the disposal group to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of the disposal group, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the disposal group is recognised at the date of derecognition. Assets within the disposal group are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised. The assets of the disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

When a group of assets that is classified as held for sale represents a major line of business or geographical area the disposal group is classified as discontinued operations. Upon classification of a business as held for sale and discontinued operations the individual income and expenses are presented within the Total net result from discontinued operations instead of being presented in the usual line items in the Consolidated statement of profit or loss. All comparative years in the Consolidated statement of profit or loss are restated and presented as discontinued operations for all periods presented. Furthermore, the individual assets and liabilities are presented in the Consolidated statement of financial position as Assets and liabilities held for sale and are no longer included in the usual line items in the Consolidated statement of financial position. Changes in assets and liabilities as a result of classification as held for sale are included in the notes in the line 'Changes in composition of the group and other changes'.

1.17 Provisions, contingent liabilities and contingent assets

A provision is a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, however the timing or the amount is uncertain. Provisions are discounted when the effect of the time value of money is significant using a pre-tax discount rate.

Reorganisation provisions include employee termination benefits when ING Bank is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

A liability is recognised for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the liability is recognised only upon reaching the specified minimum threshold.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of ING Bank; or a present obligation that arises from past events but is not recognised because it is either not probable that an outflow of economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the statement of financial position, but are rather disclosed in the notes unless the possibility of the outflow of economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of ING Bank. Contingent assets are recognised in the statement of financial position only when realisation of the income that arises from such an asset is virtually certain. Contingent assets are disclosed in the notes when an inflow of economic benefits is probable.

Significant judgements and critical accounting estimates and assumptions:
The recognition and measurement of provisions is an inherently uncertain process involving using judgement to determine when a present obligation exists and estimates regarding probability, amounts and timing of cash flows.

ING Bank may become involved in governmental, regulatory, arbitration and legal proceedings and investigations. The degree of uncertainty and the method of making the accounting estimate depends on the individual case, its nature and complexity. Such cases are usually one of a kind. Judgement is required to assess whether a present obligation exists and to estimate the probability of an unfavourable outcome and the amount of potential loss. For the assessment of related provisions ING Bank consults with internal and external legal experts. Even taking into consideration legal experts' advice, the probability of an outflow of economic benefits can still be uncertain and the provision recognised can remain sensitive to the assumptions used. Reference is made to Note 15 'Provisions'. For proceedings where it is not possible to make a reliable estimate of the expected financial effect, that could result from the ultimate resolution of the proceedings, no provision is recognised, however disclosure is included in the financial statements. Reference is made to Note 43 'Legal proceedings'.

Critical accounting estimates and assumptions for the reorganisation provision are in estimating the amounts and timing of cash flows as the announced transformation initiatives are implemented over a period of several years. Reference is made to Note 15 'Provisions'.

1.18 Other liabilities

Defined benefit plans

The net defined benefit asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date.

Plan assets are measured at fair value at the balance sheet date. For determining the pension expense, the return on plan assets is determined using a high quality corporate bond rate identical to the discount rate used in determining the defined benefit obligation.

Changes in plan assets that effect Shareholder's equity and/or Net result, include mainly:
- Return on plan assets using a high quality corporate bond rate at the start of the reporting period which are recognised as staff costs in the statement of profit or loss; and
- Remeasurements which are recognised in Other comprehensive income.

The defined benefit obligation is calculated by internal and external actuaries through actuarial models and calculations using the projected unit credit method. This method considers expected future payments required to settle the obligation resulting from employee service in the current and prior periods, discounted using a high quality corporate bond rate. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, consumer price index and the expected level of indexation. The assumptions are based on available market data as well as management expectations and are updated regularly. The actuarial assumptions may differ significantly from the actual results due to changes in market conditions, economic and mortality trends, and other assumptions. Any changes in these assumptions could have a significant impact on the defined benefit plan obligation and future pension costs.

Changes in the defined benefit obligation that effects Shareholder's equity and/or Net result, include mainly:
- Service cost which are recognised as staff costs in the statement of profit or loss;
- Interest expenses using a high quality corporate bond rate at the start of the period which are recognised as staff costs in the Statement of profit or loss; and
- Remeasurements which are recognised in Other comprehensive income (equity).

Remeasurements recognised in other comprehensive income are not recycled to profit or loss. Any past service cost relating to a plan amendment is recognised in profit or loss in the period of the plan amendment. Gains and losses on curtailments and settlements are recognised in the statement of profit or loss when the curtailment or settlement occurs.

The recognition of a net defined benefit asset in the Consolidated statement of financial position is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Defined contribution plans

For defined contribution plans, ING Bank pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. ING Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations

Some group companies provide other post-employment benefits to former employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

1.19 Income recognition

Interest

Interest income and expense are recognised in the statement of profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, ING Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest results on instruments classified at Amortised Cost, assets measured at FVOCI and derivatives in a formal hedge accounting relationship is presented in 'Interest income (expense) using effective interest rate method'. Interest result on financial assets and liabilities voluntarily designated as at FVPL and derivatives in so called economic hedges and instruments designated at fair value are presented in 'Other interest income (expense)'. Interest result on all other financial assets and liabilities at FVTPL is recognised in 'Valuation results and net trading income'.

Fees and commissions

Fees and commissions are generally recognised as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as income when the syndication has been completed and ING Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds and investment contract fees are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Fees received and paid between banks for payment services are classified as commission income and expenses.

Lease income

The proceeds from leasing out assets under operating leases are recognised on a straight-line basis over the life of the lease agreement. Lease payments received in respect of finance leases when ING Bank is the lessor are divided into an interest component (recognised as interest income) and a repayment component based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

1.20 Expense recognition

Expenses are recognised in the statement of profit or loss as incurred or when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Fee and commission expenses are generally a result from a contract with ING Bank service providers in order to perform the service for ING Bank's customers. Costs are generally presented as 'Commission expenses' if they are specific, incremental, directly attributable and identifiable to generate commission income.

Share-based payments

ING Bank only engages in share-based payment transactions with its staff and directors. Share-based payment expenses are recognised as a staff expense over the vesting period. A corresponding increase in equity is recognised for equity-settled share-based payment transactions. A liability is recognised for cash-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions are measured at the grant date, and the fair value of cash-settled share-based payment transactions are measured at each balance sheet date. Rights granted will remain valid until the expiry date, even if the share based payment scheme is discontinued. The rights are subject to certain conditions, including a pre-determined continuous period of service.

1.21 Statement of cash flows

The statement of cash flows is prepared in accordance with the indirect method, distinguishing cash flows from operating, investing and financing activities. In the net cash flow from operating activities, the result before tax is adjusted for those items in the statement of profit or loss and changes in items per the statement of financial position, which do not result in actual cash flows during the year.

For the purposes of the statement of cash flows, Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central banks, treasury bills and other eligible bills, amounts due from other banks, and deposits from banks. Investments qualify as a cash equivalent if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash flows arising from foreign currency transactions are translated into the functional currency using the exchange rates at the date of the cash flows.

The net cash flow shown in respect of Loans and advances to customers relates only to transactions involving actual payments or receipts. The Addition to loan loss provision which is deducted from the item Loans and advances to customers in the statement of financial position has been adjusted accordingly from the result before tax and is shown separately in the statement of cash flows.

The difference between the Net cash flow in accordance with the statement of cash flows and the change between the opening and closing balance of Cash and cash equivalents in the statement of financial position is due to exchange rate differences and is presented separately in the cash flow statement.

Liabilities arising from financing activities are debt securities and subordinated loans.

1.22 Parent company accounts

The parent company accounts of ING Bank N.V. are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Dutch Civil Code, the recognition and measurement principles applied in the Parent company accounts are the same as those applied in the Consolidated financial statements.

Notes to the Consolidated statement of financial position

2 Cash and balances with central bank

Cash and balances with central banks

	2020	2019
Amounts held at central banks	109,237	51,178
Cash and bank balances	1,851	2,024
	111,087	**53,202**

The movement in Cash and balances with central banks reflects ING's active liquidity management. ING participated in a 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. Further details are reported in Note 12 'Deposits from Banks' and in the consolidated statement of Cash Flow.

Amounts held at central banks reflect on demand balances.

Reference is made to Note 40 'Transfer of financial assets, assets pledged and received as collateral' for restrictions on Cash balances with central banks.

3 Loans and advances to banks

Loans and advances to banks

	Netherlands		Rest of the world		Total	
	2020	2019	2020	2019	2020	2019
Loans	7,441	13,638	17,939	21,499	25,380	35,137
Cash advances, overdrafts and other balances	0	0	6	4	6	5
	7,441	**13,638**	**17,945**	**21,504**	**25,386**	**35,142**
Loan loss provisions	-10	-6	-13	-3	-23	-9
	7,431	**13,632**	**17,933**	**21,501**	**25,363**	**35,133**

Loans include balances (mainly short-term deposits) with central banks amounting to EUR 2,519 million (2019: EUR 3,185 million).

As at 31 December 2020, Loans include receivables related to finance lease contracts amounting to EUR 6 million (2019: EUR 24 million). Reference is made to Note 7 'Loans and advances to customers' for information on finance lease receivables.

As at 31 December 2020, all loans and advances to banks are non-subordinated.

4 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

	2020	2019
Trading assets	51,361	49,264
Non-trading derivatives	3,583	2,278
Designated at fair value through profit or loss	4,126	3,076
Mandatorily measured at fair value through profit or loss	44,305	41,600
	103,374	**96,217**

(Reverse) repurchase transactions

Financial assets at fair value through profit or loss includes securities lending and sales and repurchase transactions which were not derecognised, because ING Bank continues to be exposed to substantially all risks and rewards of the transferred financial asset. For repurchase agreements the gross amount of trading assets must be considered together with the gross amount of related 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.

ING Bank's exposure to (reverse) repurchase transactions is included in the following lines in the statement of financial position:

Exposure to (reverse) repurchase agreements

	2020	2019
Reverse repurchase transactions		
Loans and advances to banks	4,869	8,943
Loans and advances to customers	624	180
Trading assets, loans and receivables	10,947	11,969
Loans and receivables measured at mandatorily measured at fair value through profit or loss	41,735	38,985
	58,175	**60,077**
Repurchase transactions		
Deposits from banks	1,971	205
Trading liabilities, funds on deposit	5,787	4,556
Funds entrusted measured at designated at fair value through profit or loss	41,177	38,492
	48,935	**43,253**

Securities purchased under agreements to resell (reverse repos), securities borrowings and similar agreements are not recognised in the consolidated statement of financial position. Based on the business model assessment and counterparty, the consideration paid to purchase securities is recognised as Loans and advances to customers, Loans and advances to banks, Other financial assets at FVPL or Trading assets.

Securities sold subject to repurchase agreements (repos), securities lending and similar agreements continue to be recognised in the consolidated statement of financial position. The counterparty liability is measured at FVPL (designated) and included in Other financial liabilities at FVPL if the asset is measured at FVPL. Otherwise, the counterparty liability is included in Deposits from banks, Customer deposits, or Trading, as appropriate.

Reference is made to Note 42 'Transfer of financial assets, assets pledged and received as collateral' for information on transferred assets which were not derecognised.

Trading assets

Trading assets by type

	2020	2019
Equity securities	7,813	8,509
Debt securities	5,183	6,256
Derivatives	27,238	21,694
Loans and receivables	11,126	12,806
	51,361	**49,264**

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).

Reference is made to Note 14 'Financial liabilities at fair value through profit or loss' for information on trading liabilities.

Non-trading derivatives

Non-trading derivatives by type

	2020	2019
Derivatives used in		
- fair value hedges	486	524
- cash flow hedges	1,376	677
- hedges of net investments in foreign operations	69	23
Other non-trading derivatives	1,653	1,053
	3,583	**2,278**

Reference is made to Note 37 'Derivatives and hedge accounting' for information on derivatives used in hedge accounting.

Other non-trading derivatives mainly includes interest rate swaps and foreign exchange currency swaps for which no hedge accounting is applied.

Designated at fair value through profit or loss

Designated at fair value through profit or loss by type

	2020	2019
Debt securities	3,544	2,334
Loans and receivables	582	742
	4,126	**3,076**

'Financial assets designated at fair value through profit or loss' is partly economically hedged by credit derivatives. The hedges do not meet the criteria for hedge accounting and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans and receivables included in 'Financial assets designated at fair value through profit or loss' approximates its carrying value. The cumulative change in fair value of the loans attributable to changes in credit risk is not significant.

The notional value of the related credit derivatives is EUR 1,077 million (2019: EUR 1,672 million). The cumulative change in fair value of the credit derivatives attributable to changes in credit risk since the financial assets were first designated, amounts to EUR -16 million (2019: EUR 29 million) and the change for the current year amounts to EUR -45 million (2019: EUR -52 million).

These have been calculated by determining the changes in credit spread implicit in the fair value of bonds issued by entities with similar credit characteristics.

Mandatorily at fair value through profit or loss

Mandatorily at fair value through profit or loss by type

	2020	2019
Equity securities	228	159
Debt securities	787	733
Loans and receivables	43,290	40,708
	44,305	**41,600**

None of the equity securities are individually significant for ING Bank.

For details on ING Bank's total exposure to debt securities reference is made to Note 6 'Securities at amortised cost'.

5 Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income by type

	2020	2019
Equity securities	1,862	2,306
Debt securities[1]	32,977	30,483
Loans and advances[1]	1,056	1,680
	35,895	**34,468**

1 Debt securities include an amount of EUR -12 million (2019: EUR -7 million) and the Loans and advances includes EUR -2 million (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	Carrying value	Dividend income	Dividend income
	2020	2019	2020	2019
Investment in Bank of Beijing	1,662	2,001	95	93
Other Investments	200	305	12	18
	1,862	**2,306**	**107**	**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 31 December 2020 ING holds approximately 13% (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 in 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	
	2020	2019	2020	2019	2020	2019
Opening balance as at 1 January	2,306	3,228	32,163	27,995	34,468	31,223
Additions	13	11	16,936	16,259	16,949	16,270
Amortisation			-9	-12	-9	-12
Transfers and reclassifications	-107	3	0	-0	-107	3
Changes in unrealised revaluations [2]	-283	139	520	258	237	397
Impairments			-2	-2	-2	-2
Reversals of impairments			-4	1	-4	1
Disposals and redemptions	-13	-1,091	-14,557	-12,298	-14,571	-13,389
Exchange rate differences	-53	15	-1,017	-40	-1,070	-25
Changes in the composition of the group and other changes	-0	0	2	2	2	3
Closing balance	**1,862**	**2,306**	**34,033**	**32,163**	**35,895**	**34,468**

1 Fair value through other comprehensive income debt instruments includes both debt securities and loans and advances.
2 Changes in unrealised revaluations of FVOCI debt instruments include changes on hedged items which are recognised in the statement of profit or loss. Reference is made to Note 19 'Equity' for details on the changes in revaluation reserve.

In 2020, changes in unrealised revaluations of equity securities decreased mainly related to negative revaluation of the stake in Bank of Bejing following a decline in share price (EUR -339 million).

In 2020, transfers and reclassifications of EUR -107 million mainly relates to ING's investment in Visa preference series C shares (EUR -116 million) that have been reclassified from equity at fair value through other comprehensive income to debt securities at mandatorily fair value through profit or loss' based on variable conversion rate.

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 6 'Securities at amortised cost' for details on ING Bank's total exposure to debt securities.

6 Securities at amortised cost

Securities at amortised cost fully consist of Debt securities.
ING Bank's exposure to debt securities is included in the following lines in the statement of financial position:

Exposure to debt securities

	2020	2019
Debt securities at fair value through other comprehensive income	32,977	30,483
Debt securities at amortised cost	50,587	46,108
Debt securities at fair value through other comprehensive income and amortised cost	**83,564**	**76,592**
Trading assets	5,183	6,256
Debt securities at fair value through profit or loss	4,274	3,067
Total debt securities at fair value through profit or loss	**9,457**	**9,323**
	93,022	**85,914**

ING Bank's total exposure to debt securities (excluding debt securities held in the trading portfolio) of EUR 87,838 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	
	2020	2019	2020	2019	2020	2019	2020	2019
Government bonds	48	408	22,448	20,300	26,801	25,627	49,296	46,334
Sub-sovereign, Supranationals and Agencies	2,331	505	7,510	6,606	14,858	10,689	24,699	17,801
Covered bonds			1,821	1,734	5,965	6,960	7,786	8,693
Corporate bonds	26		207	476	131	143	364	619
Financial institutions' bonds	1,143	1,440	523	332	1,956	1,536	3,622	3,308
ABS portfolio	726	714	480	1,043	894	1,163	2,100	2,920
	4,274	**3,067**	**32,990**	**30,491**	**50,604**	**46,118**	**87,868**	**79,676**
Loan loss provisions			-12	-7	-17	-10	-29	-17
Bond portfolio	**4,274**	**3,067**	**32,977**	**30,483**	**50,587**	**46,108**	**87,838**	**79,659**

Approximately 81% (2019: 90%) of the exposure in the ABS portfolio is externally rated AAA, AA or A, and the remaining positions are largely unrated. There are no borrowed debt securities recognised in the statement of financial position.

7 Loans and advances to customers

Loans and advances to customers by type

	Netherlands		Rest of the world		Total	
	2020	2019	2020	2019	2020	2019
Loans to, or guaranteed by, public authorities	24,292	25,340	17,210	16,849	41,502	42,190
Loans secured by mortgages	117,967	119,679	238,370	232,583	356,337	352,262
Loans guaranteed by credit institutions	305	206	4,896	3,569	5,201	3,775
Personal lending	3,019	3,482	24,776	24,768	27,794	28,250
Corporate loans	37,724	39,787	135,527	150,233	173,251	190,019
	183,306	**188,494**	**420,780**	**428,003**	**604,086**	**616,497**
Loan loss provisions	-1,286	-1,193	-4,493	-3,398	-5,779	-4,590
	182,020	**187,301**	**416,287**	**424,605**	**598,306**	**611,907**

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

	2020	2019
Non-subordinated	598,207	611,786
Subordinated	99	121
	598,306	**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 Group.

Loans and advances to customers and Loans and advances to banks include finance lease receivables and are detailed as follows:

Finance lease receivables

	2020	2019[1]
Maturities of gross investment in finance lease receivables		
- within 1 year	3,175	3,116
- between 1-2 years	2,212	2,250
- between 2-3 years	1,722	1,753
- between 3-4 years	1,166	1,229
- between 4-5 years	711	732
- more than 5 years	1,487	1,511
	10,473	**10,591**
Unearned future finance income on finance leases	-508	-580
Net investment in finance leases	**9,965**	**10,011**
Included in Loans and advances to banks	6	24
Included in Loans and advances to customers	9,958	9,987
	9,965	**10,011**

1 The prior period has been updated to improve consistency and comparability of the amounts per maturity of finance lease receivables.

The finance lease receivables mainly relate to the financing of equipment and are part of corporate loans. To a lesser extent, the finance lease receivables relate to real estate for third parties, where ING is the lessor. These finance lease receivables are part of loans secured by mortgages. Interest income in 2020 on Finance lease receivables amounts to EUR 229 million (2019: EUR 251 million).

Expected credit losses for uncollectable finance lease receivables of EUR 164 million as at 31 December 2020 (2019: EUR 136 million) is included in the loan loss provision. The loan loss provision for finance lease receivables is classified into the following loan loss provision stages; stage 1: EUR 8 million (2019: EUR 2 million), stage 2: EUR 25 million (2019: EUR 6 million), and stage 3: EUR 131 million (2019: EUR 128 million).

No individual finance lease receivable has terms and conditions that significantly affect the amount, timing or certainty of the consolidated cash flows of the Group.

8 Investment in associates and joint ventures

Investments in associates and joint ventures

2020	Interest held (%)	Fair value of listed investments	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	23	653	1,202	50,123	44,597	1,388	1,093
Other investments in associates and joint ventures			273				
			1,475				

Investments in associates and joint ventures

2019	Interest held (%)	Fair value of listed investments	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 Group, but by no more than three months.

TMB Bank Public Company Limited

ING Bank has a 23% 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 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 an impairment at 30 September 2020 of EUR 230 million, as the recoverable amount of EUR 1,181 million, as determined by a Value in Use calculation, was below the carrying amount of EUR 1,411 million at that point in time. The impairment test at year end resulted in no further impairments.

Methodology

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 as at 31 December 2020 (and as at 30 September 2020 resulting in impairment)

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:

- Expected future earnings of TMB: based on forecasts derived from broker consensus over the short to medium term and TMB observable targets for steady state earnings into perpetuity. A capital maintenance charge is applied, which is management's forecast of the earnings that need to be withheld in order for TMB to meet target regulatory requirements over the forecast period;
- Terminal growth rate: 1.6% for periods after 2024, consistent with current long term government bond yield in Thailand as a proxy for a risk-free rate (30 September 2020: 3.0% consistent with long term forecasts of GDP growth in Thailand);
- Discount rate (cost of equity): 8.49%, based on the capital asset pricing model (CAPM) calculated for TMB, using current market data (30 September 2020: 9.8%).

The terminal growth rate and the discount rate are interdependent. Following the use of the long term government bond yield as a basis for terminal growth rate at year-end, cost of equity was adjusted accordingly (reducing cost of equity). This change did not have a significant impact on value in use as at 31 December 2020. Furthermore, following the approval of vaccines and improvement in the share price of TMB observed in the last quarter of the year, in line with the general market, the level of confidence in the forecasted cash flows of TMB increased compared to 30 September 2020. This allowed ING to remove the additional forecasting risk factor from cost of equity at year-end compared to 30 September 2020. Even if the additional forecasting risk factor remained in the cost of equity as at 31 December 2020, this would not have resulted in impairment at year-end in addition to the impairment already recognised at 30 September 2020.

At year end 2020 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. Holding the other key assumptions constant, a reduction in all of the forecasted annual cashflows, including terminal value, of 17.6% would reduce the recoverable amount to the carrying amount. A 589bps decrease in long term growth rate or a 153bps increase in the discount rate would cause the VIU to equal the carrying amount.

Other investments in associates and joint ventures

Included in Other investments in associates and joint ventures are mainly financial services and financial technology funds or vehicles operating predominantly in Europe.

Other investments in associates and joint ventures represents a number of associates and joint ventures that are individually not significant to ING Bank.

Significant influence for associates in which the interest held is below 20%, is based on the combination of ING Bank's financial interest and other arrangements, such as participation in the Board of Directors.

The associates and joint ventures of ING are subject to legal and regulatory restrictions regarding the amount of dividends it can pay to ING. These restrictions are for example dependent on the laws in the country of incorporation for declaring dividends or as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the associates and joint ventures operate. In addition, the associates and joint ventures also consider other factors in determining the appropriate levels of equity needed. These factors and limitations include, but are not limited to, rating agency and regulatory views, which can change over time.

Changes in Investments in associates and joint ventures

	2020	2019
Opening balance	1,790	1,044
Additions	24	686
Revaluations	-3	-10
Share of results	66	64
Dividends received	-12	-50
Disposals	-12	-10
Impairments	-235	-34
Exchange rate differences	-144	96
Other	0	4
Closing balance	**1,475**	**1,790**

Share of results from associates and joint ventures of EUR 66 million (2019: EUR 64 million) as included in the table above is mainly attributable to results of TMB of EUR 70 million (2019: EUR 59 million).

‘Share of results from associates and joint ventures’ and ‘impairments of associates and joint ventures’ are presented separately in the face of the consolidated statement of profit or loss. In 2020 impairments is predominantly attributable to TMB.

9 Property and equipment

Property and equipment by type

	2020	2019
Property in own use	745	757
Equipment	842	940
Right- of- use assets	1,255	1,476
	2,841	**3,172**

Changes in property in own use

	2020	2019
Opening balance	757	780
Additions	10	5
Transfers to and from Other Assets	57	-1
- Depreciation	-12	-11
- Impairments	-8	-2
- Reversal of impairments	9	6
Amounts recognised in the statement of profit or loss for the year	**-12**	**-7**
Revaluations recognised in equity during the year	20	58
Disposals	-63	-72
Exchange rate differences	-24	-7
Closing balance	**745**	**757**
Gross carrying amount as at 31 December	1,258	1,279
Accumulated depreciation as at 31 December	-378	-385
Accumulated impairments as at 31 December	-135	-137
Net carrying value as at 31 December	**745**	**757**
Revaluation surplus		
Opening balance	339	280
Change in the year	-30	59
Closing balance	**310**	**339**

ING considers valuations from third party experts in determining the fair values of property in own use.

The purchase costs amounted to EUR 948 million (2019: EUR 940 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 435 million (2019: EUR 417 million) had property in own use been valued at cost instead of at fair value.

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2020	2019	2020	2019	2020	2019
Opening balance	307	290	633	589	940	879
Additions	134	149	143	200	277	349
Disposals	-3	-1	-9	-8	-12	-9
Depreciation	-145	-136	-147	-142	-291	-278
Impairments	-1	-0	-7	-1	-9	-1
Exchange rate differences	-10	1	-11	1	-22	2
Changes in the composition of the group and other changes	-1	3	-41	-5	-42	-3
Closing balance	**281**	**307**	**561**	**633**	**842**	**940**
Gross carrying amount as at 31 December	1,489	1,479	2,297	2,408	3,786	3,886
Accumulated depreciation as at 31 December	-1,207	-1,171	-1,734	-1,774	-2,940	-2,946
Accumulated impairments as at 31 December	-2	-1	-3	-1	-5	-1
Net carrying value as at 31 December	**281**	**307**	**561**	**633**	**842**	**940**

Changes in Right-of-use assets

	Property		Cars		Other leases		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Opening balance	1,323	n/a	96	n/a	57	n/a	1,476	n/a
Effect of changes in accounting policy due to the implementation of IFRS 16		1,138		70		72		1,280
Additions	94	381	37	65	3	-2	134	444
Depreciation	-213	-211	-43	-40	-19	-12	-275	-262
Impairments	-35						-35	
Remeasurements	8	29		1			8	30
Disposals	-13	-18	-1		-1		-14	-19
Exchange rate differences	-32	8	-1		-2	-1	-35	7
Changes in the composition of the group and other changes	-4	-4					-4	-4
Closing balance	**1,129**	**1,323**	**89**	**96**	**38**	**57**	**1,255**	**1,476**
Gross carrying amount as at 31 December	1,519	1,503	152	135	65	69	1,737	1,707
Accumulated depreciation as at 31 December	-399	-213	-64	-40	-28	-12	-492	-265
Accumulated impairments as at 31 December	-36						-36	
Accumulated remeasurement as at 31 December	44	33	1	1			45	34
Accumulated exchange rate diffrences as at 31 December								
Net carrying value as at 31 December	**1,129**	**1,323**	**89**	**96**	**38**	**57**	**1,255**	**1,476**

Right-of-use assets relate to leased land and buildings, cars, data-processing equipment and other leases.

The reported impairment losses of EUR 35 million result from change in use of right-of-use property and the anticipation of a change in the post-pandemic way of working.

10 Intangible assets

Changes in intangible assets

	Goodwill		Software		Other		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Opening balance	907	918	958	868	52	53	1,916	1,839
Additions		17	86	94			87	111
Capitalised expenses			213	285			213	285
Amortisation			-249	-235	-2	-2	-251	-237
Impairments [1]	-310		-167	-61	-35		-513	-61
Exchange rate differences	-63	-28	-6				-69	-28
Disposals			-9	-1			-9	-1
Changes in the composition of the group and other changes			19	8		1	19	9
Closing balance	**533**	**907**	**846**	**958**	**15**	**52**	**1,394**	**1,916**
Gross carrying amount as at 31 December	843	907	2,642	2,608	60	61	3,545	3,575
Accumulated amortisation as at 31 December			-1,621	-1,641	-9	-7	-1,630	-1,648
Accumulated impairments as at 31 December	-310		-175	-9	-37	-2	-522	-11
Net carrying value as at 31 December	**533**	**907**	**846**	**958**	**15**	**52**	**1,394**	**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 CGU's	Method used for recoverable amount	Discount rate	Terminal growth rate	Goodwill 2020	Goodwill 2019
Retail Netherlands	Values in use	8.59%	0.00%	30	30
Retail Belgium	Values in use	9.48%	0.00%		50
Retail Germany	Values in use	8.57%	0.00%	349	349
Retail Growth Markets[1]	Values in use	13.09%	3.80%	153	209
Wholesale Banking[1]	Values in use	9.58%	0.75%		268
				533	**907**

1 Goodwill from acquisition related to Growth Countries is allocated across two groups of CGUs, EUR 153 million to Retail Growth Markets and EUR 0 million to Wholesale Banking (2019: EUR 209 million to Retail Growth Markets and EUR 61 million to Wholesale Banking).

Impairment testing

Goodwill is tested for impairment annually in the fourth quarter by comparing the recoverable amount of each goodwill-carrying CGU with its carrying amount. The key assumptions used in the calculation of the recoverable amounts are included in the table above. In addition ING Bank tests goodwill whenever a triggering event is identified.

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 also completed a goodwill impairment review across ING Bank in the second quarter of 2020.

Goodwill impairment test performed in the second quarter resulted in the recognition of goodwill impairments on the CGU Retail Belgium of EUR 50 million (of which EUR 43 million is reported in Retail Belgium segment and EUR 8 million in Corporate Line segment) 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%). The terminal growth rate used to estimate the value in use of the CGU Belgium was 0.00% at 30 June 2020 and it was not changed compared to Q4 2019 (31 December 2019: 0.00 %). The terminal growth rate used to estimate the value in use of CGU Wholesale Banking was at 30 June 0.85% (31 December 2019: 0.69%).

For each of the other groups of CGUs the recoverable amount exceeds the carrying value of the CGUs as at 31 December 2020 and therefore no impairment is required.

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). 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 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 CGUs are sensitive to the above key assumptions.
A decrease in the available cash flows 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 changes

Other changes in goodwill in 2020 relate to changes in currency exchange rates of CGUs Wholesale Banking and Retail Growth Markets goodwill.

Software

Software, includes internally developed software amounting to EUR 688 million (2019: EUR 741 million).

Following the decision to discontinue the Maggie programme an impairment of EUR 141 million was recognised in 2020, primarily related to capitalised software development costs. In addition, an impairment of EUR 19 million with regards software in the payments and cash management business was recognised. The rest of the software impairment relates to various, individually immaterial items.

Other intangible assets

In 2020 an impairment of an indefinite useful life asset of EUR 14 million was recognised, related to brand names (2019: nil) and additional EUR 20 million was recognised related to intangible assets from a previous acquisition (customer relationships), following a re-evaluation of the business plan.

11 Other assets

Other assets by type

	2020	2019
Net defined benefit assets	725	709
Investment properties	20	46
Property development and obtained from foreclosures	72	98
Accrued assets	773	783
Amounts to be settled	2,215	2,835
Other	2,074	2,543
	5,879	**7,014**

Disclosures in respect of Net defined benefit assets are provided in Note 34 'Pension and other post-employment benefits'.

Amounts to be settled include primarily transactions not settled at the balance sheet date. The nature of these transaction is short term and are expected to settle shortly after the closing date of the balance sheet.

Other relates to various receivables in the normal course of business, amongst others, short term receivables relating to mortgage issuance and other amounts receivable from customers.

12 Deposits from banks

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

Deposits from banks by type

	Netherlands		Rest of the world			Total
	2020	2019	2020	2019	2020	2019
Non-interest bearing	596	107	196	73	792	180
Interest bearing	49,336	17,544	27,971	17,101	77,306	34,646
	49,931	**17,651**	**28,166**	**17,175**	**78,098**	**34,826**

Deposits from banks includes ING's participation in the Targeted Longer-Term Refinancing Operations of EUR 59.5 billion (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 of the previous TLTRO (TLTRO II).

The TLTRO III funding is granted for a period of three years with an early repayment option after one year with the earliest date of September 2021. The three new participation windows introduced by the ECB press release in December 2020, can be repaid quarterly from June 2022. Interest under TLTRO III will be settled on maturity of each TLTRO III operation or on early repayment. The interest rate on TLTRO III depends on the lending volumes granted to corporates (excluding financial institutions) and households (excluding mortgages).

Under the conditions of the program, interest rates can be as favorable as 50 basis points below the average interest rate on the Deposit Facility rate, but in any case not higher than -1%. Such a rate would apply to all TLTRO III operations outstanding over the discrete periods between 24 June 2020 and 23 June 2021 (special interest period 1), and between 24 June 2021 and 23 June 2022 (special interest period 2), for banks that show growth in lending volumes equal to or above 0% between 1 March 2020 and 31 March 2021 (observation period 1) and 1 October 2020 and 31 December 2021 (observation period 2), respectively. In case lending growth targets are not met, the interest rate during the special interest periods can in a worst case scenario be at 50 basis points below the average Main Refinancing Operations rate over the same period. In the period preceding and following the special interest periods 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. Special interest period 2 was announced by the ECB in its press release in December 2020 and confirmed in January 2021.

The amount of interest income recognised during the period on the TLTRO III depends on a reasonable expectation of whether the conditions will be met. Interest income on ING's participation in TLTRO III of EUR 164 million was recognised in the statement of profit and loss (please refer to Note 20 Net interest income). Interest income recognised in 2020 for TLTRO III is based on -50 bps (the Main Refinancing Operations rate minus 50 bps), which is in substance an unconditional rate during June 2020 – June 2021 and does not depend on whether the lending targets are achieved. At 31 December 2020 ING assessed that it is not yet highly probable that lending targets will be met. Any conditional benefit from TLTRO III has not been included yet.

13 Customer deposits

Customer deposits

	2020	2019
Savings accounts	336,517	326,942
Credit balances on customer accounts	256,899	224,276
Corporate deposits	22,720	29,284
Other	27,001	25,908
	643,138	**606,410**

Customer deposits by type

	Netherlands		Rest of the world			Total
	2020	2019	2020	2019	2020	2019
Non-interest bearing	24,206	19,030	42,281	24,782	66,487	43,812
Interest bearing	208,169	191,577	368,481	371,021	576,650	562,598
	232,375	**210,606**	**410,762**	**395,803**	**643,138**	**606,410**

Savings accounts relate to the balances on savings accounts, savings books, savings deposits, and time deposits of private individuals.

In 2020 Customer deposits includes EUR 31,768 million (2019: EUR 30,853 million) of deposits received from ING Group.

14 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss

	2020	2019
Trading liabilities	32,709	28,042
Non-trading derivatives	1,629	2,217
Designated at fair value through profit or loss	48,445	47,685
	82,782	**77,943**

Trading liabilities

Trading liabilities by type

	2020	2019
Equity securities	191	193
Debt securities	577	1,201
Funds on deposit	6,204	5,322
Derivatives	25,737	21,325
	32,709	**28,042**

Non-trading derivatives

Non-trading derivatives by type

	2020	2019
Derivatives used in:		
- fair value hedges	444	873
- cash flow hedges	230	339
- hedges of net investments in foreign operations	98	51
Other non-trading derivatives	857	954
	1,629	**2,217**

Reference is made to Note 37 'Derivatives and hedge accounting' for information on derivatives used for hedge accounting.

Other non-trading derivatives mainly includes interest rate swaps and foreign currency swaps for hedging purposes, but for which no hedge accounting is applied.

Designated at fair value through profit or loss

Designated at fair value through profit or loss by type

	2020	2019
Debt securities	5,887	7,700
Funds entrusted	42,300	39,739
Subordinated liabilities	258	246
	48,445	**47,685**

As at 31 December 2020, the change in the fair value of financial liabilities designated at fair value through profit or loss attributable to changes in credit risk is EUR 141 million (2019: EUR 139 million) on a cumulative basis. This change has been determined as the amount of change in fair value of the financial liability that is not attributable to changes in market conditions that gave rise to market risk (i.e. mainly interest rate risk based on yield curves).

The amount that ING Bank is contractually required to pay at maturity to the holders of financial liabilities designated at fair value through profit or loss excluding repurchase agreements is EUR 6,682 million (2019: EUR 8,660 million).

15 Provisions

Provisions by type

	2020	2019
Reorganisation provisions	381	385
Other provisions	285	303
	666	**688**

Changes in reorganisation provisions

	2020	2019
Opening balance	385	613
Additions	165	56
Releases	-16	-49
Utilised	-152	-234
Exchange rate differences	-1	0
Closing balance	**381**	**385**

In 2020, the addition to the reorganisation provision is mainly attributable to refocusing of our activities in Wholesale Banking and decision on the Maggie project, as well as additional restructuring costs in Retail Benelux and Other Challengers & Growth Markets. These initiatives are implemented over a period of several years and the estimate of the reorganisation provisions is inherently uncertain.

The addition to the reorganisation provision in 2019 is mainly related to ING's closure of branches in the Netherlands and updates in existing reorganisation provisions following the digital transformation programmes of ING Bank.

Changes in other provisions

	Litigation		Other		Total	
	2020	2019	2020	2019	2020	2019
Opening balance	102	165	200	234	303	399
Effect of change in accounting policies				7		7
Additions	46	74	32	46	78	120
Interest			-1	-5	-1	-5
Releases	-25	-31	-13	-38	-38	-68
Utilised	-16	-104	-13	-12	-29	-116
Exchange rate differences	-3	-1	-5	-0	-8	-1
Other changes	0	-0	-22	-31	-21	-31
Closing balance	**105**	**102**	**180**	**200**	**285**	**303**

Reference is made to Note 43 'Legal proceedings' for developments in litigation provisions.

In 2020, Other provisions – other includes provisions of EUR 17 million (2019: EUR 25 million) that relate to credit replacement facilities and EUR 75 million (2019: EUR 93 million) that relate to non-credit replacement off balance facilities.

As at 31 December 2020, amounts expected to be settled within twelve months amount to EUR 139 million (2019: EUR 146 million). The amounts included in Other provisions are based on best estimates with regard to amounts and timing of cash flows required to settle the obligation.

Further reference is made to Note 28 'Other operating expenses'.

16 Other liabilities

Other liabilities by type

	2020	2019
Net defined benefit liability	350	483
Other post-employment benefits	83	84
Other staff-related liabilities	490	526
Other taxation and social security contributions	435	442
Rents received in advance	15	9
Costs payable	2,017	2,111
Amounts to be settled	4,877	4,741
Lease liabilities	1,339	1,507
Other	1,998	2,894
	11,605	**12,796**

Disclosures in respect of Net defined benefit liabilities are provided in Note 34 'Pension and other post-employment benefits'.

Other staff-related liabilities includes vacation leave provisions, variable compensation provisions, jubilee provisions, and disability/illness provisions.

Costs payable relates to costs attributable to 2020, which will be paid in subsequent periods.

Amounts to be settled includes primarily transactions not settled at the balance sheet date. The nature of these transactions is short term and these are expected to settle shortly after the closing date of the balance sheet.

Lease liabilities includes primarily liabilities relating to Right of use assets. Reference is made to Note 9 'Property and Equipment'. The total cash outflow for leases in 2020 was EUR 273 million (2019: EUR 271 million).

Other relates mainly to balances on margin accounts or amounts payable to customers.

17 Debt securities in issue

Debt securities in issue relates 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 does 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

	2020	2019
Fixed rate debt securities		
Within 1 year	18,315	26,871
More than 1 year but less than 2 years	5,667	10,358
More than 2 years but less than 3 years	3,158	6,742
More than 3 years but less than 4 years	1,222	3,142
More than 4 years but less than 5 years	1,730	1,226
More than 5 years	13,807	14,305
Total fixed rate debt securities	**43,898**	**62,644**
Floating rate debt securities		
Within 1 year	8,699	24,938
More than 1 year but less than 2 years	1,998	3,126
More than 2 years but less than 3 years	155	1,917
More than 3 years but less than 4 years	138	134
More than 4 years but less than 5 years	91	144
More than 5 years	593	816
Total floating rate debt securities	**11,675**	**31,077**
Total debt securities	**55,573**	**93,721**

In 2020 Debt securities in issue decreased by EUR 38.1 billion because of lower funding needs driven by increased TLTRO funding and the strong growth of customer deposits. This decrease is mainly explained by a reduction of EUR 18.2 billion in commercial paper, a reduction of EUR 8.1 billion in certificates of deposits, a reduction of EUR 9.7 billion in matured long term bonds and a reduction of EUR 2.1 billion in matured covered bonds.

18 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 13.1 billion (2019 : EUR 13.0 billion) have been placed with ING Bank N.V. by ING Groep N.V.

Changes in subordinated loans

	2020	2019
Opening balance	16,515	13,643
New issuances	2,138	3,440
Repayments	-2,608	-931
Exchange rate differences and other	-147	362
Closing balance	**15,897**	**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.

These issuances were subsequently placed by ING Groep N.V. with ING Bank N.V. against the same conditions.

In 2020 ING Bank N.V. bought back USD 1 billion in February and USD 190 million in December 5.800% Tier 2 securities via a tender. ING Bank N.V. redeemed with ING Groep N.V. USD 1 billion 6.000% Perpetual Additional Tier 1 Contingent Convertible Capital Securities and USD 500 million 6.125% Perpetual Debt Securities in April.

The average interest rate on subordinated loans is 3.73% (2019: 4.36%). The interest expense during the year 2020 was EUR 613 million (2019: EUR 654 million).
For additional information, reference is made to the Parent company financial statements, Note 17 ‘Subordinated loans’.

19 Equity

Total equity

	2020	2019	2018
Share capital and share premium			
- Share capital	525	525	525
- Share premium	16,542	16,542	16,542
	17,067	**17,067**	**17,067**
Other reserves			
- Revaluation reserve: Equity securities at FVOCI	1,181	1,580	1,914
- Revaluation reserve: Debt instruments at FVOCI	296	299	365
- Revaluation reserve: Cash flow hedge	1,450	1,208	604
- Revaluation reserve: Credit liability	-117	-114	8
- Revaluation reserve: Property in own use	221	253	202
- Net defined benefit asset/liability remeasurement reserve	-307	-336	-394
- Currency translation reserve	-3,636	-2,079	-2,068
- Share of associates and joint ventures and other reserves	3,246	3,189	2,872
	2,334	**4,000**	**3,504**
Retained earnings	28,273	25,857	23,602
Shareholders’ equity (parent)	47,675	46,924	44,173
Non-controlling interests	1,022	893	803
Total equity	**48,697**	**47,817**	**44,976**

The following components of equity, as included in Other reserves, cannot be freely distributed: Revaluation reserve, Net defined benefit asset/liability remeasurement reserve, Currency translation reserve, Share of associates and joint ventures reserve and Other reserves including the part related to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN.

Share capital and share premium

Share capital

Share capital

	Ordinary shares (par value EUR 0.01)					
	Number x 1,000			Amount		
	2020	2019	2018	2020	2019	2018
Authorised share capital	1,600,000	1,600,000	1,600,000	1,808	1,808	1,808
Unissued share capital	1,134,965	1,134,965	1,134,965	1,283	1,283	1,283
Issued share capital	**465,035**	**465,035**	**465,035**	**525**	**525**	**525**

No change occurred in the issued share capital and share premium in 2020, 2019 and 2018.

All ordinary shares are in registered form. No share certificates have been issued. Ordinary shares may be transferred by means of a deed of transfer, subject to the approval of the general meeting of ING Bank. The par value of ordinary shares is EUR 1.13.

The authorised ordinary share capital of ING Bank N.V. consists of 1,600 million shares of which as at 31 December 2020, 465 million ordinary shares were issued and fully paid.

ING Bank has 50 authorised preference shares with par value of EUR 1.13 per preference share. As at 31 December 2020, 7 preference shares were issued and fully paid (2019: 7 preference shares; 2018: 7 preference shares) amounting to EUR 8 (2019: EUR 8 and 2018: EUR 8).

Dividend restrictions

ING Bank N.V. and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital and reserves required by law. Additionally, certain Bank companies are subject to restrictions on the amount of funds they may transfer in the form of dividends or otherwise to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which subsidiaries operate, other limitations exist in certain countries.

Other reserves

Revaluation reserves

Changes in revaluation reserve

	Equity securities at FVOCI			Debt instruments at FVOCI			AFS and other			Cash flow hedge			Credit liability			Property in own use		
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Opening balance	1,580	1,914	n/a	299	365	n/a	n/a	n/a	3,449	1,208	604	263	-114	8	n/a	253	202	201
Effect of change in accounting policy due to the implementation of IFRS 9			2,432			581			-3,449						-190			
Changes in credit liability reserve													-19	-116	198			
Unrealised revaluations	-337	137	-461	31	-33	-163				242	604	342				-7	60	3
Realised gains/losses transferred to the statement of profit or loss				-33	-33	-54												
Realised revaluations transferred to retained earnings	-1	-472	-56										16	-6		-26	-9	-2
Other changes	-62																	
Closing balance	**1,181**	**1,580**	**1,914**	**296**	**299**	**365**	**n/a**	**n/a**	**n/a**	**1,450**	**1,208**	**604**	**-117**	**-114**	**8**	**221**	**253**	**202**

Equity securities at FVOCI

In 2020, the unrealised revaluations of EUR -337 million includes revaluation of shares in Bank of Beijing for EUR -339 million. Other changes of EUR -62 million is related to prior years revaluations of Visa shares, which are reclassified to Financial assets at fair value through profit or loss and for which the unrealized revaluation up until 2019 is transferred to retained earnings. Reference is made to note 5 'Financial assets at fair value through other comprehensive income'.

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.

In 2018, the Equity securities at FVOCI revaluation reserve decreased by EUR 517 million, mainly due to the revaluation of shares in Bank of Beijing EUR -549 million, partly offset by revaluation of shares in Kotak Mahindra Bank EUR 71 million.

Available-for-sale and other

As from 2018, due to implementation of IFRS 9, the revaluation results of Available-for-sale and other are reported in the FVOCI reserve.

Cash flow hedge

ING mainly hedges floating rate lending with interest rate swaps. Due to decrease in interest rate yield curve in 2020 the interest rate swaps had a positive revaluation of EUR 242 million which is recognised in cash flow hedge reserve.

Net defined benefit asset/liability remeasurement reserve

Reference is made to Note 34 'Pension and other post-employment benefits'.

Currency translation reserve

Changes in currency translation reserve

	2020	2019	2018
Opening balance	-2,079	-2,068	-1,682
Unrealised revaluations	106	-134	71
Realised gains/losses transferred to the statement of profit or loss	-1	-128	0
Exchange rate differences	-1,662	251	-457
Closing balance	**-3,636**	**-2,079**	**-2,068**

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 -1,557 million is related to several currencies including USD (EUR -536 million), TRY (EUR -406 million) PLN (EUR -137 million) and RUB (EUR -104 million).
In 2019 realised gains/losses transferred to the statement of profit or loss 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).

Share of associates and joint ventures and other reserves

Changes in share of associates, joint ventures and other reserves

	2020	2019	2018
Opening balance	3,189	2,872	2,473
Effect of change in accounting policy due to the implementation of IFRS 9			-23
Result for the year	94	180	160
Transfer to/from retained earnings	-37	137	261
Closing balance	**3,246**	**3,189**	**2,872**

The Share of associates, joint ventures and other reserves includes non-distributable profits from associates and joint ventures of EUR 644 million (2019: EUR 624 million). Other reserves includes a statutory reserve of EUR 1,912 million (2019: EUR 1,818 million) related to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN and a legal reserve of EUR 688 million (2019: EUR 736 million) related to own developed software.

Retained earnings

Changes in retained earnings

	2020	2019	2018
Opening balance	25,857	23,602	22,291
Effect of change in accounting policy due to the implementation of IFRS 9			-391
Transfer to/from other reserves	108	350	-192
Result for the year	2,321	4,663	4,447
Dividend	-43	-2,819	-2,517
Employee stock options and share plans	23	39	59
Changes in composition of the group and other changes	7	22	-96
Closing balance	**28,273**	**25,857**	**23,602**

Changes in the composition of the group

Changes in the composition of the group mainly relate to Payvision. In 2018 ING Bank obtained control over Payvision Holding B.V. (Payvision) by acquiring 75% of its shares. The share purchase agreement included a put option exercisable by the original shareholders and a call option exercisable by ING for the remaining 25% shares. The put and call option led to the recognition of a financial liability with initial recognition through shareholders' equity of EUR 87 million related to Payvision.

In November 2019 ING Bank agreed to purchase the remaining 25% shares in three tranches between November 2019 and April 2020 for a total consideration of EUR 90 million. Given that ING already had control over Payvision, the acquisition of 23% of the shares in 2019 and 2% in 2020 represents a shareholder transaction and resulted in a transfer between Non-controlling interest and Shareholders equity of EUR 24 million in 2019 and EUR 2 million in 2020.

Dividend

In 2020, a cash dividend of EUR 43 million (2019: EUR 2,819 million and 2018: EUR 2,517 million) was paid to the shareholders of ING Bank.

Restrictions with respect to dividend and repayment of capital

The following equity components cannot be freely distributed: Revaluation reserves, Net defined benefit asset/liability remeasurement reserve, Currency translation reserve, Share of associates and joint ventures reserve and Other reserves including the part related to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN.

As at 31 December 2020, an amount of EUR 1,912 million (2019: EUR 1,818 million) related to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN is included.

ING Bank N.V. is subject to legal restrictions regarding the amount of dividends it can pay to its shareholder. Pursuant to the Dutch Civil Code, dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital and reserves required by law.
Moreover, ING Bank N.V.'s ability to pay dividends is dependent on the dividend payment ability of its subsidiaries, associates and joint ventures. ING Bank N.V. is legally required to create a non-distributable reserve insofar as profits of its subsidiaries, associates and joint ventures are subject to dividend payment restrictions which apply to those subsidiaries, associates and joint ventures themselves.

Non distributable reserves, determined in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code, from ING Bank's subsidiaries, associates and joint amounts to EUR 9,829 million (2019: 8,397 million).

Furthermore there are restrictions to the ability of subsidiaries, associates and joint ventures to distribute reserves to ING Bank N.V. as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate.

In addition to the legal and regulatory restrictions on distributing dividends from subsidiaries, associates and joint ventures to ING Bank N.V. there are various other considerations and limitations that are taken into account in determining the appropriate levels of equity in the Bank's subsidiaries, associates and joint ventures. These considerations and limitations include, but are not restricted to, minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries, associates and joint ventures operate, or other limitations which may exist in certain countries and may or may not be temporary in nature. It is not possible to disclose a reliable quantification of these limitations. For an overview of the minimal capital requirements of ING Bank refer to the 'Capital Management' section.

Without prejudice to the authority of the Executive Board to allocate profits to reserves and to the fact that the shares are the most junior securities issued by ING Bank N.V., no specific dividend payment restrictions with respect to the shares exist.

Furthermore, ING Bank N.V. is subject to legal restrictions with respect to repayment of capital to Its shareholder. Pursuant to the Dutch Civil Code, capital may only be repaid if none of ING Bank N.V.'s creditors opposes such a repayment within two months following the announcement of a resolution to that effect.

Notes to the Consolidated statement of profit or loss

20 Net interest income

Net interest income

	2020	2019	2018
Interest income on loans	15,766	19,322	18,988
Interest income on financial assets at fair value through OCI	512	615	554
Interest income on debt securities at amortised cost	508	673	780
Interest income on non-trading derivatives (hedge accounting)	3,392	4,318	4,491
Negative interest on liabilities	686	428	475
Total interest income using effective interest rate method	**20,865**	**25,355**	**25,288**
Interest income on financial assets at fair value through profit or loss	658	1,897	1,795
Interest income on non-trading derivatives (no hedge accounting)	1,156	1,183	1,065
Interest income other	31	29	25
Total other interest income	**1,846**	**3,110**	**2,886**
Total interest income	**22,711**	**28,465**	**28,174**

	2020	2019	2018
Interest expense on deposits from banks	177	361	362
Interest expense on customer deposits	2,022	3,559	2,890
Interest expense on debt securities in issue	1,145	1,767	2,033
Interest expense on subordinated loans	613	654	700
Negative interest on assets	353	349	412
Interest expense on non-trading derivatives (hedge accounting)	3,198	4,615	4,826
Total interest expense using effective interest rate method	**7,507**	**11,305**	**11,222**
Interest expense on financial liabilities at fair value through profit or loss	514	1,695	1,577
Interest expense on non-trading derivatives (no hedge accounting)	1,029	1,312	1,393
Interest expense on lease liabilities	18	25	n/a
Interest expense other	42	53	33
Total other interest expense	**1,603**	**3,085**	**3,002**
Total interest expense	**9,110**	**14,391**	**14,224**
Net interest income	**13,600**	**14,074**	**13,949**

Total net interest income amounts to EUR 13,600 million (2019: EUR 14,074 million). The decrease is mainly caused by continued margin pressure on customer deposits on both savings and current accounts due to lower reinvestment yields. In addition, average liability volumes increased over the year whereas customer lending volumes decreased. Negative interest on liabilities in 2020, amounting to EUR 686 million (2019: EUR 428 million) includes interest income on ING's participation in TLTRO III of EUR 164 million and TLTRO II of EUR 24 million (2019: TLTRO II EUR 57 million). Any conditional benefit from TLTRO III on net interest income has not been included yet.

21 Net fee and commission income

Fee and commission income

	2020	2019	2018
Funds transfer	1,428	1,513	1,394
Securities business	805	603	618
Insurance broking	200	191	173
Asset management fees	244	205	170
Brokerage and advisory fees	658	611	584
Other	1,180	1,317	1,302
	4,514	**4,439**	**4,240**

Other fee and commission income mainly consists of commission fees in respect of bank guarantees of EUR 187 million (2019: EUR 202 million; 2018: EUR 207 million), in respect of underwriting syndication loans of EUR 16 million (2019: EUR 10 million; 2018: EUR 4 million), in respect of structured finance fees of EUR 126 million (2019: EUR 141 million; 2018: EUR 129 million), and in respect of collective instruments distributed but not managed by ING of EUR 163 million (2019: EUR 167 million; 2018: EUR 165 million).

Fee and commission expenses

	2020	2019	2018
Funds transfer	601	659	597
Securities business	147	140	170
Insurance broking	4	2	2
Asset management fees	9	8	4
Brokerage and advisory fees	330	282	220
Other	413	481	443
	1,503	**1,571**	**1,437**

Reference is made to Note 32 '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.

22 Valuation results and net trading income

Valuation results and net trading income

	2020	2019	2018
Securities trading results	-500	974	-722
Derivatives trading results	701	-998	540
Other trading results	72	117	-111
Change in fair value of derivatives relating to			
– fair value hedges	246	-305	62
– cash flow hedges (ineffective portion)	-5	47	-19
– other non-trading derivatives	222	105	896
Change in fair value of assets and liabilities (hedged items)	-183	382	-54
Valuation results on assets and liabilities designated at FVPL (excluding trading)	-121	-359	366
Foreign exchange transactions results	422	801	72
	852	**765**	**1,031**

Securities trading results includes 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.

The portion of trading gains and losses relating to trading securities still held as at 31 December 2020 amounts to EUR -690 million (2019: EUR -82 million; 2018: EUR 396 million).

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.

Other trading results include the results of trading loans and funds entrusted.

Foreign exchange transactions results include gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities. The result on currency trading is included in foreign exchange transactions results.

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. ING Bank's trading books are managed based on internal limits and comprise a mix of products with results which could be offset. A significant part of the derivatives in the trading portfolio are related to servicing corporate clients in their risk management to hedge for example currency or interest rate exposures. 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. However, IFRS does not always allow netting of these positions in the statement of financial position. Reference is made to Note 4 'Financial assets at fair value through profit or loss' and Note 14 'Financial liabilities at fair value through profit or loss' for information on trading assets and trading liabilities respectively.

'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. Reference is made to Note 37 'Derivatives and hedge accounting' for information on derivatives used for hedge accounting.

In general, the fair value movements are influenced by changes in the market conditions, such as stock prices, credit spreads, 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 and stabilised during the second half of 2020 and volatility has largely returned to pre-pandemic levels.

Furthermore, 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 half of 2020 and spreads tightened, the fair value changes decreased again.

In 2020, Derivatives trading results include EUR 17 million CVA/DVA adjustments on trading derivatives (2019: EUR 39 million; 2018: EUR -20 million).

'Valuation results on assets and liabilities designated at fair value through profit or loss' include fair value changes on financial liabilities driven by changed market conditions as disclosed in Note 14 'Financial liabilities at fair value through profit or loss'.

In 2020, Valuation results on assets and liabilities designated at fair value through profit or loss (excluding trading) include fair value adjustments on own issued notes amounting to EUR 8 million (2019: EUR -403 million; 2018: EUR 301 million).

Interest income from trading assets in 2020 amounted to EUR 13,412 million (2019: EUR 15,187 million; 2018: 13,924 million). Interest expense from trading liabilities in 2020 amounted to EUR 13,052 million (2019: EUR 14,922 million; 2018: 13,976 million).

23 Investment income

Investment income	2020	2019	2018
Dividend income	107	115	102
Realised gains/losses on disposal of debt instruments measured at FVOCI	44	46	77
Income from and fair value gains/losses on investment properties	1	27	4
Investment income	**152**	**188**	**183**

In 2020, 2019 and 2018 dividend income mainly consists of dividend received from ING's equity stake in Bank of Beijing.

24 Result on disposal of group companies

Result on disposal of group companies	2020	2019	2018
ING Lease Italy		-2	-123
ING Mauritius		119	
Cel Data Services	-3		
	-3	**117**	**-123**

In 2020 ING realized a EUR -3 million loss on the sale of Cel Data Services N.V. against net assets disposed of EUR 4 million. Cel Data Services N.V. is active in ATM services including cash loading and ICT managed services for ING's Belgian retail branches, other Belgian financial institutions and retail shops.

In 2019 the Result on disposal of group companies is mainly impacted by the sale of ING's stake in Kotak Mahindra Bank by ING Mauritius during 1Q 2019. ING Mauritius is in the process of being liquidated and consequently, the release of the currency translation reserve (CTA) and the release of the Net Investment Foreign Entities reserve resulted in a one-off gain of EUR 119 million.

The Result on disposal of group companies includes the result (fair value less cost to sell) on the sale of part of the ING Lease Italy business amounting to EUR -123 million, which was recognised in 2018 and a final result of EUR -2 million recognised in 2019.

25 Net result on derecognition of financial assets measured at amortised cost

Net result on derecognition of financial assets measured at amortised cost	2020	2019[1]	2018[1]
Loans at amortised cost	4	13	17
Securities at amortised cost	185	24	0
Net result on derecognition of financial assets measured at amortised cost	**189**	**38**	**18**

1 Net result on derecognition of financial assets measured at amortised cost was included in note 26 Other income in prior years.

In 2020, driven by exceptional market circumstances in the first quarter, ING realised a profit on the sale of debt securities at amortised cost of EUR 186 million.

26 Other income

In 2020, Other income of EUR 20 million (2019: EUR 214 million; 2018: EUR 118 million) includes the positive recovery of defaulted receivables of EUR 27 million (2019: EUR 32 million). In addition, Other income is impacted by positive and negative non-recurring results, including a loss of EUR 58 million following a settlement with the Australian Tax Authorities related to former insurance activities, that were fully indemnified by NN Group. This was offset by a tax profit for the same amount resulting from the release of the provision for uncertain tax positions in current tax liabilities. In 2019, Other income also included the recognition of EUR 79 million receivable related to the insolvency of a financial institution.

27 Staff Expenses

Staff expenses	2020	2019	2018
Salaries	3,751	3,572	3,287
Pension costs and other staff-related benefit costs	395	366	385
Social security costs	538	530	509
Share-based compensation arrangements	23	39	59
External employees	881	974	901
Education	43	64	87
Other staff costs	186	208	202
	5,817	**5,753**	**5,430**

Share-based compensation arrangements include EUR 17 million (2019: EUR 38 million; 2018: EUR 46 million) relating to equity-settled share-based payment arrangements and EUR 2 million (2019: EUR 3 million; 2018: EUR 3 million) relating to cash-settled share-based payment arrangements.

Number of employees

	Netherlands			Rest of the world			Total		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Total average number of internal employees at full time equivalent basis	15,201	14,415	13,600	40,701	39,016	38,633	55,901	53,431	52,233

Remuneration of senior management, Management Board Banking and Supervisory Board

Reference is made to Note 47 'Related parties'.

Stock option and share plans

ING Bank N.V. has granted option rights on ING Groep N.V. shares and conditional rights on shares to a number of senior executives (members of the Management Board Banking, general managers and other officers nominated by the Management Board Banking), and to a considerable number of employees of ING Bank. The purpose of the option and share schemes, apart from promoting a lasting growth of ING Bank, is to attract, retain and motivate senior executives and staff.

In 2010, the Group Executive Board decided not to continue the option scheme as from 2011. The existing option schemes have run off during the year as the option rights have expired.

The obligations with regard to the existing stock option plan and the share plans is funded by newly issued shares at the discretion of ING Group.

ING grants four types of share awards, deferred shares, performance shares and upfront shares, which form part of the variable remuneration offering via the Long term Sustainable Performance Plan (LSPP), as well as fixed shares. The entitlement to the LSPP share awards is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional, with the exception of the upfront shares which are immediately vested upon grant. Additionally, a condition before vesting was applied to performance shares until 2018. As of 2019, this performance condition is no longer applicable. Upfront and deferred shares awarded to the Management Board members of ING Bank as well as identified staff, have a retention obligation that must be adhered to upon vesting, a minimum retention of 12 months applies. ING has the authority to apply a hold back to awarded but unvested shares and a clawback to vested shares.

In addition to the LSPP share awards, ING also pays a number of senior employees fixed shares. The number of shares are determined each month from a cash value that forms part of the employee fixed remuneration. The shares are immediately vested to the employee, but have a minimum holding requirement of two years before the employee can dispose of the shares. The fixed shares are not subject to holdback or clawback.

The share awards granted in 2020 relate to the performance year 2019. In 2020, 186,176 share awards (2019: 2,837; 2018: 111,779) were granted to the Management Board Banking. To senior management and other employees 3,678,775 share awards (2019: 2,167,817; 2018: 3,989,214) were granted.

Changes in share awards

	Share awards (in numbers)			Weighted average grant date fair values (in euros)		
	2020	2019	2018	2020	2019	2018
Opening balance	3,855,035	5,852,986	7,220,642	11.14	11.62	11.46
Granted	3,864,951	2,170,654	4,100,993	5.12	10.04	12.50
Performance effect			341,623		11.12	11.65
Vested	-3,690,340	-3,945,020	-5,565,093	9.01	11.23	12.05
Forfeited	-153,440	-223,585	-245,179	8.55	11.39	11.38
Closing balance	**3,876,206**	**3,855,035**	**5,852,986**	7.25	11.14	11.62

The fair value of share awards granted is recognised as an expense under Staff expenses and is allocated over the vesting period of the share awards. The fair value calculation takes into account the current stock prices, expected volatilities and the dividend yield of ING shares.

As at 31 December 2020, total unrecognised compensation costs related to share awards amount to EUR 10 million (2019: EUR 15 million; 2018: EUR 29 million). These costs are expected to be recognised over a weighted average period of 1.6 years (2019: 1.4 years; 2018: 1.4 years).

Changes in option rights outstanding

	Options outstanding (in numbers)			Weighted average exercise price (in euros)		
	2020	2019	2018	2020	2019	2018
Opening balance	1,561,633	3,291,328	9,572,737	7.35	5.84	12.46
Exercised	-397,304	-1,492,380	-475,650	7.33	4.46	6.02
Forfeited	-2,490	-21,608	-63,795	7.35	7.19	8.89
Expired	-1,161,839	-215,707	-5,741,964	7.36	4.24	16.82
Closing balance	**0**	**1,561,633**	**3,291,328**		7.35	5.84

The weighted average share price at the date of exercise for options exercised during 2020 is EUR 5.73 (2019: EUR 10.89; 2018: 13.65). All option rights are vested.

28 Other operating expenses

Other operating expenses

	2020	2019	2018
Regulatory costs	1,105	1,021	947
Audit and non-audit services	29	30	26
IT related expenses	812	759	779
Advertising and public relations	335	391	402
External advisory fees	413	410	357
Office expenses	320	325	564
Travel and accommodation expenses	68	140	179
Contributions and subscriptions	109	108	91
Postal charges	38	46	54
Depreciation of property and equipment[1]	578	551	312
Amortisation of intangible assets	251	237	209
Impairments and reversals of impairments of tangible and intangible assets	558	59	19
Addition to / (unused amounts reversed of) provision for reorganisations	149	6	4
Addition to / (unused amounts reversed of) other provisions	39	29	-13
Other	541	477	1,336
	5,344	**4,590**	**5,265**

1 Includes depreciation expenses of right-of-use assets as recognised under IFRS 16 in 2020 and 2019.

Regulatory costs

Regulatory costs represent contributions to the Deposit Guarantee Schemes (DGS), The Single Resolution Fund (SRF), local bank taxes and local resolution funds. Included in Regulatory costs for 2020, are contributions to DGS of EUR 413 million (2019: EUR 362 million; 2018: EUR 364 million) mainly related to the Netherlands, Germany, Belgium, Poland, and Spain and contributions to the SRF and local resolution funds of EUR 277 million (2019: EUR 239 million; 2018: EUR 208 million).
In 2020 local bank taxes decreased by EUR 6 million from EUR 420 million in 2019 to EUR 414 million (2018: EUR 375 million). This was caused by a decrease of EUR 10 million in Romania following abolishment of its bank tax in 2020. Excluding this effect, total bank taxes increased with EUR 4 million.

Audit and non-audit services

Audit and non-audit services include fees for services provided by the Bank's auditors. The increase of audit fees 2020 follow from the re-appointment of the current auditor that also triggered a revision of the audit fees. In 2019, the increase primarily relates to audit activities for the implementation of IFRS 16, new statutory audits and new IT systems in scope.

Impairments and reversals of impairments of tangible and intangible assets

Impairments and reversals of impairments of tangible and intangible assets

	Impairment losses			Reversals of impairments			Total		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Property and equipment	52	4	9	-9	-6	-17	43	-3	-8
Property development	2	1	15				2	1	15
Goodwill	310						310		
Software and other intangible assets	202	61	12				202	61	12
	567	**66**	**35**	**-9**	**-7**	**-17**	**558**	**59**	**19**

Impairment losses on property and equipment in 2020 follow from the changes in intended use of right-of-use property due to the changes in the future way of working post-pandemic.
In 2018, impairment losses on property development mainly relate to impairments in Spain and Italy due to lower expected net realisable values.

The reversals of impairments on property and equipment in 2018 relate to impairments previously recognised in the statement of profit or loss and mainly include impairments on property in own use that were reversed following the sale of office buildings.

Goodwill impairment test performed in the second quarter of 2020 resulted in goodwill impairment losses for EUR 310 million in the CGUs Retail Belgium and Wholesale Banking.

Impairment losses on software and other intangible assets in 2020 mainly include software that was impaired for an amount of EUR 141 million following the decision to discontinue Project Maggie (previously called Model Bank). This is primarily related to capitalised software development costs. In addition, impairment losses of EUR 19 million were recognised related to purchased software and of EUR 35 million related to intangible assets in the payments and cash management business.

2019 and 2018 impairment losses on software and intangible assets relate to rescoping of IT transformation programs.

Reference is made to Note 9 ‘Property and equipment’ and Note 10 ‘Intangible assets’ .

Addition to / (unused amounts reversed of) provision for reorganisations

Included in Addition to / (unused amounts reversed of) provision for reorganisations in 2020 are increases due to refocusing of ING’s activities in Wholesale Banking and decisions on the Maggie project, as well as additional restructuring costs in Retail Benelux and Other Challengers & Growth Markets. Reference is made to Note 15 ‘Provisions’.

Addition to / (unused amounts reversed of) other provisions

Included in Addition to / (unused amounts reversed of) other provisions in 2020 are movements mainly in the litigation provision and the general provision for cybercrime in the Netherlands. Reference is made to Note 15 ‘Provisions’ and Note 43 ‘Legal proceedings’.

Other

In 2018 Other operating expenses - Other included, amongst others, the settlement with the Dutch Public Prosecution Service of EUR 775 million. The settlement related to previously disclosed investigations regarding various requirements for client on-boarding and the prevention of money laundering and corrupt practices. Reference is made to Note 43 ‘Legal proceedings’.

29 Net cash flow from operating activities

The table below shows a detailed overview of the net cash flow from operating activities.

Cash flows from operating activities

		2020	2019	2018
Cash flows from operating activities				
Result before tax		3,810	6,831	6,751
Adjusted for:	- Depreciation and amortisation	829	789	520
	- Addition to loan loss provisions	2,675	1,120	656
	- Other non-cash items included in result before tax	1,259	64	-1,646
Taxation paid		-1,735	-2,369	-1,600
Changes in:	– Loans and advances to banks, not available on demand	10,032	-1,336	-778
	– Deposits from banks, not payable on demand	43,044	-2,574	566
	Net change in loans and advances to/ from banks, not available/ payable on demand	**53,076**	**-3,909**	**-212**
	– Trading assets	-2,095	606	16,838
	– Trading liabilities	4,667	-3,173	-7,018
	Net change in Trading assets and Trading liabilities	**2,571**	**-2,567**	**9,820**
	Loans and advances to customers	2,888	-16,696	-31,016
	Customer deposits	40,576	24,828	31,241
	– Non-trading derivatives	-1,420	1,047	-270
	– Assets designated at fair value through profit or loss	-1,371	-7	-725
	– Assets mandatorily at fair value through profit or loss	-1,963	23,343	-6,968
	– Other assets	1,092	1,359	418
	– Other financial liabilities at fair value through profit or loss	1,190	-12,211	10,546
	– Provisions and other liabilities	-298	-2,068	621
	Other	**-2,770**	**11,463**	**3,622**
Net cash flow from/(used in) operating activities		**103,179**	**19,553**	**18,136**

30 Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities

	Debt securities in issue		Subordinated Loans		Lease liabilities		Total Liabilities from financing activities	
	2020	2019	2020	2019	2020	2019	2020	2019
Opening balance	93,721	102,159	16,515	13,643	1,507	n/a	111,742	115,802
Effect of change in accounting policy due to the implementation of IFRS 16						1,301		1,301
Cashflows:								
Additions	63,269	84,641	2,138	3,440	0	0	65,407	88,081
Redemptions / Disposals	-99,212	-94,497	-2,608	-931	-273	-271	-102,093	-95,698
Non cash changes:								
Amortisation	52	120	-14	-14	18	25	56	131
Other	-98	-76	-12	26	118	443	8	393
Changes in FV	198	312	397	214	0	0	595	526
Foreign exchange movement	-2,357	1,062	-519	136	-31	8	-2,907	1,206
Closing balance	**55,573**	**93,721**	**15,897**	**16,515**	**1,339**	**1,507**	**72,809**	**111,742**

31 Cash and cash equivalents

Cash and cash equivalents

	2020	2019	2018
Treasury bills and other eligible bills	0	43	159
Deposits from banks/Loans and advances to banks	477	784	-2,618
Cash and balances with central banks	111,087	53,202	49,987
Cash and cash equivalents at end of year	**111,565**	**54,029**	**47,528**

Treasury bills and other eligible bills included in cash and cash equivalents

	2020	2019	2018
Treasury bills and other eligible bills included in trading assets	0	0	17
Treasury bills and other eligible bills included in securities at AC		43	142
	0	**43**	**159**

Deposits from banks/Loans and advances to banks

	2020	2019	2018
Included in cash and cash equivalents:			
– Deposits from banks	-8,788	-8,519	-8,520
– Loans and advances to banks	9,265	9,303	5,902
	477	**784**	**-2,618**
Not included in cash and cash equivalents:			
– Deposits from banks	-69,310	-26,307	-28,811
– Loans and advances to banks	16,098	25,830	24,519
	-53,212	**-478**	**-4,292**
Total as included in the statement of financial position:			
– Deposits from banks	-78,098	-34,826	-37,330
– Loans and advances to banks	25,363	35,133	30,420
	-52,734	**307**	**-6,910**

Cash and cash equivalents includes deposits from banks and loans and advances to banks that are on demand.

Included in Cash and cash equivalents, are minimum mandatory reserve deposits to be held with various central banks. Reference is made to Note 40 ‘Transfer of financial assets, assets pledged and received as collateral’ for restrictions on Cash and balances with central banks.

Segment reporting

32 Segments

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

The Management Board Banking of ING Bank 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.

The following table specifies the segments by line of business and main sources of income of each of the segments:

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

Segments by line of business	Main source of income
Retail Netherlands *(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 *(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 *(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 *(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 split of the segments

Geographical segments	Main countries
The Netherlands	
Belgium	Including Luxembourg
Germany	Including Austria
Other Challengers	Australia, Czech Republic, France, Italy, Spain, Portugal, Other
Growth Markets	Poland, Romania, Turkey, Philippines and Asian stakes
Wholesale Banking Rest of World	UK, Americas, Asia and other countries in Central and Eastern Europe
Other	Corporate Line 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 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 using Corporate Line. The Corporate Line is a reflection of capital management activities and certain income and expenses that are not allocated to the banking businesses, including the recognition of value-added tax (VAT) refunds in the Netherlands (recorded under expenses). In 2020, net interest income on the Corporate Line sharply declined, mainly due to lower interest results from foreign currency hedging due to lower interest rate differentials. In 2019, a EUR 119 million gain from the release of a currency translation reserve following the sale of ING's stake in Kotak Mahindra Bank was included, and the recognition of a EUR 79 million receivable related to the insolvency of a financial institution (both recorded under income). In 2018, the EUR 775 million settlement agreement with the Dutch authorities on regulatory issues was included. 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 Group applies a system of capital charging for its banking 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, the impact of divestments and results from former insurance related activities. In 2020 and 2019 no special items, divestments or results from former insurance related activities were recorded anymore. 2018 included a special item of EUR 775 million related to the settlement agreement with the Dutch authorities on regulatory issues.

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 [1]

	2020							2019							2018						
	Retail Nether-lands	Retail Belgium	Retail Ger-many	Retail Other	Whole-sale Banking	Corporate Line	Total	Retail Nether-lands	Retail Belgium	Retail Ger-many	Retail Other	Whole-sale Banking	Corporate Line	Total	Retail Nether-lands	Retail Belgium	Retail Ger-many	Retail Other	Whole-sale Banking	Corporate Line	Total
Income																					
– Net interest income	3,511	1,816	1,587	2,760	3,718	208	13,600	3,541	1,907	1,579	2,787	3,794	466	14,074	3,749	1,830	1,671	2,690	3,686	324	13,949
– Net fee and commission income	681	413	437	412	1,069	-1	3,011	674	374	268	423	1,135	-6	2,868	664	371	225	395	1,152	-3	2,803
– Total investment and other income	279	145	93	89	609	-180	1,034	290	161	138	298	369	95	1,352	335	169	76	230	673	-133	1,350
Total income	**4,471**	**2,373**	**2,117**	**3,261**	**5,396**	**27**	**17,645**	**4,505**	**2,442**	**1,985**	**3,509**	**5,298**	**556**	**18,295**	**4,747**	**2,369**	**1,972**	**3,315**	**5,510**	**188**	**18,102**
Expenditure																					
– Operating expenses	2,236	1,737	1,110	2,469	3,218	390	11,160	2,210	1,609	1,080	2,210	2,937	298	10,343	2,220	1,610	1,027	2,033	2,771	1,035	10,695
– Addition to loan loss provisions	157	514	57	593	1,351	3	2,675	91	186	-53	364	532		1,120	-41	164	-27	350	210	-1	656
Total expenses	**2,393**	**2,251**	**1,167**	**3,063**	**4,568**	**393**	**13,835**	**2,301**	**1,794**	**1,027**	**2,574**	**3,469**	**298**	**11,463**	**2,179**	**1,774**	**1,000**	**2,383**	**2,981**	**1,033**	**11,351**
Result before taxation	**2,078**	**122**	**950**	**199**	**827**	**-366**	**3,810**	**2,204**	**647**	**957**	**935**	**1,830**	**258**	**6,831**	**2,568**	**595**	**972**	**932**	**2,529**	**-845**	**6,751**
Taxation	523	51	331	105	295	13	1,317	558	192	328	234	464	114	1,889	626	199	324	200	633	55	2,036
Non-controlling interests	-1		4	55	20		78			3	82	14		99		6	3	80	19		108
Net result IFRS	**1,556**	**71**	**615**	**39**	**512**	**-378**	**2,415**	**1,646**	**455**	**627**	**619**	**1,352**	**145**	**4,843**	**1,942**	**390**	**646**	**652**	**1,877**	**-900**	**4,607**

1. As of 2020 consolidated results of ING Bank are based on IFRS as adopted by the European Union (IFRS-EU), and not on underlying anymore; historical figures have been adjusted.

Geographical split of the segments [1]

2020

	Netherlands	Belgium	Germany	Other Challengers	Growth markets	Wholesale Banking Rest of World	Other	Total
Income								
– Net interest income	4,178	2,116	2,090	1,781	1,578	1,654	204	13,600
– Net fee and commission income	981	583	468	276	286	418	-1	3,011
– Total investment and other income	398	196	127	27	215	243	-172	1,034
Total income	**5,557**	**2,896**	**2,684**	**2,084**	**2,078**	**2,315**	**31**	**17,645**
Expenditure								
– Operating expenses	3,347	2,037	1,270	1,566	1,272	1,273	395	11,160
– Addition to loan loss provisions	421	589	267	298	412	684	3	2,675
Total expenses	**3,769**	**2,627**	**1,537**	**1,864**	**1,684**	**1,957**	**397**	**13,835**
Result before taxation	**1,788**	**269**	**1,146**	**220**	**395**	**357**	**-366**	**3,810**
Retail Banking	2,078	122	950	-27	225			3,348
Wholesale Banking	-290	147	197	247	169	357		827
Corporate Line							-366	-366
Result before taxation	**1,788**	**269**	**1,146**	**220**	**395**	**357**	**-366**	**3,810**
Taxation	518	89	381	91	141	85	12	1,317
Non-controlling interests	-1		4		75			78
Net result IFRS	**1,271**	**180**	**761**	**129**	**178**	**273**	**-378**	**2,415**

2019

	Netherlands	Belgium	Germany	Other Challengers	Growth markets [2]	Wholesale Banking Rest of World [2]	Other	Total
Income								
– Net interest income	4,213	2,233	2,122	1,808	1,610	1,633	457	14,074
– Net fee and commission income	994	533	315	283	304	446	-6	2,868
– Total investment and other income	119	233	169	16	420	292	104	1,352
Total income	**5,325**	**2,999**	**2,606**	**2,107**	**2,334**	**2,370**	**554**	**18,295**
Expenditure								
– Operating expenses	2,994	1,925	1,237	1,318	1,277	1,293	299	10,343
– Addition to loan loss provisions	146	268	-40	171	271	303		1,120
Total expenses	**3,140**	**2,194**	**1,197**	**1,489**	**1,548**	**1,596**	**299**	**11,463**
Result before taxation	**2,185**	**805**	**1,409**	**618**	**785**	**774**	**255**	**6,831**
Retail Banking	2,204	647	957	307	628			4,744
Wholesale Banking	-19	158	451	311	157	774	-3	1,830
Corporate Line							258	258
Result before taxation	**2,185**	**805**	**1,409**	**618**	**785**	**774**	**255**	**6,831**
Taxation	549	247	476	207	159	144	107	1,889
Non-controlling interests			3		96			99
Net result IFRS	**1,637**	**558**	**929**	**411**	**530**	**630**	**148**	**4,843**

2018

	Netherlands	Belgium	Germany	Other Challengers	Growth markets [2]	Wholesale Banking Rest of World [2]	Other [3]	Total
Income								
– Net interest income	4,374	2,137	2,200	1,732	1,641	1,546	319	13,949
– Net fee and commission income	980	520	273	254	301	478	-4	2,803
– Total investment and other income	509	379	99	-92	338	240	-123	1,350
Total income	**5,863**	**3,037**	**2,572**	**1,895**	**2,280**	**2,264**	**192**	**18,102**
Expenditure								
– Operating expenses	2,929	1,932	1,171	1,217	1,189	1,208	1,051	10,695
– Addition to loan loss provisions	-65	153	6	163	274	126	-1	656
Total expenses	**2,863**	**2,085**	**1,176**	**1,380**	**1,463**	**1,333**	**1,050**	**11,351**
Result before taxation	**3,000**	**952**	**1,396**	**515**	**817**	**930**	**-858**	**6,751**
Retail Banking	2,568	595	972	285	647			5,067
Wholesale Banking	432	357	424	229	170	930	-13	2,529
Corporate Line							-845	-845
Result before taxation	**3,000**	**952**	**1,396**	**515**	**817**	**930**	**-858**	**6,751**
Taxation	741	291	459	178	144	173	52	2,036
Non-controlling interests	1	6	3		98			108
Net result IFRS	**2,258**	**655**	**935**	**337**	**575**	**757**	**-909**	**4,607**

1. As of 2020 consolidated results of ING Bank are based on IFRS as adopted by the European Union (IFRS-EU), and not on underlying anymore; historical figures have been adjusted.
2. 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.
3. As from 2020 results of former Insurance activities are included in geographical segment Other (Corporate Line); historical figures have been adjusted.

33 Information on geographical areas

ING Bank's business lines operate in seven main geographical areas: the Netherlands, Belgium, Rest of Europe, North America, Latin America, Asia and Australia. A geographical area is a distinguishable component of the Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of geographical areas operating in other economic environments. The geographical analyses are based on the location of the office from which the transactions are originated and do not include countries where ING only has representation offices. The Netherlands is ING Bank's country of domicile.

In order to increase ING Bank's tax transparency, additional financial information on a per country basis has been included in this disclosure: Tax paid represents all income tax paid to and/or received from tax authorities in the current year, irrespective of the fiscal year to which these payments or refunds relate.

The table below provide additional information, for the years 2020, 2019 and 2018 respectively, on names of principal subsidiaries and branches, nature of main activities and average number of employees on a full time equivalent basis by country/tax jurisdiction.

Additional information by country

Geographical area	Country/Tax jurisdiction	Name of principal subsidiary	Main (banking) activity	Average number of employees at full time equivalent basis			Total Income			Total assets			Result before tax			Taxation			Tax paid		
				2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Netherlands	Netherlands	ING Bank N.V.	Wholesale / Retail	15,201	14,415	13,600	5,422	5,552	5,837	286,119	269,730	261,449	934	1,771	1,673	493	466	634	591	709	526
Belgium	Belgium	ING België N.V.	Wholesale / Retail	7,397	7,694	8,248	2,581	2,721	2,807	133,843	122,546	120,589	156	735	866	61	236	275	66	258	71
	Luxemburg	ING Luxembourg S.A.	Wholesale / Retail	855	841	791	300	322	315	15,335	16,634	13,313	120	153	198	30	37	50	24	17	23
Rest of Europe	Poland	ING Bank Slaski S.A	Wholesale / Retail	9,425	8,968	8,829	1,399	1,344	1,229	40,928	37,220	33,040	438	533	525	131	141	128	232	166	169
	Germany	ING DiBa A.G.	Wholesale / Retail	5,059	4,639	4,625	2,545	2,484	2,421	162,935	147,924	144,911	1,065	1,374	1,309	364	465	431	409	460	368
	Romania	Branch of ING Bank N.V.	Wholesale / Retail	3,049	2,575	2,269	456	457	403	8,526	7,424	7,112	141	221	183	20	34	25	24	34	22
	Spain	Branch of ING Bank N.V.	Wholesale / Retail	1,228	1,233	1,201	679	706	600	29,899	26,118	23,757	104	249	195	37	72	71	52	90	61
	Italy	Branch of ING Bank N.V.	Wholesale / Retail	1,025	959	911	337	269	231	13,747	15,726	16,991	44	-39	-101	24	4	-24	2	4	3
	UK	Branch of ING Bank N.V.	Wholesale	709	692	672	546	594	505	64,676	61,088	64,016	97	214	180	15	52	44	32	40	61
	France[1]	Branch of ING Bank N.V.	Wholesale / Retail	737	659	620	266	302	323	11,570	12,053	12,063	-43	63	111	-10	33	45	9	48	25
	Russia	ING Bank (Eurasia) Z.A.O.	Wholesale	297	293	277	51	93	82	1,035	1,499	1,449	3	68	25	0	22	3	-3	49	13
	Czech Republic	Branch of ING Bank N.V.	Wholesale / Retail	355	339	306	83	94	104	3,851	4,486	6,272	-3	16	37	0	3	9	4	5	6
	Hungary	Branch of ING Bank N.V.	Wholesale	131	138	141	43	24	40	1,092	1,299	1,227	6	-7	5	2	2	3	1	2	2
	Slovakia	Branch of ING Bank N.V.	Wholesale	878	703	571	18	14	14	385	587	487	7	2	0	3	0	1	1	-1	1
	Ukraine	PJSC ING Bank Ukraine	Wholesale	108	111	109	26	43	36	335	481	368	16	31	22	3	9	3	3	6	4
	Austria	Branch of ING DiBa A.G.	Wholesale / Retail	332	279	235	75	80	85	1,840	1,441	753	0	0	18	-5	1	6	-14	1	-12
	Bulgaria	Branch of ING Bank N.V.	Wholesale	65	68	69	13	12	9	406	358	360	2	2	0	0	0	0	0	0	0
	Ireland	Branch of ING Bank N.V.	Wholesale	50	48	47	72	71	69	2,050	2,575	2,867	58	48	59	7	7	7	7	7	6
	Portugal	Branch of ING Bank N.V.	Wholesale	13	12	11	16	18	18	790	899	905	11	14	13	7	4	4	4	5	2
	Switzerland	Branch of ING Bank N.V.	Wholesale	256	257	244	187	234	257	7,939	8,577	8,266	88	126	169	13	-36	35	14	22	6

1 Public subsidies received, as defined in article 89 of the CRD IV, amounts to EUR 0.3 million (2019: EUR 0.3 million; 2018: EUR 0.5 million).

Additional information by country (continued)

Geographical area	Country/Tax jurisdiction	Name of principal subsidiary	Main (banking) activity	Average number of employees at full time equivalent basis			Total Income			Total assets			Result before tax			Taxation			Tax paid		
				2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
North America	Canada	Payvision Canada Services Ltd.	Wholesale	1	1	1	3	3	3	0	1	2	0	0	0	0	0	0	0	0	0
	USA	ING Financial Holdings Corp.	Wholesale	600	626	617	720	813	736	48,205	45,521	61,440	39	366	343	16	118	61	38	130	67
Latin America	Brazil	Branch of ING Bank N.V.	Wholesale	89	89	88	30	43	35	1,813	2,921	1,974	3	27	16	19	6	9	4	7	3
	Colombia	ING Capital Colombia S.A.S.	Wholesale	3	3	3	1	1	1	2	2	2	0	0	0	0	0	0	0	0	0
	Mexico	ING Consulting, S.A. de C.V.	Wholesale	7	8	8	1	1	1	2	2	2	-1	-2	-2	0	0	0	0	0	0
Asia	China	Branch of ING Bank N.V.	Wholesale	90	89	86	26	35	37	1,598	2,031	2,107	-2	7	3	1	-1	7	-5	0	17
	Japan	Branch of ING Bank N.V.	Wholesale	32	33	32	29	31	36	3,104	5,109	2,300	-1	22	19	-1	8	5	2	10	3
	Singapore	Branch of ING Bank N.V.	Wholesale	608	592	546	353	349	340	24,498	27,982	32,222	42	76	176	8	13	21	7	22	12
	Macau	Payvision Macau Ltd.	Wholesale	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Hong Kong	Branch of ING Bank N.V.	Wholesale	122	128	122	92	96	110	7,030	7,350	6,975	-9	38	52	-1	7	8	15	2	12
	Philippines	Branch of ING Bank N.V.	Wholesale/ Retail	1,857	1,420	878	13	25	17	497	412	395	-26	-11	0	6	-5	3	2	2	1
	South Korea	Branch of ING Bank N.V.	Wholesale	77	79	80	66	60	55	6,692	5,457	4,299	18	25	14	4	7	3	10	3	6
	Taiwan	Branch of ING Bank N.V.	Wholesale	34	34	33	36	26	23	3,160	2,873	2,839	19	10	7	4	0	0	1	3	-2
	Indonesia	PT ING Securities Indonesia	In liquidation	0	0	3	0	0	0	5	6	6	0	0	0	0	0	0	0	0	0
	Malaysia	Branch of ING Bank N.V.	Wholesale	6	5	5	1	1	1	141	166	139	-1	0	0	0	0	0	0	0	0
	India	Branch of ING Bank N.V.	Wholesale	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0
	Turkey	ING Bank A.S.	Wholesale / Retail	3,724	4,074	4,709	420	677	678	7,316	9,927	11,521	125	304	245	27	66	50	25	92	11
	United Arabic Emirates	Branch of ING Bank N.V.	Wholesale	10	11	11	0	-1	0	1	0	0	-2	-2	-1	0	0	0	0	0	0
Australia	Australia	ING Bank (Australia) Ltd.	Wholesale / Retail	1,472	1,319	1,234	740	701	647	46,014	43,482	39,673	362	400	389	40	121	118	181	177	113
Other	Mauritius	ING Mauritius Ltd.	In liquidation	0	0	0	0	0	1	0	1	920	0	0	1	0	0	0	0	0	0
Total				**55,901**	**53,431**	**52,233**	**17,645**	**18,295**	**18,102**	**937,379**	**891,910**	**887,012**	**3,810**	**6,831**	**6,751**	**1,317**	**1,889**	**2,036**	**1,735**	**2,369**	**1,600**

2020

The higher tax charge of 53% in the Netherlands (compared to the statutory rate of 25%) is mainly caused by the non-deductible Dutch bank tax (EUR 169 million) and the non-deductible impairments regarding goodwill (EUR 266 million) and TMB (EUR 230 million).

The lower tax charge in Australia is caused by a release of a tax provision after concluding a settlement with the Australian Tax Authorities on an issue related to former Insurance activities, which issue was fully indemnified by NN Group.

The higher tax charges in Brazil and the Philippines are mainly caused by the de-recognition of tax benefits for incurred tax losses due to expected insufficient future taxable profits.

The higher tax charges in Poland and Belgium are mainly caused by non-deductible regulatory- and other costs.

2019

The relatively low tax charge in Switzerland is caused by a deferred tax benefit following a tax rate reduction in 2019.

2018

The relatively high tax charge of 38% in the Netherlands (compared to statutory rate of 25%) is mainly caused by non-deductible expenses of EUR 775 million upon the settlement agreement reached with the Dutch authorities on regulatory issues.

Additional notes to the Consolidated financial statements

34 Pensions and other post-employment benefits

Most group companies sponsor defined contribution pension plans. The assets of all ING Bank's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of remuneration. Contributions, including the defined contribution plan in the Netherlands, are principally determined as a percentage of renumeration. These plans do not give rise to provisions in the statement of financial position, other than relating to short-term timing differences included in other assets/liabilities.

ING Bank maintains defined benefit retirement plans in some countries. These plans provide benefits that are related to the remuneration and service of employees upon retirement. The benefits in some of these plans are subject to various forms of indexation. The indexation is, in some cases, at the discretion of management; in other cases it is dependent upon the sufficiency of plan assets.

Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local legal requirements. Plans in all countries are designed to comply with applicable local regulations governing investments and funding levels.

ING Bank provides other post-employment benefits to certain former employees. These are primarily discounts on ING products.

Statement of financial position - Net defined benefit asset/liability

Plan assets and defined benefit obligation per country

	Plan assets		Defined benefit obligation		Funded Status	
	2020	2019	2020	2019	2020	2019
The Netherlands	469	454	643	634	-174	-180
United States	311	277	291	275	20	3
United Kingdom	1,896	1,887	1,199	1,184	696	703
Belgium	591	590	681	676	-90	-85
Other countries	316	168	393	383	-77	-214
Funded status (Net defined benefit asset/liability)	**3,583**	**3,377**	**3,208**	**3,151**	**375**	**226**
Presented as:						
- Other assets					725	709
- Other liabilities					-350	-483
					375	**226**

The most recent (actuarial) valuations of the plan assets and the present value of the defined benefit obligation were carried out as at 31 December 2020. The present value of the defined benefit obligation, and the related current service cost and past service cost, were determined using the projected unit credit method.

Changes in the fair value of plan assets for the period were as follows:

Changes in fair value of plan assets

	2020	2019
Opening balance	3,377	3,019
Interest income	50	70
Remeasurements: Return on plan assets excluding amounts included in interest income	246	274
Employer's contribution	170	34
Participants contributions	2	2
Benefits paid	-128	-126
Exchange rate differences	-134	104
Closing balance	**3,583**	**3,377**
Actual return on the plan assets	**296**	**344**

As at 31 December 2020 the various defined benefit plans did not hold any direct investments in ING Bank N.V. (2019: nil). During 2020 and 2019 there were no purchases or sales of assets between ING and the pension funds.

ING does not manage the pension funds and thus receives no compensation for fund management. The pension funds have not engaged ING in any swap or derivative transactions to manage the risk of the pension funds.

No plan assets are expected to be returned to ING Bank during 2021.

Although Covid-19 has had an impact on most investment markets in 2020, the effect on the fair value of ING Bank's plan assets was limited as a large majority of our plan assets is invested in liquid asset categories which mark to market frequently.

Changes in the present value of the defined benefit obligation and other post-employment benefits for the period were as follows:

Changes in defined benefit obligation and other post-employment benefits

	Defined benefit obligation		Other post-employment benefits	
	2020	2019	2020	2019
Opening balance	3,151	2,913	84	76
Current service cost	31	28	-2	-1
Interest cost	44	65	2	3
Remeasurements: Actuarial gains and losses arising from changes in demographic assumptions	4	-6		
Remeasurements: Actuarial gains and losses arising from changes in financial assumptions	190	206	7	7
Participants' contributions	2	2	0	1
Benefits paid	-132	-130	-1	-1
Past service cost	2	-0		
Exchange rate differences	-85	73	-8	1
Closing balance	**3,208**	**3,151**	**83**	**84**

Amounts recognised directly in Other comprehensive income were as follows:

Changes in the net defined benefit assets/liability remeasurement reserve

	2020	2019
Opening balance	-336	-394
Remeasurement of plan assets	246	274
Actuarial gains and losses arising from changes in demographic assumptions	-4	6
Actuarial gains and losses arising from changes in financial assumptions	-190	-206
Taxation and Exchange rate differences	-24	-15
Total Other comprehensive income movement for the year	**28**	**58**
Closing balance	**-307**	**-336**

In 2020, EUR 246 million remeasurement of plan assets that is recognised as a gain in other comprehensive income is driven by higher yields on investments.
The EUR -190 million actuarial losses arising from changes in financial assumptions in the calculation of the defined benefit obligation are mainly due to a decrease in discount rates.

The accumulated amount of remeasurements recognised directly in Other comprehensive income is EUR -343 million (EUR -307 million after tax) as at 31 December 2020 (2019: EUR -378 million; EUR -336 million after tax).

Amounts recognised in the statement of profit or loss related to pension and other staff related benefits are as follows:

Pension and other staff-related benefit costs

	Net defined benefit asset/liability			Other post-employment benefits			Other			Total		
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Current service cost	31	28	39	-2	-1	-4	12	1	22	41	29	57
Past service cost	2	-0	0							2	-0	0
Net Interest cost	-6	-5	-4	2	3	2	0	0	0	-3	-2	-2
Effect of curtailment or settlement	0	0							-1	0	0	-1
Other												
Defined benefit plans	**27**	**23**	**35**	**0**	**2**	**-1**	**12**	**2**	**21**	**40**	**26**	**54**
Defined contribution plans										356	340	331
										395	**366**	**385**

Determination of the net defined benefit asset/liability

The net defined benefit asset/liability is reviewed and adjusted annually. The assumptions used in the determination of the net defined benefit asset/liability and the Other post-employment benefits include discount rates, mortality rates, expected rates of salary increases (excluding promotion increases), and indexation. The rates used for salary developments, interest discount factors, and other adjustments reflect country-specific conditions.

The key assumption in the determination of the net defined benefit asset/liability is the discount rate. The discount rate is the weighted average of the discount rates that are applied in different regions where ING Bank has defined benefit pension plans (weighted by the defined benefit obligation). The discount rate is based on a methodology that uses market yields on high quality corporate bonds of the specific regions with durations matching the pension liabilities as key input.

Market yields of high quality corporate bonds reflect the yield on corporate bonds with an AA rating for durations where such yields are available. An extrapolation is applied in order to determine the yield to the longer durations for which no AA-rated corporate bonds are available. As a result of the limited availability of long-duration AA-rated corporate bonds, extrapolation is an important element of the determination of the discount rate. The weighted average discount rate applied for net defined benefit asset/liability for 2020 was 1.0% (2019: 1.5%) based on the pension plan in the Netherlands, Germany, Belgium, The United States of America, and the United Kingdom. The average discount rate applied for Other post-employment benefits was 2.7% (2019: 3.3%).

Sensitivity analysis of key assumptions

ING performs sensitivity analysis on the most significant assumptions: discount rates, mortality, expected rate of salary increase, and indexation. The sensitivity analysis has been carried out under the assumption that the changes occurred at the end of the reporting period.

The sensitivity analysis calculates the financial impact on the defined benefit obligation of an increase or decrease of the weighted averages of each significant actuarial assumption, all other assumptions held constant. In practice, this is unlikely to occur, and some changes of the assumptions may be correlated. Changes to mortality, expected rate of salary increase, and indexation would have no material impact on the defined benefit obligation. The most significant impact would be from a change in the discount rate. An increase or decrease in the discount rate of 1% creates an impact on the defined benefit obligation of EUR-461 million and EUR 586 million, respectively.

Expected cash flows

Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local supervisory requirements. Plans in all countries are designed to comply with applicable local regulations governing investments and funding levels. ING Bank's subsidiaries should fund the cost of the entitlements expected to be earned on a yearly basis.

For 2021 the expected contributions to defined benefit pension plans are EUR 31 million.

The benefit payments for defined benefit and other post-employment benefits expected to be made by the plan between 2021-2025 are estimated to be between EUR 110 million and EUR 138 million per year. From 2026 to 2030 the total payments made by the plan are expected to be EUR 724 million.

35 Taxation

Statement of financial position – Deferred tax

Deferred taxes are recognised on all temporary differences under the liability method using tax rates applicable in the jurisdictions in which ING Bank is subject to taxation.

Changes in deferred tax

2020	Net liability (-) Net asset (+) opening balance	Change through equity	Change through net result	Exchange rate differences	Changes in the composition of the group and other changes	Net liability (-) Net asset (+) ending balance
Financial assets at FVOCI	-99	7	-10	0		-103
Investment properties	-7		3	0	5	2
Financial assets and liabilities at FVPL	54		70	10		134
Depreciation	-19		6	2		-10
Cash flow hedges	-337	-23		0		-360
Pension and post-employment benefits	42	-8	-5	7	-0	36
Other provisions	6		-4	-7	0	-5
Loans and advances	490	-1	42	-15	0	517
Unused tax losses carried forward	61		7	-5		63
Other	-156	63	16	-1	-5	-83
	36	**38**	**125**	**-9**	**0**	**190**
Presented in the statement of financial position as:						
– Deferred tax liabilities	-695					-584
– Deferred tax assets	730					773
	36					**190**

The above table shows netted deferred tax amounts related to right-of-use assets and lease liabilities included in the row ‘Other’ a deferred tax amount for right-of-use assets of EUR 306 million (2019: EUR 370 million) and a deferred tax amount for lease liabilities of EUR -326 million (2019: EUR -376 million).

Changes in deferred tax

2019	Net liability (-) Net asset (+) opening balance	Change through equity	Change through net result	Exchange rate differences	Changes in the composition of the group and other changes	Net liability (-) Net asset (+) ending balance
Financial assets at FVOCI	-106	18	-11	-1		-99
Investment properties	-6		-1	-0		-7
Financial assets and liabilities at FVPL	43		11	2	-2	54
Depreciation	-23		5	-0		-19
Cash flow hedges	-140	-199		2		-337
Pension and post-employment benefits	59	-14	2	-5		42
Other provisions	10		-1	-3	0	6
Loans and advances	474	-1	18	0	0	490
Unused tax losses carried forward	51		5	5	-0	61
Other	-160	16	-13	1	-0	-156
Total	**201**	**-181**	**15**	**2**	**-2**	**36**
Presented in the statement of financial position as:						
– deferred tax liabilities	-640					-695
– deferred tax assets	841					730
	201					**36**

IFRS 16 Leases (implemented per 1 January 2019) requires lessees to recognise right-of-use assets and lease liabilities on the balance sheet. The above table shows netted amounts which include in the row ‘Other’ a deferred tax amount for right-of-use assets of EUR 370 million (1 January 2019: EUR 320 million) and a deferred tax amount for lease liabilities of EUR -376 million (1 January 2019: EUR -323 million).

Deferred tax in connection with unused tax losses carried forward

	2020	2019
Total unused tax losses carried forward	1,675	1,685
Unused tax losses carried forward not recognised as a deferred tax asset	903	922
Unused tax losses carried forward recognised as a deferred tax asset	**772**	**764**
Average tax rate	22.0%	21.4%
Deferred tax asset	170	163

Total unused tax losses carried forward analysed by expiry terms

	No deferred tax asset recognised		Deferred tax asset recognised	
	2020	2019	2020	2019
Within 1 year	1	1		
More than 1 year but less than 5 years	4	4	57	17
More than 5 years but less than 10 years	92	92	8	0
Unlimited	806	824	707	746
	903	**922**	**772**	**764**

The above mentioned deferred tax of EUR 170 million (2019: EUR 163 million) and the related unused tax losses carried forward exclude the deferred tax liability recorded in the Netherlands with respect to the recapture of previously deducted UK tax losses in the Netherlands for the amount of EUR -107 million (2019: EUR -102 million).

Deferred tax assets are recognised for temporary deductible differences, for tax losses carried forward and unused tax credits only to the extent that realisation of the related tax benefit is probable.

Breakdown of certain net deferred tax asset positions by jurisdiction

	2020	2019
Italy	86	181
France	28	
Philippines		7
Slovakia		1
	114	**189**

The table above includes a breakdown of certain net deferred tax asset positions by jurisdiction for which the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences whilst the related entities have incurred losses in either the current or the preceding year.

Recognition is based on the fact that it is probable that the entity will have taxable profits and/or can utilise tax planning opportunities before expiration of the deferred tax assets. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets.

As at 31 December 2020 and 31 December 2019, ING Bank N.V. had no significant temporary differences associated with the parent company's investments in subsidiaries as any economic benefit from those investments will not be taxable at parent company level.

Statement of profit or loss – Taxation

Taxation by type

	Netherlands			Rest of the world			Total		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Current taxation	428	424	597	1,015	1,480	1,263	1,442	1,904	1,861
Deferred taxation	64	42	37	-189	-57	139	-125	-15	175
	492	**466**	**634**	**826**	**1,423**	**1,402**	**1,317**	**1,889**	**2,036**

Reconciliation of the weighted average statutory income tax rate to ING Bank's effective income tax rate

	2020	2019	2018
Result before tax from continuing operations	3,810	6,831	6,751
Weighted average statutory tax rate	25.6%	25.9%	25.9%
Weighted average statutory tax amount	**975**	**1,770**	**1,751**
Participation exemption	-46	-45	-77
Other income not subject to tax	-5	-76	-40
Expenses not deductible for tax purposes	320	168	346
Impact on deferred tax from change in tax rates	10	-64	-8
Deferred tax benefit from previously unrecognised amounts	-6	0	0
Current tax from previously unrecognised amounts	17	48	28
Write-off/reversal of deferred tax assets	24	2	4
State and local taxes	44	72	25
Adjustments to prior periods	-16	14	7
Effective tax amount	**1,317**	**1,889**	**2,036**
Effective tax rate	**34.6%**	**27.7%**	**30.2%**

The weighted average statutory tax rate in 2020 (25.6%) is comparable-to that of 2019.

The effective tax rate of 34.6% in 2020 is significantly higher than the weighted average statutory tax rate. This is mainly caused by a high amount of expenses non-deductible for tax purposes like the non-deductible bank tax and non-deductible losses with respect to goodwill impairments and impairments on associates in the Netherlands and in some other European countries.

Included in "Adjustments to prior periods" is a release of a tax provision of EUR -68 million after concluding a settlement with the Australian tax authorities on an issue related to former insurance activities, which issue was fully indemnified by NN Group. Of the remaining on balance prior year tax adjustments of EUR 52 million, EUR 33 million can be attributed to the Netherlands, EUR 11 million to Germany and EUR 8 million to several other countries.

The weighted average statutory tax rate in 2019 was equal to the rate of 25.9% in 2018.

The effective tax rate of 27.7% in 2019 was higher than the weighted average statutory tax rate. This was mainly caused by a high amount of expenses non-deductible for tax purposes with respect to interest on additional Tier 1 securities and non-deductible bank tax in the Netherlands and regulatory expenses non-deductible for tax purposes in some other European countries.

The effective tax rate of 30.2% in 2018 was significantly higher than the weighted average statutory tax rate. This was mainly caused by a high amount of expenses non-deductible for tax purposes (tax amount: EUR 346 million).
This relatively high amount of non-deductible expenses is caused by the EUR 775 million settlement agreement reached with the Dutch Public Prosecution Service (tax amount: EUR 194 million).

Equity – Other comprehensive income

Income tax related to components of other comprehensive income

	2020	2019	2018
Unrealised revaluations financial assets at fair value through other comprehensive income and other revaluations	-3	6	86
Realised gains/losses transferred to the statement of profit or loss (reclassifications from equity to profit or loss)	10	12	23
Changes in cash flow hedge reserve	-23	-199	-76
Remeasurement of the net defined benefit asset/liability	-8	-14	-12
Changes in fair value of own credit risk of financial liabilities at fair value through profit or loss	-1	7	-33
Exchange rate differences and other	63	7	-18
Total income tax related to components of other comprehensive income	**38**	**-181**	**-29**

Tax Contingency

The contingent liability (also disclosed in note 42 'Contingent liabilities') in connection with taxation in the Netherlands refers to a possible obligation arising from the deduction from Dutch taxable profit of losses incurred by ING Bank in the United Kingdom in previous years. The existence of this obligation will be confirmed only by the occurrence of future profits in the United Kingdom.

36 Fair value of assets and liabilities

a) Valuation Methods

The estimated fair values represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a market-based measurement, which is based on assumptions that market participants would use and takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability.

Fair values of financial assets and liabilities are based on quoted prices in active market where available. When such quoted prices are not available, the fair value is determined by using valuation techniques. 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).

The Covid-19 pandemic impacted the global financial markets in 2020. In the beginning of 2020, ING observed large volatility in the market resulting in widened spreads, markets distortion and 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 course of 2020 and has largely returned to pre-pandemic levels. In 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.

b) Valuation Control framework

The valuation control framework covers the product approval process (PARP), pricing, independent price verification (IPV), valuation adjustments including prudent valuation, and model use. Valuation processes are governed by various governance bodies, including Local Parameter Committees (LPC), Global Price Testing and Impairment Committee (GP&IC), Market Data Committee (MDC), Trading Pricing Model Committee (TPMC) and Model Risk Management Committee (MRMC). All relevant committees meet on a regular basis (monthly/quarterly), where agenda covers the aforementioned valuation controls.

The Global Price Testing and Impairment Committee is responsible for the oversight and the approval of the outcome of impairments (other than loan loss provisions) and valuation processes. It oversees the quality and coherence of valuation methodologies and performance. The TMPC is responsible for the approval of validating pricing and fair value models. The MRMC is responsible for the approval of the validated prudent valuation adjustment models and the Local Parameter Committee monitor the appropriateness of (quoted) pricing, any other relevant market info, as well as the appropriateness of pricing models themselves related to the fair valued positions to which they are applied. The LPC executes valuation methodology and processes at a local level. The Market Data Committee approves and reviews all pricing inputs for the calculation of market parameters.

Financial instruments measured by internal models where one or more unobservable market inputs are significant for valuation, a difference between the transaction price and the theoretical price resulting from the internal model can occur. ING defers the Day One profit and loss relating to financial instruments reported with significant unobservable valuation parameters, including positions classified as Level 3 in the Fair Value Hierarchy and trades related to CVA with material unobservable input but not necessarily classified as Level 3 in the Fair Value Hierarchy. The Day One profit and loss is amortised over the life of the instrument or until the observability changes. The impact on the profit and loss per year end 2020 is deemed to be immaterial. No Day one Profit and loss has been reserved for prior years. The Day one Profit and loss reserve is expected to grow over the coming years when new trades requiring a Day one Profit are reported.

c) Valuation Adjustments

Valuation adjustments are an integral part of the fair value. They are included as part of the fair value to provide better estimation of market exit value on measurement date. ING considers various valuation adjustments to arrive at the fair value including Bid-Offer adjustments, Model Risk adjustments, Credit Valuation Adjustments (CVA), Debt valuation Adjustments (DVA), including DVA on derivatives and own issued liabilities and Collateral Valuation Adjustment (CollVA) and Funding Valuation Adjustment (FVA)'.

The following table presents the models reserves for financial assets and liabilities:

Valuation adjustment on financial assets and liabilities		
as at 31 December	**2020**	**2019**
Bid/Offer	-121	-139
Model Risk	-25	-214
CVA	-238	-223
DVA	-124	-118
CollVA	-16	-23
FVA	-111	-76
Total Valuation Adjustments	**-634**	**-792**

Bid-Offer Adjustment

Bid-Offer adjustments are required to adjust mid-market values to appropriate bid or offer value in order to best represent the exit value, and therefore fair value. It is applicable to financial assets and liabilities that are valued at mid-price initially. In practice this adjustment accounts for the difference in valuation from mid to bid and mid to offer for long and short exposures respectively. In principle assets are valued at the bid prices and liabilities are valued at the offer price. For certain assets or liabilities, where a market quoted price is not available, the price used is the fair value that is most representative within the bid-offer spread.

Model Risk Adjustment

Model risk adjustments addresses the risk of possible financial losses resulting from the use of a mis-specified, misapplied, or incorrect implementation of a model.

Credit Valuation Adjustment (CVA)

Credit Valuation Adjustment (CVA) is the adjustment on the fair value of a derivative trade to account for the possibility that a counterparty can go into default. In other words, it is the market value of counterparty credit risk. On the contrary, Debit Valuation Adjustment (DVA) reflects the credit risk of ING for its counterparty. CVA and DVA combinedly are regarded as the Bilateral Valuation Adjustment (BVA). The calculation of CVA is based on the estimation of the expected exposure, the counterparties' risk of default, and taking into account the collateral agreements as well as netting agreements. The counterparties' risk of default is measured by probability of default and expected loss given default, which is based on market information including credit default swap (CDS) spread. Where counterparty CDS spreads are not available, relevant proxy spreads are used. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty deteriorates) and right-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty improves) are included in the adjustment

Debit Valuation Adjustment (DVA)

ING recognises two types of Debit Valuation Adjustments, namely DVA on derivatives, as aforementioned and DVA on own issued financial liabilities. The application of DVA on own issued financial liabilities are measured at fair value through profit or loss, if the credit risk component has not been included in the prices. In this DVA calculation, the default probability of the institution are estimated based on the ING Funding spread.

Collateral Valuation Adjustment (CollVA)

Collateral Valuation Adjustment is a derivative valuation adjustment capturing specific features of CSA (Credit Support Annex) with a counterparty that the regular valuation framework does not capture. Non-standard CSA features may include deviations in relation to the currency in which ING posts or receives collateral, deviations in remuneration rate on collateral which may pay lower or higher rate than overnight rate or even no interest at all. Other deviations can be posting securities rather than cash as collateral.

Funding Valuation Adjustment (FVA)

ING applies an additional 'Funding Valuation Adjustment' (FVA) to address the funding costs associated with the collateral funding asymmetry on uncollateralized or partially collateralized derivatives in the portfolio. This adjustment is based on the expected exposure profiles of the uncollateralized or partially collateralized OTC derivatives and market-based funding spreads.

d) 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 observability of the valuation inputs from (unadjusted) quoted prices. Highest priority is retained to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques supported by unobservable inputs.

Transfers into and transfers out of fair value hierarchy levels are made on a quarterly basis at the end of the reporting period.

Level 1 – (Unadjusted) quoted prices in active markets

This category includes financial instruments whose fair value is determined directly by reference to (unadjusted) quoted prices in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer markets, brokered markets, or principal to principal markets. Those prices represent actual and regularly occurring market transactions with sufficient frequency and volume to provide pricing information on an ongoing basis. Transfers out of Level 1 into Level 2 or Level 3 occur when ING Bank establishes that markets are no longer active and therefore (unadjusted) quoted prices no longer provide reliable pricing information.

Level 2 – Valuation technique supported by observable inputs

This category includes financial instruments whose fair value is based on market observables other than (unadjusted) quoted prices. The fair value for financial instruments in this category can be determined by reference to quoted prices for similar instruments in active markets, but for which the prices are modified based on other market observable external data or reference to quoted prices for identical or similar instruments in markets that are not active. These prices can be obtained from a third party pricing service. ING analyses how the prices are derived and determines whether the prices are liquid tradable prices or model based consensus prices taking various data as inputs.

For financial instruments that do not have a reference price available, fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable, such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads.

Instruments, where inputs are unobservable are classified in this category, provided that the impact of those unobservable inputs on the overall valuation is insignificant. The notion of significant is particularly relevant for the distinction between Level 2 and Level 3 assets and liabilities. ING Bank has chosen to align the definition of significance with the 90% confidence range as captured in the prudent value definition by EBA where possible. The same 90% confidence range is applied to model uncertainty. If the combined change in asset value resulting from the shift of the unobservable parameters and the model uncertainty exceeds the threshold, the asset is classified as Level 3. A value change below the threshold results in a Level 2 classification.

Level 3 – Valuation technique supported by unobservable inputs

This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), for a significant part of the overall valuation is unobservable, or is determined by reference to price quotes where the market is considered inactive. Unobservable inputs are inputs which are based on the Group'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.

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

	Level 1		Level 2		Level 3		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Financial Assets								
Financial assets at fair value through profit or loss								
- Equity securities	7,902	8,518	2	2	138	148	8,041	8,667
- Debt securities	3,379	4,963	4,867	3,441	1,269	919	9,514	9,323
- Derivatives	2		30,623	23,818	197	154	30,821	23,972
- Loans and receivables	1	-0	53,733	52,668	1,265	1,588	54,998	54,256
	11,284	**13,481**	**89,225**	**79,929**	**2,870**	**2,807**	**103,374**	**96,217**
Financial assets at fair value through other comprehensive income								
- Equity securities	1,688	2,024			176	281	1,862	2,306
- Debt securities	31,593	30,141	1,385	343			32,977	30,483
- Loans and receivables	1				1,056	1,680	1,056	1,680
	33,282	**32,165**	**1,385**	**343**	**1,231**	**1,961**	**35,895**	**34,468**
Financial liabilities								
Financial liabilities at fair value through profit or loss								
– Debt securities	697	719	5,211	7,000	180	184	6,087	7,903
– Deposits	2		48,558	45,104	2		48,561	45,104
– Trading securities	700	1,388	70	7	0	-0	768	1,395
– Derivatives	56	58	27,094	23,178	217	305	27,365	23,542
	1,455	**2,165**	**80,933**	**75,289**	**398**	**490**	**82,782**	**77,943**

The following methods and assumptions were used by ING Bank to estimate the fair value of the financial instruments:

Equity securities

Instrument description: Equity securities include stocks and shares, corporate investments and private equity investments.

Valuation: If available, the fair values of publicly traded equity securities and private equity securities are based on quoted market prices. In absence of active markets, fair values are estimated by analysing the investee's financial position, result, risk profile, prospect, price, earnings comparisons and revenue multiples. Additionally, reference is made to valuations of peer entities where quoted prices in active markets are available. For equity securities best market practice will be applied using the most relevant valuation method. All non-listed equity investments, including investments in private equity funds, are subject to a standard review framework which ensures that valuations reflect the fair values.
Fair value hierarchy: The majority of equity securities are publicly traded and quoted prices are readily and regularly available. Hence, these securities are classified as Level 1. Equity securities which are not traded in active markets mainly include corporate investments, fund investments and other equity securities and are classified as Level 3.

Debt securities

Instrument description: Debt securities include government bonds, financial institutions bonds and Asset-backed securities (ABS).
Valuation: Where available, fair values for debt securities are generally based on quoted market prices. Quoted market prices are obtained from an exchange market, dealer, broker, industry group, pricing service, or regulatory service. The quoted prices from non-exchange sources are reviewed on their tradability of market prices. If quoted prices in an active market are not available, fair value is based on an analysis of available market inputs, which includes consensus prices obtained from one or more pricing services. Furthermore, fair values are determined by valuation techniques discounting expected future cash flows using a market interest rate curves, referenced credit spreads, maturity of the investment, and estimated prepayment rates where applicable.
Fair value hierarchy: Government bonds and financial institutions bonds are generally traded in active markets, where quoted prices are readily and regularly available and are hence, classified as Level 1. The remaining positions are classified as Level 2 or Level 3. Asset backed securities for which no active market is available and a wide discrepancy in quoted prices exists, are classified as Level 3.

Derivatives

Instrument description: Derivatives contracts can either be exchange-traded or over the counter (OTC). Derivatives include interest rate derivatives, FX derivatives, Credit derivatives, Equity derivatives and commodity derivatives.

Valuation: The fair value of exchange-traded derivatives is determined using quoted market prices in an active market and are classified as Level 1 of the fair value hierarchy. For instruments that are not actively traded, fair values are estimated based on valuation techniques. OTC derivatives and derivatives trading in an inactive market are valued using valuation techniques. The valuation techniques and inputs depend on the type of derivatives and the nature of the underlying instruments. The principal techniques used to value these instruments are based on (amongst others) discounted cash flows option pricing models and Monte Carlo simulations. These valuation models calculate the present value of expected future cash flows, based on 'no-arbitrage' principles. The models are commonly used in the financial industry and inputs to the validation models are determined from observable market data where possible. Certain inputs may not be observable in the market, but can be determined from observable prices via valuation model calibration procedures. These inputs include prices available from exchanges, dealers, brokers or providers of pricing, yield curves, credit spreads, default rates, recovery rates, dividend rates, volatility of underlying interest rates, equity prices, and foreign currency exchange rates and reference is made to quoted prices, recently executed trades, independent market quotes and consensus data, where available.
For uncollateralised OTC derivatives, ING applies Credit Valuation Adjustment to correctly reflect the counterparty credit risk in the valuation. See section DVA/BVA in section b) Valuation Adjustments for more details regarding the calculation.
Fair value hierarchy: The majority of the derivatives are classified as Level 2. Derivatives for which the input cannot be implied from observable market data are classified as Level 3.

Loans and receivables

Instrument description: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables carried at fair value includes trading loans, being securities lending and similar agreement comparable to collateralised lending, syndicated loans, loans expected to be sold and receivables with regards to reverse repurchase transactions.
Valuation: The fair value of loans and receivables are generally based on quoted market prices. The fair value of other loans is estimated by discounting expected future cash flows using a discount rate that reflects credit risk, liquidity, and other current market conditions. The fair value of mortgage loans is estimated by taking into account prepayment behaviour.

Fair value hierarchy: Loans and receivables are predominantly classified as Level 2. Loans and receivables 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 are classified as Level 3 and are expected to be sold as Level 3.

Financial liabilities at fair value through profit and loss

Instrument description: Financial liabilities at fair value through profit and loss include debt securities, debt instruments, primarily comprised of structured notes, which are held at fair value under the fair value option. Besides that, it includes derivative contracts and repurchase agreements.
Valuation: The fair values of securities in the trading portfolio and other liabilities at fair value through profit or loss are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated based on internal discounted cash flow valuation techniques using interest rates and credit spreads that apply to similar instruments.
Fair value hierarchy: The majority of the derivatives are classified as Level 2. Derivatives for which the input cannot be derived from observable market data are classified as Level 3.

e) Transfers between Level 1 and 2

No significant transfers between Level 1 and 2 and no significant changes in the valuation techniques were recorded in the reporting period 2020.

f) Level 3: Valuation techniques and inputs used

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 31 December 2020 of EUR 4.1 billion (31 December 2019: EUR 4.8 billion), an amount of EUR 2.1 billion (52.3%) (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 0.9 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 1.1 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 31 December 2020 of EUR 0.4 billion (31 December 2019: EUR 0.5 billion), an amount of EUR 0.1 billion (34.6%) (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 0.2 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	
	2020	2019	2020	2019			2020	2019	2020	2019
At fair value through profit or loss										
Debt securities	1,269	919			Price based	Price (%)	0%	0%	107%	121%
Equity securities	137	146	1	1	Price based	Price	0	0	5,475	5,475
Loans and advances	1,090	1,577	2		Price based	Price (%)	0%	0%	101%	104%
					Present value techniques	Credit spread (bps)	0	1	250	250
(Reverse) repo's	176	3		1	Present value techniques	Interest rate (%)	3%	4%	4%	4%
Structured notes			180	184	Price based	Price (%)	74%	83%	109%	124%
					Option pricing model	Equity volatility (%)	14%	13%	25%	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 (%)	0%	2%	5%	4%
Derivatives										
– Rates	2	13	38	68	Option pricing model	Interest rate volatility (bps)	12	17	70	137
					Present value techniques	Reset spread (%)	2%	2%	2%	2%
– FX		1			Option pricing model	FX volatility (bps)	6	5	10	8
– Credit	168	102	154	183	Present value techniques	Credit spread (bps)	2	2	1,403	11,054
						Jump rate (%)	n/a	12%	n/a	12%
					Price based	Price (%)	99%	n/a	107%	n/a
– Equity	24	42	20	50	Option pricing model	Equity volatility (%)	5%	4%	64%	84%
						Equity/Equity correlation	0.5	n/a	0.9	n/a
						Equity/FX correlation	-0.6	-0.6	0.1	0.6
						Dividend yield (%)	0%	0%	34%	13%
					Price based	Price (%)	3%	n/a	3%	n/a
– Other	3	3	3	3	Option pricing model	Commodity volatility (%)	18%	11%	55%	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										
– Loans and advances	1,056	1,680			Present value techniques	Prepayment rate (%)	9%	6%	9%	6%
					Price based	Price (%)	99%	n/a	99%	n/a
– Equity	176	282			Present value techniques	Credit spread (bps)	2	n/a	2	n/a
						Interest rate (%)	3%	3%	3%	3%
					Price based	Price	n/a	1	n/a	187
						Other	63	n/a	80	n/a
Total	**4,101**	**4,768**	**398**	**490**						

Price

For securities where market prices are not available fair value is measured by comparison with observable pricing data from similar instruments. Prices of 0% are distressed to the point that no recovery is expected, while prices significantly in excess of 100% or par are expected to pay a yield above current market rates.

Credit spreads

Credit spread is the premium above a benchmark interest rate, typically LIBOR or relevant Treasury instrument, required by the market participant to accept a lower credit quality. Higher credit spreads indicate lower credit quality and a lower value of an asset.

Volatility

Volatility is a measure for variation of the price of a financial instrument or other valuation input over time. Volatility is one of the key inputs in option pricing models. Typically, the higher the volatility, the higher value of the option. Volatility varies by the underlying reference (equity, commodity, foreign currency and interest rates), by strike, and maturity of the option. The minimum level of volatility is 0% and there is no theoretical maximum.

Correlation

Correlation is a measure of dependence between two underlying references which is relevant for valuing derivatives and other instruments having more than one underlying reference. High positive correlation (close to 1) indicates strong positive (statistical) relationship, where underliers move, everything else equal, move into the same direction. The same holds for a high negative correlation.

Reset spread

Reset spreads are key inputs to mortgage linked prepayment swaps valuation. Reset spread is the future spread at which mortgages will re-price at interest rate reset dates.

Inflation rate

Inflation rate is a key input to inflation linked instruments. Inflation linked instruments protect against price inflation and are denominated and indexed to investment units. Interest payments would be based on the inflation index and nominal rate in order to receive/pay the real rate of return. A rise in nominal coupon payments is a result of an increase in inflation expectations, real rates, or both. As markets for these inflation linked derivatives are illiquid, the valuation parameters become unobservable.

Dividend yield

Dividend yield is an important input for equity option pricing models showing how much dividends a company is expected to pay out each year relative to its share price. Dividend yields are generally expressed as an annualised percentage of share price.

Jump rate

Jump rates simulate abrupt changes in valuation models. The rate is an added component to the discount rate in the model to include default risks.

Prepayment rate

Prepayment rate is a key input to mortgage and loan valuation. Prepayment rate is the estimated rate at which mortgage borrowers will repay their mortgages early, e.g. 5% per year. Prepayment rate and reset spread are key inputs to mortgage linked prepayment swaps valuation

Level 3: Changes during the period

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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	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]	-61	40	-1	-21	-104	-63	-198	-6	-19	-15	-383	-66
Revaluation recognised in other comprehensive income during the period [2]									-46	155	-46	155
Purchase of assets	453	28	3	0	1,180	1,494	212	360	39	11	1,887	1,893
Sale of assets	-73	-53	-8	-3	-973	-832	-270	-212	-419	-680	-1,743	-1,780
Maturity/settlement	-39	-11	-1		-83	-461	-57	-35	-175	-212	-354	-719
Reclassifications		-279			330	279			-105	3	224	4
Transfers into Level 3	517	26		4	6	9	1	63	-1		523	103
Transfers out of Level 3	-90	-72	0		-528	-88	-138			-53	-755	-214
Exchange rate differences		1			-24	-1			-4	1	-27	1
Changes in the composition of the group and other changes					5	2			1	1	6	3
Closing balance	**882**	**174**	**1**	**8**	**1,191**	**1,381**	**796**	**1,244**	**1,231**	**1,961**	**4,101**	**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 312 million (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 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 market illiquidity which decreased 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 2020, reclassification relate to a re-review of the general terms of a portfolio of securitization loans, the underlying pools of assets are exposed to residual value risk. Consequently, the portfolio of EUR 0.3 billion, which is classified at Level 3, was incorrectly measured at amortised cost and therefore reclassified to mandatorily fair value through profit or loss. Furthermore, it relates to ING's investment in Visa preference series C shares, reference is made to Note 5 'Financial assets at fair value through other comprehensive income'.

In 2019 the amounts reported on the line reclassifications relate to syndicated loans reclassed 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	
	2020	2019	2020	2019	2020	2019	2020	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]	-2	102	20	-16	-22	32	-4	118
Additions	55	72	19	46	662	35	736	154
Redemptions	-116	-30	-45	-0	-90	-10	-250	-40
Maturity/settlement	-11	-32	-52		-83	-479	-146	-511
Transfers into Level 3	170	13	8		267	49	445	62
Transfers out of Level 3	-111	-52	-23		-738	-150	-873	-202
Closing balance	**180**	**195**	**39**	**110**	**180**	**184**	**398**	**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 -4 million (2019: EUR 115 million) of unrealised gains and losses recognised in the statement of profit or loss.

In 2020, the transfers into level 3 mainly consisted of structured notes, measured designated as at fair value through profit or loss, which were transferred into Level 3 due to market illiquidity as a result of the Covid-19 pandemic. This caused the valuation being significantly impacted by unobservable inputs.

In 2019 and 2020, financial liabilities mainly (long term) repurchase transactions were transferred out of Level 3 mainly due to the valuation not being significantly impacted by unobservable inputs.

g) 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.

In 2019 and 2020, 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.

h) Level 3: Sensitivity analysis of unobservable inputs

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.

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.

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 valuation uncertainty in the table below is broken down by related risk class rather than by product. The possible impact of a change of unobservable inputs in the fair value o of financial instruments where unobservable inputs are significant to the valuation is as follows:

Sensitivity analysis of Level 3 instruments

	Positive fair value movements from using reasonable possible alternatives		Negative fair value movements from using reasonable possible alternatives	
	2020	2019	2020	2019
Equity (equity derivatives, structured notes)	33	35	-14	
Interest rates (Rates derivatives, FX derivatives)	20	40	-1	
Credit (Debt securities, Loans, structured notes, credit derivatives)	43	10	-27	
	96	**85**	**-42**	

i) Financial instruments not measured at fair value

The following table presents the estimated The fair values of the financial instruments not measured at fair value in the statement of financial position. The aggregation of the fair values presented below does not represent, and should not be construed as representing, the underlying value of ING Bank.

Methods applied in determining fair values of financial assets and liabilities (carried at amortised cost)

	Carrying Amount		Carrying amount approximates fair value		Level 1		Level 2		Level 3		Total fair value	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Financial Assets												
Loans and advances to banks	25,363	35,133	2,164	2,364	0	728	7,763	11,469	15,611	20,570	25,538	35,130
Loans and advances to customers	598,306	611,907	17,491	20,358	0	165	14,679	12,713	576,659	588,063	608,830	621,299
Securities at amortised cost	50,587	46,108	-0	-0	49,109	43,784	2,550	2,304	622	840	52,281	46,928
	674,257	**693,148**	**19,655**	**22,721**	**49,109**	**44,677**	**24,992**	**26,486**	**592,892**	**609,473**	**686,648**	**703,357**
Financial liabilities												
Deposits from banks	78,098	34,826	3,918	4,596		0	68,473	23,900	6,014	6,589	78,405	35,086
Customer deposits[1]	643,138	606,410	580,525	530,880		0	48,206	52,353	15,704	24,626	644,435	607,860
Debt securities in issue	55,573	93,721			28,213	36,688	20,382	38,028	6,449	18,642	55,044	93,358
Subordinated loans	15,897	16,515	-0	-0	1,508	1,929	14,742	15,254			16,250	17,183
	792,705	**751,472**	**584,443**	**535,477**	**29,721**	**38,618**	**151,802**	**129,535**	**28,167**	**49,858**	**794,134**	**753,487**

1 The prior period has been updated to improve consistency and comparability of customer deposits

The following methods and assumptions were used by ING Bank to estimate the fair value of the financial instruments not measured at fair value .

Loans and advances to banks

The fair values of receivables from banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates including appropriate spreads offered for receivables with similar characteristics, similar to Loans and advances to customers described below.

Loans and advances to customers

For loans and advances that are repriced frequently and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of the fair value. The fair value of other loans is estimated by discounting expected future cash flows using a discount rate that reflects credit risk, liquidity, and other current market conditions. The fair value of mortgage loans is estimated by taking into account prepayment behaviour. Loans with similar characteristics are aggregated for calculation purposes.

Deposits from banks

The fair values of payables to banks are generally based on quoted market prices or, if not available, on estimates based on discounting future cash flows using available market interest rates and credit spreads for payables to banks with similar characteristics.

Customer deposits

The carrying values of customer deposits with an immediate on demand features approximate their fair values. The fair values of deposits with fixed contractual terms have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities.

Debt securities in issue

The fair value of debt securities in issue is generally based on quoted market prices, or if not available, on estimated prices by discounting expected future cash flows using a current market interest rate and credit spreads applicable to the yield, credit quality and maturity.

Subordinated loans

The fair value of publicly traded subordinated loans are based on quoted market prices when available. Where no quoted market prices are available, fair value of the subordinated loans is estimated using discounted cash flows based on interest rates and credit spreads that apply to similar instruments.

37 Derivatives and hedge accounting

Use of derivatives

ING Bank uses derivatives for economic hedging purposes to manage its asset and liability portfolios and structural risk positions. The primary objective of ING Bank's hedging activities is to manage the risks which arises from structural imbalances in the duration and other profiles of its assets and liabilities. The objective of economic hedging is to enter into positions with an opposite risk profile to an identified risk exposure to reduce that exposure. The main risks which are being hedged are interest rate risk and foreign currency exchange rate risk. These risks are primarily hedged with interest rate swaps, cross currency swaps and foreign exchange forwards/swaps.

ING Bank uses credit derivatives to manage its economic exposure to credit risk, including total return swaps and credit default swaps, to sell or buy protection for credit risk exposures in the loan, investment, and trading portfolios. Hedge accounting is not applied in relation to these credit derivatives.

Hedge accounting

Derivatives that qualify for hedge accounting under IFRS are classified and accounted for in accordance with the nature of the instrument hedged and the type of IFRS hedge model that is applicable. The three models applicable under IFRS are: fair value hedge accounting, cash flow hedge accounting, and hedge accounting of a net investment in a foreign operation. How and to what extent these models are applied are described under the relevant headings below. The company's detailed accounting policies for these three hedge models are set out in paragraph 1.7 'Financial instruments' of Note 1 'Basis of preparation and accounting policies'.

Impact of Covid-19

The impact of Covid-19 on timing or amount of cash flows of our products that are designated as hedged items in hedge accounting programs did not result in hedge ineffectiveness during the reporting period.

Impact of Brexit

As a result of Brexit and the associated uncertainty of the ability of United Kingdom based clearing houses to offer clearing services to European clients such as ING, ING has reduced its exposure to UK based clearing houses. In 2020 ING Bank transferred part of the derivative exposures to an European Union based clearing house, which resulted in de-designation and re-designation of hedge accounting relationships.

ING Bank migrated various portfolios of interest rate swaps, which were designated in both macro fair value hedges and macro cash flow hedges. For discontinued fair value hedges, the cumulative adjustment of EUR 3.2 billion arising from a hedging gain or loss on the hedged item is amortised through the statement of profit or loss over the remaining term of the original hedge.

For discontinued cash flow hedges, the fair value changes accumulated in the cash flow hedge reserve of EUR 884 million remains in Other Comprehensive Income and is recycled to the statement of profit or loss in the periods in which the hedged item affects profit or loss. The de-designation and re-designation of these hedge accounting relationships did not result in material impact in the statement of profit or loss of 2020.

IBOR transition

Following the decision by global regulators to seek alternatives for current critical benchmarks in use in various jurisdiction in order to comply with the EU Benchmarks Regulation, the IBOR transition program of ING was initiated in 2018 to prepare the Group for the reform.

Reference is made to note Risk management/ IBOR Transition for more information on to what rates ING is exposed and on how ING is managing the transition to alternative benchmark rates.
At the reporting date, ING Bank assessed the extent to which hedge relationships are subject to uncertainties driven by the IBOR reform.

ING applies fair value and cash flow hedge accounting in accordance with IAS 39, and interest rate and foreign currency risks are designated as hedged risks in various micro and macro models.

Except for EONIA and EUR LIBOR all IBOR's in scope of ING's program are a component of either hedging instrument and/or hedged item where the interest rate and/or foreign currency risk are the designated hedged risk. The hedged exposures are mainly loan portfolios, issued debt securities and purchased debt instruments.

ING Bank early adopted the amendments to IAS 39 issued in September 2019 to these hedging relationships directly affected by IBOR reform (Phase 1). This excludes EURIBOR hedges as EURIBOR is Benchmarks Regulation compliant.

LIBOR indexed fair value and cash flow hedges are expected to be directly affected by the uncertainties arising from the IBOR reform. In particular, uncertainties over the timing and amount of the replacement rate may impact the effectiveness and highly probable assessment.

For these affected fair value and cash flow hedge relationships ING Bank assumes that the LIBOR based cash flows from the hedging instrument and hedged item will remain unaffected.
The same assumption is used while assessing the likelihood of occurrence of the forecast transactions that are subject to cash flow hedges. The cash flow hedges directly impacted by the IBOR reform still meet the highly probable requirement assuming the respective LIBOR benchmark on which the hedged cash flows are based are not altered as a result of the reform.

The following table contains details of the gross notional amounts of hedging instruments as at 31 December that are used in the Group's hedge accounting relationships for which the Phase 1 amendments to IAS39 were applied:

Notional amounts of Hedging instruments in EUR as at 31 December

Benchmark	2020	2019
USD LIBOR	41,020	45,496
GBP LIBOR	1,500	2,184
JPY LIBOR	410	2,922
CHF LIBOR	315	313

Approximately 85% (31 December 2019: 68%) of the above notional amounts have a maturity date beyond 2021. In addition, approximately 63% of the above notional amounts for USD LIBOR have a maturity date beyond June 2023.

The notional amounts of the derivative hedging instruments (in above table) provide a close approximation of the extent of the risk exposure ING manages through these hedging relationships.

ING Bank did not early adopt Phase 2 amendments in 2020. Refer to sections 1.4.2 and 1.7.4. of Note 1 ‘Basis of preparation and accounting policies’ for more information on the Phase 2 amendments.

Fair value hedge accounting

ING Bank’s fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. ING Bank’s approach to manage market risk, including interest rate risk, is discussed in ‘Risk management – Market risk’. ING Bank’s exposure to interest rate risk is disclosed in paragraph ‘Interest rate risk in banking book’.

By using derivative financial instruments to hedge exposures to changes in interest rates, ING Bank also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. ING Bank minimises counterparty credit risk in derivative instruments by clearing most of the derivatives through Central Clearing Counterparties. In addition ING Bank only enters into transactions with high-quality counterparties and requires posting collateral.

ING Bank applies fair value hedge accounting on micro level in which one hedged item is hedged with one or multiple hedging instruments as well as on macro level whereby a portfolio of items is hedged with multiple hedging instruments. For these macro hedges of interest rate risk ING applies the EU carve-out. The EU ‘carve-out’ for macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. In retail operations, exposure on retail funding (savings and current accounts) and retail lending (mortgages) is initially offset. The remaining exposure is hedged in a portfolio hedge, using the EU carve-out, in which a portion of the retail lending portfolio and core deposits are designated as a hedged item for hedge accounting purposes.

For portfolio hedges the fair value is projected based on contractual terms and other variables including prepayment expectations. These projected fair value of the portfolios form the basis for identifying the notional amount subject to interest rate risk that is designated under fair value hedge accounting.

Micro fair value hedge accounting is mainly applied on issued debt securities and purchased debt instruments for hedging interest rate risk.

Before fair value hedge accounting is applied by ING Bank, ING Bank determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the quantitative characteristics of these items and the hedged risk that is supported by quantitative analysis. ING Bank considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. ING Bank evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks. In addition ING is mainly using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the fair value of the hedged item.

For the macro hedge on the mortgage portfolio ING Bank follows a dynamic hedging strategy. This means that on monthly basis, based on the new portfolio projection, the hedging relationship is renewed. From an operational point of view, the existing hedging relationship is adjusted based on the new portfolio projection and additional hedging instruments are added to the hedging relationship.

ING Bank uses the following derivative financial instruments in a fair value hedge accounting relationship:

Gross carrying value of derivatives designated under fair value hedge accounting

	Assets 2020	Liabilities 2020	Assets 2019	Liabilities 2019
As at 31 December				
Hedging instrument on interest rate risk				
– Interest rate swaps	7,349	5,417	12,085	13,334
– Other interest derivatives	50	110	87	70

The derivatives used for fair value hedge accounting are included in the statement of financial position line-item ‘Financial assets at fair value through profit or loss – Non-trading derivatives’ for EUR 486 million (2019: EUR 524 million) respectively ‘Financial liabilities at fair value through profit or loss – Non-trading derivatives’ EUR 444 million (2019: EUR 873 million). The remaining derivatives are offset with other derivatives and collaterals paid or received.

For our main currencies the average fixed rate for interest rate swaps used in fair value hedge accounting are 0.57% (2019: 0.93%)for EUR and 3.76% (2019: 3.55%) for USD.

The following table shows the net notional amount of derivatives designated in fair value hedging, split into the maturity of the instruments. The net notional amounts presented in the table are a combination of payer (-) and receiver (+) swaps.

Maturity derivatives designated in fair value hedging

As at 31 December 2020	Less than 1 month	1 to 3 months	3 to 12 months	1 to 2 year	2 to 3 years	3 to 4 years	4 to 5 years	>5 years	Total
Hedging instrument on interest rate risk									
– Interest rate swaps	-785	213	-652	5,771	5,207	5,269	2,720	2,915	20,658
– Other interest derivatives	-1	-68	-128	-364	-370	138	28	1,112	346
As at 31 December 2019									
Hedging instrument on interest rate risk									
- Interest rate swaps	-59	52	8,574	9,791	6,169	8,727	3,161	1,832	38,247
– Other interest derivatives	-20	-22	58	-242	-404	-290	-44	1,075	110

Gains and losses on derivatives designated under fair value hedge accounting are recognised in the statement of profit or loss. The effective portion of the fair value change on the hedged item is also recognised in the statement of profit or loss. As a result, only the net accounting ineffectiveness has an impact on the net result.

Hedged items included in a fair value hedging relationship

	Carrying amount of the hedged items		Accumulated amount of fair value hedge adjustment on the hedged item included in the carrying amount of the hedged item		Change in fair value used for measuring ineffectiveness for the period	Change in fair value hedge instruments	Hedge ineffectiveness recognised in the statement of profit or loss gain (+) / loss (-)
	Assets	Liabilities	Assets	Liabilities			
As at 31 December 2020							
Interest rate risk							
– Amounts due from banks							
– Debt securities at fair value through other comprehensive income	20,164		n/a		552		
– Loans at FVOCI	335		n/a		2		
– Loans and advances to customers	23,323		647		456		
– Debt instruments at amortised cost	4,222		501		170		
– Debt securities in issue		30,136		1,980	-196		
– Subordinated loans		13,314		510	-397		
– Amounts due to banks					-5		
– Customer deposits and other funds on deposit		26,120		1,494	-766		
– Discontinued hedges			4,241	99			
Total	**48,044**	**69,571**	**5,390**	**4,083**	**-183**	**246**	**62**
As at 31 December 2019							
Interest rate risk							
– Amounts due from banks					-0		
– Debt securities at fair value through other comprehensive income	23,281		n/a		357		
– Loans at FVOCI	410		n/a		-8		
– Loans and advances to customers	27,192		3,318		922		
– Debt instruments at amortised cost	6,133		429		356		
– Debt securities in issue		40,123		1,836	-312		
– Subordinated loans		14,980		261	-214		
– Amounts due to banks		8,783		38	1		
– Customer deposits and other funds on deposit		25,345		827	-720		
– Discontinued hedges			1,315	134			
Total	**57,016**	**89,232**	**5,062**	**3,097**	**383**	**-307**	**76**

The increase in discontinued hedges is mainly caused by the transfer of derivatives from UK based clearing houses to EU based clearing houses, reference is made to the section ‘Brexit’ for further details.

The main sources of ineffectiveness are:

- differences in maturities of the hedged item(s) and hedging instrument(s);
- different interest rate curves applied to discount the hedged item(s) and hedging instrument(s);
- differences in timing of cash flows of the hedged item(s) and hedging instrument(s).

Additionally, for portfolio (macro) fair value hedges of ING Bank's fixed rate mortgage portfolio, ineffectiveness also arises from the disparity between expected and actual prepayments (prepayment risk).

There were no other sources of ineffectiveness in these hedging relationships.

Cash flow hedge accounting

ING Bank's cash flow hedges mainly consist of interest rate swaps and cross-currency swaps that are used to protect against the exposure to variability in future cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other variables including estimates of prepayments. These projected cash flows form the basis for identifying the notional amount subject to interest rate risk or foreign currency exchange rate risk that is designated under cash flow hedge accounting.

ING Bank's approach to manage market risk, including interest rate risk and foreign currency exchange rate risk, is discussed in 'Risk management – Credit risk and Market risk'. ING Bank determines the amount of the exposures to which it applies hedge accounting by assessing the potential impact of changes in interest rates and foreign currency exchange rates on the future cash flows from its floating-rate assets and liabilities. This assessment is performed using analytical techniques.

As noted above for fair value hedges, by using derivative financial instruments to hedge exposures to changes in interest rates and foreign currency exchange rates, ING Bank exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged items. This exposure is managed similarly to that for fair value hedges.

Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recognised in Other Comprehensive Income. Interest cash flows on these derivatives are recognised in the statement of profit or loss in 'Net interest income' consistent with the manner in which the forecasted cash flows affect net result. The gains and losses on ineffective portions of such derivatives are recognised immediately in the statement of profit or loss in 'Valuation results and net trading income'.

ING Bank determines an economic relationship between the cash flows of the hedged item and the hedging instrument based on an evaluation of the quantitative characteristics of these items and the hedged risk that is supported by quantitative analysis. ING Bank considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. ING Bank evaluates whether the cash flows of the hedged item and the hedging instrument respond similarly to the hedged risk, such as the benchmark interest rate of foreign currency. In addition (for macro FX hedging relationships) a regression analysis is performed to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the fair value of the hedged item.

ING Bank uses the following derivative financial instruments in a cash flow hedge accounting relationship:

Gross carrying value of derivatives used for cash flow hedge accounting

	Assets 2020	Liabilities 2020	Assets 2019	Liabilities 2019
As at 31 December				
Hedging instrument on interest rate risk				
– Interest rate swaps	2,271	545	2,615	2,848
Hedging instrument on FX rate risk				
Hedging instrument on combined interest and FX rate risk				
– Cross currency interest rate derivatives	774	21	358	158

The derivatives used for cash flow hedge accounting are included in the statement of financial position line-item ‘Financial assets at fair value through profit or loss – Non-trading derivatives’ EUR 1,376 million (2019: EUR 677 million) respectively ‘Financial liabilities at fair value through profit or loss – Non-trading derivatives’ EUR 230 million (2019: EUR 339 million). The remaining derivatives are offset with other derivatives and collaterals paid or received.

For the main currencies the average fixed rate for interest rate swaps used in cash flow hedge accounting are -0.15% (2019: 0.54%) for EUR, 1.74% (2019: 2.38%) for PLN, 2.31% (2019: 2.51%) for USD and 0.82% (2019: 1.50%) for AUD. The average currency exchange rates for cross currency swaps used in cash flow hedge accounting is for EUR/USD 0.95 (2019: 1.11) and for EUR/AUD 1.60 (2019: 1.55).

The following table shows the net notional amount of derivatives designated in cash flow hedging split into the maturity of the instruments. The net notional amounts presented in the table are a combination of payer (+) and receiver (-) swaps.

Maturity derivatives designated in cash flow hedging

As at 31 December 2020	Less than 1 month	1 to 3 months	3 to 12 months	1 to 2 year	2 to 3 years	3 to 4 years	4 to 5 years	>5 years	Total
Hedging instrument on interest rate risk									
– Interest rate swaps	-248	-92	-2,061	-4,896	-1,832	-5,772	-3,466	-19,537	-37,904
Hedging instrument on combined interest and FX rate risk									
– Cross currency interest rate derivatives	-160	-1,666	-2,828	-2,446	-3,493	-1,324	194	-210	-11,934
As at 31 December 2019									
Hedging instrument on interest rate risk									
– Interest rate swaps	-401	580	-2,591	-6,512	-5,541	-5,788	-5,364	-23,009	-48,627
– Other interest derivatives									
Hedging instrument on combined interest and FX rate risk									
– Cross currency interest rate derivatives		-1,098	-2,068	-5,044	-2,509	-1,473	3	104	-12,086

The following table shows the cash flow hedge accounting impact on profit or loss and comprehensive income:

Cash flow hedging – impact of hedging instruments on the statement of profit or loss and other comprehensive income

	Change in value used for calculating hedge ineffectiveness for the period	Carrying amount cash flow hedge reserve at the end of the reporting period[1]	Amount reclassified from CFH reserve to profit or loss	Cash flow is no longer expected to occur	Change in value of hedging instrument recognised in OCI	Hedge ineffectiveness recognised in the statement of profit or loss, gain (+) / loss (-)
As at 31 December 2020						
Interest rate risk on;						
– Floating rate lending	-784	1,310	-97			
– Floating rate borrowing	136	-306	33			
– Other	-107	36	19			
– Discontinued hedges		1,037	-236			
Total interest rate risk	**-755**	**2,077**	**-281**		**830**	**-6**
Combined interest and FX rate risk on;						
– Floating rate lending	-26	-35	-256			
– Floating rate borrowing	29	-42	-10			
– Other	-0	-0	-3			
– Discontinued hedges			-26			
Total combined interest and Fx	**3**	**-78**	**-295**		**263**	**1**
Total cash flow hedge	**-753**	**1,999**	**-576**		**1,093**	**-5**
As at 31 December 2019						
Interest rate risk on;						
– Floating rate lending	-940	1,395	357			
– Floating rate borrowing	133	-198	-201			
– Other	-211	169	53			
– Discontinued hedges		316	-112			
Total interest rate risk	**-1,018**	**1,682**	**97**		**851**	**44**
Combined interest and FX rate risk on;						
– Floating rate lending	-22	-42	-498			
– Floating rate borrowing	12	15	-12	-1		
– Other	1	-1	-4			
– Discontinued hedges			-3			
Total combined interest and Fx	**-10**	**-28**	**-517**	**-1**	**475**	**3**
Total cash flow hedge	**-1,028**	**1,654**	**-420**	**-1**	**1,326**	**47**

1 The carrying amount is the gross amount, excluding tax adjustments.

The main sources of ineffectiveness for cash flow hedges are:
- differences in timing of cash flows of the hedged item(s) and hedging instrument(s);
- mismatches in reset frequency between hedged item and hedging instrument.

As a result of interest rate developments in 2019 ING Bank de-designated cash flow hedge accounting portfolios with a total notional value of approximately EUR 25 billion.

Hedges of net investments in foreign operations

A foreign currency exposure arises from a net investment in subsidiaries that have a different functional currency from the presentation currency of ING Bank. The risk arises from the fluctuation in spot exchange rates between the functional currency of the subsidiaries and ING Bank's presentation currency, which causes the amount of the net investment to vary in the consolidated financial statements of ING Bank. This risk may have a significant impact on ING Bank's financial statements. ING Bank's policy is to hedge these exposures only when not doing so it is expected to have a significant impact on the regulatory capital ratios of ING Bank and its subsidiaries.

ING Bank's net investment hedges principally consist of derivatives (including currency forwards and swaps) and non-derivative financial instruments such as foreign currency denominated funding. When the hedging instrument is foreign currency denominated debt, ING Bank assesses effectiveness by comparing past changes in the carrying amount of the debt that are attributable to a change in the spot rate with past changes in the investment in the foreign operation due to movement in the spot rate (the offset method).

Gains and losses on the effective portions of derivatives designated under net investment hedge accounting are recognised in Other Comprehensive Income. The balance in equity is recognised in the statement of profit or loss when the related foreign subsidiary is disposed. The gains and losses on ineffective portions are recognised immediately in the statement of profit or loss.

ING Bank has the following derivative financial instruments used for net investment hedging;

Gross carrying value of derivatives used for net investment hedging

	Assets 2020	Liabilities 2020	Assets 2019	Liabilities 2019
As at 31 December				
– FX forwards and Cross currency swaps	69	98	23	51

The derivatives used for net investment hedge accounting are included in the statement of financial position line-item 'Financial assets at fair value through profit or loss – Non-trading derivatives' EUR 69 million (2019: EUR 23 million) respectively 'Financial liabilities at fair value through profit or loss – Non trading derivatives' EUR 98 million (2019: EUR 51 million). The remaining derivatives are offset with other derivatives and collaterals paid or received.

For ING Bank's main currencies the average exchange rates used in net investment hedge accounting for 2020 are EUR/USD 1.14 (2019: 1.12), EUR/PLN 4.45 (2019: 4.30), EUR/AUD 1.65 (2019: 1.61) and EUR/THB 35.71 (2019: 34.79).

The following table shows the notional amount of derivatives designated in net investment hedging split into the maturity of the instruments:

Maturity derivatives designated in net investment hedging

As at 31 December 2020	Less than 1 month	1 to 3 months	3 to 12 months	1 to 2 year	2 to 3 years	3 to 4 years	4 to 5 years	>5 years	Total
– FX forwards and cross currency swaps	-3,825	-375		-580					-4,780
– Other FX derivatives	-8								-8
As at 31 December 2019									
– FX forwards and Cross currency swaps	-3,179	-999	-54						-4,232

The effect of the net investment hedge accounting in the statement of profit or loss and other comprehensive income is as follows:

Net investment hedge accounting – Impact on statement of profit or loss and other comprehensive income

As at 31 December 2020	Change in value used for calculating hedge ineffectiveness for the period	Carrying amount net investment hedge reserve at the end of the reporting period[1]	Hedged item affected statement of profit or loss	Change in value of hedging instrument recognised in OCI	Hedge ineffectiveness recognised in the statement of profit or loss, gain(+) / Loss(-)
Investment in foreign operations	-122	553	-11	121	1
Discontinued hedges		-210			
As at 31 December 2019					
Investment in foreign operations	134	440	44	-134	0
Discontinued hedges		-210			

1 The carrying amount is the gross amount, excluding tax adjustments.

38 Assets by contractual maturity

Amounts presented in these tables by contractual maturity are the amounts as presented in the statement of financial position and are discounted cash flows. Reference is made to 'Risk Management – Funding and liquidity risk'.

Assets by contractual maturity

2020	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	111,087						111,087
Loans and advances to banks	15,785	2,796	3,419	3,093	270		25,363
Financial assets at fair value through profit or loss							
– Trading assets	12,100	6,567	9,206	10,206	13,281		51,361
– Non-trading derivatives	495	446	644	1,252	746		3,583
– Mandatorily at fair value through profit or loss	26,854	11,376	3,472	1,153	1,222	228	44,305
– Designated as at fair value through profit or loss	248	26	631	657	2,564		4,126
Financial assets at fair value through other comprehensive income							
– Equity securities						1,862	1,862
– Debt securities	841	985	5,175	11,576	14,400		32,977
– Loans and advances	32	34	73	407	509		1,056
Securities at amortised cost	2,104	2,444	3,943	24,298	17,798		50,587
Loans and advances to customers	50,340	19,788	48,263	180,335	299,581		598,306
Other assets[2]	3,791	312	1,124	1,113	1,283	5,142	12,766
Total assets	**223,677**	**44,775**	**75,950**	**234,092**	**351,653**	**7,232**	**937,379**
2019							
Cash and balances with central banks	53,202						53,202
Loans and advances to banks	22,817	3,100	5,090	3,729	397		35,133
Financial assets at fair value through profit or loss							
– Trading assets	12,754	6,589	8,469	8,240	13,213		49,264
– Non-trading derivatives	112	161	215	998	792		2,278
– Mandatorily at fair value through profit or loss	22,645	13,784	2,357	1,010	1,645	159	41,600
– Designated as at fair value through profit or loss	259	126	1,004	442	1,245		3,076
Financial assets at fair value through other comprehensive income							
– Equity securities						2,306	2,306
– Debt securities	216	175	1,146	14,528	14,419		30,483
– Loans and advances	26	36	202	627	788		1,680
Securities at amortised cost	1,005	916	5,930	24,556	13,701		46,108
Loans and advances to customers	55,189	18,586	45,873	184,797	307,462	0	611,907
Other assets	4,619	369	1,171	1,172	1,251	6,292	14,873
Total assets	**172,843**	**43,842**	**71,457**	**240,097**	**354,913**	**8,756**	**891,910**

1 Includes assets on demand.

2 Includes other financial assets such as assets held for sale, current and deferred tax assets as presented in the consolidated statement of the financial position. Additionally, non-financial assets are included in that position where maturities are not applicable as property and equipment and investments in associates and joint ventures. Due to their nature non-financial assets consist mainly of assets expected to be recovered after more than 12 months.

39 Liabilities and off-balance sheet commitments by maturity

The tables below include all liabilities and off-balance sheet commitments by maturity based on contractual, undiscounted cash flows. These balances are included in the maturity analysis as follows:

- Perpetual liabilities are included in column ‘Maturity not applicable’.
- Derivative liabilities are included on a net basis if cash flows are settled net. For other derivative liabilities the contractual gross cash flow payable is included.
- Undiscounted future coupon interest on financial liabilities payable is included in a separate line and in the relevant maturity bucket.
- Non-financial liabilities are included based on a breakdown of the amounts per statement of financial position, per expected maturity.
- Loans and other credit-related commitments are classified on the basis of the earliest date they can be drawn down.

ING Bank’s expected cash flows on some financial liabilities vary significantly from contractual cash flows. Principal differences are in demand deposits from customers that are expected to remain stable or increase and in unrecognised loan commitments that are not all expected to be drawn down immediately. Reference is made to the liquidity risk paragraph in ‘Risk Management – Funding and liquidity risk’ for a description on how liquidity risk is managed.

Liabilities and off-balance sheet commitments by maturity

2020	Less than 1 month [1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment [2]	Total
Deposits from banks	11,080	537	772	64,147	1,722		-161	78,098
Customer deposits	589,230	9,781	8,744	16,745	16,915		1,724	643,138
Financial liabilities at fair value through profit or loss								
– Other trading liabilities	4,940	1,197	204	268	323		39	6,972
– Trading derivatives	2,179	2,297	4,250	9,589	7,794		-373	25,737
– Non-trading derivatives	283	178	204	468	454		41	1,629
– Designated at fair value through profit or loss	32,540	8,506	1,330	2,180	3,245	11	634	48,445
Debt securities in issue	5,144	8,428	13,441	14,159	12,151		2,249	55,573
Subordinated loans				661	8,815	5,751	670	15,897
Lease liabilities	17	42	166	611	520		-18	1,339
Financial liabilities	**645,414**	**30,967**	**29,112**	**108,827**	**51,940**	**5,762**	**4,805**	**876,827**
Other liabilities [3]	6,830	568	2,650	1,006	803			11,856
Total liabilities	**652,244**	**31,535**	**31,762**	**109,833**	**52,742**	**5,762**	**4,805**	**888,683**
Coupon interest due on financial liabilities	227	493	1,168	3,776	3,216	297		9,178
Contingent liabilities in respect of								
– Discounted bills								
– Guarantees	22,836				550			23,386
– Irrevocable letters of credit	14,016							14,016
– other	50			47				97
Irrevocable facilities	124,991		0					124,991
	161,894		**0**	**47**	**550**			**162,491**

1 Includes liabilities on demand.
2 This column reconciles the contractual undiscounted cash flows on financial liabilities to the statement of financial position values. The adjustments mainly relate to the impact of discounting and fair value hedge adjustments, and for derivatives, to the fact that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
3 Includes Other liabilities, Current and deferred tax liabilities, and Provisions as presented in the Consolidated statement of financial position.

Liabilities and off-balance sheet commitments by maturity

2019	Less than 1 month [1]	1–3 month	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjustment [2]	Total
Deposits from banks	9,903	847	12,011	10,280	1,965		-180	34,826
Customer deposits	541,095	14,011	16,024	16,686	17,484		1,110	606,410
Financial liabilities at fair value through profit or loss								
– Other trading liabilities	4,666	646	436	568	333		68	6,717
– Trading derivatives	1,589	1,492	3,312	7,771	7,011		151	21,325
– Non-trading derivatives	381	91	152	616	440		539	2,217
– Designated at fair value through profit or loss	27,048	10,467	1,885	2,883	5,143	7	251	47,685
Debt securities in issue	2,616	13,278	35,915	26,790	12,918		2,203	93,721
Subordinated loans				1,780	7,445	6,862	427	16,515
Lease liabilities	16	39	161	668	643		-21	1,507
Financial liabilities	**587,315**	**40,872**	**69,896**	**68,041**	**53,382**	**6,869**	**4,548**	**830,922**
Other liabilities [3]	7,849	820	2,340	1,101	1,062			13,171
Total liabilities	**595,164**	**41,692**	**72,236**	**69,141**	**54,444**	**6,869**	**4,548**	**844,093**
Coupon interest due on financial liabilities	580	692	1,466	5,782	4,272	379		13,171
Contingent liabilities in respect of[4]								
– Discounted bills								
– Guarantees	26,953				550			27,503
– Irrevocable letters of credit	16,340							16,340
– other	57			75				131
Irrevocable facilities	120,002							120,002
	163,352			**75**	**550**			**163,977**

1 Includes liabilities on demand.

2 This column reconciles the contractual undiscounted cash flows on financial liabilities to the statement of financial position values. The adjustments mainly relate to the impact of discounting and fair value hedge adjustments, and for derivatives, to the fact that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).

3 Includes Other liabilities, Current and deferred tax liabilities, and Provisions as presented in the Consolidated statement of financial position.

4 The prior period has been updated to improve consistency and comparability of the amounts per maturity of contingent liabilities.

40 Transfer of financial assets, assets pledged and received as collateral

Financial assets pledged as collateral

The financial assets pledged as collateral consist primarily of Loans and advances to customers pledged to secure Debt securities in issue, deposits from the Dutch Central Bank and other banks, as well as debt securities used in securities lending or sale and repurchase transactions. They serve to secure margin accounts and are used for other purposes required by law. Pledges are generally conducted under terms that are usual and customary for collateralised transactions including standard sale and repurchase agreements, securities lending and borrowing and derivatives margining. The financial assets pledged are as follows:

Assets not freely disposable	2020	2019
Banks		
– Cash and balances with central banks	1,377	1,382
– Loans and advances to banks	3,833	6,337
Financial assets at fair value through profit or loss	14,772	16,350
Financial assets at fair value through OCI	2,377	440
Securities at amortised cost	7,023	1,118
Loans and advances to customers	115,194	75,755
Other assets	761	908
	145,338	**102,290**

In addition, in some jurisdictions ING Bank N.V. has an obligation to maintain a reserve with central banks. As at 31 December 2020, the minimum mandatory reserve deposits with various central banks amount to EUR 10,573 million (2019: EUR 9,975 million).

Loans and advances to customers that have been pledged as collateral for Debt securities in issue and for liquidity purposes, amount in The Netherlands to EUR 67,067 million (2019: EUR 45,530 million), in Germany to EUR 12,512 million (2019: EUR 13,222 million), in Belgium EUR 23,060 million (2019: EUR 11,298 million), in Australia to EUR 5,572 million (2019: EUR 4,150 million) and in the United States to EUR 1,742 million (2019: EUR 1,010 million) and the remaining amount in other countries.

Financial assets received as collateral

The financial assets received as collateral that can be sold or repledged in absence of default by the owner of the collateral consists of securities obtained through reverse repurchase transactions and securities borrowing transactions.
These transactions are generally conducted under standard market terms for most repurchase transactions and the recipient of the collateral has unrestricted right to sell or repledge it, provided that the collateral (or equivalent collateral) is returned to the counterparty at term.

Financial assets received as collateral	2020	2019
Total received collateral available for sale or repledge at fair value		
– equity securities	20,018	17,919
– debt securities	79,670	94,772
of which sold or repledged at fair value		
– equity securities	16,365	15,654
– debt securities	60,384	67,194

Transfer of financial assets

The majority of ING's financial assets that have been transferred, but do not qualify for derecognition are debt instruments used in securities lending or sale and repurchase transactions.

Transfer of financial assets not qualifying for derecognition

	Securities lending				Sale and repurchase			
	Equity		Debt		Equity		Debt	
	2020	2019	2020	2019	2020	2019	2020	2019
Transferred assets at carrying amount								
Financial assets at fair value through profit or loss	3,151	2,542		1,974	2,078	1,682	8,619	9,538
Financial assets at fair value through other comprehensive income			56	193			2,120	6
Loans and advances to customers								
Securities at amortised cost			470	195			6,281	734
Associated liabilities at carrying amount[1]								
Deposits from banks	n/a	n/a	n/a	n/a	0	0	0	0
Customer deposits	n/a	n/a	n/a	n/a	0	0	0	0
Financial liabilities at fair value through profit or loss	n/a	n/a	n/a	n/a	2,018	1,619	4,190	3,805

1 The table includes the associated liabilities which are reported after offsetting, compared to the gross positions of the encumbered assets.

The table above does not include assets transferred to consolidated securitisation entities as the related assets remain recognised in the consolidated statement of financial position.
Transferred financial assets that are derecognised in their entirety are mentioned in note 46 Structured Entities.

41 Offsetting financial assets and liabilities

The following tables include information about rights to offset and the related arrangements. The amounts included consist of all recognised financial instruments that are presented net in the statement of financial position under the IFRS netting criteria (legal right to offset and intention to net settle or to realise the asset and settle the liability simultaneously) and amounts presented gross in the statement of financial position but subject to enforceable master netting arrangements or similar arrangements.

At ING Bank amounts that are offset mainly relate to derivatives transactions, sale and repurchase agreements, securities lending agreements and cash pooling arrangements. A significant portion of offsetting is applied to OTC derivatives which are cleared through central clearing parties.

Related amounts not set off in the statement of financial position include transactions where:

- The counterparty has an offsetting exposure and a master netting or similar arrangement is in place with a right to set off only in the event of default, insolvency or bankruptcy, or the offsetting criteria are otherwise not satisfied, and
- In the case of derivatives and securities lending or sale and repurchase agreements, cash and non-cash collateral has been received or pledged to cover net exposure in the event of a default or other predetermined events. The effect of over-collateralisation is excluded.

The net amounts resulting after setoff are not intended to represent ING's actual exposure to counterparty risk, as risk management employs a number of credit risk mitigation strategies in addition to netting and collateral arrangements. Reference is made to the Risk Management section on Credit risk.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

2020					Related amounts not offset in the statement of financial position				
Statement of financial position line item	**Financial instrument**	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash and financial instruments received as collateral	Net amount	Amounts not subject to enforceable netting arrangements	Statement of financial position total [1]
Loans and advances to banks									
	Reverse repurchase, securities borrowing and similar agreements	1,911	0	1,911	0	1,907	4	2,958	4,869
	Cash pools[2]	2	-2	0	0	0	0		0
		1,913	**-2**	**1,911**	**0**	**1,907**	**4**	**2,958**	**4,869**
Financial assets at fair value through profit or loss									
Trading and Non-trading	Reverse repurchase, securities borrowing and similar agreements	48,487	-14,823	33,664	245	33,343	77	19,018	52,682
Trading and Non-trading	Derivatives	73,142	-52,561	20,581	12,520	5,350	2,710	10,240	30,821
		121,629	**-67,384**	**54,245**	**12,765**	**38,693**	**2,787**	**29,258**	**83,503**
Loans and advances to customers									
	Reverse repurchase, securities borrowing and similar agreements	2,845	-2,359	486	0	486	0	138	624
	Cash pools[3]	168,461	-165,815	2,646	1,729	628	289		2,646
		171,306	**-168,174**	**3,132**	**1,729**	**1,113**	**289**	**138**	**3,270**
Other items where offsetting is applied in the statement of financial position[4]		**8,558**	**-7,752**	**806**	**10**	**0**	**796**		**806**
Total financial assets		**303,406**	**-243,312**	**60,095**	**14,505**	**41,714**	**3,876**	**32,354**	**92,449**

1 The 'statement of financial position total' is the sum of 'Net amounts of financial assets presented in the statement of financial position' and 'Amounts not subject to enforceable master netting arrangements'.
2 At 31 December 2020, the total amount of 'Loans and advances to banks' excluding repurchase agreements is EUR 20,494 million which is not subject to offsetting.
3 At 31 December 2020, the total amount of 'Loans and advances to customers' excluding repurchase agreements is EUR 597,681 million of which EUR 2,646 million is subject to offsetting.
4 Other items mainly include amounts to be settled with Central Clearing Counterparties regarding securities and derivatives transactions and is included in 'Other Assets – Amounts to be settled' for EUR 2,215 million in the statement of financial position of which EUR 806 million is subject to offsetting as at 31 December 2020.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

2019					Related amounts not offset in the statement of financial position				
Statement of financial position line item	**Financial instrument**	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash and financial instruments received as collateral	Net amount	Amounts not subject to enforceable netting arrangements	Statement of financial position total [1]
Loans and advances to banks	Reverse repurchase, securities borrowing and similar agreements	868		868	21	738	109	8,075	8,943
		868		**868**	**21**	**738**	**109**	**8,075**	**8,943**
Financial assets at fair value through profit or loss									
Trading and non-trading	Reverse repurchase, securities borrowing and similar agreements	57,328	-20,545	36,783	50	36,553	181	14,171	50,954
Trading and non-trading	Derivatives	74,454	-57,172	17,282	10,510	3,968	2,805	6,669	23,951
		131,782	**-77,717**	**54,066**	**10,559**	**40,520**	**2,986**	**20,839**	**74,905**
Loans and advances to customers	Reverse repurchase, securities borrowing and similar agreements							180	180
	Cash pools[2]	169,313	-166,624	2,689	1,422	813	454		2,689
		169,313	**-166,624**	**2,689**	**1,422**	**813**	**454**	**180**	**2,869**
Other items where offsetting is applied in the statement of financial position[3]		**9,787**	**-9,423**	**364**	**15**		**349**		**364**
Total financial assets		**311,750**	**-253,764**	**57,986**	**12,016**	**42,072**	**3,898**	**29,094**	**87,080**

1 The 'statement of financial position total' is the sum of 'Net amounts of financial assets presented in the statement of financial position' and 'Amounts not subject to enforceable master netting arrangements'.
2 At 31 December 2019, the total amount of 'Loans and advances to customers' excluding repurchase agreements is EUR 611,727 million of which EUR 2,689 million is subject to offsetting.
3 Other items mainly include amounts to be settled with Central Clearing Counterparties regarding securities and derivatives transactions and is included in 'Other Assets – Amounts to be settled' for EUR 2,835 million in the statement of financial position of which EUR 364 million is subject to offsetting as at 31 December 2019.

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2020					Related amounts not offset in the statement of financial position				
Statement of financial position line item	**Financial instrument**	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Cash and financial instruments pledged as collateral	Net amount	Amounts not subject to enforceable netting arrangements	Statement of financial position total [1]
Deposits from banks									
	Repurchase, securities lending and similar agreements	167	0	167	0	166	1	1,804	1,971
	Cash pools[2]	3	-2	2	0	0	2		2
		170	**-2**	**169**	**0**	**166**	**3**	**1,804**	**1,973**
Customer deposits									
	Repurchase, securities lending and similar agreements	2,354	-2,354	0	0	0	0	0	0
	Cash pools[3]	184,490	-165,815	18,675	1,702	0	16,973		18,675
		186,844	**-168,169**	**18,675**	**1,702**	**0**	**16,973**	**0**	**18,675**
Financial liabilities at fair value through profit or loss									
Trading and Non-trading	Repurchase, securities lending and similar agreements	53,520	-14,827	38,693	245	38,447	0	8,271	46,964
Trading and Non-trading	Derivatives	73,215	-52,626	20,589	12,521	6,742	1,326	6,777	27,366
		126,735	**-67,453**	**59,282**	**12,766**	**45,189**	**1,326**	**15,048**	**74,330**
		0	0	0	0	0	0		
Other items where offsetting is applied in the statement of financial position[4]		**8,552**	**-7,687**	**865**	**36**	**0**	**829**		**865**
Total financial liabilities		**322,303**	**-243,312**	**78,991**	**14,505**	**45,356**	**19,131**	**16,852**	**95,843**

1 The 'statement of financial position total' is the sum of 'Net amounts of financial assets presented in the statement of financial position' and 'Amounts not subject to enforceable master netting arrangements'.
2 At 31 December 2020, the total amount of 'Deposits from banks' excluding repurchase agreements is EUR 76,127 million of which EUR 2 million is subject to offsetting.
3 At 31 December 2020, the total amount of 'Customers deposits' excluding repurchase agreements is EUR 643,138 million of which EUR 18,675 million is subject to offsetting.
4 Other items mainly include amounts to be settled with Central Clearing Counterparties regarding securities and derivatives transactions and is included in 'Other Liabilities – Amounts to be settled' for EUR 4,877 million in the statement of financial position of which EUR 865 million is subject to offsetting as at 31 December 2020.

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2019		Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash and financial instruments pledged as collateral[1]	Net amount	Amounts not subject to enforceable netting arrangements	Statement of financial position total [2]
Statement of financial position line item	**Financial instrument**								
Deposits from banks									
	Repurchase, securities lending and similar agreements	26		26	26			179	205
		26		**26**	**26**			**179**	**205**
Customer deposits	Cash pools[3]	181,273	-166,624	14,649	1,419		13,230		14,649
		181,273	**-166,624**	**14,649**	**1,419**		**13,230**		**14,649**
Financial liabilities at fair value through profit or loss									
Trading and Non-trading	Repurchase, securities lending and similar agreements	56,818	-20,545	36,273	50	35,808	436	6,776	43,049
Trading and Non-trading	Derivatives	76,129	-57,665	18,464	10,511	7,817	137	5,076	23,540
		132,946	**-78,210**	**54,737**	**10,560**	**43,625**	**573**	**11,852**	**66,589**
Other items where offsetting is applied in the statement of financial position[4]		**9,200**	**-8,930**	**269**	**11**		**258**		**269**
Total financial liabilities		**323,445**	**-253,764**	**69,681**	**12,016**	**43,625**	**14,040**	**12,031**	**81,712**

1 The amounts pledged as collateral for 'Deposits from Banks – Repurchase agreements' and 'financial liabilities at fair value through profit or loss – Repurchase agreements' have been updated to improve consistency and comparability.
2 The 'statement of financial position total' is the sum of 'Net amounts of financial assets presented in the statement of financial position' and 'Amounts not subject to enforceable master netting arrangements'.
3 At 31 December 2019, the total amount of 'Customers deposits' excluding repurchase agreements is EUR 606,410 million of which EUR 14,649 million is subject to offsetting.
4 Other items mainly include amounts to be settled with Central Clearing Counterparties regarding securities and derivatives transactions and is included in 'Other Liabilities – Amounts to be settled' for EUR 4,741 million in the statement of financial position of which EUR 269 million is subject to offsetting as at 31 December 2019.

42 Contingent liabilities and commitments

In the normal course of business, ING Bank is party to activities where risks are not reflected in whole or in part in the consolidated financial statements. In response to the needs of its customers, the Group offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Contingent liabilities and commitments

	2020	2019
Contingent liabilities in respect of		
– Guarantees	23,386	27,503
– Irrevocable letters of credit	14,016	16,340
– other	97	131
	37,500	**43,975**
Guarantees issued by ING Groep N.V.		
Irrevocable facilities	124,991	120,002
	162,491	**163,977**

Guarantees relate both to credit and non-credit substitute guarantees. Credit substitute guarantees are guarantees given by ING Bank in respect of credit granted to customers by a third party. Many of them are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows.

Irrevocable letters of credit mainly secure payments to third parties for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. ING Bank's credit risk in these transactions is limited since these transactions are collateralised by the commodity shipped and are of a short duration.

Other contingent liabilities include acceptances of bills and are of a short-term nature. Other contingent liabilities also include contingent liabilities resulting from the operations of the Real Estate business including obligations under development and construction contracts. Furthermore other contingent liabilities include a contingent liability in connection with a possible Dutch tax obligation that relates to the deduction from Dutch taxable profit for losses incurred by ING Bank in the United Kingdom in previous years. The existence of this obligation will be confirmed only by the occurrence of future profits in the United Kingdom.

Irrevocable facilities mainly constitute unused portions of irrevocable credit facilities granted to corporate clients. Many of these facilities are for a fixed duration and bear interest at a floating rate. ING Bank's credit risk and interest rate risk in these transactions is limited. The unused portion of irrevocable credit facilities is partly secured by customers' assets or counter-guarantees by the central governments and other public sector entities under the regulatory requirements. Irrevocable facilities also include commitments made to purchase securities to be issued by governments and private issuers.

43 Legal proceedings

ING Bank and its consolidated subsidiaries are involved in governmental, regulatory, arbitration and legal proceedings and investigations in the Netherlands and in a number of foreign jurisdictions, including the U.S., involving claims by and against them which arise in the ordinary course of their businesses, including in connection with their activities as lenders, broker-dealers, underwriters, issuers of securities and investors and their position as employers and taxpayers. In certain of such proceedings, very large or indeterminate amounts are sought, including punitive and other damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened governmental, regulatory, arbitration and legal proceedings and investigations, ING is of the opinion that some of the proceedings and investigations set out below may have or have in the recent past had a significant effect on the financial position, profitability or reputation of ING and/or ING and its consolidated subsidiaries.

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. 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 or may file requests for disciplinary proceedings against ING employees based on the Dutch “Banker’s oath”, and/or 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. In December 2020, the Court of Appeal issued its final ruling. In this ruling the prosecutors' decision to enter into the settlement agreement with ING was upheld, making the settlement final. However, in a separate ruling, the Court ordered the prosecution of ING’s former CEO.

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.

Also as previously disclosed in March 2019, ING Italy was informed by the Banca d’Italia of their report containing their conclusions regarding shortcomings in AML processes at ING Italy, which was prepared based on an inspection conducted from October 2018 until January 2019. ING Italy has been engaged in discussions with Banca d’Italia and Italian judiciary authorities. In February 2020, the Court of Milan confirmed and approved a plea bargain agreement with the Italian judiciary authorities. As a consequence, ING Italy has paid an administrative fine and disgorgement of profit. In addition, in February 2020 the Banca d’Italia imposed an administrative fine on ING Italy. Both amounts were already provisioned for in 2019.

In September 2020, the Banca d’Italia announced that the ban on onboarding new customers at ING Italy, imposed in March 2019 has been removed. The decision follows the comprehensive steps undertaken by ING Italy to strengthen its processes and management of KYC compliance risks.

ING continues to take steps to enhance its management of compliance risks and embed stronger awareness across the whole organisation. These steps are part of the global KYC programme and set of initiatives, which includes enhancing KYC files and working on various structural improvements in compliance policies, tooling, monitoring, governance, knowledge and behaviour.

Tax cases: Because of the geographic spread of its business, the Issuer may be subject to tax audits, investigations and procedures in numerous jurisdictions at any point in time. Although the Issuer believes that it has adequately provided for all its tax positions, the ultimate resolution of these audits, investigations and procedures is uncertain and may result in liabilities which are materially different from the amounts recognised.

SIBOR – SOR litigation: In July 2016, investors in derivatives tied to the Singapore Interbank Offer Rate (“SIBOR”) filed a U.S. class action complaint in the New York District Court alleging that several banks, including ING, conspired to rig the prices of derivatives tied to SIBOR and the Singapore Swap Offer Rate (“SOR”). The lawsuit refers to investigations by the Monetary Authority of Singapore (“MAS”) and other regulators, including the U.S. Commodity Futures Trading Commission (“CFTC”), in relation to rigging prices of SIBOR- and SOR based derivatives. In October 2018, the New York District Court issued a decision dismissing all claims against ING Group and ING Capital Markets LLC, but leaving ING Bank, together with several other banks, in the case, and directing plaintiffs to file an amended complaint consistent with the Court's rulings. In October 2018, plaintiffs filed such amended complaint, which asserts claims against a number of defendants but none against ING Bank (or any other ING entity), effectively dismissing ING Bank from the case. In December 2018, plaintiffs sought permission from the Court to file a further amended complaint that names ING Bank as a defendant. In July 2019, the New York District Court granted the defendants’ motion to dismiss and denied leave to further amend the complaint, effectively dismissing all remaining claims against ING Bank. In November 2019, plaintiffs filed an appeal against this judgment.

Claims regarding accounts with predecessors of ING Bank Turkey: ING Bank Turkey has received numerous claims from (former) customers of legal predecessors of ING Bank Turkey. The claims are based on offshore accounts held with these banks, which banks were seized by the Savings Deposit Insurance Fund (“SDIF”) prior to the acquisition of ING Bank Turkey in 2007 from OYAK. SDIF has also filed various lawsuits against ING Bank Turkey to claim compensation from ING Bank Turkey, with respect to amounts paid out to offshore account holders so far. At this moment it is not possible to assess the outcome of these procedures nor to provide an estimate of the (potential) financial effect of these claims.

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 June 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. The last open file has been closed at the end of June 2020.

Interest surcharges claims: ING received complaints and was involved in litigation with certain individuals in the Netherlands regarding increases in interest surcharges with respect to several credit products, including but not limited to commercial property. 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 surcharge based upon the essential obligations in the contract. In a relevant case the Dutch Supreme Court ruled in favor of another Dutch bank, addressing the question whether or not a bank is allowed to increase interest surcharges unilaterally. The Supreme Court ruled affirmative. 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 judgment 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. A provision has been taken and ING Spain has filed an appeal against a number of these court decisions. Since 2018, the Spanish Supreme Court and the European Court of Justice have issued rulings setting out which party should bear notary, registration, agency, and stamp duty costs. In January 2021, the Spanish Supreme Court ruled that valuation costs of mortgages, signed prior to June 16, 2019, the date the new mortgage law entered into force, should be borne by the bank. The impact on ING was analysed and the provision mentioned above was adjusted. ING Spain has also been included, together with other Spanish banks, in three class actions filed by customer associations. In one of the class actions an agreement was reached with the association. In another class action ING filed an appeal asking the Spanish Court of Appeal to determine that the ruling of the court of first instance is only applicable to the consumers that were part of the case.

Imtech claim: In January 2018, ING Bank received a claim from Stichting ImtechClaim.nl and Imtech Shareholders Action Group B.V. on behalf of certain (former) shareholders of Imtech N.V. (“Imtech”). Furthermore, on 28 March 2018, ING Bank received another claim on the same subject matter from the Dutch Association of Stockholders (Vereniging van Effectenbezitters, “VEB”). Each of the claimants allege inter alia that shareholders were misled by the prospectus of the rights issues of Imtech in July 2013 and October 2014. ING Bank, being one of the underwriters of the rights issues, is held liable by the claimants for the damages that investors in Imtech would have suffered. ING Bank responded to the claimants denying any and all responsibility in relation to the allegations made in the relevant letters. In September 2018, the trustees in the bankruptcy of Imtech claimed from various financing parties, including ING, payment of what the security agent has collected following bankruptcy or intends to collect, repayment of all that was repaid to the financing parties, as well as compensation for the repayment of the bridge financing. At this moment it is not possible to assess the outcome of these claims nor to provide an estimate of the (potential) effect of these claims.

Mexican Government Bond litigation: A class action complaint was filed adding ING Bank N.V., ING Groep N.V., ING Bank Mexico S.A. and ING Financial Markets LLC ("ING") as defendants to a complaint that had previously been filed against multiple other financial institutions. The complaint alleges that the defendants conspired to fix the prices of Mexican Government Bonds. ING is defending itself against the allegations. Currently, it is not possible to provide an estimate of the (potential) financial effect of this claim. On 30 September 2019, the relevant court dismissed the antitrust complaint, finding that the plaintiffs had failed to identify any facts that links each defendant to the alleged conspiracy. On 9 December 2019, the plaintiffs filed an amended complaint removing all ING entities as defendants on the condition that the ING entities enter into a tolling agreement for the duration of two years. The relevant ING entities subsequently entered into a tolling agreement, which provides that the statute of limitations will not be tolled for the two-year duration of the agreement. Should the plaintiffs discover any evidence of potential involvement by ING in the activities alleged in the complaint, ING could be brought back into the litigation.

44 Consolidated companies and businesses acquired and divested

Acquisitions

There were no significant acquisitions in 2020.

In May 2019 ING acquired 80% of the shares of Intersoftware Group B.V., Findata Access B.V. and Unitrust B.V. (ISW Group) for a total consideration of EUR 18 million. The acquisition of ISW Group resulted in the recognition of goodwill of EUR 17 million.

In 2018 ING Bank obtained control over Payvision Holding B.V. (Payvision) by acquiring 75% of its shares. The share purchase agreement included a put option exercisable by the original shareholders and a call option exercisable by ING for the remaining 25% shares. The put and call option led to the recognition of a financial liability with initial recognition through shareholders' equity of EUR 87 million. In November 2019 ING Bank agreed to purchase the remaining 25% shares in three tranches between November 2019 and April 2020 for a total consideration of EUR 90 million. This resulted in the remeasurement of the financial liability to EUR 90 million. A stake of 23% was purchased in 2019 which reduced the outstanding financial liability and on 30 April 2020 ING purchased the remaining stake of 2%. As at 31 December 2020 the ownership interest of ING Bank was 100%. Given that ING Bank already had control over Payvision, the acquisition of the shares in 2020 represents a shareholder transaction and resulted in a transfer between Non-controlling interest and Shareholders equity of EUR 1 million.

Divestments

There were no significant divestments in 2020

In July 2019 ING completed the sale of part of the ING Lease Italy business. The settlement price amounted to EUR 1,162 million, consisted of a EUR 368 million cash settlement, a EUR 20 million Deferred Purchase Price and a EUR 774 million Senior Loan facility for the portfolio of lease receivables. The deferred purchase price is linked to the performance of the sold portfolio and is reported under the financial assets mandatorily measured at fair value through profit and loss. The additional loss in 2019 amounted EUR -2 million (2018: EUR -123 million). The Italian lease business was reported as Assets Held for Sale as at 31 December 2018 and previously included in the business line segment Wholesale Banking and geographical segment Other Challengers.

Reference is made to Note 24 'Result on the disposal of group companies'.

45 Principal subsidiaries, investments in associates and joint ventures

For the majority of ING's principal subsidiaries, ING Bank N.V. has control because it either directly or indirectly owns more than half of the voting power. For subsidiaries in which the interest held is below 50%, control exists based on the combination of ING's financial interest and its rights from other contractual arrangements which result in control over the operating and financial policies of the entity.

For each of the subsidiaries listed, the voting rights held equal the proportion of ownership interest and consolidation by ING is based on the majority of ownership.

For the principal investments in associates and joint ventures ING Bank has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also the ability to participate in the financial and operating policies through situations including, but not limited to one or more of the following:

- Representation on the board of directors;
- Participation in the policymaking process; and
- Interchange of managerial personnel.

The principal subsidiaries, investments in associates and joint ventures of ING Bank N.V. and their statutory place of incorporation or primary place of business are as follows:

Principal subsidiaries, investments in associates and joint ventures

			Proportion of ownership and interest held by the group	
			2020	2019
Subsidiary	**Statutory place of Incorporation**	**Country of operation**		
Bank Mendes Gans N.V.	Amsterdam	the Netherlands	100%	100%
ING Belgium S.A./N.V.	Brussels	Belgium	100%	100%
ING Luxembourg S.A.	Luxembourg City	Luxembourg	100%	100%
ING-DiBa AG	Frankfurt am Main	Germany	100%	100%
ING Bank Slaski S.A.[1]	Katowice	Poland	75%	75%
ING Financial Holdings Corporation	Delaware	United States of America	100%	100%
ING Bank A.S.	Istanbul	Turkey	100%	100%
ING Bank (Australia) Ltd	Sydney	Australia	100%	100%
ING Commercial Finance B.V.	Amsterdam	the Netherlands	100%	100%
ING Groenbank N.V.	Amsterdam	the Netherlands	100%	100%
Investments in associates and joint ventures				
TMB Bank Public Company Ltd[2]	Bangkok	Thailand	23%	23%

1 The shares of the non-controlling interest stake of 25% are listed on the Warsaw Stock Exchange, for summarised financial information we refer to 'Note 33 'Information on geographical areas.

2 Reference is made to Note 8 Investments in Associates and Joint Ventures.

46 Structured entities

ING Bank's activities involve transactions with various structured entities (SE) in the normal course of its business. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. ING Bank's involvement in these entities varies and includes both debt financing and equity financing of these entities as well as other relationships. Based on its accounting policies, as disclosed in the section Principles of valuation and determination of results of these financial statements, ING establishes whether these involvements result in no significant influence, significant influence, joint control or control over the structured entity.

The structured entities over which ING can exercise control are consolidated. ING may provide support to these consolidated structured entities as and when appropriate. However, this is fully reflected in the consolidated financial statements of ING Bank as all assets and liabilities of these entities are included and off-balance sheet commitments are disclosed.

ING's activities involving structured entities are explained below in the following categories:

1. Consolidated ING originated securitisation programmes;
2. Consolidated ING originated Covered bond programme (CBC);
3. Consolidated ING sponsored Securitisation programme (Mont Blanc);
4. Unconsolidated Securitisation programme; and
5. Other structured entities.

1. Consolidated ING originated securitisation programmes

ING Bank enters into liquidity management securitisation programmes in order to obtain funding and improve liquidity. Within the programme ING Bank sells ING originated assets to a structured entity. The underlying exposures include residential mortgages in the Netherlands, Belgium, Spain, Italy and Australia and SME Loans in Belgium.

The structured entity issues securitised notes (traditional securitisations) which are eligible collateral for central bank liquidity purposes. In most programmes ING Bank acts as investor of the securitised notes. ING Bank continues to consolidate these structured entities if it is deemed to control the entities.

The structured entity issues securitisation notes in two or more tranches, of which the senior tranche obtains a high rating (AAA or AA) by a rating agency. The tranche can subsequently be used by ING Bank as collateral in the money market for secured borrowings.

ING Bank originated various securitisations, as at 31 December 2020, these consisted of approximately EUR 66 billion (2019: EUR 57 billion) of senior and subordinated notes, of which approximately EUR 2 billion (2019: EUR 4 billion) were issued externally. The underlying exposures are residential mortgages and SME loans. Apart from the third party funding, these securitisations did not impact ING Bank's Consolidated statement of financial position and profit or loss.

In 2020, there are no non-controlling interests as part of the securitisation structured entities that are significant to ING Bank. ING Bank for the majority of the securitisation vehicles provides the funding for the entity except for EUR 2 billion (2019: EUR 4 billion).

In addition ING Bank originated various securitisations for liquidity management optimisation purposes. As at 31 December 2020, these consisted of approximately EUR 2 billion (2019: EUR 2 billion) of senior secured portfolio loans, which have been issued to ING subsidiaries in Germany. The underlying exposures are senior loans to large corporations and financial institutions, and real estate finance loans, mainly in the Netherlands. These securitisations did not impact ING Bank's consolidated statement of financial position and profit or loss.

2. Consolidated ING originated Covered bond programme (CBC)

ING Bank has entered into a covered bond programme. Under the covered bond programme ING issues bonds. The payment of interest and principal is guaranteed by the ING administered structured entities, ING Covered Bond Company B.V., and ING SB Covered Bond Company B.V. In order for these entities to fulfil their guarantee, ING legally transfers mainly Dutch mortgage loans originated by ING. Furthermore ING offers protection against deterioration of the mortgage loans. The entities are consolidated by ING Bank.

Covered bond programme

	Fair value pledged mortgage loans	
	2020	2019
Dutch Covered Bond Companies	20,157	24,297
	20,157	**24,297**

In addition, subsidiaries of ING in Germany, Belgium and Australia also issued covered bonds with pledged mortgages loans of approximately EUR 21 billion (2019: EUR 16 billion) in total.

In general, the third-party investors in securities issued by the structured entity have recourse only to the assets of the entity and not to the assets of ING Bank.

3. Consolidated ING sponsored Securitisation programme (Mont Blanc)

In the normal course of business, ING Bank structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to a Special Purpose Vehicle (SPV). The senior positions in these transactions may be funded by the ING administered multi seller Asset Backed Commercial Paper (ABCP) conduit Mont Blanc Capital Corp. (rated A-1/P-1). Mont Blanc Capital Corp. funds itself externally in the ABCP markets.

In its role as administrative agent, ING Bank facilitates these transactions by acting as administrative agent, swap counterparty and liquidity provider to Mont Blanc Capital Corp. ING Bank also provides support facilities (i.e. liquidity) backing the transactions funded by the conduit. The types of asset currently in the Mont Blanc conduit include trade receivables, consumer finance receivables, car leases and residential mortgages.

ING Bank supports the commercial paper programmes by providing Mont Blanc Capital Corp. with short-term liquidity facilities. Once drawn these facilities bear normal credit risk.

The liquidity facilities, provided to Mont Blanc are EUR 2,793 million (2019: EUR 1,631 million). The drawn liquidity amount is nil as at 31 December 2020 (2019: nil).

The standby liquidity facilities are reported under irrevocable facilities. All facilities, which vary in risk profile, are granted to the Mont Blanc Capital Corp. subject to normal ING Bank credit and liquidity risk analysis procedures. The fees received for services provided and for facilities are charged subject to market conditions.

4. Unconsolidated Securitisation programme

In 2013 ING transferred financial assets (mortgage loans) for an amount of approximately EUR 2 billion to a special purpose vehicle (SPV). The transaction resulted in full derecognition of the financial assets from ING's statement of financial position. Following this transfer ING continues to have two types of on-going involvement in the transferred assets: as counterparty to the SPE of a non-standard interest rate swap and as servicer of the transferred assets. ING has an option to unwind the transaction by redeeming all notes at their principal outstanding amount, in the unlikely event of changes in accounting and/or regulatory requirements that significantly impact the transaction. The fair value of the swap held by ING at 31 December 2020 amounted to EUR -34 million (2019: EUR -45 million); fair value changes on this swap recognised in the statement of profit or loss in 2020 were EUR 11 million (2019: EUR 12 million). Service fee income recognised, for the role as administrative agent, in the statement of profit or loss in 2020 amounted to EUR 1 million (2019: EUR 2 million). The cumulative income recognised in profit or loss since derecognition amounts to EUR 16 million (2019: EUR 15 million).

5. Other structured entities

In the normal course of business, ING Bank enters into transactions with structured entities as counterparty. Predominantly in its structured finance operations, ING can be instrumental in facilitating the creation of these structured entity counterparties. These entities are generally not included in the consolidated financial statements of ING Bank, as ING facilitates these transactions as administrative agent by providing structuring, accounting, funding, lending, and operation services.

ING Bank offers various investment fund products to its clients. ING Bank does not invest in these investment funds for its own account nor acts as the fund manager.

47 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. For post-employment benefit plans, reference is made to Note 34 'Pension and other postemployment benefits'. 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.

ING Bank forms part of ING Group and also enters into transactions with ING Group. These transactions vary from financing activities to regular purchase and sales transactions. Disclosed in the table below, are the transactions with ING Groep N.V.

Parent Company

Transactions with ING Groep N.V.

	2020	2019
Assets	134	163
Liabilities	45,625	44,242
Income received	9	9
Expenses paid	1,122	1,103

Liabilities to ING Groep N.V. mainly comprise long-term funding.

Associates and joint ventures

Transactions with ING Bank's main associates and joint ventures

	Associates		Joint ventures	
	2020	2019	2020	2019
Assets	100	96		0
Liabilities	239	97	1	6
Off-balance sheet commitments	10	29		0
Income received	14	11		

Assets, liabilities, commitments, and income related to Associates and joint ventures result from transactions which are executed as part of the normal Banking business.

Key management personnel compensation

The Executive Board of ING Groep N.V., the Management Board Banking and the Supervisory Board are considered Key Management personnel of ING Group. In 2020 and 2019, the three members of the Executive Board of ING Groep N.V. were also members of the Management Board Banking.

Transactions with key management personnel, including their compensation are included in the tables below.

Key management personnel compensation (Executive Board and Management Board Banking)

2020 in EUR thousands	Executive Board of ING Groep N.V. [3]	Management Board Banking [1,4]	Total
Fixed Compensation			
– Base salary	3,609	4,170	7,779
– Collective fixed allowances [2]	898	1,009	1,907
– Pension costs	58	93	151
– Severance benefits[4]		667	667
Variable compensation			
– Upfront cash		305	305
– Upfront shares		305	305
– Deferred cash		457	457
– Deferred shares		457	457
– Other emoluments[5]	652	814	1,466
Total compensation	**5,217**	**8,277**	**13,494**

1 Excluding members that are also members of the Executive Board of ING Groep N.V.
2 The collective fixed allowances consist of two savings allowances applicable to employees in the Netherlands; an individual savings allowance of 3.5% and a collective savings allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 110,111.
3 In 2020 one member of the Executive Board left ING during the year. The table includes compensation earned in the capacity as board member.
4 One member of the Management Board Banking left ING at the end of the year. In line with applicable regulation a severance payment was granted.
5 Other emoluments include reimbursement of costs related to home/work commute, costs relating to tax and financial planning services, costs associated with a company car and for expats, the costs associated with housing and schooling and costs related to reimbursement of Directors and Officers indemnity.

Key management personnel compensation (Executive Board and Management Board Banking)

2019 **in EUR thousands**	Executive Board of ING Groep N.V. [3]	Management Board Banking [1,4]	Total
Fixed Compensation			
– Base salary	4,587	3,847	8,434
– Collective fixed allowances [2]	1,167	937	2,104
– Pension costs	78	94	172
– Severance benefits			
Variable compensation			
– Upfront cash		361	361
– Upfront shares	247	378	625
– Deferred cash		541	541
– Deferred shares	371	566	937
– Other emoluments[5]	281	536	817
Total compensation	**6,731**	**7,260**	**13,991**

1 Excluding members that are also members of the Executive Board of ING Groep N.V. One Management Board Banking member was appointed to the Executive Board during the year.
2 The collective fixed allowances consist of two savings allowances applicable to employees in the Netherlands; an individual savings allowance of 3.5% and a collective savings allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 107,539.
3 In 2019 one member of the Executive Board left and one member joined. The table includes their compensation earned in the capacity as board member and in addition an advisor fee for the period in which the activities were transferred to the successor.
4 One member left ING during the year. The table includes compensation earned in the capacity as board member.
5 The prior period has been updated to improve consistency and comparability.

Key management personnel compensation is generally included in Staff expenses in the statement of profit or loss. The total remuneration of the Executive Board and Management Board Banking is disclosed in the table above. Under IFRS, certain components of variable remuneration are not recognised in the statement of profit or loss directly, but are allocated over the vesting period of the award. The comparable amount recognised in Staff expenses in 2020 relating to the fixed expenses of 2020 and the vesting of variable remuneration of earlier performance years, is EUR 12 million in 2020 (2019: EUR 11 million).

The table below shows the total of fixed remuneration, expense allowances and attendance fees for the Supervisory Board in 2020 and 2019.

Key management personnel compensation (Supervisory Board)

in EUR thousands	2020	2019
Total compensation	1,042	1,045

Balances outstanding with key management personnel were as follows:

Loans and advances to key management personnel

	Amount outstanding 31 December		Weighted average interest rate		Repayments	
in EUR thousands	2020	2019	2020	2019	2020	2019
Executive Board members		2,402		1.4%		97
Management Board Banking	350	350	2.6%	2.6%		
Supervisory Board members						
Total	**350**	**2,752**				**97**

The loans and advances mentioned in the table above (1) were made in the ordinary course of business, (2) were granted on conditions that are comparable to those of loans and advances granted to all employees and (3) did not involve more than the normal risk of collectability or present other unfavourable features. Loans and advances to members of the Executive Board and Management Board Banking are compliant with the standards set out in the DNB guidelines for loans to officers and directors of a regulated entity, such as ING.

As at 31 December 2020 Deposits outstanding from key management personnel amounted to EUR 12.5 million (31 December 2019: EUR 12.4 million). Total interest paid in 2020 on these deposits amounted to EUR 14 thousand (2019: EUR 13 thousand).

Number of ING Groep N.V. shares and stock options to key management personnel

	ING Groep N.V. shares		Stock options on ING Groep N.V. shares	
in numbers	2020	2019	2020	2019
Executive Board members	88,741	172,523		46,198
Management Board Banking	254,052	147,713		
Supervisory Board members	5,295	54,065		
Total number of shares and stock options	**348,088**	**374,301**		**46,198**

48 Subsequent events

On 18 February 2021 ING announced that it intends to withdraw from the retail banking market in the Czech Republic. Raiffeisenbank Czech Republic has agreed to prepare a welcome offer for ING's retail customers in the Czech Republic.In March, customers will receive an invitation from Raiffeisenbank to move to this bank over the coming months. The ambition is for ING to stop all its retail activities in this market by the end of 2021. ING will remain active in the Czech Republic as a provider of wholesale banking products and services.The agreement with Raiffeisenbank has been secured to ensure ING's customers in the Czech Republic can continue to meet their banking needs. ING customers will receive the option to move their savings and investments to Raiffeisenbank at preferential conditions. The agreement between ING Czech Republic and Raiffeisenbank Czech Republic is pending regulatory approval.

ING announced on 2 March 2021 that it is reviewing the strategic options for its Retail Banking operations in Austria with the aim of exiting this market by the end of 2021. The scope of the review focuses solely on ING's retail business. ING will continue its Wholesale Banking activities in Austria. As a first step, in June 2021, ING will discontinue its savings-only offering for customers in Austria. As it exits the local retail banking market, ING will make sure its customers are fully supported throughout.

49 Capital management

Objectives

Group Treasury ("GT") Balance Sheet & Capital Management, is responsible for maintaining the adequate capitalisation of ING Group and ING Bank entities, to manage the risk associated with ING's business activities. This involves not only managing, planning and allocating capital within ING Group, ING Bank and its various entities, but also helping to execute necessary capital market transactions, term (capital) funding and risk management transactions. ING takes an integrated approach to assess the adequacy of its capital position in relation to its risk profile and operating environment. This means GT Balance Sheet & Capital Management takes into account both regulatory and internal, economic based metrics and requirements as well as the interests of key stakeholders such as shareholders and rating agencies.

ING applies the following main capital definitions:

- Common Equity Tier 1 capital (CET1) - is defined as shareholders' equity less regulatory adjustments. CET1 capital divided by risk-weighted assets equals the CET1 ratio.
- Tier 1 capital – is defined as CET1 capital plus Additional Tier 1 (hybrid) securities and other regulatory adjustments. Tier 1 capital divided by risk-weighted assets equals the Tier 1 capital ratio.
- Total capital – is Tier 1 capital plus subordinated Tier 2 liabilities and regulatory adjustments. Total capital divided by risk-weighted assets equals the Total capital ratio.
- Leverage ratio – is defined as Tier 1 capital divided by the leverage exposure.

Capital developments

ING Bank's capital ratios at the end of the year improved compared to 2019 primarily due to lower risk-weighted assets, mainly driven by lower volumes, FX movements and improved lending book quality. On the latter, downward rating adjustments were more than offset by higher and additional collateral value. ING continues to maintain a strong and high quality capital level.

ING Bank N.V. has a CET1 ratio of 14.0% at 31 December 2020, versus an overall CRR II / CRD V solvency requirement (including buffer requirements) of 8.14%. The Tier 1 ratio (including grandfathered securities) increased from 15.1% to 15.9% compared to last year, primarily reflecting developments in ING Bank's CET1 ratio. The Banks's total capital ratio (including grandfathered securities) increased from 17.9% to 19.0%.

ING Bank has paid EUR 1,207 million of dividend to ING Group in relation to the 2020 profit.

ING Bank capital position according to CRR II / CRD V

in EUR million	2020	2019
Shareholders' equity [4]	47,675	46,924
- Reserved profit not included in CET1 capital [1]	-1,207	-43
- Other adjustments	-3,534	-4,309
Regulatory adjustments	-4,741	-4,352
Available common equity Tier 1 capital	**42,934**	**42,572**
Additional Tier 1 securities [2]	5,648	6,752
Regulatory adjustments additional Tier 1	68	74
Available Tier 1 capital	**48,650**	**49,398**
Supplementary capital Tier 2 bonds [3]	9,359	8,942
Regulatory adjustments Tier 2	23	55
Available Total capital	**58,032**	**58,394**
Risk weighted assets	306,016	326,193
Common equity Tier 1 ratio	14.03%	13.05%
Tier 1 ratio	15.90%	15.14%
Total capital ratio	18.96%	17.90%

1. The reserved profit not included in CET1 capital as per 31 December 2020 was EUR 1,207 million and fully relates to the result of 2020.
2. Including EUR 4,654 million which is CRR-compliant (2019: EUR 5,758 million) and EUR 994 million to be replaced as capital recognition is subject to CRR grandfathering rules (2019: EUR 994 million).
3. Including EUR 9,206 million which is CRR-compliant (2019: EUR 8,789 million), and EUR 153 million to be replaced as capital recognition is subject to CRR grandfathering rules (2019: EUR 153 million).
4. Shareholders' equity is determined in accordance with IFRS-EU.

In accordance with the applicable regulation, credit and operational risk models used in the capital ratios calculations are not audited.

Processes for managing capital

GT Balance Sheet & Capital Management ensures adherence to the set limits and targets by planning and executing capital management transactions. The ongoing assessment and monitoring of capital adequacy is embedded in the capital planning process within the ICAAP framework. As part of the dynamic business planning process, ING prepares a capital and funding plan on a regular basis for all its material businesses and assesses continuously the timing, need and feasibility for capital management actions in scope of its execution strategy. Sufficient financial flexibility should be preserved to meet important financial objectives. ING's risk appetite statements set targets and are at the foundation of the capital plan. These limits are cascaded to the different businesses in line with our risk management framework. Contingency capital measures and early warning indicators are in place in conjunction with ING's recovery plan to support the strategy in times of stress.

Adverse planning and stress testing, which reflect the outcomes of the annual risk assessment, are integral components of ING's risk and capital management framework. It allows us to (i) identify and assess potential vulnerabilities in our businesses, business model, portfolios or operating environment; (ii) understand the sensitivities of the core assumptions used in our strategic and capital plans; and (iii) improve decision-making and business steering through balancing risk and return following a forward looking and prudent management approach.

Regulatory requirements

Capital adequacy and the use of required regulatory capital are based on the guidelines developed by the Basel Committee on Banking Supervision (The Basel Committee) and the European Union Directives, as implemented by the Dutch Central Bank (Dutch Central Bank until 3 November 2014, the ECB thereafter) for supervisory purposes. In 2010, the Basel Committee issued new solvency and liquidity requirements that superseded Basel II, implemented in the EU via CRR / CRD. In accordance with the CRR the minimum Pillar 1 capital requirements applicable to ING Bank are: a CET1 ratio of 4.5%, a Tier 1 ratio of 6% and a Total capital ratio of 8% of risk-weighted assets.

The overall CET1 requirement (including buffer requirements) for ING Bank was 8.14% in 2020. This requirement is the sum of a 4.5% Pillar I requirement, a 1.13% Pillar II requirement, a 2.5% Capital Conservation Buffer (CCB) and a 0.01% Countercyclical Buffer (CCyB) (based on December 2020 positions). This requirement excludes the Pillar II guidance, which is not disclosed.

Ratings

ING's key credit ratings and outlook are shown in the table below. 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.

Main credit ratings of ING at 31 December 2020

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

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.

Authorisation of Consolidated Financial Statements

Amsterdam, 8 March 2021

The Supervisory Board

G.J. (Hans) Wijers, chairman
A.M.G. (Mike) Rees, vice-chairman
J.P. (Jan Peter) Balkenende
J. (Juan) Colombás
M. (Mariana) Gheorghe
M. (Margarete) Haase
H.A.H. (Herman) Hulst
H.H.J.G. (Harold) Naus
H.W.P.M.A. (Herna) Verhagen

The Management Board Banking

S.J.A. (Steven) van Rijswijk, CEO and chairman
T. (Tanate) Phutrakul, CFO
L. (Ljiljana) Čortan, CRO
P. (Pinar) Abay, head of Market Leaders
A. (Aris) Bogdaneris, head of Challengers & Growth Markets
R.M.M (Roel) Louwhoff, COO/CTO

Parent company statement of financial position

as at 31 December before appropriation of result

in EUR million	2020	2019
Assets		
Cash and balances with central banks 2	57,668	30,142
Short-dated government paper 3	2,990	1,019
Loans and advances to banks 4	74,109	82,704
Loans and advances to customers 5	326,656	332,645
Debt securities 6	41,456	40,593
Equity securities 7	6,142	7,829
Investments in group companies 8	32,056	33,310
Investments in associates and joint ventures 9	1,332	1,646
Intangible assets 10	755	1,175
Equipment 11	1,062	1,130
Other assets 12	53,037	41,573
Total assets	**597,263**	**573,767**

in EUR million	2020	2019
Liabilities		
Deposits from banks 13	99,926	64,004
Customer deposits 14	327,665	322,443
Debt securities in issue	55,421	82,541
Other liabilities 15	49,546	40,291
General provisions 16	876	803
Subordinated loans 17	16,155	16,760
Total liabilities	**549,589**	**526,843**
Equity 18		
Share capital	525	525
Share premium	16,542	16,542
Revaluation reserves	2,150	2,467
Legal and statutory reserves	185	1,532
Other reserves	25,953	21,194
Unappropriated result	2,321	4,663
Total equity	**47,675**	**46,924**
Total liabilities and equity	**597,263**	**573,767**

References relate to the accompanying notes. These form an integral part of the Parent company financial statements.

Parent company statement of profit or loss

for the years ended 31 December

in EUR million	2020	2019
Interest income	12,704	14,817
Interest expense	–6,453	–8,454
Net interest income 19	**6,251**	**6,363**
Investment income and results from participating interests 20	1,649	3,323
Commission income	1,984	1,939
Commission expense	–523	–540
Net commission income 21	**1,461**	**1,399**
Results from financial transactions 22	**857**	**326**
Other income	–102	–7
Total income	**10,116**	**11,403**
Staff expenses 23	3,230	3,211
Depreciation, amortisation and impairments 24	817	401
Other expenses 25	2,012	1,839
Addition to loan loss provisions	1,050	446
Total expenses	**7,108**	**5,897**
Result before tax	**3,008**	**5,506**
Taxation 26	593	663
Result after tax	**2,415**	**4,843**

References relate to the accompanying notes. These form an integral part of the Parent company financial statements.

Parent company statement of changes in equity

in EUR million	Share capital	Share premium	Revaluation reserves	Legal and statutory reserves	Other reserves	Unappropriated results	Total
Balance as at 31 December 2019	525	16,542	2,467	1,532	21,194	4,663	46,924
Realised and unrealised revaluations equity and debt instruments and other revaluations			–337	–32	62		–306
Realised gains/losses transferred to the statement of profit or loss			–16	–17			–33
Changes in cash flow hedge reserve			32	210			242
Unrealised revaluations property in own use			–3	–30	26		–7
Remeasurement of the net defined benefit asset/liability			9	19			28
Exchange rate differences and other			–3	–1,557	–16		–1,576
Total amount recognised directly in equity			**–318**	**–1,405**	**71**		**–1,651**
Net result				94		2,321	2,415
			–318	**–1,311**	**71**	**2,321**	**764**
Transfer from unappropriated results					4,663	–4,663	
Dividends					–43		–43
Employee stock options and share plans					23		23
Changes in the composition of the group and other changes				–37	44		7
Balance as at 31 December 2020	**525**	**16,542**	**2,150**	**185**	**25,953**	**2,321**	**47,675**

Changes in individual components are presented in Note 18 'Equity'.

in EUR million	Share capital	Share premium	Revaluation reserves	Legal and statutory reserves	Other reserves	Unappropriated results	Total
Balance as at 31 December 2018	525	16,542	2,187	1,317	19,155	4,447	44,173
Realised and unrealised revaluations equity and debt instruments and other revaluations			-118	-405	472		-51
Realised gains/losses transferred to the statement of profit or loss							
Changes in cash flow hedge reserve			265	339			604
Unrealised revaluations property in own use			10	41	9		60
Remeasurement of the net defined benefit asset/liability			123	-65			58
Exchange rate differences and other				-11			-11
Total amount recognised directly in equity			**280**	**-102**	**481**		**659**
Net result				180		4,663	4,843
			280	**78**	**481**	**4,663**	**5,503**
Transfer from unappropriated results					4,447	-4,447	
Dividends					-2,819		-2,819
Employee stock options and share plans					39		39
Changes in the composition of the group and other changes				137	-109		28
Balance as at 31 December 2019	**525**	**16,542**	**2,467**	**1,532**	**21,194**	**4,663**	**46,924**

Changes in individual components are presented in Note 18 ‘Equity’.

Notes to the parent company financial statements

1 Basis of presentation

ING Bank N.V. is registered at Bijlmerdreef 106, 1102 CT Amsterdam, the Netherlands (Commercial Register of Amsterdam under number 33031431).

The Parent company financial statements of ING Bank N.V. are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Dutch Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Dutch Civil Code, the recognition and measurement principles applied in these Parent company financial statements are the same as those applied in the ING Bank Consolidated financial statements, reference is made to Note 1 'Accounting policies' of the Consolidated financial statements. Investments in group companies are accounted in the Parent company accounts according to the equity method. In addition to the notes to these financial statements, further information is included in the notes to the consolidated financial statements.

A list containing the information referred to in Section 379 (1), Book 2, of the Dutch Civil Code has been filed with the office of the Commercial Register of Amsterdam, in accordance with Section 379 (5), Book 2 of the Dutch Civil Code.

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

Parent company equity and related reserves

The total amount of equity in the Parent company financial statements equals Shareholders' equity (parent) in the Consolidated financial statements. Certain components within equity are different, as a result of the following presentation differences between the parent company accounts and consolidated accounts:

- Unrealised revaluations including those related to cash flow hedges within consolidated group companies, presented in Other reserves - Revaluation reserve in the consolidated accounts, are presented in the Share of associates and joint ventures reserve in the parent company accounts;
- Foreign currency translation on consolidated group companies, presented in Other reserves - Currency translation reserve in the consolidated accounts, is presented in the Share of associates and joint ventures reserve in the parent company accounts;
- Revaluations on investment property and certain participations recognised in income and consequently presented in Retained earnings in the consolidated accounts, is presented in the Share of associates and joint ventures reserve in the parent company accounts.

A legal reserve is carried at an amount equal to the share in the results of associates and joint ventures since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the Share of associates and joint ventures reserve.

Notes to the Parent company statement of financial position

2 Cash and balances with central banks

Amounts held at central banks amount to EUR 56,809 million (2019: EUR 29,191 million). In 2020, the movement in Cash and balances with central banks reflects ING's liquidity management.

3 Short-dated government paper

Short-dated government paper includes Dutch and international government paper amounting to EUR 2,990 million (2019: EUR 1,019 million) for the company.

4 Loans and advances to banks

	2020	2019
Non-subordinated receivables from:		
Group companies	32,087	33,951
Third parties	39,777	46,953
	71,864	**80,904**
Subordinated receivables from:		
Group companies	2,245	1,800
	74,109	**82,704**

As at 31 December 2020, Loans and advances to banks includes receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 34,131 million (2019: EUR 25,762 million).

5 Loans and advances to customers

Loans and advances to customers

	2020	2019
Non-subordinated receivables from:		
ING Groep N.V.	130	142
Group companies	37,080	41,613
Third parties	288,046	289,487
	325,256	**331,242**
Subordinated receivables from:		
Group companies	1,400	1,403
	326,656	**332,645**

As at 31 December 2020, receivables included in Loans and advances to customers that are part of the trading portfolio amount to EUR 8,392 million (2019: EUR 9,862 million).

Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 18,343 million (2019: EUR 15,527 million) for the company.

6 Debt securities

Debt securities by issuer

	2020	2019
Public sector	29,440	27,772
Other	12,016	12,821
	41,456	**40,593**

Debt securities analysed by listing

	2020	2019
Listed	35,506	34,842
Unlisted	5,950	5,751
	41,456	**40,593**

The above table includes the following non subordinated debt securities:

	2020	2019
Non-subordinated debt securities issued by:		
Third parties	40,699	39,708
	40,699	**39,708**

Changes in debt securities [1]

	2020	2019
Opening balance	32,405	30,240
Additions	17,565	14,196
Amortisation	–126	–159
Changes in unrealised revaluations	586	322
Disposals and redemptions	–14,674	–11,124
Exchange rate differences	–675	33
Other changes	–408	–1,103
Closing balance	**34,672**	**32,405**

1 Excluding fair value through profit or loss portfolio.

7 Equity securities

Equity securities analysed by listing

	2020	2019
Listed	6,042	7,637
Unlisted	100	192
	6,142	**7,829**

Changes in equity securities [1]

	2020	2019
Opening balance	2,215	2,199
Additions	9	3
Changes in unrealised revaluations	–288	174
Disposals	–10	–174
Exchange rate differences	–51	10
Other changes	–93	3
Closing balance	**1,782**	**2,215**

1 Excluding fair value through profit or loss portfolio.

The cost or purchase price of the shares in the trading portfolio approximates their fair value. As at 31 December 2020 the cost or purchase price of shares excluding trading portfolio is EUR 1,168 million lower (2019: EUR 1,580 million lower) than the carrying amount.

8 Investments in group companies

Investments in group companies

	2020		2019	
	Interest held (%)	Statement of financial position value	Interest held (%)	Statement of financial position value
ING België N.V.	100	10,263	100	11,157
ING Holding Deutschland GMBH	100	9,247	100	8,672
ING Bank (Australia) Limited	100	3,243	100	3,028
ING Financial Holdings Corporation	100	1,880	100	2,257
ING Bank Slaski S.A.	75	3,045	75	2,663
ING Bank A.S.	100	1,066	100	1,330
Bank Mendes Gans N.V.	100	630	100	600
ING Real Estate B.V.	100	441	100	443
ING Australia Holdings Limited	100	212	100	441
ING Corporate Investments B.V.	100	198	100	601
Other (including financing companies)		1,832		2,118
		32,056		**33,310**

As at 31 December 2020, Investments in group companies includes credit institutions of EUR 18,766 million (2019: EUR 19,541 million).
As at 31 December 2020 listed investments in group companies amount to EUR 3,045 million (2019: EUR 2,663 million).

Changes in investments in group companies

	2020	2019
Opening balance	33,310	32,815
Repayment of capital injection	–	–570
Revaluations	194	249
Results from group companies	1,710	3,036
Dividends received	–1,417	–2,290
Capital contribution	45	27
Mergers and liquidations	–904	–62
Exchange rate differences	–876	93
Other changes	–5	11
Closing balance	**32,056**	**33,310**

In 2020 ING Bank N.V. merged with ING International (Belgium) B.V.

9 Investments in associates and joint ventures

Investments in associates and joint ventures

	2020		2019	
	Interest held (%)	Statement of financial position value	Interest held (%)	Statement of financial position value
TMB Public Company Limited	23	1,202	23	1,509
Other		130		137
		1,332		**1,646**

Changes in investments in associates and joint ventures

	2020	2019
Opening balance	1,646	932
Additions	15	616
Share of results	61	44
Dividends received	–8	–38
Impairments	–237	–4
Revaluations	1	1
Exchange rate differences	–142	96
Other changes	–4	1
Closing balance	**1,332**	**1,646**

10 Intangible assets

Changes in intangible assets

	Goodwill		Software		Other		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Opening balance	513	525	660	571	2	2	1,175	1,097
Additions		17	218	290			218	307
Amortisation			-155	-148			-156	-148
Impairments	-266		-145	-55			-411	-55
Exchange rate differences	-63	-28	-1				-64	-28
Other changes			-8	3			-8	3
Closing balance	**184**	**513**	**569**	**660**	**2**	**2**	**755**	**1,175**

Goodwill impairment test performed in the second quarter resulted in the recognition of goodwill impairments mainly in relation to the cash-generating unit (CGU) Wholesale Banking of EUR 260 million.

11 Equipment

Changes in equipment

	2020	2019
Opening balance	1,130	431
Effect of changes in accounting policy due to the implementation of IFRS 16	–	465
Additions	165	467
Depreciation	–222	–198
Disposals	–13	–40
Impairments	–29	–1
Reversal of impairments	2	1
Exchange rate differences	–14	6
Other changes	45	–0
Closing balance	**1,062**	**1,130**
Gross carrying amount as at 31 December	2,363	2,288
Accumulated depreciation as at 31 December	–1,300	–1,158
Net carrying value	**1,062**	**1,130**

12 Other assets

Other assets

	2020	2019
Derivatives	47,790	36,032
Deferred tax assets	247	352
Income tax receivables	416	188
Accrued interests and rents	39	27
Other accrued assets	420	466
Pension asset	682	685
Other receivables	3,444	3,823
	53,037	**41,573**

Derivatives includes transactions with group companies of EUR 22,577 million (2019: EUR 16,818 million).

Other receivables includes EUR 1,806 million (2019: EUR 2,022 million) related to transactions still to be settled at balance sheet date. As at 31 December 2020, an amount of EUR 813 million (2019: EUR 1,055 million) is expected to be settled after more than one year from the balance sheet date.

13 Deposits from banks

Deposits from banks

	2020	2019
Group companies	32,443	32,613
Third parties	67,483	31,391
	99,926	**64,004**

14 Customer deposits

Customer deposits by group companies and third parties

	2020	2019
ING Groep N.V.	32,421	31,461
Group companies	12,373	33,885
Third parties	282,871	257,097
	327,665	**322,443**

Customer deposits from ING Groep N.V. includes EUR 25,376 million (2019: EUR 24,768 million) Senior non-preferred debt.

Customer deposits by type

	2020	2019
Savings accounts	129,920	122,853
Credit balances on customer accounts	127,260	108,346
Corporate deposits	30,063	53,183
Other	40,422	38,061
	327,665	**322,443**

15 Other liabilities

Other liabilities

	2020	2019
Derivatives	42,454	32,716
Trading liabilities	625	1,216
Accrued interest	5	1
Costs payable	1,079	1,085
Income tax payable	65	108
Other taxation and social security contribution	56	63
Other amounts payable	5,261	5,102
	49,546	**40,291**

Derivatives includes transactions with group companies of EUR 19,236 million (2019: EUR 12,959 million).

Other amounts payable includes EUR 3,218 million (2019: EUR 2,673 million) related to transactions still to be settled at balance sheet date. As at 31 December 2020, an amount of EUR 601 million (2019: EUR 570 million) is expected to be settled after more than one year from the balance sheet date.

16 General provisions

General provisions

	2020	2019
Deferred tax liabilities	532	475
Pension liabilities and other staff-related liabilities	19	10
Reorganisations and relocations	173	164
Other	153	154
	876	**803**

As at 31 December 2020, an amount of EUR 587 million (2019: EUR 550 million) is expected to be settled after more than one year from the balance sheet date.

17 Subordinated loans

Subordinated loans by group companies and third parties

	2020	2019
Group companies	13,273	12,998
Third parties	2,882	3,762
	16,155	**16,760**

Subordinated loans by type

	2020	2019
Capital debentures	3,459	4,652
Private loans	12,696	12,108
	16,155	**16,760**

The subordinated loans rank subordinated to the other liabilities in a winding-up of ING Bank.

18 Equity

Equity

	2020	2019
Share capital	525	525
Share premium	16,542	16,542
Revaluation reserves	2,150	2,467
Legal and statutory reserves	185	1,532
Other reserves	25,953	21,194
Unappropriated result	2,321	4,663
Total equity	**47,675**	**46,924**

Share capital

	Ordinary shares (par value EUR 1.13)			
	Number x 1,000		Amount	
	2020	2019	2020	2019
Authorised share capital	1,600,000	1,600,000	1,808	1,808
Unissued share capital	1,134,965	1,134,965	1,283	1,283
Issued share capital	**465,035**	**465,035**	**525**	**525**

No changes occurred in the issued share capital and share premium in 2020 and 2019.

Changes in revaluation reserves

2020	Property in own use reserve	Equity securities at fair value through other comprehensive income	Debt instruments at fair value through other comprehensive income	Cash flow hedge reserve	Net defined benefit assets/- liability remeasurement reserve	Credit liability	Total
Opening balance	24	1,560	19	798	180	–114	2,467
Unrealised revaluations	–3	–390	56			–19	–357
Realised gains/losses transferred to the statement of profit or loss			–16				–16
Realised revaluations reclassified to retained earnings		–2				16	15
Changes in cash flow hedge reserve				32			32
Change in net defined benefit assets/liability					9		9
Closing balance	**21**	**1,168**	**58**	**830**	**189**	**–117**	**2,150**
2019							
Opening balance	14	1,538	29	534	57	16	2,187
Unrealised revaluations	10	342	1			–124	230
Realised gains/losses transferred to the statement of profit or loss			–11				–11
Realised revaluations reclassified to retained earnings		–320				–6	–326
Changes in cash flow hedge reserve				265			265
Change in net defined benefit assets/liability					123		123
Closing balance	**24**	**1,560**	**19**	**798**	**180**	**–114**	**2,467**

Changes in legal and statutory reserves

2020	Share of associates and joint ventures reserves	Currency translation reserve	Statutory reserves	Capitalised software	Total
Opening balance	1,220	–2,085	1,818	579	1,532
Result for the year			94		94
Unrealised revaluations available-for-sale investments and other	–29				–29
Realised gains/losses transferred to the statement of profit or loss	–17				–17
Changes in cash flow hedge reserve	210				210
Unrealised revaluation property in own use	–4				–4
Changes in net defined benefit asset/liability remeasurement reserve	19				19
Exchange rate differences and other	–11	–1,546			–1,557
Changes in composition of the group and other changes	8			–74	–65
Closing balance	**1,398**	**–3,631**	**1,912**	**505**	**185**
2019					
Opening balance	1,252	–2,050	1,638	476	1,317
Result for the year			180		180
Unrealised revaluations available-for-sale investments and other	–231				–231
Realised gains/losses transferred to the statement of profit or loss	–22				–22
Changes in cash flow hedge reserve	339				339
Unrealised revaluation property in own use	41				41
Changes in net defined benefit asset/liability remeasurement reserve	–65				–65
Exchange rate differences and other	24	–35			–11
Changes in composition of the group and other changes	–117		–	103	–14
Closing balance	**1,220**	**–2,085**	**1,818**	**579**	**1,532**

The Share of associates and joint ventures reserve includes the following components: Reserve for non-distributable retained earnings of associates of EUR 829 million (2019: EUR 793 million), Revaluation reserve of associates and joint ventures EUR 1,071 million (2019: EUR 938 million), Currency translation reserve of EUR -5 million (2019: EUR 5 million) and Net defined benefit asset/liability remeasurement reserve of EUR -497 million (2019: EUR -516 million).

The Statutory reserves include non-distributable reserves of EUR 1,912 million (2019: EUR 1,818 million) related to the former Stichting Regio Bank and the former Stichting Vakbondspaarbank SPN that cannot be freely distributed in accordance with the article 23.1 of the articles of association.

Changes in the value of hedging instruments that are designated as net investment hedges, are included in the line Exchange rate differences and other.

Changes in other reserves, retained earnings

	2020	2019
Opening balance	21,194	19,155
Transfer from unappropriated result	4,663	4,447
Dividends	–43	–2,819
Employee stock options and share plans	23	39
Changes in the composition of the group and other changes	115	372
Closing balance	**25,953**	**21,194**

The reserve for cash flow hedges is included in the Share of associates and joint ventures reserve on a net basis. The Revaluation reserve, Share of associates and joint ventures reserve and Currency translation reserve cannot be freely distributed. Retained earnings can be freely distributed, except for an amount equal to the negative balance in each of the components of the Revaluation reserve , Share of associates and joint ventures reserve and the Currency translation reserve. Unrealised gains and losses on derivatives, other than those used in cash flow hedges, are presented in the statement of profit or loss and are therefore part of Retained earnings and are not included in Share of associates and joint ventures reserve.

The total amount of non-distributable reserves, in accordance with the financial reporting requirements per Part 9 of Book 2 of the Dutch Civil Code, is EUR 9,829 million (2019: EUR 8,397 million).

Reference is made to Note 19 ‘Equity’ and the Capital Management section in the consolidated financial statements for additional information, including restrictions with respect to dividend and repayment of capital.

Notes to the Parent company statement of profit or loss

19 Net interest income

Net interest income

	2020	2019
Interest income on loans	7,976	10,146
Interest income on impaired loans	65	83
Negative interest on liabilities	582	354
Total interest income on loans	**8,623**	**10,584**
Interest income on financial assets at fair value through OCI	159	146
Interest income on financial assets at amortised cost	234	47
Interest income on securities at fair value through profit or loss	433	953
Interest income on non-trading derivatives (no hedge accounting)	1,074	829
Interest income on non-trading derivatives (hedge accounting)	2,139	2,208
Other interest income	43	49
Interest income	**12,704**	**14,817**

	2020	2019
Interest expense on deposits from banks	93	245
Interest expense on customer deposits	1,193	1,870
Interest expense on debt securities	878	1,285
Interest expense on subordinated loans	613	654
Interest expense on securities at fair value through profit or loss	377	814
Interest expense on non-trading derivatives (no hedge accounting)	1,099	1,071
Interest expense on non-trading derivatives (hedge accounting)	1,814	2,160
Other interest expense	75	42
Negative interest on assets	312	313
Interest expense	**6,453**	**8,454**
Net interest income	**6,251**	**6,363**

20 Investment income and results from participating interests

Investment income and results from participating interests

	2020	2019
Results from shares and other non-fixed income securities	115	129
Results from group companies	1,710	3,036
Results from associates, joint ventures and other participations	61	162
Impairment of associates and joint ventures	–237	–4
	1,649	**3,323**

21 Net commission income

Fee and commission income

	2020	2019
Funds transfer	749	810
Securities business	298	298
Insurance broking	54	46
Asset management fees	67	54
Brokerage and advisory fees	252	231
Other	563	501
	1,984	**1,939**

Fee and commission expenses

	2020	2019
Funds transfer	258	293
Securities business	73	84
Asset management fees	9	8
Brokerage and advisory fees	52	60
Other	132	95
	523	**540**

22 Results from financial transactions

Results from financial transactions

	2020	2019
Results from securities trading portfolio	–515	933
Results from currency trading portfolio	101	167
Results from non-trading derivatives	264	39
Other	820	–813
	671	**326**

In 2020, Other includes EUR 290 million (2019: EUR –1,170 million) related to fair value changes on trading derivatives.

23 Staff expenses

Staff expenses

	2020	2019
Salaries	1,978	1,849
Social security costs	235	236
Pension costs and other staff related benefit costs	292	271
Other management fees	725	855
	3,230	**3,211**

Remuneration of Senior management, Management board and Supervisory board

Reference is made to Note 47 ‘Related parties’ in the ING Bank Consolidated financial statements.

24 Depreciation, amortisation and impairments

Depreciation and amortization

	2020	2019
Depreciation of equipment	222	199
Amortisation of software and other intangible assets	156	148
Impairments and reversal of impairments	439	55
	817	**401**

2020 Impairments includes impairment of goodwill (EUR 266 million), Software (EUR 145 million) and Property and Equipment (EUR 28 million).

25 Other expenses

Other expenses

	2020	2019
Computer costs	527	505
Office expenses	130	135
Travel and accommodation expenses	22	69
Advertising and public relations	152	185
External advisory fees	307	320
Regulatory costs	591	540
Addition/(releases) of provision for reorganisations and relocations	86	–49
Other	196	134
	2,012	**1,839**

26 Taxation

	2020	2019
Current taxation	501	664
Deferred taxation	92	–2
	593	**663**

For a reconciliation of the weighted average statutory income tax rate to ING Bank's effective income tax rate reference is made to Note 35 'Taxation' in the ING Bank Consolidated financial statements.

27 Maturity of certain assets and liabilities

Analysis of certain assets and liabilities by maturity

2020	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Loans and advances to banks	15,545	3,708	6,677	21,124	6,464	20,591	74,109
Loans and advances to customers	35,161	12,787	24,272	79,858	155,679	18,898	326,656
Liabilities							
Deposits from banks	30,190	457	1,997	50,112	1,303	15,868	99,926
Customer deposits	264,391	5,535	5,143	16,521	17,513	18,561	327,665
Debt securities in issue	4,948	7,075	8,836	9,036	7,440	18,085	55,421
Subordinated loans				661	14,567	927	16,155

Analysis of certain assets and liabilities by maturity

2019	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Loans and advances to banks	25,049	6,794	8,661	14,542	8,379	19,281	82,704
Loans and advances to customers	31,015	9,453	26,706	85,694	162,927	16,850	332,645
Liabilities							
Deposits from banks	26,686	783	11,200	10,429	1,783	13,123	64,004
Customer deposits	241,251	10,453	16,529	18,146	19,704	16,361	322,443
Debt securities in issue	2,146	8,305	23,193	20,693	8,175	20,030	82,541
Subordinated loans				1,780	14,307	673	16,760

28 Assets not freely disposable

Assets not freely disposable	2020	2019
Equity and debt instruments	19,054	14,483
Lending	78,218	62,717
Banks	9,691	15,030
Other assets	700	717
	107,663	**92,946**

The table includes assets relating to securities lending as well as sale and repurchase transactions

29 Contingent liabilities and other commitments

Contingent liabilities by type	2020	2019
Guarantees	28,635	45,801
Irrevocable letters of credit	12,139	7,480
Other	15	20
Contingent debts	**40,788**	**53,300**
Irrevocable facilities	62,482	58,295
	103,270	**111,596**

Contingent debts	2020	2019
Group companies	14,282	29,132
Third parties	26,506	24,169
	40,788	**53,300**

Irrevocable facilities	2020	2019
Group companies	3	3
Third parties	62,479	58,292
	62,482	**58,295**

30 Other

Guarantees

ING Bank has issued guarantees as participant in collective arrangements of national banking funds and as a participant in required collective guarantee schemes. For example, ING Bank N.V. provided a guarantee to the German Deposit Guarantee Fund ('Einlagensicherundsfonds' or ESF) under section 5 (10) of the by-laws of this fund, where ING Bank N.V. indemnifies the Association of German Banks Berlin against any losses it might incur as result of actions taken with respect to ING Germany. The ESF is a voluntary collective guarantee scheme for retail savings and deposits in excess of EUR 100,000.

ING Bank N.V. has issued statements of liabilities in connection with Section 403 Book 2 of the Dutch Civil Code ('403 statements') and issued third party guarantees (and third party letters of comfort/awareness) in a limited number of cases. Third party guarantees are used when ING Bank N.V. is requested to issue a guarantee to a third party creditor of one of its subsidiaries in order to guarantee the (financial) performance of this subsidiary. 403 statements have been issued for the following Dutch subsidiaries:

- B.V. Deelnemings- en Financieringsmaatschappij 'Nova Zembla'
- B.V. Maatschappij van Onroerende Goederen 'Het Middenstandshuis'
- Bank Mendes Gans N.V.
- BMG monumenten B.V.
- Cofiton B.V.
- Entero B.V.
- ING Bank Personeel B.V.
- ING Business Shared Services B.V.
- ING Commercial Finance B.V.
- ING Corporate Investments B.V.
- ING Corporate Investments Mezzanine Fonds B.V.
- ING Corporate Investments Participaties B.V.
- ING Corporate Investments Structured Finance B.V.
- ING Groenbank N.V.
- ING Lease (Nederland) B.V.
- ING Sustainable Investments B.V.
- ING Vastgoed Ontwikkeling B.V.
- Nationale-Nederlanden Hypotheekbedrijf N.V.

- Nationale-Nederlanden Intervest II B.V.
- WestlandUtrecht Verzekeringen B.V.

Claim agreements

In the ordinary course of business we have entered into a number of agreements whereby we are provided and being provided indemnifications related to sale of our past businesses and agreements whereby we made detailed arrangements regarding allocation and handling of claims.

Fiscal unity

ING Bank N.V. forms a fiscal unity with ING Groep N.V. and several Dutch banking entities for corporation tax purposes. ING Bank N.V. and ING Groep N.V. and its banking subsidiaries that form part of the fiscal unity are jointly and severally liable for taxation payable by the fiscal unity. Settlements of corporate income tax paid or received are executed by ING Bank N.V.

31 Proposed appropriation of results

For 2020, it is proposed that the result, insofar at the disposal of the General Meeting, will be appropriated as follows. The total dividend of EUR 1,207 million was paid in March 2021 as an interim dividend.

Proposed appropriation of result

	2020
Net result	**2,415**
- Addition to reserves pursuant to Article 24 of the Articles of Association	94
- Proposed to be added to the Other Reserves pursuant to Article 24 of the Articles of Association	1,114
- Available for dividend distribution	1,207

32 Subsequent events

On 18 February 2021 ING announced that it intends to withdraw from the retail banking market in the Czech Republic. Raiffeisenbank Czech Republic has agreed to prepare a welcome offer for ING's retail customers in the Czech Republic.In March, customers will receive an invitation from Raiffeisenbank to move to this bank over the coming months. The ambition is for ING to stop all its retail activities in this market by the end of 2021. ING will remain active in the Czech Republic as a provider of wholesale banking products and services.The agreement with Raiffeisenbank has been secured to ensure ING's customers in the Czech Republic can continue to meet their banking needs. ING customers will receive the option to move their savings and investments to Raiffeisenbank at preferential conditions. The agreement between ING Czech Republic and Raiffeisenbank Czech Republic is pending regulatory approval.

ING announced on 2 March 2021 that it is reviewing the strategic options for its Retail Banking operations in Austria with the aim of exiting this market by the end of 2021. The scope of the review focuses solely on ING's retail business. ING will continue its Wholesale Banking activities in Austria. As a first step, in June 2021, ING will discontinue its savings-only offering for customers in Austria. As it exits the local retail banking market, ING will make sure its customers are fully supported throughout.

Authorisation of Parent company financial statements

Amsterdam, 8 March 2021

The Supervisory Board

G.J. (Hans) Wijers, chairman
A.M.G. (Mike) Rees, vice-chairman
J.P. (Jan Peter) Balkenende
J. (Juan) Colombás
M. (Mariana) Gheorghe
M. (Margarete) Haase
H.A.H. (Herman) Hulst
H.H.J.G. (Harold) Naus
H.W.P.M.A. (Herna) Verhagen

The Management Board Banking

S.J.A. (Steven) van Rijswijk, CEO and chairman
T. (Tanate) Phutrakul, CFO
L. (Ljiljana) Čortan, CRO
P. (Pinar) Abay, head of Market Leaders
A. (Aris) Bogdaneris, head of Challengers & Growth Markets
R.M.M (Roel) Louwhoff, COO/CTO

Independent auditor's report

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

Report on the audit of the financial statements 2020 included in the annual report

Our opinion

In our opinion:

— the accompanying consolidated financial statements give a true and fair view of the financial position of ING Bank N.V. as at 31 December 2020 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and with Part 9 of Book 2 of the Dutch Civil Code;

— the accompanying parent company financial statements give a true and fair view of the financial position of ING Bank N.V. as at 31 December 2020 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2020 of ING Bank N.V. (the 'Company' or 'the Group' or 'ING Bank') based in Amsterdam. The financial statements include the consolidated financial statements and the parent company financial statements.

The consolidated financial statements comprise:

1 the consolidated statement of financial position as at 31 December 2020;

2 the following consolidated statements for 2020: the statement of profit or loss, the statements of comprehensive income, changes in equity and cash flows; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company financial statements comprise:

1 the parent company statement of financial position as at 31 December 2020;

2 the parent company statement of profit or loss and statement of changes in equity for 2020; and

3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of ING Bank N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' ('ViO', Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in The Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' ('VGBA', Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

Materiality

— Group materiality of EUR 250 million (2019: EUR 300 million).

— 5.7% of normalised profit before taxation from continuing operations (2019: profit before taxation from continuing operation 4.4%).

Group audit

— 92% of total assets covered by audit procedures performed by component auditors (2019: 90%).

— 83% of profit before taxation from continuing operations covered by audit procedures performed by component auditors (2019: 84%).

Key Audit Matters

— Assessment of Expected Credit Losses on loans and advances to customers and banks.

— Assessment of goodwill impairment.

— Risk of inappropriate access or changes to information technology systems.

Opinion

Unqualified

Materiality

Based on our professional judgement, we determined the materiality for the financial statements as a whole at EUR 250 million (2019: EUR 300 million) which represents 5.7% (2019: profit before taxation from continuing operation 4.4%) of normalised profit before taxation from continuing operations. The materiality is determined with reference to the normalised profit before taxation from continuing operations and excludes goodwill impairment (EUR 310 million) and impairment of associates and joint ventures (EUR 235 million).

We consider normalised profit before taxation from continuing operations as the most appropriate benchmark based on our assessment of the general information needs of users of financial statements and given the fact that ING Bank is a profit-oriented entity. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Audit Committee of the Supervisory Board that misstatements in excess of EUR 12.5 million (2019: EUR 15 million) which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

ING Bank is at the head of a group of components. The financial information of this group is included in the financial statements of ING Bank.

ING Bank is structured in segments: Retail Netherlands, Retail Belgium, Retail Germany, Retail Other, Wholesale Banking and Corporate Line Banking, covering different countries. Because we are ultimately responsible for the group audit engagement, we are responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for components. Our group audit is mainly focused on significant components. These components are either individually financially significant due to their relative size compared to ING Bank or because we identified a significant risk of material misstatement to one or more account balances of these entities. In addition, we included certain other non-significant components in the scope of our group audit in order to arrive at a sufficient coverage over all relevant significant account balances.

Applying these scoping criteria led to a full or specific scope audit for 42 components globally, in total covering 16 countries. This resulted in a coverage performed by component auditors of 83% of profit before taxation from continuing operations and 92% of total assets. For the remaining 17% of profit before taxation from continuing operations and 8% of total assets, procedures were performed by the group audit team. The consolidation of ING Bank, the disclosures in the financial statements and certain accounting topics that are performed at ING Bank level, are audited by the group audit team. Procedures that are performed by the group audit team include, but are not limited to, substantive procedures with respect to equity, goodwill, certain elements of the Expected Credit Loss provisioning process, and analytical procedures in order to corroborate our assessment that the risk of material misstatement in the residual population is less than reasonably possible and scoping remained appropriate throughout the audit.

All components in scope for group reporting are audited by KPMG member firms. We sent detailed instructions to all component auditors, covering significant areas including the relevant significant risks of material misstatement identified at group level, and set out the information required to be reported to the group audit team. We performed file reviews for The Netherlands, Belgium, Germany, France, United Kingdom, Hong Kong, Singapore and Turkey. The Covid-19 travel implications required us to perform the file reviews remotely. For all components in scope of the group audit, we held conference calls and/or remote meetings with the auditors of the components. During these meetings and calls, the planning, risk assessment, procedures performed, findings and observations reported to the group auditor were discussed in more detail and any further work deemed necessary by the group audit team was then performed.

In view of restrictions on the movement of people across borders, and also within significantly affected countries, we have considered making changes to the planned audit approach to evaluate the component auditors' communications and the adequacy of their work. Due to the aforementioned restrictions, visiting components was not practicable in the current environment. As a result, we have requested those component auditors to provide us with access to audit workpapers to perform these evaluations, subject to local law and regulations. In addition, due to the inability to arrange in-person meetings with such component auditors, we have increased the use of alternative methods of communication with them, including through written instructions, exchange of e-mails and virtual meetings.

The group audit team has set component materiality levels which ranged from EUR 20 million to EUR 95 million, based on the mix of size and financial statement risk profile of the components within ING Bank, to reduce the aggregation risk to an acceptable level.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about ING Bank's financial information to provide an opinion about the financial statements.

The audit coverage as stated in the section summary can be further specified as follows:

Total assets

92%	8%
Covered by audit procedures performed by component auditors	Covered by procedures performed at group level

Profit before taxation from continuing operations

83%	17%
Covered by audit procedures performed by component auditors	Covered by procedures performed at group level

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

The objectives of our audit with respect to fraud and non-compliance with laws and regulations are:

With respect to fraud:

— to identify and assess the risks of material misstatement of the financial statements due to fraud;

— to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and

— to respond appropriately to fraud or suspected fraud identified during the audit.

With respect to non-compliance with laws and regulations:

— to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and

— to obtain a high (but not absolute) level of assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the Management Board, with oversight by the Supervisory Board. We refer to section 'Risk Management' of the Annual Report where the Management Board included its risk assessment, and section 'Corporate Governance' where the Supervisory Board reflects on this.

Our risk assessment

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to for example financial reporting fraud and misappropriation of assets. We, together with our forensics specialists, evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to the Company and we inquired the Management Board and the Audit Committee of the Supervisory Board as to whether the entity is in compliance with such laws and regulations and inspected correspondence, if any, with relevant licensing and regulatory authorities DNB and ECB.

The potential effect of the identified laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements, including taxation and financial reporting. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items and, therefore, no additional audit response is necessary.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognised or disclosures provided in the financial statements, or both, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an indirect effect:

— Anti-money laundering laws and regulations.

— Sanctions laws.

In accordance with the auditing standard, we evaluated the following fraud and non-compliance risks that are relevant to our audit, including the relevant presumed risks:

— Fraud risk in relation to management override of controls (a presumed risk).

— Fraud risk in relation to management override of Expected Credit Loss provision results.

We rebutted the presumed fraud risk on revenue recognition, as the accounting of interest income and commission income is based on automatically generated accruals based on static data taken from the loan source system and therefore concerns routine transactions not subject to management judgement.

We communicated the identified risks of fraud and non-compliance with laws and regulations throughout our team and remained alert to any indications of fraud and/or non-compliance throughout the audit. This included communication from the group to component audit teams of relevant risks of fraud and/or non-compliance with laws and regulations identified at group level.

In all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. We refer to the Key Audit Matters 'Assessment of Expected Credit Losses on loans and advances to customers and banks' and 'Assessment of goodwill impairment' that are examples of our approach related to areas of higher risk due to accounting estimates where management makes significant judgements.

We communicated our risk assessment and audit response to the Management Board and the Audit Committee of the Supervisory Board. Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our response

We performed the following audit procedures (not limited) to respond to the assessed risks:

— We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks.

— We performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias by the Company, including retrospective reviews of prior year's estimates. We also performed substantive testing including testing of transactions back to source information.

— We assessed matters reported on the Company's whistleblowing and complaints procedures with the entity and assessed, where deemed necessary, results of management's follow-up of such matters.

— With respect to the risk of fraud in relation to management override of Expected Credit Loss provision results, we refer to the Key Audit Matter 'Assessment of Expected Credit Losses on loans and advances to customers and banks'.

— We incorporated elements of unpredictability in our audit.

— We considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud or non-compliance.

— We obtained audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements.

— We considered the effect of actual, suspected or identified risk of non-compliance as part of our procedures on the related financial statement items.

We do note that our audit is based on the procedures described in line with applicable auditing standards.

With respect to the bank-wide Know Your Customer enhancement program (the 'KYC enhancement program') as disclosed in the Management Board report in order to improve governance, systems and tools around client due diligence and transaction monitoring, we inquired senior management, legal counsel, compliance officer and Head of Internal Audit.

We inspected the progress reports in relation to the KYC enhancement program and we evaluated and discussed internal audit reports in relation to compliance. We instructed local auditors of selected components of ING Bank to assess the progress of the remediation at component level.

We observe that the required KYC enhancement program receives and will need ongoing attention from management, the Audit Committee and the Supervisory Board.

We do note that our audit is not primarily designed to detect fraud and non-compliance with laws and regulations and that management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud, including compliance with laws and regulations.

The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Our Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the Key Audit Matters to the Audit Committee of the Supervisory Board. The Key Audit Matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of Expected Credit Losses on loans and advances to customers and banks

Description

As discussed in the Credit Risk section of the annual report and in Note 3 and Note 7 to the consolidated financial statements, the loans and advances to customers and loans and advances to banks amounts are EUR 598 billion and EUR 25 billion, respectively, as at 31 December 2020. Management considers the uncertainties of Covid-19 in the estimate of Expected Credit Losses ('ECL'), specifically regarding macroeconomic forecasts and behaviour of borrowers subject to payment holidays and government stimulus plans. These loans and advances are measured at amortised cost, less ECL of EUR 5.8 billion.

We identified the assessment of ECL on loans and advances to customers and banks as a Key Audit Matter. Significant and complex auditor judgement and specialised skills and knowledge were required to evaluate the following elements of the overall estimate:

— The judgements used to develop the Probability of Defaults ('PD'), the Loss Given Default ('LGD') and the Exposure At Default ('EAD'), including model or manually determined expected future recovery cash flows.

— Use of forward-looking macroeconomic forecasts in the ECL, including GDP, unemployment, and house pricing index.

— Criteria for identifying significant increase in credit risk ('SICR').

— Calculation of management overlays to the ECL due to the increased uncertainty in the forecast of future economic conditions and to calculate the default ratio of borrowers with payment holidays.

Our response

The following are the primary procedures we performed to address this Key Audit Matter:

— We evaluated the design and tested the operating effectiveness of certain internal controls related to the ECL-process for loans and advances to customers and banks. This included controls related to the assumptions (including macroeconomic forecasts, PD, LGD and EAD), review of model outputs, governance and monitoring of the ECL, determination of credit risk ratings, the estimated future recovery cash flows of individual loan provisions and management overlays recorded to ECL.

— We involved credit risk professionals with specialised skills and knowledge who assisted in evaluating the assumptions to determine the PD, LGD, and EAD parameters in models used by the Company to determine the collective provisions, and assessed management overlays recorded to the ECL, including payment holiday and time lag overlays. This included reperforming back-testing of certain models to evaluate current model performance. We considered the impact these overlays have on model calculations and results when reaching our conclusions.

— We involved economic professionals with specialised skills and knowledge who assisted in assessing the Company's methodology to determine the macroeconomic forecasts used in the ECL. We tested the reasonableness of management's forecasts against other external benchmarks and our own internal forecasts.

— We involved corporate finance professionals with specialised skills and knowledge who assisted in examining the methodologies, cash flows and collateral values used in expected future recovery cash flow assessments of individual loan provisions for impaired loans. We challenged management's use of recovery scenarios and expected cash flows considering industry trends and comparable benchmarks, and recalculated recovery amounts.

— We evaluated the identification of significant increase in credit risk in loans by challenging the scope of management's criteria used in staging assessments, the thresholds applied within each criterion, and the ability of staging criteria to identify SICR prior to loans being credit impaired.

Our observation

Based on our procedures performed, we found management's overall assessment relating to the valuation of loans and advances to customers and banks within an acceptable range and adequately disclosed in Note 7 and Note 3 to the financial statements respectively.

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Assessment of goodwill impairment

Description

As discussed in Note 10 to the consolidated financial statements, goodwill was EUR 533 million as at 31 December 2020. Management conducts an impairment test annually in accordance with IAS 36, and whenever events or changes in circumstances indicate that the carrying value of a Cash Generating Unit ('CGU') may exceed its recoverable amount. As a result of the negative developments in the macroeconomic outlook in the context of the

Covid-19 pandemic, the recoverable amount of goodwill has declined. The recoverable amount is estimated as the higher of fair value less cost of disposal and value in use ('VIU') of each CGU, based on management's dividend discount model.

We identified the assessment of goodwill impairment as a Key Audit Matter. There was a high degree of estimation uncertainty due to the sensitivity of assumptions used in the VIU-calculations and in identifying events or changes in circumstances that could be an indicator of impairment requiring complex auditor judgement.

Specifically, forecasts, terminal growth rates, discount rates and capital ratios were challenging to test as minor changes to those assumptions had a significant effect on the Company's assessment of the recoverable amount. We performed sensitivity analyses to determine the significant assumptions used, which required challenging auditor judgement. Additionally, the audit effort associated with this estimate required specialised skills and knowledge.

Our response

The following are the primary procedures we performed to address this Key Audit Matter:

— We identified events or changes in circumstances and tested management's process for determining the recoverable amount of each CGU.

— We evaluated the reasonableness of the Company's forecasts and cash flows for the individual CGUs by challenging the forecasts and comparing the assumptions to historical performance.

— We involved valuation professionals with specialised skills and knowledge who assisted in:

- evaluating the mathematical accuracy of the model by recalculation of the discount rates and terminal value calculations included in the model and assessment of the consistency of applied formulas;
- assessing the reasonableness of certain assumptions applied in the model including capital ratios (by comparing with analyst consensus data for comparable entities), terminal growth rates (by comparing per country the terminal growth rates applied to long term inflation) and discount rates (by independently deriving the risk fee rate for cost of equity per country based on observable market data).

Our observation

Based on our procedures performed, we found management's overall assessment relating to the valuation of goodwill within an acceptable range and adequately disclosed in Note 10.

Risk of inappropriate access or changes to information technology systems

Description

ING Bank is dependent on its IT environment for the reliability and continuity of its operations and financial reporting. Inappropriate access or changes to an application or supporting infrastructure could impact an automated control and therefore compromise the reliability of financial data and continuity of ING Bank's operations.

Our response

Our audit approach depends to a large extent on the effectiveness of automated controls and, therefore, procedures are designed to test, among others, access and change management controls over IT systems. Given the IT technical characteristics of this part of the audit, IT audit specialists are an integral part of our engagement team.

IT audit specialists assessed the reliability and continuity of the IT environment when relevant for the scope of our audit of the financial statements. We examined the framework of governance over ING Bank's IT organisations, the IT general controls, and application controls.

Our areas of focus related to the change management, user access management, cyber security, security event monitoring, automated and application controls of the IT systems relevant for financial reporting. Management has put efforts to remediate identified control deficiencies. For those control deficiencies that were not remediated, we tested compensating controls that addressed the same risk or mitigating controls that lowered the risk of the deficiency. For certain deficiencies during the period of remediation, we substantively assessed the access to determine whether inappropriate access occurred and whether changes made were appropriate.

Our observation

The combination of the tests of the controls and the substantive tests performed, provided sufficient evidence to enable us to rely on the adequate and continued operation of the IT systems for the purposes of our audit.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information.

Based on the following procedures performed, we conclude that the other information:

— is consistent with the financial statements and does not contain material misstatements; and

— contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Management Board of the Company is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

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Report on other legal and regulatory requirements

Engagement

We were engaged by the Annual General Meeting of the Shareholder as auditor of ING Bank on 11 May 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Services rendered

For the period to which our statutory audit relates, in addition to this audit we have provided agreed-upon procedures and assurance engagements to ING Bank N.V. or its controlled undertakings. These services were rendered for the benefit of external users, largely driven by regulatory compliance.

Description of responsibilities regarding the financial statements

Responsibilities of the Management Board and the Supervisory Board for the financial statements

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS-EU and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as the Management Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Management Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Management Board should prepare the financial statements using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern, in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is included in the appendix of this auditor's report. This description forms part of our auditor's report.

Amstelveen, 8 March 2021

KPMG Accountants N.V.
W.G. Bakker RA

Appendix:
Description of our responsibilities for the audit of the financial statements

KPMG

Appendix

Description of our responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

— identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

— evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board;

— concluding on the appropriateness of the Management Board's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;

— evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and

— evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are solely responsible for the opinion and therefore responsible to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. In this respect, we are also responsible for directing, supervising and performing the group audit.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect, we also submit an additional report to the Audit Committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audits of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the Key Audit Matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Articles of Association – Appropriation of results

Appropriation of results

The result is appropriated pursuant to Article 24 of the Articles of Association of ING Bank N.V., the relevant stipulations of which state that the result shall firstly be appropriated to the Stichting Regio Bank Reserve, respectively the Reserve Stichting Vakbondsspaarbank SPN or charged to that reserves in proportion to the ratio between the Stichting Regio Bank Reserve, respectively the Reserve Stichting Vakbondsspaarbank SPN and the company's equity at the end of the relevant financial year and that the remainder shall be at the disposal of the General Meeting.

Disclaimer

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) political instability and fiscal uncertainty in Europe and the United States (7) discontinuation of or changes in 'benchmark' indices (8) inflation and deflation in our principal markets (9) changes in conditions in the credit and capital markets generally, including changes in borrower and counterparty creditworthiness (10) failures of banks falling under the scope of state compensation schemes (11) non-compliance with or changes in laws and regulations, including those financial services and tax laws, and the interpretation and application thereof (12) geopolitical risks, political instabilities and policies and actions of governmental and regulatory authorities (13) legal and regulatory risks in certain countries with less developed legal and regulatory frameworks (14) prudential supervision and regulations, including in relation to stress tests and regulatory restrictions on dividends and distributions, (also among members of the group) (15) regulatory consequences of the United Kingdom's withdrawal from the European Union, including authorizations and equivalence decisions (16) ING's ability to meet minimum capital and other prudential regulatory requirements (17) changes in regulation of US commodities and derivatives businesses of ING and its customers (18) application of bank recovery and resolution regimes, including write-down and conversion powers in relation to our securities (19) outcome of current and future litigation, enforcement proceedings, investigations or other regulatory actions, including claims by customers who feel mislead and other conduct issues (20) changes in tax laws and regulations and risks of non-compliance or investigation in connection with tax laws, including FATCA (21) 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 (22) risks and challenges related to cybercrime including the effects of cyber-attacks and changes in legislation and regulation related to cybersecurity and data privacy (23) changes in general competitive factors, including ability to increase or maintain market share (24) the inability to protect our intellectual property and infringement claims by third parties (25) inability of counterparties to meet financial obligations or ability to enforce rights against such counterparties (26) changes in credit ratings (27) business, operational, regulatory, reputation and other risks and challenges in connection with climate change (28) inability to attract and retain key personnel (29) future liabilities under defined benefit retirement plans (30) failure to manage business risks, including in connection with use of models, use of derivatives, or maintaining appropriate policies and guidelines (31) 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, and (32) 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 annual report contains 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 annual report. 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 filing of this annual report or that any information found at such websites will not change following the filing of this annual report. 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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