UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended 31 December 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 001-14642

ING GROEP N.V.

(Exact name of Registrant as specified in its charter)

ING GROUP

(Translation of Registrant's name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

ING Groep N.V. Bijlmerdreef 106
1102 CT Amsterdam
P.O. Box 1800, 1000 BV Amsterdam
The Netherlands

(Address of principal executive offices)

Erwin Olijslager
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Bijlmerdreef 106
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The Netherlands

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Trading symbols	Name of each exchange on which registered
American Depositary Shares	ING	New York Stock Exchange
Ordinary shares		New York Stock Exchange(i)
3.150% Fixed Rate Senior Notes due 2022	ING22	New York Stock Exchange
3.950% Fixed Rate Senior Notes due 2027	ING27	New York Stock Exchange
Floating Rate Senior Notes due 2022	ING22A	New York Stock Exchange
Floating Rate Senior Notes due 2023	ING23A	New York Stock Exchange
4.100% Fixed Rate Senior Notes due 2023	ING23	New York Stock Exchange
4.550% Fixed Rate Senior Notes due 2028	ING28	New York Stock Exchange
3.550% Fixed Rate Senior Notes due 2024	ING24	New York Stock Exchange
4.050% Fixed Rate Senior Notes due 2029	ING29	New York Stock Exchange

(i) Not for trading, but only in connection with the registration of American Depositary Shares representing such ordinary shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act. None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares, nominal value EUR 0.01 per Ordinary Share 3.900.668.635

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 193

☐ Yes ☒ No

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer☒ Accelerated filer☐ Non-accelerated filer☐ Emerging growth company☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☒ Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

ING GROUP

Annual Report 2020 on Form 20-F

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Additional information

PRESENTATION OF INFORMATION

In this Annual Report, and unless otherwise stated or the context otherwise dictates, references to "ING Groep N.V.", "ING Groep" and "ING Group" refer to ING Groep N.V. and references to "ING", the "Company", the "Group", "we" and "us" refer to ING Groep N.V. and its consolidated subsidiaries. ING Groep N.V.'s primary banking subsidiary is ING Bank N.V. (together with its consolidated subsidiaries, "ING Bank"). References to "Executive Board" and "Supervisory Board" refer to the Executive Board or Supervisory Board of ING Groep N.V., respectively.

ING presents its consolidated financial statements in euros, the currency of the European Economic and Monetary Union. Unless otherwise specified or the context otherwise requires, references to “$”, “US$” and “Dollars” are to the United States dollars and references to “EUR” are to euros.

ING prepares financial information in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS-IASB”) for purposes of reporting with the U.S. Securities and Exchange Commission (“SEC”), including financial information contained in this Annual Report on Form 20-F. ING Group’s accounting policies and its use of various options under IFRS-IASB are described under ‘Principles of valuation and determination of results’ in the consolidated financial statements. In this document the term “IFRS-IASB” is used to refer to IFRS-IASB as applied by ING Group.

The published 2020 Annual Accounts of ING Group, however, are prepared in accordance with IFRS-EU. IFRS-EU refers to International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”), including the decisions ING Group made with regard to the options available under IFRS as adopted by the EU (IFRS-EU).

IFRS-EU differs from IFRS-IASB, in respect of certain paragraphs in IAS 39 ‘Financial Instruments: Recognition and Measurement’ regarding hedge accounting for portfolio hedges of interest rate risk. Under IFRS-EU, ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (fair value macro hedges) in accordance with the EU “carve-out” version of IAS 39. Under the EU “IAS 39 carve-out”, hedge accounting may be applied, in respect of fair value macro hedges, to core deposits and hedge ineffectiveness is only recognised when the revised estimate of the amount of cash flows in scheduled time buckets falls below the original designated amount of that bucket, and is not recognised when the revised amount of cash flows in scheduled time buckets is more than the original designated amount. Under IFRS-IASB, hedge accounting for fair value macro hedges cannot be applied to core deposits and hedge ineffectiveness arises whenever the revised estimate of the amount of cash flows in scheduled time buckets is either more or less than the original designated amount of that bucket. IFRS-IASB financial information is prepared by reversing the hedge accounting impacts that are applied under the EU “carve-out”’ version of IAS 39. Financial information under IFRS-IASB accordingly does not take account of the possibility that, had ING Group applied IFRS-IASB as its primary accounting framework, it might have applied alternative hedge strategies where those alternative hedge strategies could have qualified for IFRS-IASB compliant hedge accounting. These decisions could have resulted in different shareholders’ equity and net result amounts compared to those indicated in this Annual Report on Form 20-F.

Other than for the purpose of SEC reporting, ING Group intends to continue to prepare its Annual Accounts under IFRS-EU. A reconciliation between IFRS-EU and IFRS-IASB for shareholders’ equity and net result is included in Note 1 ‘accounting policies’ to the consolidated financial statements.

Certain amounts set forth herein, such as percentages, may not sum due to rounding.

This Annual Report on Form 20-F 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 on Form 20-F.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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,

- changes in general economic conditions, in particular economic conditions in ING's core markets, including changes affecting currency exchange rates,
- 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,
- changes affecting interest rate levels,
- any default of a major market participant and related market disruption,
- changes in performance of financial markets, including in Europe and developing markets,
- political instability and fiscal uncertainty in Europe and the United States,
- discontinuation of or changes in 'benchmark' indices,
- inflation and deflation in our principal markets,
- changes in conditions in the credit and capital markets generally, including changes in borrower and counterparty creditworthiness,
- failures of banks falling under the scope of state compensation schemes,
- non-compliance with or changes in laws and regulations, including those financial services and tax laws, and the interpretation and application thereof,
- geopolitical risks, political instabilities and policies and actions of governmental and regulatory authorities,
- legal and regulatory risks in certain countries with less developed legal and regulatory frameworks,
- prudential supervision and regulations, including in relation to stress tests and regulatory restrictions on dividends and distributions, (also among members of the group),
- regulatory consequences of the United Kingdom's withdrawal from the European Union, including authorizations and equivalence decisions,
- ING's ability to meet minimum capital and other prudential regulatory requirements,
- changes in regulation of US commodities and derivatives businesses of ING and its customers,
- application of bank recovery and resolution regimes, including write-down and conversion powers in relation to our securities,
- outcome of current and future litigation, enforcement proceedings, investigations or other regulatory actions, including claims by customers who feel mislead and other conduct issues,
- changes in tax laws and regulations and risks of non-compliance or investigation in connection with tax laws, including FATCA,
- 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,
- risks and challenges related to cybercrime including the effects of cyber-attacks and changes in legislation and regulation related to cybersecurity and data privacy,
- changes in general competitive factors, including ability to increase or maintain market share,
- the inability to protect our intellectual property and infringement claims by third parties,
- inability of counterparties to meet financial obligations or ability to enforce rights against such counterparties,
- changes in credit ratings,
- business, operational, regulatory, reputation and other risks and challenges in connection with climate change,
- inability to attract and retain key personnel,
- future liabilities under defined benefit retirement plans,

- failure to manage business risks, including in connection with use of models, use of derivatives, or maintaining appropriate policies and guidelines,
- 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,
- 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.

This document does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities in the United States or any other jurisdiction.

PART I

Item 1. Identity of Directors, Senior Management And Advisors

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected financial data

Not applicable.

B. Capitalization and indebtedness

This item does not apply to annual reports on Form 20-F.

C. Reasons for the offer and use of proceeds

This item does not apply to annual reports on Form 20-F.

D. Risk Factors

Summary of Risk factors

The following is a summary of the principal risk factors that could have a material adverse effect on the business activities, financial condition, results and prospects of ING. Please carefully consider all of the information discussed in this Item 3.D “Risk Factors” for a detailed description of these risks.

Risks related to financial conditions, market environment and general economic trends

- Our revenues and earnings are affected by the volatility and strength of the economic, business, liquidity, funding and capital markets environments of the various geographic regions in which we conduct business, as well as by changes in customer behaviour in these regions, and an adverse change in any one region could have an impact on our business, results and financial condition.
- ING’s business, results and financial condition have been, and likely will continue to be, adversely affected by the Covid-19 pandemic.
- Interest rate volatility and other interest rate changes may adversely affect our business, results and financial condition.
- The default of a major market participant could disrupt the markets and may have an adverse effect on our business, results and financial condition.
- Continued risk of political instability and fiscal uncertainty in Europe and the United States, as well as ongoing volatility in the financial markets and the economy generally have adversely affected, and may continue to adversely affect, our business, results and financial condition.
- Discontinuation of or changes to ‘benchmark’ indices may negatively affect our business, results and financial condition.
- Inflation and deflation may negatively affect our business, results and financial condition.
- Market conditions, including those observed over the past few years, and the application of IFRS 9 may increase the risk of loans being impaired and have a negative effect on our results and financial condition.
- We may incur losses due to failures of banks falling under the scope of state compensation schemes.

Risks related to the regulation and supervision of the Group

- Non-compliance with laws and/or regulations concerning financial services or financial institutions, including with respect to financial economic crimes, could result in fines and other liabilities, penalties or consequences for us, which could materially affect our business and reduce our profitability.
- Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations may increase our operating costs and limit our activities.
- We are subject to additional legal and regulatory risk in certain countries where we operate with less developed or predictable legal and regulatory frameworks.
- We are subject to the regulatory supervision of the ECB and other regulators with extensive supervisory and investigatory powers.
- The regulatory consequences of the United Kingdom's withdrawal from the European Union may have adverse effects on our business, results and financial condition.
- Failure to meet minimum capital and other prudential regulatory requirements as applicable to us from time to time may have a material adverse effect on our business, results and financial condition and on our ability to make payments on certain of our securities.
- Our US commodities and derivatives business is subject to CFTC and SEC regulation under the Dodd-Frank Act.
- We are subject to several other bank recovery and resolution regimes that include statutory write down and conversion as well as other powers, which remains subject to significant uncertainties as to scope and impact on us.

Risks related to litigation, enforcement proceedings and investigations and to changes in tax laws

- We may be subject to litigation, enforcement proceedings, investigations or other regulatory actions, and adverse publicity.
- We are subject to different tax regulations in each of the jurisdictions where we conduct business, and are exposed to changes in tax laws, and risks of non-compliance with or proceedings or investigations with respect to, tax laws.
- We may be subject to withholding tax if we fail to comply with the Foreign Account Tax Compliance Act ("FATCA") and other US withholding tax regulations
- ING is exposed to the risk of claims from customers who feel misled or treated unfairly because of advice or information received.

Risks related to the Group's business and operations

- Operational risks, such as systems disruptions or failures, breaches of security, cyber attacks, human error, changes in operational practices, inadequate controls including in respect of third parties with which we do business, natural disasters or outbreaks of communicable diseases may adversely impact our reputation, business and results.
- We are subject to increasing risks related to cybercrime and compliance with cybersecurity regulation.
- Because we operate in highly competitive markets, including our home market, we may not be able to increase or maintain our market share, which may have an adverse effect on our results.
- We may not always be able to protect our intellectual property developed in our products and services and may be subject to infringement claims, which could adversely impact our core business, inhibit efforts to monetize our internal innovations and restrict our ability to capitalize on future opportunities.
- The inability of counterparties to meet their financial obligations or our inability to fully enforce our rights against counterparties could have a material adverse effect on our results.
- Ratings are important to our business for a number of reasons, and a downgrade or a potential downgrade in our credit ratings could have an adverse impact on our results and net results.
- We may be exposed to business, operational, regulatory, reputational and other risks in connection with climate change.
- An inability to retain or attract key personnel may affect our business and results.
- We may incur further liabilities in respect of our defined benefit retirement plans if the value of plan assets is not sufficient to cover potential obligations, including as a result of differences between actual results and underlying actuarial assumptions and models.

Risks related to the Group's risk management practices

- Risks relating to our use of quantitative models or assumptions to model client behaviour for the purposes of our market calculations may adversely impact our reputation or results.
- We may be unable to manage our risks successfully through derivatives.

Risks related to the Group's liquidity and financing activities

- We depend on the capital and credit markets, as well as customer deposits, to provide the liquidity and capital required to fund our operations, and adverse conditions in the capital and credit markets, or significant withdrawals of customer deposits, may impact our liquidity, borrowing and capital positions, as well as the cost of liquidity, borrowings and capital.

- As a holding company, ING Groep N.V. is dependent for liquidity on payments from its subsidiaries, many of which are subject to regulatory and other restrictions on their ability to transact with affiliates.

Additional risks relating to ownership of ING shares

- Holders of ING shares may experience dilution of their holdings.
- Because we are incorporated under the laws of the Netherlands and many of the members of our Supervisory and Executive Board and our officers reside outside of the United States, it may be difficult to enforce judgments against ING or the members of our Supervisory and Executive Boards or our officers.

Risk factors

Any of the risks described below could have a material adverse effect on the business activities, financial condition, results and prospects of ING. ING may face a number of the risks described below simultaneously and some risks described below may be interdependent. While the risk factors below have been divided into categories, some risk factors could belong in more than one category and investors should carefully consider all of the risk factors set out in this section. Additional risks of which the Company is not presently aware, or that are currently viewed as immaterial, could also affect the business operations of ING and have a material adverse effect on ING's business activities, financial condition, results and prospects. The market price of ING shares or other securities could decline due to any of those risks including the risks described below, and investors could lose all or part of their investments.

Although the most material risk factors have been presented first within each category, the order in which the remaining risk factors are presented is not necessarily an indication of the likelihood of the risks actually materialising, of the potential significance of the risks or of the scope of any potential negative impact to our business, results, financial condition and prospects.

Risks related to financial conditions, market environment and general economic trends

Our revenues and earnings are affected by the volatility and strength of the economic, business, liquidity, funding and capital markets environments of the various geographic regions in which we conduct business, as well as by changes in customer behaviour in these regions, and an adverse change in any one region could have an impact on our business, results and financial condition.

Because ING is a multinational banking and financial services corporation, with a global presence and serving around 39.3 million customers, corporate clients and financial institutions in over 40 countries, ING's business, results and financial condition may be significantly impacted by turmoil and volatility in the worldwide financial markets or in the particular geographic areas in which we operate. In Retail Banking, our products include savings, payments, investments, loans and mortgages in most of our Retail Banking markets. In Wholesale Banking, we provide specialised lending, tailored corporate finance, debt and equity market solutions, payments & cash management, trade and treasury services. As a result, negative developments in financial markets and/or countries or regions in which we operate, have in the past had and may in the future have a material adverse impact on our business, results and financial condition, including as a result of the potential consequences listed below.

Factors such as interest rates, securities prices, credit spreads, liquidity spreads, exchange rates, consumer spending, changes in customer behaviour, business investment, real estate values and private equity valuations, government spending, inflation or deflation, the volatility and strength of the capital markets, political events and trends, terrorism, pandemics and epidemics (such as Covid-19, as described in greater detail below under the heading "– ING's business, results and financial condition have been, and likely will continue to be adversely affected by the Covid-19 pandemic") or other widespread health emergencies all impact the business and economic environment and, ultimately, our solvency, liquidity and the amount and profitability of business we conduct in a specific geographic region. Certain of these risks are often experienced globally as well as in specific geographic regions and are described in greater detail below under the headings "–Interest rate volatility and other interest rate changes may adversely affect our business, results and financial condition", "–Inflation and deflation may negatively affect our business, results and financial condition", "–Market conditions, including those observed over the past few years and the application of IFRS 9 may increase the risk of loans being impaired and have a negative effect on our results and financial condition" and "–Continued risk of political instability and fiscal uncertainty in Europe and the United States, as well as ongoing volatility in the financial markets and the economy generally have adversely affected, and may continue to adversely affect, our business, results and financial condition”. All of these are factors in local and regional economies as well as in the global economy, and we may be affected by changes in any one of these factors in any one country or region, and more if more of these factors occur simultaneously and/or in multiple countries or regions or on a global scale.

In case one or more of the factors mentioned above adversely affects the profitability of our business, this might also result, among other things, in the following:

- reserve and provisions inadequacies, which could ultimately be realised through profit and loss and shareholders’ equity;
- the write-down of tax assets impacting net results and/or equity;
- impairment expenses related to goodwill and other intangible assets, impacting net result; and/or
- movements in risk weighted assets for the determination of required capital.

In particular, we are exposed to financial, economic, market and political conditions in the Benelux countries and Germany, from which we derive a significant portion of our revenues in both Retail Banking and Wholesale Banking, and which present risks of economic downturn. Though less material, we also derive substantial revenues in the following geographic regions: Turkey, Eastern Europe (primarily Poland among others), Southern Europe (primarily Spain among others), East Asia (primarily Singapore among others) and Australia which also present risks of economic downturn. In an economic downturn, we expect that higher unemployment, lower family income, lower corporate earnings, higher corporate and private debt defaults, lower business investments and lower consumer spending would adversely affect the demand for banking products, and that ING may need to increase its reserves and provisions, each of which may result in overall lower earnings. The impact of the Covid-19 pandemic, as an example of an economic downturn, as well as the substantial monetary and government measures, are still materialising and expected to continue to affect our business. For more information, refer to the risk factor described under heading “–ING’s business, results and financial condition have been, and likely will continue to be adversely affected by the Covid-19 pandemic”. Securities prices, real estate values and private equity valuations may also be adversely impacted, and any such losses would be realised through profit and loss and shareholders’ equity. We also offer a number of financial products that expose us to risks associated with fluctuations in interest rates, securities prices, corporate and private default rates, the value of real estate assets, exchange rates and credit spreads.

For further information on ING’s exposure to particular geographic areas, see Note 35 ‘Information on geographic areas’ to the consolidated financial statements.

ING’s business, results and financial condition have been, and likely will continue to be, adversely affected by the Covid-19 pandemic.

The Covid-19 pandemic and the related response measures introduced by various national and local governmental authorities aimed at preventing the further spread of the disease (such as bans on public events with over a certain number of attendees, closures of places where larger groups of people gather such as schools, sports facilities, bars and restaurants, lockdowns, border controls and travel and other restrictions) have disrupted the normal flow of business operations in those countries and regions where we and our customers and counterparties operate (such as, among others, Benelux, Germany, France, Italy, Spain, the U.K. and the U.S.). This disruption has adversely affected, and will likely continue to adversely affect, global economic growth, supply chains, manufacturing, tourism, consumer spending, asset prices and unemployment levels, and has resulted in volatility and uncertainty across the global economy and financial markets.

In addition to the measures aimed at preventing the further spread of Covid-19, governments and central banks around the world have also introduced measures aimed at mitigating the economic consequences of the pandemic and related response measures, such as guarantee schemes, compensation schemes and cutting interest rates. For example, the Dutch government has implemented 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 our customers and other counterparties.

Governments, regulators and central banks (including the ECB), have also announced that they are taking or considering measures seeking to safeguard the stability of the financial sector, to prevent lending to the business sector from being jeopardised and to ensure the payment system continues to function properly. The ECB currently allows banks to operate below the level of capital required by the Pillar 2 Guidance, capital conservation buffer and the liquidity coverage ratio, and banks are also permitted to use a portion of their capital instruments that do not qualify as CET1 capital to meet the Pillar 2 Requirements. Several countries also released or reduced countercyclical buffers (CCyB). The ECB has also issued a recommendation to the banks that it supervises that such banks should exercise extreme prudence when deciding on or paying out dividends or performing share buy-backs until September 30, 2021. However, it is not certain whether these or future measures will be extended or maintained for a sufficient period of time, or whether such measures will be successful in mitigating the economic consequences of the pandemic and related response measures. If the pandemic is prolonged or the actions are unsuccessful, additional actions by governments and central banks may follow and the adverse impact on the global economy will deepen, and our business, results and financial condition may be materially adversely affected.

In 2020, the Covid-19 pandemic affected all of our businesses, including lower or negative interest rates, lower oil prices and credit deterioration of loans to ING’s customers. These effects have also resulted in an increase in the allowance for credit losses and impairments on non-financial assets, and reduced net interest income due to lower interest rates. While these effects were partly offset by resilient fee and commission income in 2020, this level of activity may not persist in future periods. With Covid-19 infection rates having recently increased, especially in some European countries, and further lockdowns measures having been reintroduced, this may result in changes in government responses and further downside risk towards macro-economic developments, with possibly a deeper risk aversion and a delayed recovery. These developments may result in further negative impact on our business, results and financial condition.

In 2020, ING also took certain measures to support customers impacted by the Covid-19 pandemic, including payment holidays, offering credit facilities to business customers under government guarantee schemes and providing liquidity under credit facilities to large corporate customers. Although, following supervisory guidelines, payment holidays do not automatically trigger an immediate classification of the loans as in default or as forborne, the credit quality of these loans will be monitored for future transitions into Stage 2 and could result in increased risk costs and additional risk weighted assets in future periods. As of December 31, 2020, in line with the European Banking Association (EBA) moratoria guidelines, ING has a total amount of €19.4 billion of payment holidays or 2.6% of total credit outstandings, granted to approximately 196,000 customers. While these customers are located across nearly all countries in which ING operates, over 55% of these customers are in the Netherlands and Belgium. ING also recorded €2,675 million of net additions to loan loss provisions in 2020 compared with €1,120 million in 2019. The 2020 risk costs were severely impacted by a combination of increased collective provisioning reflecting the worsened macro-economic indicators due to the Covid-19 pandemic, higher Individual Stage 3 provisions, and negative rating migration. Should these global economic conditions be prolonged or worsen, or should the pandemic lead to additional market disruptions, we may experience more customer defaults and further additions to loan loss provisions. In these circumstances, we may also experience reduced customer activity and demand for its products and services, increased utilization of lending commitments and higher credit and valuation adjustments on financial assets. In addition, persistently low interest rates for a longer period, as well as a potential further decline in interest rates might result in further decreases in net interest income. These factors and other consequences of the Covid-19 pandemic may materially adversely affect our business, results and financial condition.

Our capital and liquidity position may also be adversely impacted by the Covid-19 pandemic and related response measures, including as a result of changes in future levels of savings and deposits from customers, changes in asset quality, and the effects of government or regulatory responses to the pandemic, and may require changes to our funding structure, impact our ability to comply with regulatory capital requirements and adversely affect our cost of capital and credit rating. Any of the foregoing developments may have a material adverse impact on our business, results and financial condition.

As of December 31, 2020, most of our staff continue to work from home. Since May 2020, staff in various countries have started rotation schemes to return to work in the office in a controlled manner, taking into account local circumstances and any applicable government measures (including with respect to social distancing). This controlled office opening process is expected to allow for essential face-to-face meetings. However, with Covid-19 infection rates having recently increased, we expect that more staff will again work from home. Due to the uncertainties relating to the future development of the Covid-19 pandemic, it is not certain when our employees may be generally expected or permitted to return to the offices. If due to illness, technical limitations or other restrictions in connection with the pandemic, employees are unable to work or are not able to operate as effectively and efficiently as in the office, this may adversely affect our business, results and financial condition.

In addition, a situation in which most or some of our employees continue working from home may raise operational risks, including with respect to information security, data protection, availability of key systems and infrastructure integrity. There is also a risk that we will not be effective in implementing regulatory or strategic change programs in the current environment. The Covid-19 pandemic has led to new banking behaviour from customers. There has been an increase in the digital behaviour of our customers leading to reduced traffic in branches. Over 80% of our customers now interact with us via digital channels only. Criminals are also taking advantage of the Covid-19 pandemic to carry out financial fraud and exploitation scams, with examples including advertising and trafficking in counterfeit medicines, offering fraudulent investment opportunities, fundraising for fake charities and engaging in phishing schemes that prey on virus-related fears. National authorities and international bodies (including the Financial Action Task Force) warn citizens and businesses on impostor, investment and product scams. Although we have organized a Covid-19 taskforce to identify and analyse new behavioural patterns, leading to new cases of unusual transactions being reported to the relevant authorities, new banking behaviours may result in additional Know Your Customer (KYC) risks. If any of these risks were to materialize that may adversely affect our business, results and financial condition.

The duration of the pandemic and the impact of measures taken in response by governmental authorities, central banks and other third parties, whether direct or indirect, such as by increasing sovereign debt of certain countries which may result in increased volatility and widening credit spreads, remain uncertain. Therefore, it is difficult to predict the extent to which our business, results and financial condition, as well as our ability to access capital and liquidity on financial terms acceptable for us, may be materially adversely affected.

Interest rate volatility and other interest rate changes may adversely affect our business, results and financial condition.

Changes in prevailing interest rates may negatively affect our business, including the level of net interest revenue we earn, and the levels of deposits and the demand for loans. A sustained increase in the inflation rate in our principal markets may also negatively affect our business, results and financial condition. For example, a sustained increase in the inflation rate may result in an increase in nominal market interest rates. A failure to accurately anticipate higher inflation and factor it into our product pricing assumptions may result in mispricing of our products, which could materially and adversely impact our results. On the other hand, recent concerns regarding negative interest rates and the low level of interest rates generally may negatively impact our net interest income, which may have an adverse impact on our profitability.

A prolonged period of low interest rates, and in some situations negative interest rates, has resulted in, and may continue to result in:

- lower earnings over time on investments, as reinvestments will earn lower rates;
- increased prepayment or redemption of mortgages and fixed maturity securities in our investment portfolios, as well as increased prepayments of corporate loans. This as borrowers seek to borrow at lower interest rates potentially combined with lower credit spreads. Consequently, we may be required to reinvest the proceeds into assets at lower interest rates;
- lower profitability as the result of a decrease in the spread between client rates earned on assets and client rates paid on savings, current account and other liabilities;
- higher costs for certain derivative instruments that may be used to hedge certain of our product risks;
- lower profitability since we may not be able to fully track the decline in interest rates in our savings rates;
- lower profitability since we may not always be entitled to impose surcharges to customers to compensate for the decline in interest rates;
- lower profitability since we may have to pay a higher premium for the defined contribution scheme in the Netherlands for which the premium paid is dependent on interest rate developments and the Dutch Central Bank's ("DNB's") methodology for determining the ultimate forward rate;
- lower interest rates may cause asset margins to decrease thereby lowering our results. This may for example be the consequence of increased competition for investments as result of the low rates, thereby driving margins down; and/or
- (depending on the position) a significant collateral posting requirement associated with our interest rate hedge programs, which could materially and adversely affect liquidity and our profitability.

The foregoing impacts have been and may be further amplified in a negative interest rate environment, since we may not be able to earn interest on our assets (including reserves). In addition, we have, and may continue to, earn negative interest on certain of our assets (including cash balances, loans and bonds), while still paying positive interest or no interest to others to hold our liabilities, resulting in an adverse impact on our credit spread and lowering of our net interest income. Furthermore, in the event that a negative interest rate environment results in ING's depositors being forced to pay interest to ING to hold cash deposits, some depositors may choose to withdraw their deposits rather than pay interest to ING, which would have an adverse effect on our reputation, business, results and financial condition. For example, in March 2020, the U.S. Federal Reserve has cut the benchmark U.S. interest rate in response to the Covid-19 pandemic and related impacts on the economy and financial markets. On 1 January 2021, ING announced that it will charge negative interest to customers on current and deposit accounts exceeding €250,000 (such negative interest rate will only apply to the amount by which the current or deposit account exceeds €250,000). Such declines in interest rates in the United States or other markets in which ING and its customers and counterparties operate may have a significant adverse effect on our business and operations.

Alternatively, any period of rapidly increasing interest rates may result in:

- a decrease in the demand for loans;
- higher interest rates to be paid on customer deposits and on debt securities that we have issued or may issue on the financial markets from time to time to finance our operations, which would increase our interest expenses and reduce our results;

- higher interest rates which can lead to lower investments prices and reduce the revaluation reserves, thereby lowering IFRS equity and the capital ratios. Also the lower securities value leads to a loss of liquidity generating capacity which needs to be compensated by attracting new liquidity generating capacity which reduces our results;
- prepayment losses if prepayment rates are lower than expected or if interest rates increase too rapidly to adjust the accompanying hedges; and/or
- (depending on the position) a significant collateral posting requirement associated with our interest rate hedge program.

The default of a major market participant could disrupt the markets and may have an adverse effect on our business, results and financial condition.

Within the financial services industry, the severe distress or default of any one institution (including sovereigns and central counterparties (CCPs)) could lead to defaults by, or the severe distress of, other market participants. While prudential regulation may reduce the probability of a default by a major financial institution, the actual occurrence of such a default could have a material adverse impact on ING. Such distress of, or default by, a major financial institution could disrupt markets or clearance and settlement systems and lead to a chain of defaults by other financial institutions, since the commercial and financial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships. Also the perceived lack of creditworthiness of a sovereign or a major financial institution (or a default by any such entity) may lead to market-wide liquidity problems and losses or defaults by us or by other institutions. This risk is sometimes referred to as 'systemic risk' and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom we interact on a daily basis and financial instruments of sovereigns in which we invest. Systemic risk could impact ING directly, by exposing it to material credit losses on transactions with defaulting counterparties or indirectly by significantly reducing the available market liquidity on which ING and its lending customers depend to fund their operations and/or leading to a write down of loans or securities held by ING. In addition, ING may also be faced with additional open market risk for which hedging or mitigation strategies may not be available or effective (either by hedges eliminated by defaulting counterparties, or reduce market liquidity). Systemic risk could have a material adverse effect on our ability to raise new funding and on our business, results and financial condition. In addition, such distress or failure could impact future product sales as a potential result of reduced confidence in the financial services industry.

Continued risk of political instability and fiscal uncertainty in Europe and the United States, as well as ongoing volatility in the financial markets and the economy generally have adversely affected, and may continue to adversely affect, our business, results and financial condition.

Our global business and results are materially affected by conditions in the global capital markets and the economy generally. In Europe, there are continuing concerns over weaker economic conditions, levels of unemployment, the availability and cost of credit, credit spreads, and the impact of continued quantitative easing within the Eurozone through bond repurchases and the ECB's targeted longer-term refinancing operation ('TLTRO'). In addition, geopolitical issues, including trade tensions between the US and China, increasing protectionism between key countries, and issues with respect to the Middle East, Russia/Ukraine and North Korea may all contribute to adverse developments in the global capital markets and the economy generally.

Adverse developments in the market have included, for example, temporary decrease in liquidity, increased price volatility, credit downgrade events, and increased probability of default for fixed income securities. Moreover, there is a risk that an adverse credit event at one or more European sovereign debtors (including a credit rating downgrade or a default) could trigger a broader economic downturn in Europe and elsewhere. In addition, the confluence of these and other factors has resulted in volatile foreign exchange markets. International equity markets have also continued to experience heightened volatility and turmoil, with issuers, including ourselves, that have exposure to the real estate, mortgage, private equity and credit markets particularly affected. These events, market upheavals and continuing risks, including high levels of volatility, have had and may continue to have an adverse effect on our results, in part because we have a large investment portfolio.

There is also continued uncertainty over the long-term outlook for the tax, spending and borrowing policies of the US, the future economic performance of the US within the global economy and any potential future budgetary restrictions in the US, with a potential impact on a future sovereign credit ratings downgrade of the US government, including the rating of US Treasury securities. A downgrade of US Treasury securities could also impact the ratings and perceived creditworthiness of instruments issued, insured or guaranteed by institutions, agencies or instrumentalities directly linked to the US government. US Treasury securities and other US government-linked securities are key assets on the balance sheets of many financial institutions and are widely used as collateral by financial institutions to meet their day-to-day cash flows in the short-term debt market. The impact of any further downgrades to the sovereign credit rating of the US government or a default by the US government on its debt obligations would create broader financial turmoil and uncertainty, which would weigh heavily on the global financial system and could consequently result in a significant adverse impact to the Group's business and operations.

In many cases, the markets for investments and instruments have been and remain illiquid, and issues relating to counterparty credit ratings and other factors have exacerbated pricing and valuation uncertainties. Valuation of such investments and instruments is a complex process involving the consideration of market transactions, pricing models, management judgment and other factors, and is also impacted by external factors, such as underlying mortgage default rates, interest rates, rating agency actions and property valuations. Historically these factors have resulted in, among other things, valuation and impairment issues in connection with our exposures to European sovereign debt and other investments.

Any of these general developments in global financial and political conditions could negatively impact to our business, results and financial condition in future periods.

Discontinuation of or changes to 'benchmark' indices may negatively affect our business, results and financial condition.

Financial markets have historically relied on Interbank Offered Rates ('IBORs') benchmarks, such as the London Interbank Offered Rate ('LIBOR'), the Euro OverNight Index Average ('EONIA') and the Euro Interbank Offered Rate ('EURIBOR'). These interest rate 'benchmarks' have been the subject of ongoing national and international regulatory reform. For example, ICE Benchmark Administration (IBA), 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 extension proposed for USD LIBOR, one of the most widely used LIBOR rates. EONIA will cease to be published by 1 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. Following the implementation of such reforms, the manner of administration of benchmarks may change, with the result that they may perform or be calculated differently than in the past, or such benchmarks may cease to exist entirely, or there could be other consequences which cannot be predicted.

Public authorities have initiated industry working groups in various jurisdictions to develop and recommend alternative rates that could serve as replacements when such rates cease to exist or materially change. This is commonly referred to as a fallback rate. The US Federal Reserve's Alternative Reference Rates Committee (commonly referred to as 'ARRC') has recommended adoption of the Secured Overnight Financing Rate (commonly referred to as 'SOFR') as an alternative to USD LIBOR, and the limited extension announced by the IBA has eased the timeline for the transition of existing contracts referencing USD LIBOR. For EURIBOR, the Working Group on Euro Risk-Free Rates is continuing its work on developing recommended fallback rates based on the "euro short-term rate" (€STR). €STR is being published and is now widely used, and calculation of the EONIA benchmark described above has been modified to refer to the €STR benchmark until the EONIA benchmark is discontinued.

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 to this challenge the FCA, as the supervisor of LIBOR, plans to make use of the proposed powers granted to them to enable continued publication of a "synthetic" LIBOR using a different methodology and inputs, which may help reduce disruption to holders of 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 ceases. In response, the European Commission has announced various legislative fixes, that most notably reduce the scope for potential conflict with the solutions proposed by other jurisdictions. However, 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.

The potential discontinuation of interest rate benchmarks or any other benchmark, or changes in the methodology or manner of administration of any benchmark, could result in a number of risks for the Group, 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. The Group may also be exposed to operational risks or incur additional costs due to the potential requirement to adapt IT systems, trade reporting infrastructure processes, or in relation to communications with clients or other parties and engagement during the transition period. In addition to the heightened conduct and operational risks, the process of adopting new reference rates may expose the Group to an increased level of financial risk, such as potential earnings volatility resulting from contract modifications and changes in hedge accounting relationships. It is not currently possible to determine the full impact of such changes on the Group, and the implementation of alternative benchmark rates may have a material adverse effect on our business, results and financial condition.

Inflation and deflation may negatively affect our business, results and financial condition.

A sustained increase in the inflation rate in our principal markets would have multiple impacts on us and may negatively affect our business, results and financial condition. For example, a sustained increase in the inflation rate may result in an increase in market interest rates, which may:

- decrease the estimated fair value of certain fixed income securities that we hold in our investment portfolios, resulting in:
  - reduced levels of unrealised capital gains available to us, which could negatively impact our solvency position and net income, and/or
  - a decrease in collateral values,
- result in increased withdrawal of certain savings products, particularly those with fixed rates below market rates,
- require us, as an issuer of securities, to pay higher interest rates on debt securities that we issue in the financial markets from time to time to finance our operations, which would increase our interest expenses and reduce our results.

A significant and sustained increase in inflation has historically also been associated with decreased prices for equity securities and sluggish performance of equity markets generally. A sustained decline in equity markets may:

- result in impairment charges to equity securities that we hold in our investment portfolios and reduced levels of unrealised capital gains available to us which would reduce our net income, and
- lower the value of our equity investments impacting our capital position.

In addition, a failure to accurately anticipate higher inflation and factor it into our product pricing may result in a systemic mispricing of our products, which would negatively impact our results.

On the other hand, deflation experienced in our principal markets may also adversely affect our financial performance. In recent years, the risk of low inflation and even deflation (i.e., a continued period with negative rates of inflation) in the Eurozone has materialized. Deflation may erode collateral values and diminish the quality of loans and cause a decrease in borrowing levels, which would negatively affect our business and results.

Market conditions, including those observed over the past few years, and the application of IFRS 9 may increase the risk of loans being impaired and have a negative effect on our results and financial condition.

We are exposed to the risk that our borrowers (including sovereigns) may not repay their loans according to their contractual terms and that the collateral securing the payment of these loans may be insufficient. We may see adverse changes in the credit quality of our borrowers and counterparties, for example, as a result of their inability to refinance their indebtedness, with increasing delinquencies, defaults and insolvencies across a range of sectors. This may lead to impairment charges on loans and other assets, higher costs and additions to loan loss provisions. A significant increase in the size of our provision for loan losses could have a material adverse effect on our business, results and financial condition. Also see above under the heading “–ING’s business, results and financial condition have been, and likely will continue to be adversely affected by the Covid-19 pandemic”. As set out there, we expect to be affected by the Covid-19 pandemic through its impact on, among others, the financial condition of our customers or other counterparties.

IFRS 9 ‘Financial Instruments’ became effective as per 1 January 2018 and results in loan loss provisions that may be recognized earlier, on a more forward looking basis and on a broader scope of financial instruments than was previously the case under IAS 39. ING has applied the classification, measurement, and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity as at 1 January 2018. As a result of applying IFRS 9, a shift in the forward looking consensus view of economic conditions may materially impact the models used to calculate loan loss provisions under IFRS 9 and cause more volatility in, or higher levels of, loan loss provisions, any of which could adversely affect the Group’s results, financial condition or regulatory capital position.

Economic and other factors could lead to contraction in the residential mortgage and commercial lending market and to decreases in residential and commercial property prices, which could generate substantial increases in impairment losses. Additionally, continuing low oil prices could have an influence on the repayment capacity of certain corporate borrowers active in the oil and oil related services industries.

We may incur losses due to failures of banks falling under the scope of state compensation schemes.

While prudential regulation is intended to minimize the risk of bank failures, in the event such a failure occurs, given our size, we may incur significant compensation payments to be made under the Dutch Deposit Guarantee Scheme (DGS), which we may be unable to recover from the bankrupt estate, and therefore the consequences of any future failure of such a bank could be significant to ING. Such costs and the associated costs to be borne by us may have a material adverse effect on our results and financial condition. On the basis of the EU Directive on deposit guarantee schemes, ING pays quarterly risk-weighted contributions into a DGS-fund. The DGS-fund is to grow to a target size of 0.8% of all deposits guaranteed under the DGS, which is expected to be reached in July 2024. In case of failure of a Dutch bank, depositor compensation is paid from the DGS-fund. If the available financial means of the fund are insufficient, Dutch banks, including ING, may be required pay to extraordinary ex-post contributions not exceeding 0.5% of their covered deposits per calendar year. In exceptional circumstances and with the consent of the competent authority, higher contributions may be required. However, extraordinary ex-post contributions may be temporarily deferred if, and for so long as, they would jeopardise the solvency or liquidity of a bank. Depending on the size of the failed bank, the available financial means in the fund, and the required additional financial means, the impact of the extraordinary ex-post contributions on ING may be material.

Since 2015, the EU has been discussing the introduction of a pan-European deposit guarantee scheme (‘EDIS’), (partly) replacing or complementing national compensation schemes in two or three phases. Proposals contain elements of (re)insurance, mutual lending and mutualisation of funds. The new model is intended to be ‘overall cost-neutral’. Discussions have continued in 2020, but it remains uncertain when EDIS will be introduced and, if introduced, what impact EDIS would have on ING’s business and operations.

Risks related to the regulation and supervision of the Group

Non-compliance with laws and/or regulations concerning financial services or financial institutions, including with respect to financial economic crimes, could result in fines and other liabilities, penalties or consequences for us, which could materially affect our business and reduce our profitability.

ING has faced, and in the future may continue to face, the risk of consequences in connection with non-compliance with applicable laws and regulations. For additional information on legal proceedings, see Note 45 ‘Legal proceedings’ to the consolidated financial statements. There are a number of risks in areas where applicable regulations may be unclear, subject to multiple interpretations or under development, or where regulations may conflict with one another, or where regulators revise their previous guidance or courts overturn previous rulings, which could result in our failure to meet applicable standards. Regulators and other authorities have the power to bring administrative or judicial proceedings against us, which could result, among other things, in suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action, which could materially harm our results and financial condition. If we fail to address, or appear to fail to address, any of these matters appropriately, our reputation could be harmed and we could be subject to additional legal risk, which could, in turn, increase the size and number of claims and damages brought against us or subject us to enforcement actions, fines and penalties.

Furthermore, as a financial institution, we are exposed to the risk of unintentional involvement in criminal activity in connection with the commission of financial economic crimes, including with respect to money laundering and the funding of terrorist and other criminal activities. The failure or perceived failure by us to comply with legal and regulatory requirements with respect to financial economic crimes may result in adverse publicity, claims and allegations, litigation and regulatory investigations and sanctions, which may have a material adverse effect on our business, results, financial condition and/or prospects in any given period. For further discussion of the impact of litigation, enforcement proceedings, investigations or other regulatory actions with respect to financial economic crimes, see “– We may be subject to litigation, enforcement proceedings, investigations or other regulatory actions, and adverse publicity” below.

Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations may increase our operating costs and limit our activities.

We are subject to detailed banking laws and financial regulation in the jurisdictions in which we conduct business. Regulation of the industries in which we operate is becoming increasingly more extensive and complex, while also attracting supervisory scrutiny. Compliance with applicable and new laws and regulations is resources-intensive, and may materially increase our operating costs. Moreover, these regulations intended to protect our customers, markets and society as a whole can limit our activities, among others, through stricter net capital, market conduct and transparency requirements and restrictions on the businesses in which we can operate or invest.

Our revenues and profitability and those of our industry have been and will continue to be impacted by requirements relating to capital, additional loss-absorbing capacity, leverage, minimum liquidity and long-term funding levels, requirements related to resolution and recovery planning, derivatives clearing and margin rules and levels of regulatory oversight, as well as limitations on which and, if permitted, how certain business activities may be carried out by financial institutions.

We are subject to additional legal and regulatory risk in certain countries where we operate with less developed or predictable legal and regulatory frameworks.

In certain countries in which we operate, judiciary and dispute resolution systems may be less effective. As a result, in case of a breach of contract, we may have difficulties in making and enforcing claims against contractual counterparties and, if claims are made against us, we might encounter difficulties in mounting a defence against such allegations. If we become party to legal proceedings in a market with an insufficiently developed judicial system, it could have an adverse effect on our operations and net results.

In addition, as a result of our operations in certain countries, we are subject to risks of possible nationalisation, expropriation, price controls, exchange controls and other restrictive government actions, as well as the outbreak of hostilities and or war, in these markets. Furthermore, the current economic environment in certain countries in which we operate may increase the likelihood for regulatory initiatives to enhance consumer protection or to protect homeowners from foreclosures. Any such regulatory initiative could have an adverse impact on our ability to protect our economic interest, for instance in the event of defaults on residential mortgages.

We are subject to the regulatory supervision of the ECB and other regulators with extensive supervisory and investigatory powers.

In its capacity as principal prudential supervisor in the EU, the ECB has extensive supervisory and investigatory powers, including the ability to issue requests for information, to conduct regulatory investigations and on-site inspections, and to impose monetary and other sanctions. For example, under the Single Supervisory Mechanism (SSM), the regulators with jurisdiction over the Group, including the ECB, may conduct stress tests and have discretion to impose capital surcharges on financial institutions for risks that are not otherwise recognised in risk-weighted assets or other surcharges depending on the individual situation of the bank and take or require other measures, such as restrictions on or changes to the Group's business. Competent authorities may also, if the Group fails to comply with regulatory requirements, in particular with supervisory actions, minimum capital requirements (including buffer requirements) or with liquidity requirements, or if there are shortcomings in its governance and risk management processes, prohibit the Group from making dividend payments to shareholders or distributions to holders of its regulatory capital instruments. Generally, a failure to comply with prudential or conduct regulations could have a material adverse effect on the Group's business, results and financial condition.

The regulatory consequences of the United Kingdom's withdrawal from the European Union may have adverse effects on our business, results and financial condition.

On 24 December 2020, the United Kingdom and the EU agreed to the EU-UK Trade and Cooperation Agreement (the "TCA") in connection with the departure of the UK from the EU (commonly referred to as 'Brexit'). However, the financial services provisions of the TCA are very limited and , as a result, UK-based financial services providers lost EU passporting rights as of 1 January 2021 and EU-UK financial services are now subject to unilateral equivalence decisions. EU and UK regulators have, however, taken certain measures to address overall financial stability risks, such as the temporary extension by the EU of equivalence recognition to UK-based central counterparties (UK CCPs) through to 30 June 2022. There is, however, no guarantee that such equivalence decisions will be issued by the EU or the UK in the future, or that any extensions or renewals of temporary equivalence decisions or similar transitional arrangements will be made by the EU or the UK in the future. The absence of such equivalence decisions for financial services could have a negative impact on ING's activities, with the absence of future UK CCPs recognition expected to increase costs for both ING and its financial markets customers. In addition, Brexit has required and will require other changes to ING's business and operations, including requiring ING to apply for a third country branch banking licenses in the UK for which ECB conditions and PRA & FCA authorisation decisions remain pending. ING is also progressing the move of certain financial markets activities from London to Amsterdam in light of ECB's supervisory expectations on booking models as a result of Brexit. The regulatory impact of Brexit continues to present material risks and uncertainties, particularly as to how regulations may diverge between the EU and the UK, which could materially increase ING's compliance costs and have a material adverse effect on ING's business, results and financial condition.

Failure to meet minimum capital and other prudential regulatory requirements as applicable to us from time to time may have a material adverse effect on our business, results and financial condition and on our ability to make payments on certain of our securities.

ING is subject to a variety of regulations that require us to comply with minimum requirements for capital (own funds) and additional loss absorbing capacity, as well as for liquidity, and to comply with leverage restrictions. In addition, such capital, liquidity and leverage requirements and their application and interpretation may change. Any changes may require us to maintain more capital or to raise a different type of capital by disqualifying existing capital instruments from continued inclusion in regulatory capital, requiring replacement with new capital instruments that meet the new criteria. Sometimes changes are introduced subject to a transitional period during which the new requirements are being phased in, gradually progressing to a fully phased-in, or fully-loaded, application of the requirements.

Any failure to comply with these requirements, or to adapt to changes in such requirements, may have a material adverse effect on our business, results and financial condition, and may require us to seek additional capital. Failures to meet minimum capital or other prudential requirements may also result in ING being prohibited from making payments on certain of our securities. Because implementation phases and transposition into EU or national regulation where required may often involve a lengthy period, the impact of changes in capital, liquidity and leverage regulations on our business, results and financial condition, and on our ability to make payments on certain of our securities, is often unclear.

For further discussion of the impact of minimum capital and other prudential regulatory requirements on ING, see "Item 4. Information on the Company—Regulation and Supervision—Regulatory Developments—Basel III and European Union Standards as currently applied by ING Group."

Our US commodities and derivatives business is subject to CFTC and SEC regulation under the Dodd-Frank Act.

Our affiliate ING Capital Markets LLC is registered with the Commodity Futures Trading Commission ("CFTC") as a swap dealer and is subject to CFTC regulation of the off-exchange derivatives market pursuant to Title VII of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Operating as a swap dealer requires compliance with CFTC regulatory requirements, which may be burdensome, impose additional compliance costs and could adversely affect the profitability of this business, as well as exposing ING to the risk of non-compliance with these regulations.

ING Capital Markets LLC is also expected to register with the SEC as a security-based swap dealer pursuant to Dodd-Frank and SEC regulations enacted thereunder effective 1 November 2021. SEC registration may increase ING Capital Markets LLC's operational costs as a result of compliance, margin, capital and other requirements, and result in a substantial portion or all of ING's security-based swap activities with U.S. persons being conducted through ING Capital Markets LLC. These registration and related requirements may also reduce trading activity, reduce market liquidity and increase volatility in the relevant markets.

In addition, new position limits under Dodd-Frank applicable to the derivatives market generally for uncleared swaps referencing any of twenty-five commodity futures contracts could limit ING's position sizes in these swaps and similarly limit the ability of counterparties to utilize certain of our products to the extent hedging exemptions from the position limits are unavailable. Such regulation of the derivative markets and market participants will likely result in increased cost of hedging and other trading activities, both for ING and its customers, which could expose our business to greater risk and could reduce the size and profitability of our customer business. The imposition of these regulatory restrictions and requirements, could also result in reduced market liquidity, which could in turn increase market volatility and the risks and costs of hedging and other trading activities.
Any of the foregoing factors, and any further regulatory developments with respect to commodities and derivatives, could have a material impact on our business, results and financial condition.

For further discussion of the impact of regulation of commodities and derivatives on ING, see "Item 4. Information on the Company—Regulation and Supervision—Regulatory Developments—Dodd-Frank Act and other US Regulations."

We are subject to several other bank recovery and resolution regimes that include statutory write down and conversion as well as other powers, which remains subject to significant uncertainties as to scope and impact on us.

We are subject to several recovery and resolution regimes, including the Single Resolution Mechanism ('SRM'), the 'Bank Recovery and Resolution Directive' ('BRRD') as implemented in national legislation, and the Dutch 'Intervention Act' (Wet bijzondere maatregelen financiële ondernemingen, as implemented in the Dutch Financial Supervision Act). The SRM applies to banks that are supervised by the ECB under the SSM, with the aim of ensuring an orderly resolution of failing banks at minimum costs for taxpayers and the real economy. The BRRD establishes a common framework for the recovery and resolution for banks within the European Union, with the aim of providing supervisory authorities and resolution authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. In addition, the Intervention Act confers wide-ranging powers to the Dutch Minister of Finance, including, among other things, in relation to shares and other securities issued by us or with our cooperation or other claims on us (including, without limitation, expropriation thereof) if there is a serious and immediate threat to the stability of the financial system. Any application of statutory write-down and conversion or other powers would not be expected to constitute an event of default under our securities entitling holders to seek repayment. If any of these powers were to be exercised in respect of ING, there could be a material adverse effect on both ING and on holders of ING securities, including through a material adverse effect on credit ratings and/or the price of our securities. Investors in our securities may lose their investment if resolution measures are taken under current or future regimes.

For further discussion of the impact of bank recovery and resolution regimes on ING, see "Item 4. Information on the Company—Regulation and Supervision—Regulatory Developments—Bank Recovery and Resolution Directive."

Risks related to litigation, enforcement proceedings and investigations and to changes in tax laws

We may be subject to litigation, enforcement proceedings, investigations or other regulatory actions, and adverse publicity.

We are involved in governmental, regulatory, arbitration and legal proceedings and investigations involving claims by and against us which arise in the ordinary course of our businesses, including in connection with our activities as financial services provider, employer, investor and taxpayer. As a financial institution, we are subject to specific laws and regulations governing financial services or financial institutions. See "– Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations may increase our operating costs and limit our activities" above. Financial reporting irregularities involving other large and well-known companies, possible findings of government authorities in various jurisdictions which are investigating several rate-setting processes, notifications made by whistleblowers, increasing regulatory and law enforcement scrutiny of 'know your customer' anti-money laundering, tax evasion, prohibited transactions with countries or persons subject to sanctions, and bribery or other anti-corruption measures and anti-terrorist-financing procedures and their effectiveness, regulatory investigations of the banking industry, and litigation that arises from the failure or perceived failure by us to comply with legal, regulatory, tax and compliance requirements could result in adverse publicity and reputational harm, lead to increased regulatory supervision, affect our ability to attract and retain customers and maintain access to the capital markets, result in cease and desist orders, claims, enforcement actions, fines and civil and criminal penalties, other disciplinary action or have other material adverse effects on us in ways that are not predictable. Some claims and allegations may be brought by or on behalf of a class and claimants may seek large or indeterminate amounts of damages, including compensatory, liquidated, treble and punitive damages. Our reserves for litigation liabilities may prove to be inadequate. Claims and allegations, should they become public, need not be well founded, true or successful to have a negative impact on our reputation. In addition, press reports and other public statements that assert some form of wrongdoing could result in inquiries or investigations by regulators, legislators and law enforcement officials, and responding to these inquiries and investigations, regardless of their ultimate outcome, is time consuming and expensive. Adverse publicity, claims and allegations, litigation and regulatory investigations and sanctions may have a material adverse effect on our business, results, financial condition and/or prospects in any given period.

We are subject to different tax regulations in each of the jurisdictions where we conduct business, and are exposed to changes in tax laws, and risks of non-compliance with or proceedings or investigations with respect to, tax laws.

Changes in tax laws (including case law) could increase our taxes and our effective tax rates and could materially impact our tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities, which could have a material adverse effect on our business, results and financial condition. Changes in tax laws could also make certain ING products less attractive, which could have adverse consequences for our businesses and results. Because of the geographic spread of its business, ING may be subject to tax audits, investigations and procedures in numerous jurisdictions at any point in time. Although we believe that we have adequately provided for all our tax positions, the ultimate resolution of these audits, investigations and procedures may result in liabilities which are different from the amounts recognized. In addition, increased bank taxes in countries where the Group is active result in increased taxes on ING's banking operations, which could negatively impact our operations, financial condition and liquidity.

We may be subject to withholding tax if we fail to comply with the Foreign Account Tax Compliance Act (“FATCA”) and other US withholding tax regulations

Due to the nature of its business, ING is subject to various provisions of US tax law. These include FATCA, which requires ING to provide certain information for the US Internal Revenue Service (“IRS”) and the Qualified Intermediary (“QI”) requirements, which require withholding tax on certain non US-source payments. Failure to comply with FATCA and/or QI requirements and regulations could also harm our reputation and could subject the Group to enforcement actions, fines and penalties, which could have a material adverse effect on our business, reputation, revenues, results, financial condition and prospects. For additional information with respect to specific proceedings, see Note 45 ‘Legal proceedings’ to the consolidated financial statements. For further discussion of FATCA and QI requirements with respect to ING, see “Item 4. Information on the Company—Regulation and Supervision—Regulatory Developments—Bank Recovery and Resolution Directive.”

ING is exposed to the risk of claims from customers who feel misled or treated unfairly because of advice or information received.

Our products and services, including banking products and advice services for third-party products are exposed to claims from customers who might allege that they have received misleading advice or other information from advisers (both internal and external) as to which products were most appropriate for them, or that the terms and conditions of the products, the nature of the products or the circumstances under which the products were sold, were misrepresented to them. When new financial products are brought to the market, ING engages in a multidisciplinary product approval process in connection with the development and distribution of such products, including production of appropriate marketing and communication materials. Notwithstanding these processes, customers may make claims against ING if the products do not meet their expectations. Customer protection regulations, as well as changes in interpretation and perception by both the public at large and governmental authorities of acceptable market practices, influence customer expectations.

Products distributed through person-to-person sales forces have a higher exposure to such claims as the sales forces may provide face-to-face financial planning and advisory services. Complaints may also arise if customers feel that they have not been treated reasonably or fairly, or that the duty of care has not been complied with. While a considerable amount of time and resources have been invested in reviewing and assessing historical sales practices and products that were sold in the past, and in the maintenance of risk management, legal and compliance procedures to monitor current sales practices, there can be no assurance that all of the issues associated with current and historical sales practices have been or will be identified, nor that any issues already identified will not be more widespread than presently estimated.

The negative publicity associated with any sales practices, any compensation payable in respect of any such issues and regulatory changes resulting from such issues, has had and could have a material adverse effect on our reputation, business, results, financial condition and prospects. For additional information regarding legal proceedings or claims, see Note 45 ‘Legal proceedings’ to the consolidated financial statements.

Risks related to the Group’s business and operations

Operational risks, such as systems disruptions or failures, breaches of security, cyber attacks, human error, changes in operational practices, inadequate controls including in respect of third parties with which we do business, natural disasters or outbreaks of communicable diseases may adversely impact our reputation, business and results.

We face the risk that the design and operating effectiveness of our controls and procedures may prove to be inadequate. Operational risks are inherent to our business. Our businesses depend on the ability to process and report a large number of transactions efficiently and accurately. In addition, we routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we endeavour to safeguard our systems and processes, losses can result from inadequately trained or skilled personnel, IT failures (including due to a computer virus or a failure to anticipate or prevent cyber attacks or other attempts to gain unauthorised access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or impairing operational performance, or security breaches by third parties), inadequate or failed internal control processes and systems, regulatory breaches, human errors, employee misconduct, including fraud, or from natural disasters or other external events that interrupt normal business operations. Such losses may adversely affect our reputation, business and results. We depend on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. The equipment and software used in our computer systems and networks may not always be capable of processing, storing or transmitting information as expected. Despite our business continuity plans and procedures, certain of our computer systems and networks may have insufficient recovery capabilities in the event of a malfunction or loss of data. As part of our Accelerated Think Forward strategy, we are consistently managing and monitoring our IT risk profile globally. ING is subject to increasing regulatory requirements including EU General Data Protection Regulation (‘GDPR’) and EU Payment Services Directive (‘PSD2’). Failure to appropriately manage and monitor our IT risk profile could affect our ability to comply with these regulatory requirements, to securely and efficiently serve our clients or to timely, completely or accurately process, store and transmit information, and may adversely impact our reputation, business and results. For further description of the particular risks associated with cybercrime, which is a specific risk to ING as a result of its strategic focus on technology and innovation, see “–We are subject to increasing risks related to cybercrime and compliance with cybersecurity regulation” below.

Widespread outbreaks of communicable diseases may impact the health of our employees, increasing absenteeism, or may cause a significant increase in the utilisation of health benefits offered to our employees, either or both of which could adversely impact our business. Also see above under the heading “–ING’s business, results and financial condition have been, and likely will continue to be adversely affected by the Covid-19 pandemic”. As set out there, we expect to be affected by the Covid-19 pandemic through its impact on, among others, our employees. We also face physical risks, including natural disasters as a direct result of climate change, such as extreme weather events or rising water levels, which could have a material adverse effect on our operations, particularly where our headquarters may be impacted. For further description of the risks associated herewith, see “–We may be exposed to business, operational, regulatory, reputational and other risks in connection with climate change’ below. In addition, other events including unforeseeable and/or catastrophic events can lead to an abrupt interruption of activities, and our operations may be subject to losses resulting from such disruptions. Losses can result from destruction or impairment of property, financial assets, trading positions, and the loss of key personnel. If our business continuity plans are not able to be implemented, are not effective or do not sufficiently take such events into account, losses may increase further.

We are subject to increasing risks related to cybercrime and compliance with cybersecurity regulation.

Like other financial institutions and global companies, we are regularly the target of cyber attacks, which is a specific risk to ING as a result of its strategic focus on technology and innovation. In particular, threats from Distributed Denial of Service (‘DDoS’), targeted attacks (also called Advanced Persistent Threats) and Ransomware intensify worldwide, and attempts to gain unauthorised access and the techniques used for such attacks are increasingly sophisticated. We have faced, and expect to continue to face, an increasing number of cyber attacks (both successful and unsuccessful) as we have further digitalized. This includes the continuing expansion of our mobile- and other internet-based products and services, as well as our usage and reliance on cloud technology. In particular, ING is regularly subject to DDoS attacks, which are becoming increasingly sophisticated. For example, in 2020 ING experienced DDoS attacks in Turkey and Belgium. However, to date ING has not experienced a material loss of money or data due to cybercrime.

Cybersecurity, customer data and data privacy have become the subject of increasing legislative and regulatory focus. The EU’s second Payment Services Directive (‘PSD2’) and GDPR are examples of such regulations. In certain locations where ING is active, there are additional local regulatory requirements and legislation on top of EU regulations that must be followed for business conducted in that jurisdiction. Some of these legislations and regulations may be conflicting due to local regulatory interpretations. We may become subject to new EU and local legislation or regulation concerning cybersecurity, security of customer data in general or the privacy of information we may store or maintain. Compliance with such new legislation or regulation could increase the Group’s compliance cost. Failure to comply with new and existing legislation or regulation could harm our reputation and could subject the Group to enforcement actions, fines and penalties.

ING may be exposed to the risks of misappropriation, unauthorised access, computer viruses or other malicious code, cyber attacks and other external attacks or internal breaches that could have a security impact. These events could also jeopardise our confidential information or that of our clients or our counterparties and this could be exacerbated by the increase in data protection requirements as a result of GDPR. These events can potentially result in financial loss and harm to our reputation, hinder our operational effectiveness, result in regulatory censure, compensation costs or fines resulting from regulatory investigations and could have a material adverse effect on our business, reputation, revenues, results, financial condition and prospects. Even when we are successful in defending against cyber attacks, such defence may consume significant resources or impose significant additional costs on ING.

Because we operate in highly competitive markets, including our home market, we may not be able to increase or maintain our market share, which may have an adverse effect on our results.

There is substantial competition in the Netherlands and the other countries in which we do business for the types of wholesale banking, retail banking, investment banking and other products and services we provide. Customer loyalty and retention can be influenced by a number of factors, including brand recognition, reputation, relative service levels, the prices and attributes of products and services, scope of distribution, credit ratings and actions taken by existing or new competitors (including non-bank or financial technology competitors). A decline in our competitive position as to one or more of these factors could adversely impact our ability to maintain or further increase our market share, which would adversely affect our results. Such competition is most pronounced in our more mature markets of the Netherlands, Belgium, the rest of Western Europe and Australia. In recent years, however, competition in emerging markets, such as Asia and Central and Eastern Europe, has also increased as large financial services companies from more developed countries have sought to establish themselves in markets which are perceived to offer higher growth potential, and as local institutions have become more sophisticated and competitive and proceeded to form alliances, mergers or strategic relationships with our competitors. The Netherlands is our largest market. Our main competitors in the banking sector in the Netherlands are ABN AMRO Bank and Rabobank.

Competition could also increase due to new entrants (including non-bank and financial technology competitors) in the markets that may have new operating models that are not burdened by potentially costly legacy operations and that are subject to reduced regulation. New entrants may rely on new technologies, advanced data and analytic tools, lower cost to serve, reduced regulatory burden and/or faster processes in order to challenge traditional banks. Developments in technology has also accelerated the use of new business models, and ING may not be successful in adapting to this pace of change or may incur significant costs in adapting its business and operations to meet such changes. For example, new business models have been observed in retail payments, consumer and commercial lending (such as peer-to-peer lending), foreign exchange and low-cost investment advisory services. In particular, the emergence of disintermediation in the financial sector resulting from new banking, lending and payment solutions offered by rapidly evolving incumbents, challengers and new entrants, in particular with respect to payment services and products, and the introduction of disruptive technology may impede our ability to grow or retain our market share and impact our revenues and profitability.

Increasing competition in the markets in which we operate (including from non-banks and financial technology competitors) may significantly impact our results if we are unable to match the products and services offered by our competitors. Future economic turmoil may accelerate additional consolidation activity. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms or have declared bankruptcy. These developments could result in our competitors gaining greater access to capital and liquidity, expanding their ranges of products and services, or gaining geographic diversity. We may experience pricing pressures as a result of these factors in the event that some of our competitors seek to increase market share by reducing prices.

We may not always be able to protect our intellectual property developed in our products and services and may be subject to infringement claims, which could adversely impact our core business, inhibit efforts to monetize our internal innovations and restrict our ability to capitalize on future opportunities.

In the conduct of our business, we rely on a combination of contractual rights with third parties and copyright, trademark, trade name, patent and trade secret laws to establish and protect our intellectual property, which we develop in connection with our products and services. Third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, trade names, patents, trade secrets and know-how or to determine their scope, validity or enforceability. In that event, we may be required to incur significant costs, and our efforts may not prove successful. The inability to secure or protect our intellectual property assets could have an adverse effect on our core business and our ability to compete, including through the monetization of our internal innovations.

We may also be subject to claims made by third parties for (1) patent, trademark or copyright infringement, (2) breach of copyright, trademark or licence usage rights, or (3) misappropriation of trade secrets. Any such claims and any resulting litigation could result in significant expense and liability for damages. If we were found to have infringed or misappropriated a third-party patent or other intellectual property right, we could in some circumstances be enjoined from providing certain products or services to our customers or from utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licences. Alternatively, we could be required to enter into costly licensing arrangements with third parties or to implement a costly workaround. Any of these scenarios could have a material adverse effect on our business and results and could restrict our ability to pursue future business opportunities.

The inability of counterparties to meet their financial obligations or our inability to fully enforce our rights against counterparties could have a material adverse effect on our results.

Third parties that have an payment obligations to ING, or obligations to return money, securities or other assets, may not pay or perform under their obligations. These parties include the issuers and guarantors (including sovereigns) of securities we hold, borrowers under loans originated, reinsurers, customers, trading counterparties, securities lending and repurchase counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries.

Defaults by one or more of these parties on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, continuing low oil or other commodity prices, operational failure or other factors, or even rumours about potential defaults by one or more of these parties or regarding a severe distress of the financial services industry generally, could have a material adverse effect on our results, financial condition and liquidity. Given the high level of interdependence between financial institutions, we are and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of sovereigns and other financial services institutions. This is particularly relevant to our franchise as an important and large counterparty in equity, fixed income and foreign exchange markets, including related derivatives.

We routinely execute a high volume of transactions, such as unsecured debt instruments, derivative transactions and equity investments with counterparties and customers in the financial services industry, including brokers and dealers, commercial and investment banks, mutual and hedge funds, insurance companies, institutional clients, futures clearing merchants, swap dealers, and other institutions, resulting in large periodic settlement amounts, which may result in our having significant credit exposure to one or more of such counterparties or customers. As a result, we could face concentration risk with respect to liabilities or amounts we expect to collect from specific counterparties and customers. We are exposed to increased counterparty risk as a result of recent financial institution failures and weakness and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the creditworthiness of, one or more of these counterparties or customers or other financial services institutions could therefore have an adverse effect on our results or liquidity.

With respect to secured transactions, our credit risk may be exacerbated when the collateral held by us cannot be or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to us. We also have exposure to a number of financial institutions in the form of unsecured debt instruments, derivative transactions and equity investments. For example, we hold certain hybrid regulatory capital instruments issued by financial institutions which permit the issuer to cancel coupon payments on the occurrence of certain events or at their option. The EC has indicated that, in certain circumstances, it may require these financial institutions to cancel payment. If this were to happen, we expect that such instruments may experience ratings downgrades and/or a drop in value and we may have to treat them as impaired, which could result in significant losses. There is no assurance that losses on, or impairments to the carrying value of, these assets would not materially and adversely affect our business, results or financial condition.

In addition, we are subject to the risk that our rights against third parties may not be enforceable in all circumstances. The deterioration or perceived deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/ or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our income and risk weighting, leading to increased capital requirements. While in many cases we are permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. Also in this case, our credit risk may also be exacerbated when the collateral we hold cannot be liquidated at prices sufficient to recover the full amount of the loan or derivative exposure due to us, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those experienced during the financial crisis of 2008. The termination of contracts and the foreclosure on collateral may subject us to claims. Bankruptcies, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity. Any of these developments or losses could materially and adversely affect our business, results, financial condition, and/or prospects.

Ratings are important to our business for a number of reasons, and a downgrade or a potential downgrade in our credit ratings could have an adverse impact on our results and net results.

Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Our credit ratings are important to our ability to raise capital and funding through the issuance of debt and to the cost of such financing. In the event of a downgrade, the cost of issuing debt will increase, having an adverse effect on our net results. Certain institutional investors may also be obliged to withdraw their deposits from ING following a downgrade, which could have an adverse effect on our liquidity. They can also have lower risk appetite for our debt notes, leading to lower purchases of (newly issued) debt notes. We have credit ratings from S&P, Moody's Investor Service and Fitch Ratings. Each of the rating agencies reviews its ratings and rating methodologies on a recurring basis and may decide on a downgrade at any time.

As rating agencies continue to evaluate the financial services industry, it is possible that rating agencies will heighten the level of scrutiny that they apply to financial institutions, increase the frequency and scope of their credit reviews, request additional information from the companies that they rate and potentially adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. It is possible that the outcome of any such review of us would have additional adverse ratings consequences, which could have a material adverse effect on our results and financial condition. We may need to take actions in response to changing standards or capital requirements set by any of the rating agencies, which could cause our business and operations to suffer. We cannot predict what additional actions rating agencies may take, or what actions we may take in response to the actions of rating agencies.

Furthermore, ING Bank's assets are risk-weighted. Downgrades of these assets could result in a higher risk-weighting, which may result in higher capital requirements. This may impact net earnings and the return on capital, and may have an adverse impact on our competitive position.

We may be exposed to business, operational, regulatory, reputational and other risks in connection with climate change.

Climate change is an area of significant focus for governments and regulators, investors and ING's customers, and developments with respect to climate change topics may expose ING to significant risks. The perception of climate change as a risk by civil society, shareholders, governments and other stakeholders continues to increase, including in relation to the financial sector's operations and strategy, and international actions regulating or restricting CO2 emissions, such as the Paris agreement, may also result in financial institutions coming under increased pressure from such stakeholders regarding the management and disclosure of their climate risks and related lending and investment activities. For further information regarding the alignment of ING's lending portfolio with its climate-related goals, see "Item 4. – Information on the Company – Business Overview – Responsible finance" below.

For a description of the physical risks to our business resulting from natural disasters as a result of climate change, see "–Operational risks, such as systems disruptions or failures, breaches of security, cyber attacks, human error, changes in operational practices, inadequate controls including in respect of third parties with which we do business, natural disasters or outbreaks of communicable diseases may adversely impact our reputation, business and results" above.

An inability to retain or attract key personnel may affect our business and results.

ING Group relies to a considerable extent on the quality of its senior management, such as members of the executive committee, and management in the jurisdictions which are material to ING's business and operations. The success of ING Group's operations is dependent, among other things, on its ability to attract and retain highly qualified personnel. Competition for key personnel in most countries in which ING Group operates, and globally for senior management, is intense. ING Group's ability to attract and retain key personnel, in senior management and in particular areas such as technology and operational management, client relationship management, finance, risk and product development, is dependent on a number of factors, including prevailing market conditions and compensation packages offered by companies competing for the same talent.

The (increasing) restrictions on remuneration, plus the public and political scrutiny especially in the Netherlands, will continue to have an impact on existing ING Group remuneration policies and individual remuneration packages for personnel. For example, under the EU's amended Shareholder Rights Directive, known as 'SRD II', which came into effect on June 10, 2019, ING is required to hold a shareholder (binding) vote on ING's Executive Board remuneration policy and Supervisory Board remuneration policy at least every four years. Furthermore the shareholders have an advisory vote on ING's remuneration report annually. This may restrict our ability to offer competitive compensation compared with companies (financial and/or non-financial) that are not subject to such restrictions and it could adversely affect ING Group's ability to retain or attract key personnel, which, in turn, may affect our business and results.

We may incur further liabilities in respect of our defined benefit retirement plans if the value of plan assets is not sufficient to cover potential obligations, including as a result of differences between actual results and underlying actuarial assumptions and models.

ING Group companies operate various defined benefit retirement plans covering the post-employment benefits of a number of our employees. The liability recognised in our consolidated balance sheet in respect of our defined benefit plans is the present value of the defined benefit obligations at the balance sheet date, less the fair value of each plan's assets, together with adjustments for unrecognised actuarial gains and losses and unrecognised past service costs. We determine our defined benefit plan obligations based on internal and external actuarial models and calculations using the projected unit credit method. Inherent in these actuarial models are assumptions, including discount rates, rates of increase in future salary and benefit levels, mortality rates and consumer price index. These assumptions are based on available market data and are updated annually. Nevertheless, the actuarial assumptions may differ significantly from 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 our present and future liabilities and costs associated with our defined benefit plans.

Risks related to the Group's risk management practices

Risks relating to our use of quantitative models or assumptions to model client behaviour for the purposes of our market calculations may adversely impact our reputation or results.

We use quantitative methods, systems or approaches that apply statistical, economic financial, or mathematical theories, techniques and assumptions to process input data into quantitative estimates. Errors in the development, implementation, use or interpretation of such models, or from incomplete or incorrect data, can lead to inaccurate, noncompliant or misinterpreted model outputs, which may adversely impact our reputation and results. In addition, we use assumptions in order to model client behaviour for the risk calculations in our banking books. Assumptions are used to determine the interest rate risk profile of savings and current accounts and to estimate the embedded option risk in the mortgage and investment portfolios. Assumptions based on past client behaviour may not always be a reliable indicator of future behaviour. The realisation or use of different assumptions to determine client behaviour could have a material adverse effect on the calculated risk figures and, ultimately, our future results or reputation. Furthermore, we may be subject to risks related to changes in the laws and regulations governing the risk management practices of financial institutions. For further information, see "Risks related to the regulation and supervision of the Group – Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations may increase our operating costs and limit our activities" above. As noted there, regulation of the industries in which we operates is becoming increasingly more extensive and complex, while also attracting supervisory scrutiny. Compliance failures may lead to changes in the laws and regulations governing the risk management practices and materially increase our operating costs.

We may be unable to manage our risks successfully through derivatives.

We employ various economic hedging strategies with the objective of mitigating the market risks that are inherent in our business and operations. These risks include currency fluctuations, changes in the fair value of our investments, the impact of interest rates, equity markets and credit spread changes, the occurrence of credit defaults and changes in client behaviour. We seek to control these risks by, among other things, entering into a number of derivative instruments, such as swaps, options, futures and forward contracts, including, from time to time, macro hedges for parts of our business, either directly as a counterparty or as a credit support provider to affiliate counterparties. Developing an effective strategy for dealing with these risks is complex, and no strategy can completely insulate us from risks associated with those fluctuations. Our hedging strategies also rely on assumptions and projections regarding our assets, liabilities, general market factors and the creditworthiness of our counterparties that may prove to be incorrect or prove to be inadequate. Accordingly, our hedging activities may not have the desired beneficial impact on our results or financial condition. Poorly designed strategies or improperly executed transactions could actually increase our risks and losses. Hedging strategies involve transaction costs and other costs, and if we terminate a hedging arrangement, we may also be required to pay additional costs, such as transaction fees or breakage costs. There have been periods in the past, and it is likely that there will be periods in the future, during which we have incurred or may incur losses on transactions, possibly significant, after taking into account our hedging strategies. Further, the nature and timing of our hedging transactions could actually increase our risk and losses. Hedging instruments we use to manage product and other risks might not perform as intended or expected, which could result in higher (un)realised losses, such as credit value adjustment risks or unexpected P&L effects, and unanticipated cash needs to collateralise or settle such transactions. Adverse market conditions can limit the availability and increase the costs of hedging instruments, and such costs may not be recovered in the pricing of the underlying products being hedged. In addition, hedging counterparties may fail to perform their obligations, resulting in unhedged exposures and losses on positions that are not collateralised. As such, our hedging strategies and the derivatives that we use or may use may not adequately mitigate or offset the risks they intend to cover, and our hedging transactions may result in losses.

Our hedging strategy additionally relies on the assumption that hedging counterparties remain able and willing to provide the hedges required by our strategy. Increased regulation, market shocks, worsening market conditions (whether due to the ongoing euro crisis or otherwise), and/or other factors that affect or are perceived to affect the financial condition, liquidity and creditworthiness of ING may reduce the ability and/or willingness of such counterparties to engage in hedging contracts with us and/or other parties, affecting our overall ability to hedge our risks and adversely affecting our business, results and financial condition.

Risks related to the Group’s liquidity and financing activities

We depend on the capital and credit markets, as well as customer deposits, to provide the liquidity and capital required to fund our operations, and adverse conditions in the capital and credit markets, or significant withdrawals of customer deposits, may impact our liquidity, borrowing and capital positions, as well as the cost of liquidity, borrowings and capital.

Adverse capital market conditions have in the past affected, and may in the future affect, our cost of borrowed funds and our ability to borrow on a secured and unsecured basis, thereby impacting our ability to support and/or grow our businesses. Furthermore, although interest rates are at or near historically low levels, since the recent financial crisis, we have experienced increased funding costs due in part to the withdrawal of perceived government support of such institutions in the event of future financial crises. In addition, liquidity in the financial markets has also been negatively impacted as market participants and market practices and structures adjust to new regulations.

We need liquidity to fund new and recurring business, to pay our operating expenses, interest on our debt and dividends on our capital stock, maintain our securities lending activities and replace certain maturing liabilities. Without sufficient liquidity, we will be forced to curtail our operations and our business will suffer. The principal sources of our funding include a variety of short-and long-term instruments, including deposit fund, repurchase agreements, commercial paper, medium- and long-term debt, subordinated debt securities, capital securities and shareholders’ equity.

In addition, because we rely on customer deposits to fund our business and operations, the confidence of customers in financial institutions may be tested in a manner that may adversely impact our liquidity and capital position. Consumer confidence in financial institutions may, for example, decrease due to our or our competitors’ failure to communicate to customers the terms of, and the benefits to customers of, complex or high-fee financial products. Reduced confidence could have an adverse effect on our liquidity and capital position through withdrawal of deposits, in addition to our revenues and results. Because a significant percentage of our customer deposit base is originated via Internet banking, a loss of customer confidence may result in a rapid withdrawal of deposits over the Internet.

In the event that our current resources do not satisfy our needs, we may need to seek additional financing. The availability of additional financing will depend on a variety of factors, such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects. Also see under the heading “Ratings are important to our business for a number of reasons, and a downgrade or a potential downgrade in our credit ratings could have an adverse impact on our results and net results”. Similarly, our access to funds may be limited if regulatory authorities or rating agencies take negative actions against us. If our internal sources of liquidity prove to be insufficient, there is a risk that we may not be able to successfully obtain additional financing on favourable terms, or at all. Any actions we might take to access financing may, in turn, cause rating agencies to re-evaluate our ratings.

Disruptions, uncertainty or volatility in the capital and credit markets may also limit our access to capital. Such market conditions may in the future limit our ability to raise additional capital to support business growth, or to counterbalance the consequences of losses or increased regulatory capital and rating agency capital requirements. This could force us to (i) delay raising capital, (ii) reduce, cancel or postpone payment of dividends on our shares, (iii) reduce, cancel or postpone interest payments on our other securities, (iv) issue capital of different types or under different terms than we would otherwise, or (v) incur a higher cost of capital than in a more stable market environment. This would have the potential to decrease both our profitability and our financial flexibility. Our results, financial condition, cash flows, regulatory capital and rating agency capital position could be materially adversely affected by disruptions in the financial markets.

Furthermore, regulatory liquidity requirements in certain jurisdictions in which we operate are remain stringent, undermining our efforts to maintain centralised management of our liquidity. These developments may cause trapped pools of liquidity and capital, resulting in inefficiencies in the cost of managing our liquidity and solvency, and hinder our efforts to integrate our balance sheet. An example of such trapped liquidity includes our operations in Germany where German regulations impose separate liquidity requirements that restrict ING’s ability to move a liquidity surplus out of the German subsidiary.

As a holding company, ING Groep N.V. is dependent for liquidity on payments from its subsidiaries, many of which are subject to regulatory and other restrictions on their ability to transact with affiliates.

ING Groep N.V. is a holding company and, therefore, depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments to its shareholders and to fund all payments on its obligations, including debt service obligations.

ING Groep N.V.'s ability to obtain funds to meet its obligations depends on legal and regulatory restrictions applicable to ING Groep N.V.'s subsidiaries. Many of ING Groep N.V.'s direct and indirect subsidiaries, including certain subsidiaries of ING Bank N.V., may be subject to laws that restrict dividend payments, as well as requirements with respect to capital and liquidity levels. For example, certain local governments and regulators have taken steps and may take further steps to "ring fence" or impose minimum internal total loss-absorbing capacity on the local affiliates of a foreign financial institution in order to protect clients and creditors of such affiliates in the event of financial difficulties involving such affiliates or the broader banking group. Increased local regulation and supervision have therefore limited and may in the future further limit the ability to move capital and liquidity among affiliated entities and between ING Groep N.V. and its direct and indirect subsidiaries, limit the flexibility to structure intercompany and external activities of ING as otherwise deemed most operationally efficient, and increase in the overall level of capital and liquidity required by ING on a consolidated basis.

Lower earnings of a local entity may also reduce the ability of such local entity to make dividends and distributions to ING Groep N.V. Other restrictions, such as restrictions on payments from subsidiaries or limitations on the use of funds in client accounts, may also apply to distributions to ING Groep N.V. from its subsidiaries.

ING Groep N.V. has also in the past and may in the future continue to guarantee the payment obligations of some of its subsidiaries, including ING Bank N.V. Any such guarantees may require ING Groep N.V. to provide substantial funds or assets to its subsidiaries or the creditors or counterparties of these subsidiaries at a time when the guaranteed subsidiary is in need of liquidity to fund their own obligations.

Finally, ING Groep N.V., as the resolution entity of ING, has an obligation to remove impediments to resolution and to improve resolvability. Regulatory authorities have required and may continue to require ING to increase capital or liquidity levels at the level of the resolution entity or at particular subsidiaries. This may result in, among other things, the issuance of additional long-term debt issuance at the level of ING Groep N.V. or particular subsidiaries.

Additional risks relating to ownership of ING shares

Holders of ING shares may experience dilution of their holdings.

ING's AT1 Securities may, under certain circumstances, convert into equity securities, and such conversion would dilute the ownership interests of existing holders of ING shares and such dilution could be substantial. Additionally, any conversion, or the anticipation of the possibility of a conversion, could depress the market price of ING shares. Furthermore, we may undertake future equity offerings with or without subscription rights. In case of equity offerings with subscription rights, holders of ING shares in certain jurisdictions, however, may not be entitled to exercise such rights unless the rights and the related shares are registered or qualified for sale under the relevant legislation or regulatory framework. Holders of ING shares in these jurisdictions may suffer dilution of their shareholding should they not be permitted to, or otherwise chose not to, participate in future equity offerings with subscription rights.

Because we are incorporated under the laws of the Netherlands and many of the members of our Supervisory and Executive Board and our officers reside outside of the United States, it may be difficult to enforce judgments against ING or the members of our Supervisory and Executive Boards or our officers.

Most of our Supervisory Board members, our Executive Board members and some of the experts named in this Annual Report, as well as many of our officers are persons who are not residents of the United States, and most of our and their assets are located outside the United States. As a result, investors may not be able to serve process on those persons within the United States or to enforce in the United States judgments obtained in US courts against us or those persons based on the civil liability provisions of the US securities laws.

Investors also may not be able to enforce judgments of US courts under the US federal securities laws in courts outside the United States, including the Netherlands. The United States and the Netherlands do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon the U.S. federal securities laws, would not be enforceable in the Netherlands unless the underlying claim is re-litigated before a Dutch court. However, under current practice, the courts of the Netherlands may be expected to render a judgment in accordance with the judgment of the relevant U.S. court, provided that such judgment (i) is a final judgment and has been rendered by a court which has established its jurisdiction on the basis of internationally accepted grounds of jurisdictions, (ii) has not been rendered in violation of elementary principles of fair trial, (iii) is not contrary to the public policy of the Netherlands, and (iv) is not incompatible with (a) a prior judgment of a Netherlands court rendered in a dispute between the same parties, or (b) a prior judgment of a foreign court rendered in a dispute between the same parties, concerning the same subject matter and based on the same cause of action, provided that such prior judgment is not capable of being recognized in the Netherlands. It is uncertain whether this practice extends to default judgments as well.

Based on the foregoing, there can be no assurance that U.S. investors will be able to enforce against us or members of our board of directors, officers or certain experts named herein who are residents of the Netherlands or countries other than the United States any judgments obtained in U.S. courts in civil and commercial matters, including judgments under the U.S. federal securities laws.

In addition, there is doubt as to whether a Dutch court would impose civil liability on us, the members of our board of directors, our officers or certain experts named herein in an original action predicated solely upon the U.S. federal securities laws brought in a court of competent jurisdiction in the Netherlands against us or such members, officers or experts, respectively.

Item 4. Information on the Company

A. History and development of the company

General

ING Groep N.V. was established as a Naamloze Vennootschap (a Dutch public limited liability company) on March 4, 1991. ING Groep N.V. is incorporated under the laws of the Netherlands.
The corporate site of ING, www.ing.com, provides news, investor relations and general information about the company.

ING is required to file certain documents and information with the United States Securities and Exchange Commission (SEC). These filings relate primarily to periodic reporting requirements applicable to issuers of securities, as well as to beneficial ownership reporting requirements as a holder of securities. The most common filings we submit to the SEC are Forms 6-K and 20-F (periodic reporting requirements) and Schedules 13D and 13G (beneficial ownership requirements). The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. ING's electronic filings are available on the SEC's internet site under CIK ID 0001039765 (ING Groep N.V.).

The official address of ING Group is:

ING Groep N.V.
Bijlmerdreef 106
1102 CT Amsterdam
P.O. Box 1800,
1000 BV Amsterdam
The Netherlands
Telephone +31 20 563 9111

The name and address of ING Group's agent for service of process in the United States in connection with ING's registration statement on Form F-3 is:

ING Financial Holdings Corporation
1133 Avenue of the Americas
New York, NY 10036
United States of America
Telephone +1 646 424 6000

Changes in the composition of the Group

For information on changes in the composition of the Group, reference is made to Note 46 'Consolidated companies and businesses acquired and divested'.

Our strategy

ING's Think Forward strategy is as relevant as ever. With our data-driven digital and mobile-first approach we're continuing to empower people to stay a step ahead in life and in business – also at a time of social and economic disruption. The global coronavirus pandemic has illustrated just how digital society has become, reinforcing trends like the shift to mobile banking and contactless payments.

Delivering on our strategy is about living up to our customer promise to be clear and easy, anytime, anywhere, empowering and keep getting better. Digitalisation remains central to this and we're adapting our processes and service models to make banking even safer, more personal, easier and smarter. Combined with mastering data, it's how we can stand out as a bank that truly knows its customers and anticipates their evolving needs, finding innovative ways to add value, both within and beyond banking.

We're doing all of this while striving to live up to the highest possible standards of integrity. Being a safe, secure and compliant bank remains a top priority for ING. Our Orange Code of values and behaviours places integrity above all else.

Factors influencing our business in 2020

The spread of Covid-19, and the global measures to contain it, affected ING in a number of ways in 2020, impacting our customers, our employees and our communities. However, it was not the only factor influencing our business. The negative interest rate environment in the eurozone and low interest rates elsewhere, have posed a significant challenge to banks' business models since 2016, eroding margins on customer deposits and putting pressure on net interest income. Until 2020, we were able to counter the effects of this mainly through profitable lending growth and a presence in non-eurozone countries.
However, the pandemic made these levers less effective in 2020, resulting in a decrease of net interest income, as loan demand weakened in a number of markets due to strong direct government support, while the inflow of customer deposits accelerated and interest rates in non-eurozone countries significantly reduced. In response to the pressure on net interest income we introduced negative interest rates on deposits for retail customers in some markets and amplified our focus on income diversification through fee income growth, particularly in retail investment products.

That said, the impact of the global pandemic is still reverberating through societies worldwide. The second wave that surged through Europe and the US in the autumn continued to pile pressure on consumers, businesses, communities and economies. It has fundamentally changed the way people work, travel, shop and socialise and the expected economic consequences will be felt for some time yet. We are considering various post-coronavirus scenarios focused on the next two to five years that take account of the severity of the economic downturn and level of global cooperation in the recovery period.

Universal digital bank

The coronavirus crisis has accelerated the urgency of implementing end-to-end digitalisation, both to meet the growing demand for mobile banking and to enhance operational excellence. Operational excellence in particular helps to ensure that our customers are able to do their daily banking without disruption, even during global lockdowns, and makes it possible for employees to work safely and securely from home.

Now we're taking steps to deliver on our strategic priorities, not least to keep pace with society's accelerated adoption of digital resources during the coronavirus. We've been working on transforming our organisation to become a mobile-first digital platform, offering all of our 39.3 million customers a harmonised customer experience everywhere. But there's still work to do to become the leading data-driven digital bank we aspire to be.

Building on what we've learnt and achieved over the past five years, we took steps in 2020 to further consolidate our business and reinforce alignment. This includes uniting all our Retail operations – including the Business Banking segment serving small and medium-sized businesses and mid-corporate clients – under one global management team with one consistent unified approach. Their focus will be on operational excellence through increased digitalisation, using our technology foundation globally – this includes shared data lakes, cloud and modular IT building blocks – and rolling out global digital product offerings.

At the same time, the challenging external environment reconfirms the importance of scrutinising costs and looking for new ways to grow our fee income and diversify our revenues in areas beyond traditional banking.

We need to be flexible in dealing with these challenges, and with changing customer behaviour, continually weigh up benefits versus costs, apply our learnings and focus our activities. For Wholesale Banking this means deepening our relationship with our core clients, reducing our geographic footprint in Asia and closing our offices in South America. In Retail Banking it means stopping the Maggie transformation programme (to standardise the customer experience and product offering in four Challengers Markets) and instead focusing on using and reusing existing apps and modular components to drive scaling and speed of delivery.

Recognising the need to move even faster if we want to stay a step ahead of the changes and evolutions in the world, we announced in 2020 that we are combining all our innovation activities into a dedicated business area called ING Neo. This will help sharpen our focus and create more impact, ultimately deepening our relationships with our customers as their primary bank for financial and other needs.

The introduction in 2020 of our first global tagline ‘do your thing’ moved the ING brand another step closer to looking, sounding and feeling the same everywhere. It articulates ING’s purpose. We want to make banking frictionless, removing barriers to progress and giving people confidence in their ability to move forward.

Think Forward

ING’s purpose is empowering people to stay a step ahead in life and in business. Our Think Forward strategy promises customers we’ll make banking clear and easy, anytime anywhere, empower them to make informed financial decisions and keep getting better. Where our purpose guides us, the strategic priorities set out in our Think Forward strategy help us to focus on the elements we need to be successful.

These strategic priorities are: earning the primary relationship, mastering data, being innovative to serve changing customer needs, and developing new services and business models beyond banking. We achieve this by simplifying and standardising our products and processes, being operationally excellent, enhancing our performance culture and expanding our lending capabilities. These are the strategic enablers for executing on our strategy. See the graphics in this chapter for more information about our strategic priorities and enablers.

Platform approach

While many businesses struggled in 2020 to survive global lockdowns, many Big Tech companies thrived on society’s growing reliance on technology and the online economy. ING’s competitive landscape is also 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.

We believe platform providers are all about customer experience. They use data to pinpoint what customers need and partner with third parties to ensure there is always a fitting product or service to meet this. Platforms are empowering. To remain relevant, ING has to be where our (future) customers are, on the platforms they’re on, while maintaining the highest possible standard of integrity.

In an age of disruption and changing customer expectations we have to keep adapting our banking services to become clearer, easier and more accessible while empowering our growing global customer base to stay a step ahead in life and in business. Open banking creates opportunities for ING to
add value for customers by connecting to the products and services of others, both within and beyond banking.

When it comes to platforms, we are developing our own solutions. We’re building digital channels on top of our technology platform, like ING’s mobile OneApp, which is used by customers in the Netherlands, Belgium and Germany. We’re investing in independent initiatives such as Spanish finance app Fintonic, and we’re connecting to third-party platforms offering relevant products and services. Among these are initiatives that have evolved into stand-alone platforms such as smart money app Yolt and corporate multibank platform Cobase.

Touchpoint platform

Supporting our ambition to be the leading data-driven digital bank, we're using a modular technology foundation to create business-wide propositions that are globally scalable. This includes an open technology platform called Touchpoint. The Touchpoint platform provides ready-made solutions, modular components and reusable services the business and IT can use to build and run scalable business services and global value propositions. They can also distribute these to a large third-party ecosystem. In this way we can share innovations, use and re-use standardised components, and bring new products to customers faster and in more countries.

Through the Touchpoint platform, new and existing ING business initiatives have access to 25.2 million customers (around 65 percent of our customer base) in an internal and third-party ecosystem. It is enabling scalable business solutions that aim to harmonise the customer experience. And it connects ING to third parties through common architecture and shared application programming interfaces (APIs). The Amazon partnership was made possible by using Touchpoint to integrate fintech Lendico's lending platform for small and medium-sized businesses with ING in Germany.

Strategic priorities

Earning the primary relationship

By this we mean 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 we've consistently increased the number of primary customers.

Material topics: financial performance, usability and accessibility of our products

Using our advanced data capabilities to understand our customers better

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

Material topics: customer privacy, culture, ethics and integrity, digitalisation and interconnectivity, cyber resilience

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 that we evolve too. This means coming up with disruptive products, services and experiences that support our strategic ambitions and keep ING a step ahead.

Material topics: innovation, usability and accessibility of our products, digitalisation and interconnectivity

Thinking beyond traditional banking to develop new services and business models

Persistent low/negative interest rates offer savers little incentive, challenging our traditional business model. 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.

Material topics: innovation, digitalisation and interconnectivity, customer privacy, culture, ethics and integrity

Mastering data

Data is the lifeblood of organisations like ING. We use data to personalise our customer interactions and gain insights to deliver a differentiating experience. It helps us make better business decisions, while being mindful of using our data responsibly and in line with people's expectations. We rely on data-driven models to manage our capital and risk-weighted assets and improve risk management. Data on customers and their transactions is also essential in the fight against money laundering and other financial economic crime. Not least, data drives innovation. It is the main ingredient for artificial intelligence and robotics solutions.

However, to make data meaningful it needs to be sorted, harmonised and put into context. The accuracy of our models relies heavily on the quality of the data that's 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 our data.

Ethics and privacy

We acknowledge the need to protect people's privacy and are committed to handling our data safely and being honest about how it's used. This means we inform our customers and employees about how we use their data and respect their privacy when processing it.

Analytics and building our data capabilities

Becoming a truly data-driven organisation requires stepping up our analytics capabilities. This means promoting data fluency among our employees and strengthening our analytics delivery. ING's Analytics Unit is responsible for coordinating these activities globally and aligning them with our business strategy, as well as building one analytics and data community. To enhance our data science capabilities – which we have identified as one of the 'Big 6' capabilities ING needs to succeed – we have an Analytics Academy, we've added an analytics track to our International Talent Programme for graduates, and we collaborate with academic institutions like Dutch Delft University of Technology (TU Delft) on artificial intelligence research.

Our analytics delivery is focused on solutions in nine areas: customer interactions, customer dialogue, risk and pricing, financial crime and regulatory technology (Regtech), intelligent operations, innovation and beyond banking, people and finance, and Wholesale Banking. In 2020, we further accelerated our advanced analytics capabilities and delivered solutions to different domains.

For example, in the Regtech space, we're using analytics solutions to identify potentially risky shell companies in corresponding networks. In the retail domain, we developed and implemented machine learning interest rate optimisation models for better-priced mortgages in Germany, Italy and the Netherlands. In risk management we built more topic detection models for the early warning signals (EWS) monitoring tool, which should ultimately help reduce risk costs. We're also using analytics to develop acceptance models for consumer and business lending in Austria, Belgium, the Netherlands and Spain, which help lower risk costs and increase acceptance rates. New collections models for the Netherlands and Italy help us identify clients in financial difficulty and that need our support at an early stage.

In addition, we stepped up our experiments and experience with chatbots and are creating value and scale. The benefits for customers include 24/7 contact, fewer human errors and a simpler user experience. In the Philippines, we launched a virtual assistant that directs customers to their needed answers. Similar initiatives have been or will be rolled out to other countries. In Germany, ING's virtual assistant ING answered 7.3 million customer questions in 2020, recognising 94 percent of queries on current accounts (the best chatbot out of 22 tested in various industry sectors), while our Turkish chatbot INGo not only answered customers questions, but also approved 547.6 million lira worth of personal loans (89 million lira in 2019).

Innovating to stay a step ahead

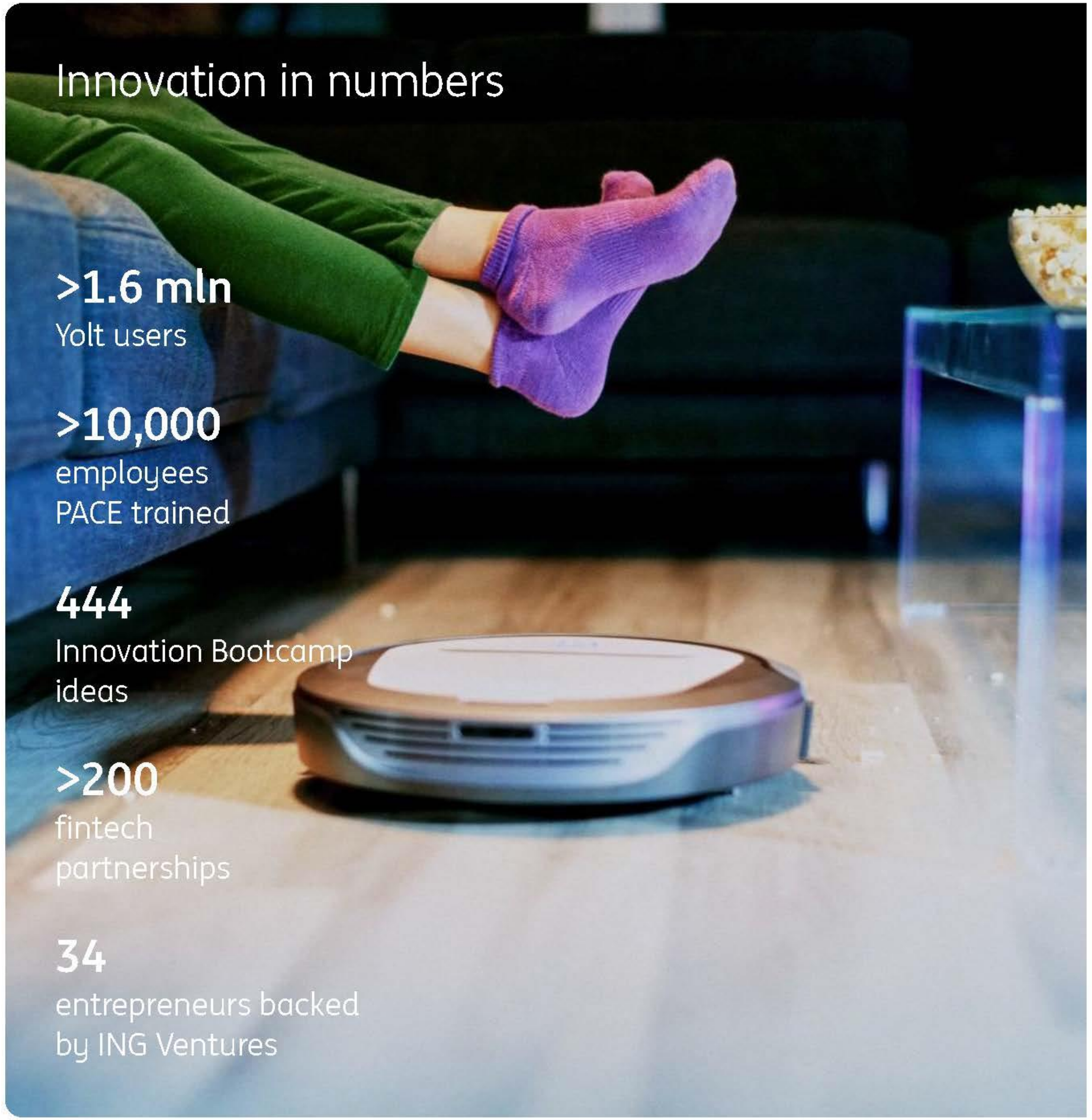
Innovation at ING is about creating a differentiating experience for customers. As such, it's at the heart of our Think Forward strategy. We rely on innovation to remain relevant to our customers and live up to our purpose. Developing truly disruptive products, services and experiences is also a prerequisite for realising our platform ambitions and moving beyond banking.

So far, our innovation focus has allowed us to turn great ideas into products and services that customers really need. Smart money app Yolt now has more than 1.6 million registered users. Blockchain solutions in trade finance are helping to make trades faster and simpler, for example by reducing the processing time for letters of credit from around 10 days to under 24 hours.

When the coronavirus crisis first hit, our focus shifted towards adjusting our operations to accommodate the new, more digital environment. Radical innovation moved down the priority list and certain projects were shelved: for example, an initiative to digitalise aircraft financing. Other initiatives benefitted from the growing demand for digital solutions, such as the trade finance tools of our co-owned blockchain-based software company Komgo.

With the creation of ING Neo we're aiming to increase the speed and impact of our innovation by bringing together initiatives in Wholesale Banking, Retail Banking (platforms and beyond banking activities), the Chief Innovation Office and our venture capital vehicle, ING Ventures.

ING was recognised by Global Finance magazine as the most innovative bank in Western Europe at its Innovators 2020 awards. Our home-grown innovations in cash management (Zero Knowledge Proof Notary on Corda), the corporate finance category (CoorpID) and payments (FINN Banking of Things) also won individual awards.



How we innovate

Innovative ideas come from inside and outside ING. All our employees are encouraged to think creatively and come up with ways of doing things faster, better and more efficiently. We stimulate their ideas through our bank-wide **Innovation Bootcamp** and local innovation ambassadors. For Innovation Bootcamp 2020, we received 444 ideas in four areas: how to disrupt lending before others do; empowering customers to strengthen their financial health; delivering a unique digital customer experience; and creating a world-class employee experience. The winning idea was ImpactING, which aims to make it easy for customers to have a positive impact on the planet via a sustainable bank account that allows them to contribute to a good cause with every transaction.

In November, we hosted the first Innovation Summit for all employees. The three-day digital event explored ING's impact on the lives of customers and employees, shed light on global digital trends and showcased our latest innovations. It was streamed to over 30 ING countries and reached approximately 1,500 unique users.

ING's customised innovation methodology, PACE, combines lean start-up, design thinking and agile scrum. Its key feature is customer validation. This ensures we develop only what customers really want. More than 10,000 employees have been trained in PACE to date.

In 2020, the **ING Innovation Fund** allocated €25 million to accelerate innovation across the bank. Funding is available to any employee who wants to turn a breakthrough idea into reality.

External collaboration

Nobody knows what the future looks like or the technologies that may emerge. We recognise we don't have all the skills and knowledge in-house and we're open to investing, partnering and building with others.

ING Ventures is our €300 million fund investing in early-stage companies. It targets disruptive technologies that ensures customers and clients get access to best-in-class services. It also helps entrepreneurs with hands-on support, know-how and access to ING's distribution network. We currently have 34 investments, including WeLab (automated consumer loans in China and Hong Kong), Fintonic (Spanish finance app), Cobase (multi-banking platform for corporate clients), Ascent (regulatory compliance platform) and Axyon (AI-powered asset manager).

ING partners with those who look at banking from a different perspective. Companies like Scalable Capital in Germany, a robo-advisor, which attracted a billion euros in assets under management in its first 2.5 years. Or Eigen, a natural language processing fintech that offers ING a strategic capability in the intelligent operations domain. Deployed in use cases across retail and wholesale banking, Eigen is contributing to ING's digital transformation, creating tangible value for customers and employees by applying machine learning in areas such as corporate lending and SME banking.

Currently, ING has more than 200 partnerships. Not all our collaborations lead to new products or services, however, and we've ended over 110 so far, mostly after unsuccessful or unsatisfactory proofs of concept.

In November 2020, in light of the impact of Covid-19 on the economy, which required us to reprioritise and reassess our programmes, we decided to stop our activities for **Cumulus Park Studios**. Part of the Cumulus Park innovation district in Amsterdam, where several ING buildings are located, Cumulus Park Studios is a collaborative initiative with local government and educational institutions to drive innovation and co-creation around the themes of urbanisation and digital identity. We remain committed to further developing the innovation district and will continue to collaborate with our district partners on a lower ambition level.

ING Labs is our incubator for potential scale-ups. Here we work with external experts, combining corporate innovation and entrepreneurial experience. We believe this contributes to a higher success rate and greater impact than either could achieve alone. We have four Labs worldwide, each with its own specific value space that matches local expertise and ecosystems. These are trade (Singapore), property, real estate and regulatory processes (London), creating minimum viable companies that are ready to scale (Amsterdam) and proofs of concept with fintechs to bring new tech solutions to market faster (Brussels, formerly Fintech Village).

Strategic enablers

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 we strive to deliver. We believe this allows us 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.	*Material topics:* usability and accessibility of our products
Operational excellence	ING promises customers we'll 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.	*Material topics:* IT systems and platforms, cyber resilience
Performance culture	Delivering a differentiating customer experience requires engaged employees who are motivated to go the extra mile. That's why we strive to create a great employee experience and develop great leaders who can enhance performance and inspire our people to deliver on our 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. We are guided in everything we do by the values and behaviours in our Orange Code and global Code of Conduct.	*Material topics:* culture, ethics and integrity
Lending capabilities	We are seeking opportunities to broaden and diversify our retail lending capabilities in the Business Banking and consumer lending segments. In Wholesale Banking we continue to build on our lending capabilities in our markets, combined with our sector lending franchises and product capabilities, to build primary relationships to be able to diversity our 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.	*Material topics:* financial performance, climate resilience

Transformation

To deliver a differentiating customer experience globally we are streamlining our products and processes, enhancing operational excellence and harmonising our customer engagement platforms, supported by a global technology foundation. This foundation includes shared data lakes, cloud solutions and modular IT building blocks. It's also about monitoring and executing regulatory programmes globally that aim to ensure ING is a safe, secure and compliant bank.

To accelerate the execution of our Think Forward journey, we launched a series of transformation programmes in 2016 to unite similar businesses and bring us closer to one mobile-first digital platform offering one ING experience everywhere. These included:

- **Unite be+nl** to combine the respective strengths of the Netherlands and Belgium.
- **Maggie** (formerly Model Bank) to standardise the customer experience and product offering in four Challengers markets - Czech Republic, France, Italy and Spain.
- **Welcome** to digitalise ING in Germany, which was completed in 2019.
- **WTOM** to optimise, digitalise and standardise our Wholesale Banking offering in all countries.

Unite be+nl involved, among other things, the large-scale integration of 600,000 Record Bank customers in Belgium in 2018, and the replacement of many existing IT systems with one digital platform. Integrating the back-end systems turned out to be more complicated. Yet despite the challenges and adjustments to the programme in response to changing circumstances, all our Belgian retail customers now use the same internet banking environment as the Netherlands (OneWeb) and 90 percent have migrated to the mobile OneApp used in the Netherlands and Germany. Unite be+nl runs until 1H 2021.

Given the coronavirus-related economic headwinds and our learnings from the complexities and costs of cross-border systems and product integration, we decided to refocus our activities in 2020 to ensure faster customer delivery and a continuously improving end-to-end digital customer experience.

This underpinned our decision in 2020 to stop Maggie as a programme. Launched in 2016 to integrate our product offering and provide a standardised easy, personal and smart digital experience for customers in four Challengers markets, Maggie delivered various customer experience building blocks and sales and services journeys.

To further develop our universal digital bank, we'll focus instead on using our global technology foundation, 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 we'll weigh up impact versus complexity, always with the aim of increasing scalability and delivery speed. In this way we only need to develop once for multiple countries and can create a sustainable competitive advantage, accelerating customer engagement and business impact. Updating legacy IT systems with new technology standards and global solutions will also contribute to greater efficiency as we move towards becoming a global digital bank.

The creation in 2020 of one global retail management team was the next step in our journey to unify and harmonise our retail approach in all our markets. This will further reinforce alignment, improve prioritisation and drive a consistent retail strategy that aims to accelerate digitalisation, use our global technology foundation to enhance operational efficiency and excellence, and roll out global digital product offerings in areas such as insurance, investment and consumer lending.

The Wholesale Target Operating Model (WTOM) programme has come to a natural conclusion as it achieved cost, risk and income benefits for the Wholesale Banking franchise globally, the result of extensive work over the last years to replace legacy systems, applications with target solutions, and create a range of shared operational services. We have now decided to end WTOM and commence with digitalisation-orientated programmes in our Transaction Services, Lending and Financial Markets businesses.

Laying the foundation

Building a universal digital bank requires a strong foundation that's the same everywhere: the same approach to data, the same processes, same systems and infrastructure and the same way of working.

At the heart of this is our IT strategy. ING is building a technology platform to facilitate our journey from a traditional bank to a data-driven digital bank. It is designed to create speed, scale and security as well as cost efficiency through programmes like ING Private Cloud, Touchpoint, the data lake foundation and OnePipeline. This last programme supports the engineering journey from idea to working code that underlies our digital services and can easily be reused by other engineers worldwide. We continuously adjust and improve IT projects and programmes based on new insights, lessons learnt and the impact of developments such as the coronavirus.

For example, at the start of the outbreak we had to increase our network capacity by 365 percent to facilitate the large numbers of users connecting from home: daily remote connections have grown by 285 percent since March.

We changed the top structure of the Tech organisation in January 2021, to better align with ING's digital and data-driven ambitions. This has brought all the assets belonging to the banking technology platform under one senior management line, helping to further the consumption and delivery of the features of the banking technology platform and improve impact.

Related to this, the **ING Private Cloud** (IPC) is the target platform standardising our IT infrastructure. It's where we store and process data and IT services such as our mobile phone apps to give customers a consistent experience in a secure and reliable way. Unlike traditional infrastructure, cloud computing enables pay-as-you-go usage, elasticity and full management by the user. To keep up with global usage, scalability, availability and delivery speed, ING is adding public cloud computing to our infrastructure offering. By end-2020, IPC was used in 15 countries. Around a quarter of global infrastructure now runs on IPC, up from 15 percent at the end of 2019.

Data lakes serve as digital repositories for all the internal and external data we collect, making it easier to share it across the company. Having one 'home' for data is in line with our strategy of simplifying our banking systems. Aggregating our data allows us to exchange information and knowledge with each other more easily. To enable this data exchange we've created a universal data language called **ING Esperanto**. Translating local data of all ING entities is a significant challenge as it requires both subject matter expertise of local businesses and regulations and knowledge of ING Esperanto to be able to create and benefit from aggregated data in a governed way.

ING Business Shared Services BV (IBSS) is a fully-owned service company employing around 10 percent of ING colleagues globally. Its **shared service centres** in Bratislava, Manila, Katowice, Warsaw and Bucharest contribute to ING's digital transformation and cross-border scalability by centralising operational and IT support tasks in areas such as global data management, Tech services, non-financial risk and compliance, KYC, data analytics and modelling.
Recognising the need for a strong engineering culture to achieve our Think Forward ambitions, we strive to develop and grow a global workforce of highly skilled engineers. We run global performance days, where we assess and calibrate engineers based on one engineering profile. The ING Tech Academy keeps engineers updated on the latest technology. We are pursuing initiatives to improve diversity in our teams. These include the ING Women in Engineering days and the Sparks community at ING in Australia, which aims to inspire and empower women in technology.

ING's one Way of Working (WoW) is based on agile, purpose-driven teams and allows us to respond quickly to changing customer demands and feedback. We've implemented ING's WoW in all retail countries as well as in Wholesale Banking and in many of our business support activities. Uniting so many different cultures requires a behavioural shift, guided by our Orange Code, and is supported by WoW ambassadors, bootcamps and training programmes. The coronavirus pandemic has made it necessary to adapt to new ways of working and collaborating remotely.

Government measures to curb the spread of Covid-19 in ING countries required us to adapt quickly to extended remote working. This accelerated certain IT programmes, such as the roll-out of cloud-based tools, enabling online collaboration and meetings. Remote working brings certain increased operational risks with respect to information security, data protection, the availability of key systems and infrastructure integrity. In 2020, ING continued to focus strongly on managing exposure to these risks and took steps to increase the efficiency and effectiveness of our IT infrastructure to ensure the continuity of our business from outside the office.

We also have preventative measures in place that continuously test our resilience against cyberattacks and attempts to gain unauthorised access to our systems. These include a dedicated cybercrime expertise and response team and 'ethical' hackers.

When and how our employees return to the office remains hard to predict and largely depends on the situation in each country. When it is safe to do so, there are rotation schemes to allow a controlled return to the office. We will also pilot global principles that will guide our future way of working in the post-coronavirus world. These are based on feedback from employees and aim to balance the advantages of working from home and working from the office. We're taking a step-by-step approach that provides a degree of flexibility for local implementation and respects local labour laws.

B. Business overview

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 €3,399 million in accordance with IFRS-IASB.

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

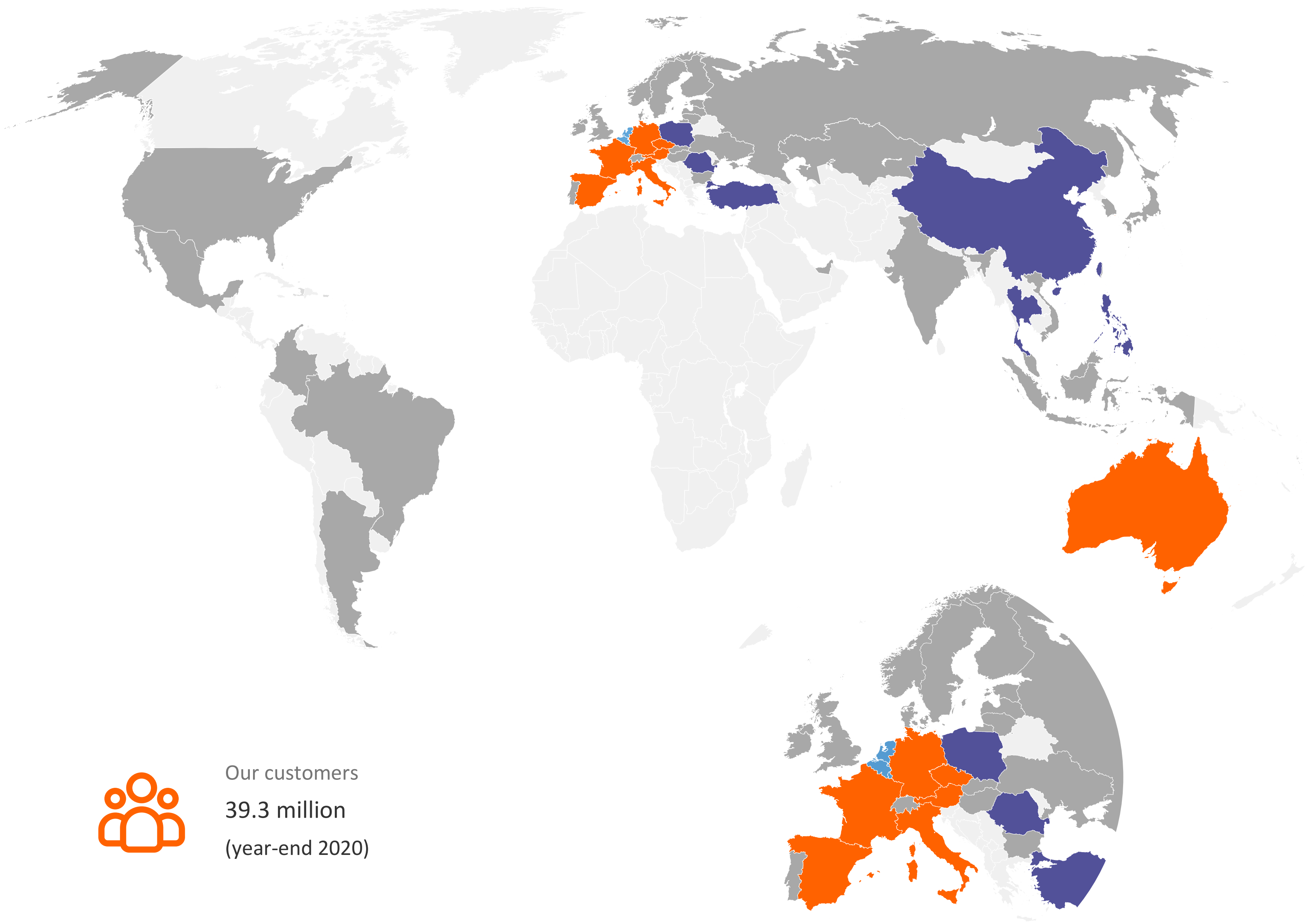
- Universal banks in economies with high growth potential
- Developing differentiating customer experience based on mobile-first approach

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.

More information on the impact of Covid-19 on ING as well on the related risk measures taken to address it can be found in the 'Risk Management' section.

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 (see 'differentiating customer experience' below). 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.

Achieving our business goals

We still have a lot to do to become the leading data-driven digital bank we aspire to be, but we also have to remain flexible in dealing with the impact of the coronavirus pandemic, changing customer behaviour, persistently low/negative interest rates and increasing regulation. That means continually weighing up benefits versus costs, consistently using what we have already developed, quickly applying learnings and best practices, and taking decisions to focus our activities to ensure we deliver on our strategic priorities.

These considerations informed the decision to reduce the geographical footprint of our Wholesale Banking business and to stop Maggie, our transformation programme to simplify and harmonise the product offering and experience of retail customers in four Challengers markets. Instead, as we develop our universal digital bank, we will focus on the global use of ING's technology foundation to build scalable cross-border products and a consistent end-to-end digital customer experience in all our markets.

Global priorities

The accelerated shift to mobile and online banking in 2020 increased the urgency of stepping up the end-to-end digitalisation of our products and services. Linked to this is the need for good quality data to drive the engaging and personalised customer experience we are aiming for.

Building on what we've learnt and achieved over the past years, we adapted our Retail organisation in 2020 to increase alignment around key priorities that will contribute to our ambition to become one global digital bank. Led by the new global Retail Banking management team, we will focus on rolling out global digital propositions converging towards a common engagement platform. And we are looking for new ways to be relevant to our customers and generate alternate revenue sources.

Innovation is essential here. To increase the impact of our innovation and speed up execution, ING has created a new dedicated business area, ING Neo, which combines all of our initiatives and activities in this area.

Of course, keeping our bank safe, secure and compliant remains a priority for ING. Customers trust us to protect their money and their data. That trust is our licence to operate.

Unleashing sector potential

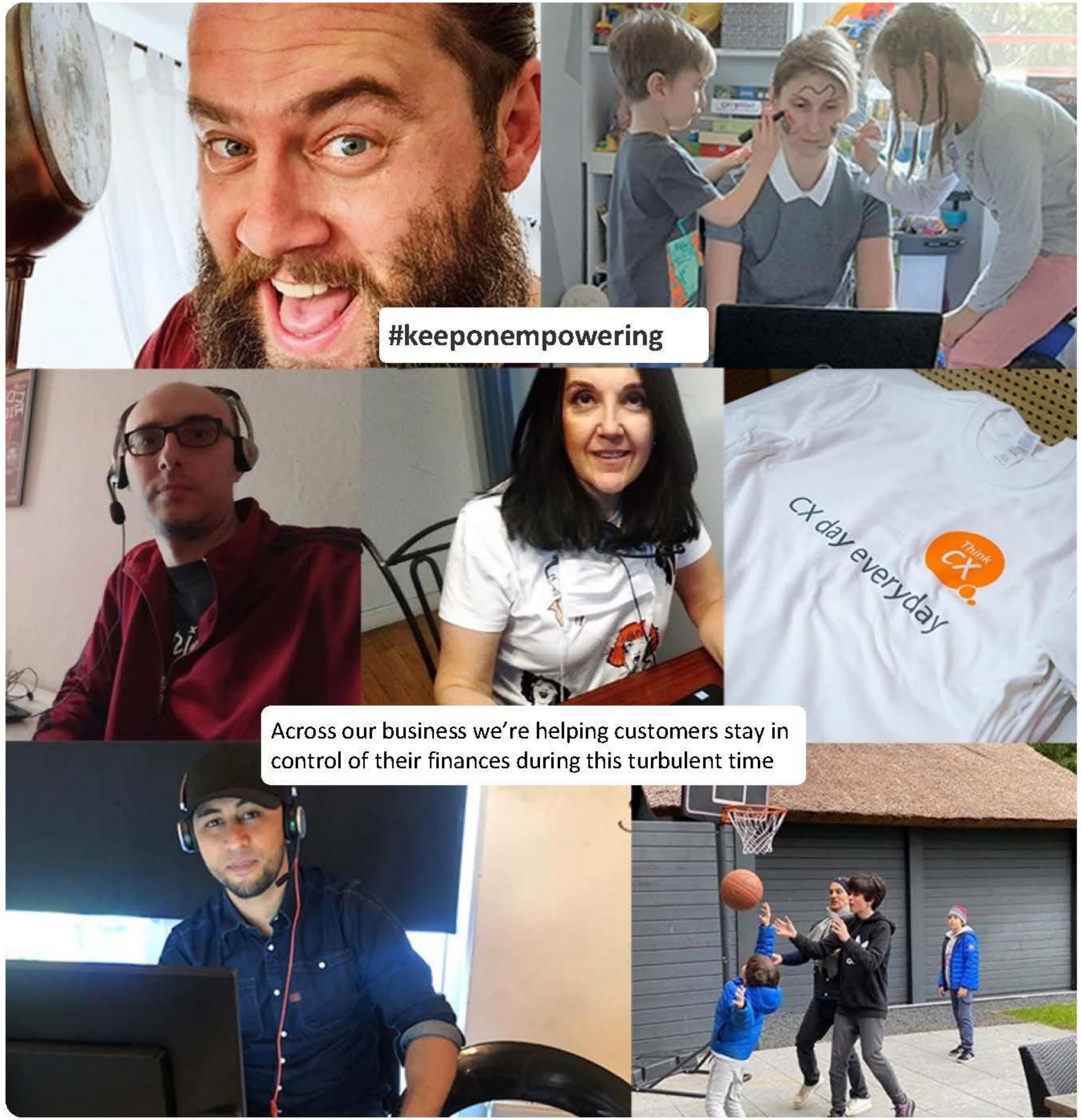
In 2020, we remained focused on providing our corporate clients with relevant advice, data-driven insights and customised, integrated solutions that make their day-to-day banking more efficient and support their business ambitions. This is in line with the revised Wholesale Banking strategy we introduced in 2018 to enable us to adapt to and overcome a challenging and complex market environment, as well as increased regulatory requirements, evolving technology, greater competition and our clients' changing needs. Addressing these challenges, amplified by the effects of Covid-19, required us to accelerate our priorities and refocus our activities to ensure we deliver to our customers faster and continuously improve the end-to-end digital experience.

We further developed our sectors strategy over the year, pairing local and global insight with sector knowledge and financial expertise, and we enhanced our client segmentation model, which helps us tailor our daily banking and advisory value propositions to clients specific needs. Based on similar considerations of aligning with our core client base and deepening our relationship, we made the decision to withdraw from a number of countries in South America and Asia. We'll continue serving the international needs of our clients in these countries from regional hubs. We will stay focused on improving client service delivery and streamline our operating model by clustering similar activities and know-how in existing centres of expertise.

Several deals in 2020 reflect this sector focus. These included a €1.6 billion debt financing package for Swedish sustainable battery producer Northvolt to finance Europe's first home-grown gigafactory for lithium-ion batteries. ING co-led the lending consortium. ING was also involved in the largest green loan to date in Asia-Pacific in the commercial and industrial (C&I) renewables sector, a US$75 million loan to Singapore-based Cleantech Solar.

We work with our Wholesale Banking 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.

In July, we announced that due to Brexit we will move some Financial Markets activities from London to Amsterdam. Here we already have a relatively large Financial Institutions/Financial Markets risk organisation, which can be effectively used during and after the transfer of the operations. The move does not impact our clients or client coverage.



A differentiating customer experience

More and more people are discovering how easy and efficient it is to do their banking online, with the number of digital interactions growing to 5.3 billion in 2020 from 4.5 billion in 2019. Of these, 87 percent are mobile interactions, with a growing number of Retail customers only interacting with ING via their mobile phone: 40 percent versus just 12 percent in 2016.

This digital connectivity yields data and insights that contribute to a more personalised and empowering experience, giving customers even more reasons to interact with us. This is how we can become an essential part of people's digital lives.

To provide customers with an even more personal, easy and smart experience, we held our first fully virtual customer experience (CX) day in October 2020. More than 2,000 colleagues from Belgium and the Netherlands attended. They made small changes that can have a big impact, resulting in 291 customer experience improvements.

Among the new mobile features introduced in 2020 is a single sign-on that allows customers in the Netherlands to seamlessly switch between their mobile app and online banking, and we made it easier for them to block, unblock and replace their bank cards themselves. In Belgium, customers can use their bank app to manage subscriptions via third party Minna and send payment requests through Payconiq. And we extended 'magician mode' to Germany, which hides customers' account information when they swipe their hand in front of their phone camera while using the app in public.

For visually impaired customers, ING is the first bank in the Netherlands to provide a bank card with a notch in the side so they can easily recognise it and insert it correctly into an ATM.

In the Philippines, ING's newest mobile-only retail market, the ING app has been installed more than two million times since its launch in November 2018. The introduction in the Philippines of ING Pay in November 2020 led to over 60,000 new daily accounts in its first month.

With customers looking for alternatives to savings accounts in the low/negative interest rate environment, we're empowering them with smart digital investment tools like My Money Coach in Spain, Coach Epargne in France and Easy Invest in the Netherlands. In 2020, our retail investment products in Germany and Spain reached €56 billion and €12.3 billion in assets under management respectively. In Germany, ING is the first bank to offer securities savings plans that allow all customers to invest small amounts (from €1) in shares, exchange traded funds (ETFs) or mutual funds. With savings plans available for more than 1,800 securities, including more than 200 funds and ETFs without purchasing costs, it's a low-threshold entry into investing.

ING's Everyday Roundup (ERU) product is helping to make saving simpler. First introduced in Poland, then in Australia and Germany, it is now also available in Romania. More countries will follow in 2021. By rounding up every transaction and transferring the difference to the customer's savings account, it makes saving frictionless at a time when customers may be financially vulnerable (due to the coronavirus crisis). ING in Germany launched a 'donate to Unicef' option for rounding up and ING in Australia has a roundup option for mortgages. The next step will be investments. There are 850,000 active ERU users, of which almost half are in Poland and Australia, while users in Germany rose to 156,000.

Our Yolt smart money app introduced a similar feature in 2020 called Money Jar. It too allows users to save while they spend by rounding up purchases to the nearest pound or euro and offering cashback from selected retailers. The money jar feature also offers handy tips and reminders for users to increase their savings. It's trained to recognise and save refunds, salary raises and even bonuses.

Through ING's bancassurance partnership with AXA, customers can create their own personalised insurance cover in a clear and easy way using their ING mobile app or the ING website. For example, customers in Italy only have to answer three questions to get building and contents insurance compared to 60+ previously – something they appreciate, rating the service with a 4.5 out of five for advice and satisfaction. The bancassurance offering is now available in five countries through 11 insurance products delivering banking linked to lending and home/life protection. A further two propositions for mobility and wellness are being built to provide full lifestyle protection for customers through ING's five billion digital engagements.

In the Business Banking segment, we are digitalising our proposition for SMEs, micro businesses, mid-corporates and self-employed customers using the Touchpoint platform. This will enable us to standardise our offering for over 1.5 million businesses in Belgium, Luxembourg, the Netherlands, Poland, Romania, Germany and Turkey, avoiding duplication and unlocking synergies between the countries.
Our call-centre platform, developed as part of the Unite be+nl programme, is providing a harmonised customer contact experience across multiple customer interaction channels in eight countries. Because it is cloud-based, customers receive the same services everywhere and it makes it easier for ING to share and adopt innovations and adjust to changing customer needs.

One brand

The introduction in 2020 of ING's new global 'do your thing' tagline in the Netherlands, Belgium, Romania, Poland and Wholesale Banking brings a common brand direction to the bank that will be extended to the other ING countries over time. We launched advertising campaigns that included new brand elements like a new style of photography, a sound logo and always signing off with 'do your thing'.

The tagline articulates ING's empowering purpose and encourages people to do more of the things that move them or their business. It is about people being free to focus on what matters most to them knowing that, whether in their private or professional lives, they can make their world a little better for it.

In Wholesale Banking, do your thing is linked to 'changemakers' – companies and people that ignite and lead sustainable change in a responsible way.

Instant payments

Open banking has changed the way people pay, giving consumers more options and opening up this service to non-traditional providers. To keep up with payment trends, ING has introduced instant payments executed in real time 24/7, 365 days a year. In 2020, the service was extended, enabling payments instantly from the Netherlands to the rest of Europe. ING is also working with major retailers in the Netherlands to extend peer-to-peer payments (apps that enable users to request and receive payments instantly) so merchants can send their customers a mobile payment request on delivery of goods.

Following a successful pilot in 2019, ING now uses SWIFT gpi in nine ING countries to make international transfers quicker and easier. With SWIFT gpi around 80 percent of international money transfers are done on the same day, compared with three to five days previously.

For Business Banking customers, ING added a bulk payment functionality to its payment initiation application programme interface (API), making it possible to pay up to 5,000 recipients simultaneously. In addition, it supports multiple strong customer authentication, that allows all types of payments requiring two or more authorisations.

Making life easier for commuters on the go, ING is piloting Invisible Tickets, a Dutch initiative that allows them to seamlessly pay for public transport using mobile phone sensors. It is aimed at countries where the use of public transport is high, such as Germany, France, Italy, the UK and the Netherlands.

Platform thinking

The power of platforms is that they are open, borderless, scalable, empowering and generate large amounts of data through frequent user interactions that can in turn be used to improve users' experience. To remain relevant to our customers we need to be on the digital platforms where they are spending their time shopping, socialising and working.

ING is exploring various platform business solutions. We are building our own platforms. Some of these have evolved into stand-alone platforms. Smart money app Yolt, mobile payments app Payconiq and corporate multibank platform Cobase are three examples.

Yolt, which now has over 1.6 million registered users in the UK, Italy and France, added new features in 2020, such as Money Jar, which helps customers save while they spend. Yolt Pay, currently in beta, uses open banking APIs to initiate money transfers between users' accounts and to pay others. The app also links to partners like MoneySuperMarket, PensionBee and Wealthify so they can invest, save on household bills and grow their savings. In 2020, Yolt was named the best personal finance app at the Wealth and Finance Fintech Awards.

ING can also add value for our customers by connecting to relevant products and services on third-party platforms. In 2020, we strengthened our SME offering as the first bank in Germany to offer loans through Amazon's sellers platform, which is mainly used by SME companies. ING's banking platform offers these clients access to the digital lending solution of fintech Lendico, which provides loan approvals within 48 hours.

In Belgium, we partnered with Minna Technologies on a subscription service for customers. Using the ING app, customers can keep track of and manage their subscriptions, and even cancel unused subscriptions or switch to better alternatives through an automated process, helping them save money and time.

The integration of international payments platform Payvision strengthens ING's digital payments business, especially in e-commerce. Payvision is a subsidiary of ING that facilitates more than 80 payment methods in 150 currencies. Its combined e-commerce and in-store solution helps merchants to offer their shoppers a seamless checkout experience across all channels. Since acquiring Payvision in 2018, ING is exiting Payvision clients that no longer fit our risk profile.

Open banking

The introduction of the European Payment Service Directive 2 (PSD2) in 2019 is reshaping the banking industry. It requires banks to rethink traditional products and services and create new customer experiences that stand out in a competitive landscape. At the same time, open banking allows us to connect to other providers and integrate products and services to add value for our customers. Our open banking platform provides the key capabilities that allow ING to open up by establishing secure, scalable, compliant and uniform connectivity with external parties via application programming interfaces (APIs).

We believe open banking and APIs are a great way to foster innovation, accelerate digitalisation and integrate and co-create with others. Open banking propositions powered by API technology include the Lendico SME lending platform in Germany and the Minna Technologies subscription management app in Belgium. In daily banking, APIs boost treasury departments by delivering real-time cash and liquidity management.

Yolt Technology Services (YTS), the business-to-business arm of the smart money app, facilitates open banking for businesses across Europe by providing them with access to bank APIs that connect them to users' bank accounts to initiate payments. In 2020, YTS surpassed one billion API calls – single uses of its API. In the Netherlands, France and the UK, it offers businesses API coverage to over 90 percent of bank accounts and its API infrastructure can connect to 80 percent of bank accounts in Belgium, Italy and Spain.

In Poland, ING introduced the first aggregator service that allows customers to manage multiple bank accounts from their ING Moje account. The new service is available through ING's online banking channel and the mobile app.

We also use APIs to connect to our insurance partner AXA on ING's first multi-country product platform.

Cross-border customer engagement

Internally, we are working to harmonise our customer experience where it's possible and beneficial on truly cross-border platforms, giving ING the same face in different markets and the same banking interface with the same look and feel everywhere.

One such example is InsideBusiness – ING's digital banking portal that provides Wholesale Banking clients with a single point of access to a growing range of products and services around the globe. It is accessible anytime and anywhere via web, mobile app and tablet. In 2020, there was rapid growth in the adoption of the InsideBusiness app: user numbers doubled from around 2,500 to nearly 6,000 unique users, while usage went up by 96 percent. We also doubled the number of self-service processes clients can initiate from InsideBusiness.

Given the complexities and costs of cross-border system and product integration, and in light of coronavirus-related economic headwinds, we announced in November 2020 that we will stop the Maggie transformation programme. Launched in 2016, Maggie aimed to integrate our product offering and provide a standardised experience for retail customers in four Challengers markets. We will instead focus on using ING's global technology foundation – shared data lakes, cloud and modular IT building blocks – to further develop our universal digital bank and the rollout of global digital product offerings in insurance, investments and consumer lending. We will continue to focus on implementing global solutions locally as a way to harmonise and standardise the customer experience.

In the Netherlands and Belgium, where ING is already a market leader, we are uniting our respective strengths to deliver an even better and more consistent experience across all channels for our combined 11 million customers. In the second quarter, customers in Belgium were migrated to the OneWeb banking environment shared with our Dutch customers. They also now use the same OneApp mobile environment as in the Netherlands and Germany, bringing us a step closer towards our ambition to provide customers everywhere with the same easy, smart and personal experience. Around 1.8 million customers in Belgium are now using OneApp and OneWeb for online banking. In the Netherlands around five million customers use the app. New features were introduced in 2020 to empower customers to take charge of their own banking affairs via their mobile phone, for example to block a lost card or change their daily withdrawal limit, cutting back on the need to contact customer service.

Beyond banking services

Thinking beyond traditional banking is crucial to find new ways to be relevant to customers and create new revenue streams for ING. It strengthens our core businesses by engaging customers early, increasing the customer lifetime value and contributing to a more sustainable banking business model.

We can introduce new and complementary services through platforms. Shopping services can use our scale to provide better deals or cashbacks to customers. The DealWise shopping platform gathers cashback deals and discounts in one place. Users can save on their daily spending while merchants gain insights that help them better understand, acquire, develop and maintain customers. It is now available in Romania, with plans to enter Germany next.

Similarly, ING+Deals in Belgium and ING Punten in the Netherlands are shopping platforms offering customers exclusive deals in partnership with various A-brands. In addition to promoting customer loyalty, these shopping platforms help to increase interactions with ING's own digital channels. ING+Deals, with over 200,000 users generated more than €5 million revenue for our merchants in 2020, while ING Punten delivered a turnover of €45 million from the sale of 1.4 million products.

Retail markets NPS

Number 1 in **6 out of 14** markets

Wholesale Banking NPS

13% above industry average

In the know your customer (KYC) space, CoorpID provides a digital vault where corporate clients can securely store and share the KYC documentation required by multiple financial institutions. CoorpID was connected to ING's KYC organisation in 2020.

ING moved steadfastly on its housing strategy across Dutch and German markets with disruptive concepts like Scoperty and Makelaarsland. The near-term objective is to independently grow these and invest in synergistic business models. Makelaarsland is a property platform empowering people in the Netherlands to buy and sell their homes online themselves or with the support of a local agent.

In Germany, ING partnered with Sprengnetter on Scoperty, a real-estate platform connecting buyers and sellers of more than 35 million properties. The pre-qualification process for mortgages is aligned with that of Interhyp, ING's independent mortgage brokerage platform in Germany and Austria. Interhyp offers buyers access to 400 mortgage lenders. In 2020 its market share rose to 10 percent in Germany (nine percent in 2019).

Earning the primary relationship

Customer numbers grew in 2020, especially the number of primary customers. These are Retail customers with multiple active products, including a current account with recurrent income, such as a salary. In Wholesale Banking these are clients lending and daily banking products and at least one other product generating recurring revenues.

Earning the primary relationship is a strategic priority for ING as it leads to deeper relationships, greater customer satisfaction and ultimately customers choosing us for more of their banking needs. We want our customers to do more than just some of their banking with us; we want to be their first partner, where they deposit their salary, handle their payments and do most of their other banking business.

In 2020, the number of primary customers increased by 578,000 to 13.9 million. Across retail segments, this comprises 5.8 million for Market Leaders, 4.9 million for the Challengers Markets – where primary customers in Germany grew by 330,000, a record 56 percent in net growth versus 2019 – and 3.2 million for Growth Markets.

Measuring customer satisfaction

One of the ways we measure our progress is through the Net Promoter Score (NPS), which indicates customer satisfaction and loyalty (whether they would recommend ING to others). The score is calculated as the difference between the percentage of promoters (who rate ING as 9 or 10 out of 10) and detractors (those scoring ING below a 6). Our aim is to achieve a number one NPS ranking in all our retail markets, with a 10-point lead over our main competitors.

Based on a rolling average of our NPS scores in 2020, ING ranked number one in six of our 14 retail markets: Australia, Germany, Poland, Romania, Spain and the Philippines. In four of these we are more than 10 points ahead of our nearest competitor. ING also has a top-three position in a further six markets. The introduction of current account fees in Germany in February 2020 led to a downward dip in our NPS score here, but overall we retained our number one position in Germany in all four quarters. In France, more innovative competitors overtook ING in the number one position.

In the Business Banking segment, we measure NPS in four markets. These are the Netherlands, Belgium, Poland and Romania. The NPS for mid-corporate clients in the Netherlands improved to +18.4 (from +12.4 in 4Q 2019), well above our competitors (-23.3), based on feedback from clients who do business with multiple banks. Clients appreciate our sector knowledge combined with regional presence, with satisfaction highest in the services, industry and transport and logistics sectors. However, there is room for improvement to make the digital customer experience easier and more personal, especially for Dutch SMEs and self-employed clients, where our NPS among both client groups declined to -26 from -20 and -18 respectively. In Poland, the combined NPS for SME and mid-corporate clients improved to +43 (from +30 in 4Q 2019). As we revised our methodology in Belgium we don't have comparable figures for 2020. Although slightly lower than in 2019, the NPS for micro clients and SMEs in Romania is still a high +43 and +54 for mid-corporates.
The NPS programme also runs in 26 Wholesale Banking markets. In addition, we introduced a transactional NPS to measure client satisfaction on service requests for daily banking. In 2020, the customer satisfaction exceeded 8.5 (scale 1-10). The overall NPS rating reached +56.3 (on a scale of -100 to +100), up from a score of +49.6 in 2019, and 13 percent ahead of the industry average of +49.8. The response rate also increased to 60 percent compared with 50 percent in 2019, showing higher client engagement with ING. The scores are based on thousands of responses from clients representing more than 50 percent of Wholesale Banking revenue. The NPS of Platinum and Gold clients showed an even higher year-on-year increase of 33 percent and 21 percent, respectively. All sectors also registered stronger NPS, with Energy achieving an exceptionally high score of +71.3, a 26 percent increase year-on-year. The higher scores suggest that clients appreciate our approach (see 'Unleashing sector potential' above) and that Wholesale Banking is succeeding in its strategy to focus on core clients, with as a result more resources allocated to a smaller group of clients and higher client satisfaction.

External recognition

Recognising our efforts, Global Finance magazine named ING as the best consumer digital bank in Germany while Euromoney named us the best digital bank in Central and Eastern Europe, as well as best bank in the Netherlands and in Poland.

For the 14th year, German consumers voted ING their preferred bank in €uro magazine's annual survey. In Australia, ING was named 'Best Bank' by financial comparison sites Mozo and Canstar. ING was also Canstar's Bank of the Year and 'Most Trusted Financial Institution' at the Australian Banking Innovation Awards. In the Forbes list of the world's best banks, ING ranked among the top five in seven countries in 2020.

Global Finance also named ING as the most innovative bank in Western Europe. Three ING innovations also won Innovators 2020 Awards: Zero Knowledge Proof Notary (cash management category), CoorpID (corporate finance sector) and FINN – Banking of things (payments sector).

In Wholesale Banking, ING was recognised as Western Europe's best bank for transaction services (Euromoney) and the best investment bank and best trade finance provider in the Netherlands (Global Finance).

Continuing to innovate

Since the introduction of direct banking in 1997, ING is still finding new ways to improve the banking experience for our customers. Many of these advances stem from twinning the latest technologies with data insights. Growing demand for digital solutions is also spurring new ideas.
Initiatives that have benefitted from this include the trade finance tools of the blockchain-based software company Komgo, which grew out of ING's Innovation Bootcamp (see 'Distributed ledger technology and blockchain' below). Also in trade finance, ING teamed up in 2020 with AI-driven trade platform Tradeteq, the first electronic platform that allows banks and institutional investors to transact trade assets. Tradeteq uses advanced analytics and artificial intelligence to derive more accurate risk scores, helping investors to better evaluate opportunities and offers an end-to-end solution covering portfolio management, risk analytics and securitisation-as-a-service.

At the ING Labs in Amsterdam, Brussels, London and Singapore, over 20 initiatives are currently in development to make disruptive impact in the value spaces of trade, lending, safety and compliance, financial health, and housing. Examples are Blacksmith, Loan Optics and Stemly. Blacksmith, which ING has started using for Wholesale Banking clients in Asia, provides banks with a single platform for digitally managing KYC requirements, connecting to trusted data sources, generating tailored KYC files for its clients and quickly implementing regulatory changes. Loan Optics is a platform for digitally-native loans. It reduces operational costs by streamlining the primary and secondary loan implementation processes. Stemly is creating an autonomous decision system for supply chain and finance processes.

In Wholesale Banking Advanced Analytics we're building artificial intelligence-powered products to better understand and serve our clients. These include improved monitoring and analysis activities for client-facing departments and Hunter, a tool that accelerates the detection and investigation of money laundering schemes, reducing the workload for our KYC colleagues. Domino is a tool that gives us a '360 view' of mid-corporate and corporate clients to ensure we're having the right conversations at the right time to meet their needs. In addition, in 2020, we delivered a proof of concept to gain insight into how mid-corporate clients are dealing with the coronavirus crisis so we can help them where they need it most. It provides insights that go beyond our traditional knowledge of real-time client situations such as whether the client is receiving government support or needs support with tax payments.

Distributed ledger technology and blockchain

When it comes to distributed ledger technology (DLT), ING is considered an industry leader. For the second consecutive year, Forbes ranked ING as one of the top $50 billion companies embracing blockchain technology. Cryptoground, a blockchain and cryptocurrency hub, named ING among the best blockchain stocks investments in 2020.

Easy Trading Connect (now Komgo.io) was one of the first to reinvent commodities trade financing in 2017. Komgo, co-owned by ING, offers products that streamline trade finance, optimise liquidity, manage risk and verify customers. It recently created a new feature, TRAKK, that uses DLT to create provenance and immutability, allowing traders to ensure the documents are genuine and are not used for pledges to other parties. New DLT initiatives currently in the execution phase include solutions for digital assets safekeeping, tokenisation and issuance of a structured finance loan for institutional investors, and an intra-bank settlements utility token, among others.

In October 2020, Contour went live. Co-founded by ING in a consortium with other major global banks, Contour connects buyers, suppliers and banks across a decentralised digital platform to bring transparency and trust into trade financing. In its testing phase, Contour reduced the processing time for letters of credit (LCs) from an average of 10 days to under 24 hours. Another ING initiative is securities lending platform HQLAx, which uses DLT to facilitate trades in high-quality liquid assets, serving as an additional liquidity pool. It was commercially launched in December 2020.

ING's zero-knowledge proof notary service, a solution aimed at improving the privacy and security of DLT-based transactions, received an Innovators 2020 Award from Global Finance magazine in the cash management category. Built specifically to address the privacy requirements of R3's Corda platform, the capability is our latest development in this field of cryptography, following a suite of open-source privacy tools released in previous years.

We amplify our DLT impact by addressing how ING's solutions can solve key problems in the finance industry. Our DLT research team is constantly producing knowledge assets that can serve and influence the wider community: from reflecting on the challenges and benefits of digital assets, to collaborating with the Global Blockchain Business Council and the World Economic Forum on the creation of blockchain standards.

Fintech partnerships

ING entered into several fintech partnerships this year that help our businesses execute our strategy. Through our investment arm, ING Ventures, we invest in companies with a strategic relevance for ING. These are start-ups with disruptive technologies that have the potential to improve the customer experience or ING's operational efficiency.

A number of partnerships are focused on enhancing our data analytics capabilities. One example is London-based Eigen Technologies, which is working on natural language processing (NLP) models tailored to the financial industry's need for data extraction. The partnership is applying NLP and machine learning in areas such as corporate lending, trade finance and SME banking to automate processes and reduce risk and cost.

For our Business Banking clients we have a number of partnerships. Funding Options helps British and Dutch SMEs find the right loan for their business. FinCompare gives German corporate customers a quick and independent overview of their financing options. TransferMate provides SME customers and corporate clients with faster, cheaper and easier payment solutions. We are also exploring new business models. Countingup, a mobile banking app for self-employed entrepreneurs and freelancers, combines accounting and banking features into one seamless solution, greatly reducing operating complexity and cost.

On the topics of aggregation, PSD2 and open banking, ING is working with an ING-initiated company, Cobase, which is making it easier and more efficient for international corporate clients to work with multiple banks from one cloud-based platform.

In the area of operational excellence, we're working with fintech Duco on a reconciliation solution that strongly improves time to market in building reconciliations and lowers the cost of carrying these out.

In the Philippines, ING teamed up with the UNICEF Innovation Office to support fintech start-ups working on financial inclusion challenges (www.fintechforimpact.com). The Fintech for Impact initiative will provide financial support and mentoring for five projects: an app to bring affordable healthcare to rural communities; a tool to help migrant workers manage their finances; a platform connecting farmers and fishermen directly to buyers; an app connecting students to education loans; and an AI-enabled platform to deliver grassroots insurance to low-income families.

Responsible finance

As a bank, we are committed to contributing to a low-carbon and financially healthy society, both through our own efforts and by helping our clients to be more sustainable. We make the most impact through our financing, via the loans we provide to clients. That's why we are committed to steering our €600 billion lending portfolio towards meeting the well-below two-degree goal of the Paris Agreement. We call our approach to measuring and steering, Terra.

Terra approach

ING's Terra sets out our approach for aligning our lending portfolio with the Paris climate goals in the nine sectors most responsible for climate change. Since 2019, we have made significant progress in further developing, refining and applying the Terra approach. In October 2020, we released our second progress report on Terra. It included quantitative results and targets for all of these nine sectors, fulfilling the commitment we made the previous year.

The report's Climate Alignment Dashboard tracks our performance, showing the CO2 intensity per sector of our portfolio compared to the market and the relevant climate scenario. The portfolios for power generation, shipping, cement and steel are 'on track' for climate alignment, while residential real estate, automotive and aviation are 'close to being on track'. For the remaining two sectors we cannot yet benchmark our performance. For upstream oil and gas this is because the 2019 portfolio is our starting point and we will need to see movement relative to the scenario pathway, starting next year, before indicator status can be given. For commercial real estate we still lack complete and up-to-date market data.

ING's power generation portfolio continues to outperform the market and both the International Energy Agency's sustainable development scenario (SDS) and the OECD scenario. In the 12 months measured in the Terra report, ING reduced its direct exposure to coal-fired power plants by 43 percent (in line with our commitment to reduce it to close to zero by the end of 2025) and increased financing for renewable energy generation by €1.19 billion. Other sectors face more challenges, such as the residential mortgage sector. There we encounter a shortage of accurate data to measure progress and a general lack of homeowner action. Read the full Terra report on ing.com, and see 'Greener homes' below for more information about making our mortgage portfolio energy positive by 2050.

One of the targets included in the report is our aim to reduce financing to upstream oil and gas by 19 percent by 2040 from 2019 levels. We'll align this portfolio both by decreasing exposure and engaging with clients to help them shift to low-carbon technology. The measurement is based on three indicators: emission intensity, an absolute reduction in financing and a relative transition of the financing mix from high-carbon to low-carbon and renewable energy. This target is also aligned with the SDS scenario, which is not static. If more or quicker action is needed and this scenario is adjusted, our target will adjust accordingly.

Terra's sector-based approach respects the fact that each sector has its own transition pathway for it to contribute to a low-carbon, below-two-degree world. We therefore use the most appropriate methodology per sector. One example is PACTA for Banks, which was co-developed by ING and non-profit think tank the 2° Investing Initiative (2DII). The methodology-specific application was further refined with more banks and published as an open-source methodology for all banks to use in 2020.
It looks at the technology shift that's needed across certain sectors to slow global warming and then measures this against the actual technology clients are using – or plan on using in the future.

We believe that working together to achieve an industry-wide standard will increase transparency and ultimately help the entire financial sector to make a bigger impact. We also believe in an inclusive approach to climate alignment, as we work with our clients to facilitate and finance their shift to low-carbon technology.

We will continue to monitor and report on our progress, engaging with clients and other stakeholders to advance on the journey to combat climate change. We conduct strategic dialogues with clients on how we can help them align their business with the Paris Agreement goals, for example by advising them on how to structure their financing and gain access to funding. We also contribute to policymaking to influence change on a larger scale. For example, we're working with the European Investment Bank on the implementation of the European Green Deal and we're providing input for proposals by the Network for Greening the Financial System on sustainable stress testing to assess the resilience of the financial system to climate-related shocks.

Our efforts in this area are being recognised. In 2020, we were ranked as 'climate action leader' by the leading global environmental disclosure platform CDP for the seventh consecutive year. We also ranked first in our market-cap group by Sustainalytics and MSCI upgraded ING's rating to 'AA', which underscores sound corporate governance and our strengths in financing environmental impact, among others.

Facilitating change

Sustainability is about planet and people. We believe we can make more impact with what we do finance than what we don't. So when it comes to people, we aim to increase our social impact finance portfolio by lending to projects that lead to, for example, basic infrastructure improvements, community development or essential services. And we're working on making a positive contribution to human rights as financier, employer, taxpayer and driver of progress and prosperity. This is also in line with the United Nations' Principles for Responsible Banking, of which ING was a founding signatory
in 2019.

We have an inclusive approach to driving sustainable business. We work with our clients to facilitate and finance the shift to low-carbon technology. This includes environmental, social and governance (ESG) checks to ensure that our financing is in line with our own sustainability goals. Read more about our environmental and social risk policy framework at www.ing.com/Sustainability/Sustainable-business/Environmental-and-social-risk-policies.htm

ING is considered a pioneer in sustainable finance, having introduced the first sustainability-linked loan and a made-to-measure sustainability improvement loan. We offer various financial instruments such as green loans, sustainability improvement loans, green bonds and advisory services.

In 2020, we saw a visible softening of lending demand due to the impact of Covid-19 on economic activity. Our climate finance portfolio decreased by 12 percent in 2020 to €16.5 billion (from €18.7 billion in 2019), mainly due to lower lending volumes in renewable energy and sustainable buildings. Social impact financing for projects that lead to, for example, basic infrastructure improvements, community development or essential services, decreased by 29 percent to €533 million.

Despite the decline in demand, we continued to shape sustainable finance in 2020 with the introduction of an innovative financing method to make inland shipping in the Netherlands more sustainable. A pay-per-use financing structure for renewable battery containers makes it easier for ship owners to transition from diesel-powered barges to electrical power without the need for a large up-front investment. ING and partners formed a new company called Zero Emissions Services (ZES) to facilitate the transformation. The Dutch transport sector is responsible for 21 percent of the country's CO2 emissions; ZES is moving it a step closer towards the Paris Agreement goals.

In 2020, we started to link the circular economy even more closely with our green finance products. The ZES transaction is an example of how ING is exploring circular financial business models with various partners. The circular economy offers a systematic response to the climate crisis. It's about rethinking our use of raw materials and resources to reduce waste and emissions, shifting from 'take, make and waste' to 'reduce, reuse, recycle'. Companies like ZES stimulate other use models for depleted battery packs once they are exchanged to give them a second or even third lifecycle.

ING issued 36 sustainability improvement loans and 20 green loans. Among these was the largest green loan yet in the Asia-Pacific commercial and industrial renewables sector. The $75 million financing for Cleantech Solar will support more than 500 megawatts of solar power projects across Southeast Asia.

In addition to lending, ING supported 60 mandates for clients through green, social and sustainability bonds. In September, ING was involved in Ireland's first-ever green bond issued by AIB bank. The €1 billion will be used to finance renewable energy projects and green buildings in Ireland and Britain.

ING broke new ground with Europe's first Covid-19-related bond, which raised financing for French public hospitals. ING was the joint bookrunner in the €1 billion deal with French bond issuer Caisse Francaise de Financement Local (CAFFIL). Issued in May, it was the first negative yield bond launch since the end of February when the pandemic triggered a global sell-off and closed the primary market. ING's previous collaboration with CAFFIL on the first French social covered bond was a winner at Environmental Finance's Bond Awards 2020.

ING subsequently supported a further three issuers with Covid-19-related bonds, helping them to overcome the impact of the crisis. We acted as bookrunner in the €500 million social bond for Korea Housing Finance Corporation; as joint bookrunner in the €1 billion social bond for CaixaBank; and joint lead manager on the €500 million bond for the Export-Import Bank of Korea (KEXIM).

Greener homes

A significant part of our loan book consists of residential mortgages, and houses generally account for about 22 percent of direct and indirect CO_2 emissions in the EU. We're working with clients to improve the energy consumption of the houses we finance as a way of achieving our Paris alignment goals. Our long-term vision is to have an energy-positive mortgage portfolio by 2050. This means that the houses in our portfolio will collectively generate more energy than they consume.

Our current carbon intensity measurement covers our Dutch and German mortgage portfolio, with a combined outstanding lending amount of roughly €180 billion (60 percent of total mortgage outstandings) and more than one million financed homes. See the latest Terra report on ing.com for information on the underlying measurement.

We are developing retail products, tools and services to help homeowners make their houses more sustainable. Customers can use these products to finance solar panels, for example, or insulate their homes. In Germany, we provide green mortgages through development bank KfW.

In addition to financial solutions, we help to raise awareness on the topic. Consumers in the Netherlands, for example, can check the energy profile of their homes on our website, as well as the options and financing available to improve in this area. And we provided Dutch homeowners who want to invest in upgrading their energy label with a free rating as we know how insights can help people to take the first steps towards a more sustainable home.

However, the number of homeowners taking up this offer remains low. This likely reflects the cumbersome process of gathering data for an energy label upgrade. And although an up-to-date energy label is required when selling a home, only a small percentage of properties in our portfolio are sold each year.

Sustainable investment services

ING offers sustainable investment (SI) services to its Retail Banking customers in the Netherlands, Belgium, Luxembourg and Germany. In 2020, ING's retail brokerage division recorded €13.2 billion in sustainability assets under management, up from €9.3 billion in 2019. This underlines our clients' appetite for products and services that integrate sustainability criteria.

Competition

ING is a global financial institution with a strong European base, offering retail and wholesale banking services to customers in over 40 countries. The purpose of ING is empowering people to stay a step ahead in life and in business.

ING’s Retail business serves 39 million customers, from individuals to small and medium-sized businesses and mid-corporate clients. In most of our Retail markets we offer a full range of banking products and services, covering payments, savings, mortgages, insurance, investments and secured and unsecured lending. Our Wholesale Banking business offers clients advisory value propositions such as specialised lending, tailored corporate finance and debt and equity-market solutions. These clients range from large companies to multinational corporations and financial institutions.

There is substantial competition in the Netherlands and the other countries in which we do business for the types of wholesale banking, retail banking, investment banking and other products and services we provide.

This competition is most pronounced in our more mature markets of the Netherlands, Belgium, the rest of Western Europe and Australia. Our largest market is the Netherlands, where our main competitors are ABN AMRO and Rabobank. In recent years, competition has increased in emerging markets such as Asia and Central and Eastern Europe. Financial services companies from more developed countries see these markets as offering higher growth potential, while local institutions have become more sophisticated and competitive and have proceeded to form alliances, mergers or strategic relationships with our competitors.

However, our competitive landscape is transforming as society becomes increasingly digitalised and ever more reliant on technology and the online economy – a trend amplified during the Covid-19 pandemic, which accelerated the shift to mobile banking and contactless payments. Our main competitors are no longer just other banks. The big winners in 2020 were the tech companies that 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 a fitting product or service, ensuring customers come back for more. This ability to meet people’s primary needs in a way that is easily accessed on mobile devices is what defines their success. Banking, by contrast, is a facilitator and not a primary need. The choice for banks is to challenge their existing business models and disrupt themselves, or risk being eliminated as an intermediary and relegated to the status of white label facilitator of others’ platforms. In this environment, the digital customer experience is the key differentiator, shaped by customer expectations based on their interactions online and on their smartphones: easy, smart and personal.

The opening up of the European payments market under the PSD2 directive is a significant competitive development. It is creating a more crowded, uneven playing field as new providers enter this lucrative area once dominated by banks. Newcomers include third party mobile and online payment platforms like ApplePay and Alipay, as well as fintechs and other non-banks. These new entrant have operating models that are not burdened with potentially costly legacy operations. They are less regulated than banks and use technologies like blockchain, robotics and artificial intelligence and advanced data and analytic tools to lower cost to serve and speed up processes.

Advances in technology are accelerating the use of new business models, for example in retail payments, peer-to-peer lending, foreign exchange and low-cost investment advisory services. New solutions offered by rapidly evolving incumbents, challengers and new entrants, especially with respect to payment services and products, are disrupting the financial services sector and leading to the emergence of disintermediation. To remain competitive, banks have to think beyond banking and develop their own platforms. Winners will be those with a superior digital experience, a strong trusted brand, and the ability to mobilise a large customer base to attract partners to their platforms.

Successful platforms take the effort out of managing finances, offering personalised, real-time advice and products and services for all financial and other relevant needs. Open banking offers opportunities to add value by connecting to the products and services of others, also in areas beyond banking. Statements regarding ING’s competitive position reflect the assessment of ING’s management about the general competitive landscape in which ING operates.

Regulation and Supervision

The banking and broker-dealer businesses of ING are subject to detailed and comprehensive supervision in all of the jurisdictions in which ING conducts business.

Regulatory agencies and supervisors have broad administrative power and enforcement capabilities over many aspects of our business, which may include liquidity, capital adequacy, permitted investments, ethical issues, money laundering, anti-terrorism measures, privacy, recordkeeping, product and sale suitability, marketing and sales practices, remuneration policies, personal conduct and our own internal governance practices. Also, regulators and other supervisory authorities in the EU, the US and elsewhere continue to scrutinise payment processing and other transactions and activities of the financial services industry through laws and regulations governing such matters as money laundering, anti-terrorism financing, tax evasion, prohibited transactions with countries or persons subject to sanctions, and bribery or other anti-corruption measures.

As discussed under "Item 3. Key Information — Risk Factors", as a large multinational financial institution we are subject to reputational and other risks in connection with regulatory and compliance matters involving these countries.

European Regulatory framework

The Single Supervisory Mechanism ("SSM") – the first pillar of the Banking Union – was launched on 4 November 2014. Since that date, the European Central Bank (ECB) assumed responsibility for a significant part of the prudential supervision of banking groups in the Eurozone, including ING Group and ING Bank. Under the SSM, the ECB has become ING Group's and ING Bank's principal prudential supervisor. The ECB is amongst others responsible for tasks such as market access, compliance with capital and liquidity requirements and governance arrangements. National supervisors, including the Dutch Central Bank for ING Group and ING Bank, remain responsible for supervision of tasks that have not been transferred to the ECB such as financial crime and payment supervision.

Another significant change in the regulatory environment is the setting up of the Single Resolution Mechanism ("SRM"). It is the second pillar of the Banking Union. The SRM comprises the Single Resolution Board ("SRB") and the national resolution authorities and is fully responsible for the resolution of banks within the Eurozone as of 1 January 2016. ING has been engaging already with the Dutch national resolution authorities and the SRB for a few years with the aim to support in the draw up of a resolution plan for ING and will continue to collaborate with the resolution authorities. The rules underpinning the SRM could have a significant impact on business models and capital structure of financial groups in order to become resolvable.

As a third pillar to the Banking Union, the EU aims at further harmonizing regulations for Deposit Guarantee Schemes (DGS). Main elements are the creation of ex-ante funded DGS funds, financed by risk-weighted contributions from banks. As a next step, the EU is discussing a pan-European (or pan-banking union) DGS (the European Deposit Insurance Scheme (EDIS)), (partly) replacing or complementing national compensation schemes. The progress on the EDIS proposal is slower than expected; this proposal as well as certain accompanying risk reduction measures are still being discussed in the European Parliament and in the Council.

Dutch Regulatory Framework

The Dutch regulatory system for financial supervision consists of prudential supervision – monitoring the soundness of financial institutions and the financial sector, and conduct-of-business supervision – regulating institutions' conduct in the markets. As far as prudential supervision has not been transferred to the ECB, it is exercised by the Dutch Central Bank (De Nederlandsche Bank or "DNB"), while conduct-of-business supervision is performed by the Dutch Authority for the Financial Markets (Autoriteit Financiële Markten or "AFM"). DNB is in the lead with regard to macroprudential supervision.

Global Regulatory Environment

There is a variety of proposals for laws and regulations that could impact ING globally, in particular those made by the Financial Stability Board and the Basel Committee on Banking Supervision at the transnational level and an expanding series of supranational directives and national legislation in the European Union (see "Item 3. Key Information — Risk Factors — We operate in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations governing our business may reduce our profitability). The aggregated impact and possible interaction of all of these proposals are hard to determine, and it may be difficult to reconcile them where they are not aligned. The financial industry has also taken initiatives by means of guidelines and self-regulatory initiatives.

Dodd-Frank Act and other US Regulations

ING Bank has a limited direct presence in the United States through the ING Bank Representative Offices in New York and Dallas, Texas. Although the offices' activities are strictly limited to essentially that of a marketing agent of bank products and services and a facilitator (i.e. the offices may not take deposits or execute any transactions), the offices are subject to the regulation of the State of New York Department of Financial Services and the Texas Department of Banking, as well as the Federal Reserve. ING Bank also has a subsidiary in the United States, ING Financial Holdings Corporation, which through several operating subsidiaries (one of which is registered with the CFTC as a swap dealer and another of which is registered with the U.S. Securities and Exchange Commission as a securities broker-dealer) offers various financial products, including lending, and financial markets products. These entities do not accept deposits in the United States on their own behalf or on behalf of ING Bank N.V.

Dodd-Frank Act, which became law on 21 July 2010, represented a significant overhaul in the regulation of U.S. financial institutions and markets. The primary impact on ING is through the establishment of a regulatory regime for the off-exchange derivatives market, pursuant to Title VII of the Dodd-Frank Act.

Among other things, the Dodd-Frank Act and regulations enacted thereunder require swap dealers to register with the CFTC, the primary swaps regulator in the U.S.) as 'swap dealers' and be subject to CFTC regulation and oversight. The ING subsidiary, ING Capital Markets LLC, is registered as a swap dealer. As a registered entity, it is subject to business conduct, record-keeping and reporting requirements, as well as margin requirements and capital requirements, which will become effective in late 2021. In addition to the obligations imposed on registrants (such as swap dealers), other requirements relating to reporting, clearing, and on-facility trading have been imposed for much of the off-exchange derivatives market. It is possible that registration, execution, clearing, margin, capital and business conduct compliance requirements will increase the costs of and restrict participation in the derivative markets. These rules could therefore restrict trading activity, reducing trading opportunities and market liquidity, potentially increasing the cost of hedging transactions and the volatility of the relevant markets. This could adversely affect the business of ING in these markets.

The Dodd-Frank Act and SEC regulations enacted thereunder, effective 1 November 2021, also require security-based swap dealers to register with the SEC. The SEC has adopted regulations, among others, establishing registration, reporting, risk management, business conduct, and margin and capital requirements for security-based swaps. ING Capital Markets is expected to be registered with the SEC as a security-based swap dealer. Registration could increase ING Capital Markets LLC's operational costs, reduce trading activity and market liquidity, and increase volatility of the relevant markets. It will also result in a substantial portion or all of ING's security-based swap activities with U.S. persons being conducted through ING Capital Markets LLC.

In addition, new position limits requirements for uncleared swaps referencing any of twenty-five commodity futures contracts for market participants could limit ING's position sizes in these swaps referencing specified physical commodities and similarly limit the ability of counterparties to utilize certain of our products to the extent hedging exemptions from the position limits are unavailable.

The Dodd-Frank Act also impacts U.S. banks and non-U.S. banks with branches or agencies in the United States, primarily through the Volcker Rule and the enhanced prudential standards of Section 165 of the Dodd-Frank Act. Because ING Bank does not have a U.S. banking presence, these provisions do not currently apply to ING.

The Dodd-Frank Act also created a new agency, the Financial Stability Oversight Council ("FSOC"), an inter-agency body that is responsible for monitoring the activities of the U.S. financial system, designating systemically significant financial services firms and recommending a framework for substantially increased regulation of such firms, including systemically important non-bank financial companies that could consist of securities firms, insurance companies and other providers of financial services, including non-U.S. companies. ING has not been designated a systemically significant non-bank financial company by FSOC and such a designation currently is unlikely.

Dodd-Frank continues to impose significant requirements on us, some of which may have a material impact on our operations and results, as discussed further under "Item 3. Key Information — Risk Factors—We operate in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations governing our business may reduce our profitability".

Basel III and European Union Standards as currently applied by ING Bank

DNB, our principal home country supervisor until the ECB took over that position in November 2014, has given ING permission to use the most sophisticated approaches for solvency reporting under the Financial Supervision Act, the Dutch legislation reflecting the Basel II and Basel III Frameworks. DNB has shared information with host regulators of relevant jurisdictions to come to a joint decision. In all jurisdictions where the bank operates through a separate legal entity that is a credit institution, ING must meet the local implementation of Basel requirements as well. ING uses the Advanced IRB Approach for credit risk, the Internal Model Approach for its trading book exposures and the Advanced Measurement Approach for operational risk. A small number of portfolios including certain sovereign exposures are reported under the Standardized Approach

In December 2010, the Basel Committee on Banking Supervision announced higher global minimum capital standards for banks, and has introduced a new global liquidity standard and a new leverage ratio. The Basel Committee's package of reforms, collectively referred to as the "Basel III" rules, has, among other requirements, increased the amount of common equity required to be held by subject banking institutions, has prescribed the amount of liquid assets and the long term funding a subject banking institution must hold at any given moment, and has limited leverage. Banks are required to hold a "capital conservation buffer" to withstand future periods of stress. Basel III has also introduced a "countercyclical buffer" as an extension of the capital conservation buffer, which permits national regulators to require banks to hold more capital during periods of high credit growth (to strengthen capital reserves and moderate the debt markets). Further, Basel III has strengthened the definition of capital that has the effect of gradually disqualifying many hybrid securities during the years 2013-2022, including the hybrids that were issued by the Group, from inclusion in regulatory capital, as well as the higher capital requirements associated with certain business conditions (for example, for credit value adjustments ("CVAs") and illiquid collateral) as part of a number of reforms to the Basel II framework. In addition, the Basel Committee and Financial Stability Board ("FSB") published measures that have had the effect of requiring higher loss absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for, and instituting more intensive and effective supervision of, "systemically important financial institutions" ("SIFIs"), in addition to the Basel III requirements otherwise applicable to most financial institutions. One such measure, published by the FSB in November 2015, is the Final Total-Loss Absorbing Capacity ('TLAC') standard for G-SIFIs, which aims for G-SIFIs to have sufficient loss-absorbing and recapitalisation capacity available in resolution. ING Bank has been designated by the Basel Committee and FSB as a so-called "Global Systemically Important Bank" ("G-SIB"), since 2011, and by DNB and the Dutch Ministry of Finance as a "other SII" ("O-SII") since 2011. DNB requires ING Group to hold a 2.5% O-SII Buffer in addition to the capital conservation buffer and the countercyclical buffer described above.

CRR /CRD IV

For European banks the Basel III requirements have been implemented through the Capital Requirement Regulation (CRR) and the Capital Requirement Directive ("CRD IV"). The CRD IV regime entered into effect in August 2014 in the Netherlands, but not all requirements were implemented all at once. Having started in 2014, the requirements have been gradually tightened, mostly before 2019, until the Basel III migration process was completed.

CRD IV has not only resulted in new quantitative requirements but has also led to the setting of new standards and evolving regulatory and supervisory expectations in the area of governance, including with regard to topics like conduct and culture, strategy and business models, outsourcing and reporting accuracy.

CRRII / CRD V 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.

Whilst the Banking Reform Package was being developed, the ECB introduced the Targeted Review of Internal Models (TRIM) in June 2017 to assess reliability and comparability between banks' models for calculating each bank's risk-weighted assets ('RWA') used for determining certain of such bank's capital requirements. 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 have or might be put in place until these obligations are fully addressed and closed.

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.

The full impact of the Basel III Reform rules and TRIM, and any additional requirements if and as applicable to the Group, will depend on how they are implemented by national regulators, including the extent to which such regulators and supervisors can set more stringent limits and additional capital requirements or surcharges, as well as on the economic and financial environment at the time of implementation and beyond. We expect these rules could have a material impact on ING's operations and financial condition and may require the Group to seek additional capital.

Final Basel III reforms

In December 2017 the Basel Committee finalised its Basel III post-crisis reforms with the publication of the revisions to the prudential standards for credit, operational and credit valuation adjustment (CVA) risk as well as the introduction of an output floor. This package of reforms aims to increase consistency in risk-weighted asset calculations and improve the comparability of banks' capital ratios. The use of internal models will be reduced and the standardised approaches will be made more risk-sensitive and granular.

Following a one-year deferral due to COVID-19, these reforms will take effect from 1 January 2023 and will be phased in over five years. The EU Commission postponed the issuance of its legislative proposal ("CRR3"/"CRD6") to implement the final elements of the Basel III framework in the EU until 2021. The implementation date of "CRR3/CRD6" is therefore not yet decided on. The implementation of the EU/Basel III reforms will have impact on ING's risk-weighted assets and capital ratios, but it is expected that other new banking regulations and model reviews bring forward a significant part of this impact before the EU implementation date.

CRR "quick fix" in response to the Covid-19 pandemic

On 26 June 2020 Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations CRR as regards certain adjustments in response to the COVID-19 pandemic (commonly referred to as CRR "quick fix") was published.

The CRR "quick fix" is part of a series of measures taken by European institutions to mitigate the impact of the COVID-19 pandemic on institutions across EU Member States. In addition to the flexibility already provided in the existing rules, the CRR 'quick fix' introduces certain adjustments to the CRR, including temporary measures and measures that early adopt changes in the regulations that were intended to become effective at a future date. This notably included reduced capital requirement for certain exposures to small- and medium sized enterprises (SMEs), a more favourable prudential treatment for certain software assets, one year delay in the application of the leverage ratio buffer requirement of 50% of the G-SIB buffer (to 1 January 2023). Also the following adjustments were introduced have an impact on disclosures:

- frontloading from CRR2 the possibility of temporarily excluding certain exposures to central banks from the calculation of an institution's total exposure measure (Article 500b of CRR);
- extending by 2 years transitional arrangements for mitigating the impact on own funds of the introduction of IFRS 9 (Article 473a (8) of CRR).

In August 2020, the EBA issued guidelines to provide institutions with the necessary clarifications on how to apply the measures set out in the CRR 'quick fix' supervisory reporting and disclosures. These Guidelines are an interim solution until the new comprehensive ITS on disclosure start to apply (June 2021).

Capital requirements applicable to ING Group at a consolidated level

In accordance with the CRR the minimum Pillar I capital requirements applicable to ING Group are: a Common Equity Tier 1 (CET1) ratio of 4.5%, a Tier 1 ratio of 6% and a Total capital ratio of 8% of risk-weighted assets.

In 2020, as a reaction to the COVID-19 pandemic, relevant regulators introduced a number of changes to the Pillar II capital requirements and the capital buffer requirements applicable to ING, including structural reductions. The structural reductions of these capital requirements reflect the application of Art.104a in CRD V, which allowed ING to replace CET1 capital with additional Tier 1 / Tier 2 securities to meet Pillar II requirement, and a reduction in the overall systemic buffer (i.e. the Systemic Risk Buffer plus the highest of the O-SII and G-SII buffer) by the Dutch National Bank from 3% to 2.5%. Similarly, various competent authorities changed or removed their Countercyclical Buffer (CCyB) requirements reducing the CCyB for ING from 24 basis points to 3 basis points.

As a consequence, the CET1 requirement, including buffers, for ING Group at a consolidated level was 10.51% in 2020. This requirement is the sum of a 4.5% Pillar I requirement, a 0.98% Pillar II requirement (2019: 1.75%), a 2.5% Capital Conservation Buffer (CCB), a 0.03% Countercyclical Buffer (CCyB) (based on December 2020 positions) and a 2.5% O-SII buffer that is set separately for Dutch systemic banks by the Dutch Central Bank (De Nederlandsche Bank). This requirement excludes the Pillar II guidance, which is not disclosed.

The Maximum Distributable Amount (MDA) trigger level stood at 10.51% in 2020 for CET1, 12.33% for Tier 1 Capital and 14.77% for Total Capital (after the application of Art.104a of CRDV), based on stable Pillar II capital requirements. In the event that ING Group breaches the MDA level, ING may face restrictions on dividend payments, AT1 instruments coupons and payment of variable remuneration.

Covid-19 pandemic

Various countries and local governmental authorities across the world have introduced measures aimed at preventing the further spread of Covid-19.

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.

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 these guidelines, customers that were granted the payment holidays did not lead to a forbearance classification. Therefore it did not automatically trigger recognition of lifetime Expected Credit Loss (ECL) either. 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 classify as forbearance. EBA further extended these guidelines in the first week of December 2020, valid until 31 March 2021, with certain extra conditions. Regarding these extensions, ING 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.

Bank recovery and resolution directive

Since its adoption by the European Parliament in 2014, the Bank recovery and resolution directive (BRRD) has become effective in all EU countries after transposition into national law, including in the Netherlands. The BRRD aims to safeguard financial stability and minimise the use of public funds in case banks face financial distress or fail to comply with the BRRD. Banks across the EU need to have recovery plans in place and need to cooperate with resolution authorities to determine, and make feasible, the preferred resolution strategy. The banking reform which came into force on 27 June 2019 includes changes to the minimum requirement for own funds and eligible liabilities (MREL) to ensure an effective bail in process. It also includes new competences for resolution authorities and requires G-SIBs and other banks to build up loss-absorbing and recapitalization capacity.

ING has had a recovery plan in place since 2012. The plan includes information on crisis governance, recovery indicators, recovery options, and operational stability and communication measures. The plan enhances the bank's readiness and decisiveness in case of a financial crisis. The plan is updated annually to make sure it stays fit for purpose. The completeness, quality and credibility of the updated plan is assessed each year by ING's regulators.

The Single Resolution Board (SRB) confirmed to ING in 2017 that a single-point-of-entry (SPE) strategy is ING's preferred resolution strategy, with ING Groep N.V. as the resolution entity.

In 2019, ING Group received a formal notification from De Nederlandsche Bank (DNB) of its MREL. The MREL requirement has been established to ensure that banks in the European Union have sufficient own funds and eligible liabilities to absorb losses in the case of potential bank failure. The MREL requirement is set for ING Group at a consolidated level, as determined by the Single Resolution Board (SRB). This MREL requirement has been set at 10.54% of total liabilities and own funds. The current MREL requirement is not binding, but a new MREL requirement will be determined by ING's resolution authorities in 2021 based on the BRRD II.

ING has been replacing, and will continue to replace, maturing ING Bank N.V. debt with ING Groep N.V. instruments. In order to build up our MREL capacity, ING Groep N.V. issued multiple transactions. These transactions will not only allow us to support business growth, but will also help to meet future MREL and TLAC requirements with ING Groep N.V. instruments only.

CRR II implements the Financial Stability Board's total loss absorbing (TLAC) requirement for Global Systemically Important Institutions (G-SII), which is the EU equivalent of a G-SIB. The transitional requirement—the higher of 16 percent of the resolution group's Risk weighted assets (RWA) or six percent of the leverage ratio exposure measure—applies immediately. The higher requirement—18 and 6.75 percent, respectively—comes into effect as of January 1, 2022. As a G-SII ING is expected to meet the TLAC requirement alongside the other minimum regulatory requirements set out in EU regulation.

Stress testing

Stress testing is an integral component of our risk and capital management framework. It allows us to (i) assess potential vulnerabilities in our businesses, business model, and/or portfolios; (ii) understand the sensitivities of the core assumptions in our strategic and capital plans; and (iii) prepare and assess management actions that can reduce or mitigate the impact of adverse scenarios.

In addition to running internal stress test scenarios to reflect the outcomes of the annual risk assessment, ING also participates in regulatory stress test exercises. ING participated in the 2020 EU-wide stress test conducted by the EBA in cooperation with the European Central Bank (ECB), the Dutch central bank (DNB), the European Commission and the European Systemic Risk Board (ESRB). The baseline scenario was developed by the ECB and the adverse stress test scenario by the ESRB, both cover a three-year time horizon (2020-2022). The ECB and the EBA decided in March 2020 to postpone the EU-wide stress test exercise due to the outbreak of COVID-19. EBA will launch a new stress test exercise in January 2021 and is expected to publish the results by July 2021.

The last EU-wide stress test exercise that was completed concerns the 2018 edition. This stress test was carried out applying a static balance sheet assumption as of December 2017, therefore does not take into account current or future business strategies and management actions. The results of this stress test also cover a three-year horizon (2018-2020) and reflect the impact of IFRS 9 for determining loan loss provisions in adverse circumstances. The results of the EBA stress test reaffirmed the resilience of our business model and the strength of ING's capital base. Our commitment to maintain a robust, fully-loaded Group common equity Tier 1 (CET1) ratio in excess of prevailing requirements remains. ING started the EU-wide stress test exercise with a CET1 ratio of 14.51% per 2017 year-end. Under the hypothetical baseline scenario and EBA's methodological instructions, ING Group would have a fully loaded CET1 of 13.99% in 2020. Under the hypothetical adverse scenario and EBA's methodological instructions, ING Group would have a fully loaded CET1 ratio of 10.70% in 2020 without management actions.

Deposit Schemes

In the Netherlands and other jurisdictions, deposit guarantee schemes and similar funds (‘Compensation Schemes’) have been implemented from which compensation may become payable to customers of financial services firms in the event the financial service firm is unable to pay, or unlikely to pay, claims against it. In many jurisdictions in which we operate, these Compensation Schemes are funded, directly or indirectly, by financial services firms which operate and/or are licensed in the relevant jurisdiction. ING Bank is a participant in the Dutch Deposit Guarantee Scheme (‘DGS’), which guarantees an amount of EUR 100,000 per person per bank (regardless of the number of accounts held). On the basis of the EU Directive on deposit guarantee schemes, ING pays quarterly risk-weighted contributions into a DGS-fund. The DGS-fund is to grow to a target size of 0.8% of all deposits guaranteed under the DGS, which is expected to be reached in July 2024. In case of failure of a Dutch bank, depositor compensation is paid from the DGS-fund. If the available financial means of the fund are insufficient, Dutch banks, including ING, may be required pay to extraordinary ex-post contributions not exceeding 0.5% of their covered deposits per calendar year. In exceptional circumstances and with the consent of the competent authority, higher contributions may be required. However, extraordinary ex-post contributions may be temporarily deferred if, and for so long as, they would jeopardise the solvency or liquidity of a bank.

Since 2015, the EU has been discussing the introduction of a pan-European deposit guarantee scheme (‘EDIS’), (partly) replacing or complementing national compensation schemes in two or three phases. Proposals contain elements of (re)insurance, mutual lending and mutualisation of funds. The new model is intended to be ‘overall cost-neutral’. Discussions have continued in 2020, but it remains uncertain when EDIS will be introduced.

Payment Services Directive 2 (PSD2)

PSD2 entered into force in January 2018 and responds to technical change and a variety of developments in the payments domain. It fosters innovation and competition by promoting non-discriminatory access to payment systems and accounts, including the newly introduced account information services and payment initiation services. Customers benefit from greater transparency of costs and charges, PSD2's extended geographical reach and being applicable to transactions in any currency, a reduction of the maximum liability for unauthorized transactions and a backstop date for complaint resolution. Finally, to combat cybercrime and online fraud, PSD2 continues the trend towards enhancing the security around the making of payments, e.g. by the introduction of strong customer authentication. It consists of two factor authentication, to be performed every time a payer accesses its payment account online or initiates electronic remote payment transactions. The Regulatory Technical Standards for strong customer authentication and common and secure communication provide further requirements to implement the strict security requirements for payment service providers in the EU.

Benchmark Regulation

Benchmarks, such as the London Interbank Offered Rate (‘LIBOR’), the Euro Overnight Index Average (‘EONIA’), the Euro Interbank Offered Rate (‘EURIBOR’) and other interest rates, as well as commodity benchmarks or other types of rates and indices which are deemed to be ‘benchmarks’ are the subject of ongoing national and international regulatory reform.

In 2016, the EU adopted a Regulation (the ‘Benchmarks Regulation’ or ‘BMR’) on indices used in the EU as benchmarks in financial contracts and financial instruments. The Benchmarks Regulation became effective on 1 January 2018.

The BMR among others requires that supervised entities may only use benchmarks in the EU if these benchmarks are provided by administrators that are registered with the European Securities and Markets Authority (‘ESMA’).

Benchmarks that are based on input from contributors shall have a code of conduct in place designed primarily to ensure reliability of input data, governing issues such as conflicts of interest, internal controls and benchmark methodologies. Financial contracts and financial instruments in which benchmarks are used by supervised entities require to have robust fall back wording included in their documentation.

Public authorities have initiated industry working groups in various jurisdictions to search for and recommend alternative risk-free rates that could serve alternatives if current benchmarks like LIBOR and EONIA cease to exist or materially change. The work of these working groups is still ongoing, though certain of such organizations have advanced proposals for benchmark replacements.

The market has indicated that it will stop the calculation of certain benchmarks and that they will proceed with the use of risk free rates as benchmarks. For instance the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021. The FCA and Bank of England are working together with market participants on the transition to use SONIA as the primary interest rate benchmark in sterling markets. Furthermore, the working group on euro risk-free rate has adopted the euro short-term rate (€STR), which was published for the first time on 2 October 2019, as a replacement for the EONIA benchmark that will be discontinued by the end of 2021. The US Federal Reserve’s Alternative Reference Rates Committee (commonly referred to as ‘ARRC’) has recommended adoption of the Secured Overnight Financing Rate (commonly referred to as ‘SOFR’) as an alternative to US dollar LIBOR.

Financial Transaction Taxes

In February 2013, the EC adopted a proposal setting out the details of a financial transaction tax (‘FTT’) under the enhanced cooperation procedure, to be levied on transactions in financial instruments by financial institutions if at least one of the parties to the transaction is established in the financial transaction tax zone (‘FTT-Zone’) or if the instrument which is the subject of the transaction is issued within the territory of a Member State in the FFT-Zone. 10 Member States have indicated they wish to participate in the FTT (Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain). The initial proposal contemplated that the FTT would enter into effect on 1 January 2014, which would have then required us to pay a tax on transactions in financial instruments with parties (including Group affiliates) located in such FTT-zone. However, the FTT remains subject to negotiation between the participating Member States and currently it is uncertain whether and in what form and by which Member States the FTT will be adopted. The implementation date of any FTT will thus depend on the future approval by participating Member States in the Council, consultation of other EU institutions, and the subsequent transposition into local law.

KYC Requirements

Compliance with applicable laws and regulations is resource-intensive. Banks continue to be faced with new and increasingly onerous regulatory requirements. Generally, we expect the scope and extent of regulations in the jurisdictions in which we operate to continue to increase.

An example is the implementation of DAC6 which like FATCA and CRS requires financial institutions to report detailed client-related information to the competent authorities. Customer due diligence (CDD), (sanctions) screening and transaction monitoring impose requirements on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report to the competent authorities on e.g. money laundering and terrorist financing.

The increasing regulatory scrutiny drives the need to continuous change in the various processes, procedures and IT systems. In some situations the applicable laws and regulations, at local and/or at global level, seem to be conflicting with each other, which imposes a significant challenge on banks as part of the implementation of requirements. In addition, the timeline for implementation of those new/changed requirements is sometimes very short, which is challenging in general, yet especially in IT development. ING aims to continuously work on embedding the processes and procedures reflecting the applicable requirements in our IT systems and data sources, driving a business environment which is compliant by desire and design, and will execute ongoing training and awareness to develop its people to have the right knowledge and skills.

That also accounts for risks deriving from new technologies. ING aims to continuously monitor regulatory developments to make risk assessments and define the banks risk appetite. Regulations on distributed ledger technology and business developments in this area are as rapid and impactful as the accompanying risks.

5th AML Directive

In addition, the 5th AML Directive will be implemented in the Netherlands. The 5th AML Directive was originally adopted by the EU Council in June 2018, with the aim of addressing means of terrorist financing, increasing transparency to combat money laundering and helping to strengthen the fight against tax avoidance. The most important aspects of the 5th AML Directive involve the (anti money-laundering) risks relating to the use of virtual currencies, the improvement of information exchange between supervising authorities, and the introduction of beneficial ownership registers for corporate and other legal entities.

ING expects to revise the KYC policy framework to reflect the requirements of the 5th AML Directive. Prior to the adoption of the 5th AML Directive, European supervisory authorities (ESAs) had previously issued their final guidelines on risk factors, which came into force in June 2018. These guidelines promote a common understanding of the risk-based approach to anti-money laundering/combatting terrorist financing (AML/CFT) and set out how it should be applied in the context of the 4th AML Directive. These guidelines are currently in the process of being updated, in order to support firms’ AML/CFT compliance efforts and enhance the ability of the EU’s financial sector to effectively deter and detect money laundering/terrorist financing. The ESAs published a consultation version of the updated guidelines on 5 February 2020. The final updated guidelines are expected to come into force in the course of 2020. Furthermore, in September 2017, the ESAs issued their final guidelines to prevent the abuse of funds transfers for terrorist financing and money laundering purposes. These guidelines came into force in June 2018.

Policy with respect to certain countries

As a result of frequent evaluation of all businesses from economic, strategic and risk perspective 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 and Syria.

IING Bank maintains a limited legacy portfolio of guarantees, accounts, and loans that involve various entities with a connection to Iran. These positions remain on the books but certain accounts related thereto are ‘frozen’ where prescribed by applicable laws and procedures and in all cases subject to increased scrutiny within ING Bank. ING Bank may receive loan repayments, duly authorised by the relevant competent authorities where prescribed by applicable laws. For the calendar year 2020, ING Group had revenues of approximately USD 274 thousand. ING Group estimates that it had a net profit of approximately USD 17 thousand.

Sanctions related developments

In 2020, the EU and the US continued sanctions programs with respect to several regions and countries, including Ukraine/Russia, Iran, China, Venezuela and Syria. There are notable differences between the EU and US sanctions programs.

The US, for example, continued and updated its sanctions with respect to the Nord Stream 2 pipeline and the second line of Turkstream, both originating in Russia. Also with respect to Iran, where a significant number of EU sanctions were lifted pursuant to the Iran Nuclear Agreement, the US continued to take various measures in light of its ‘maximum pressure campaign’ against Iran and all major Iranian financial institutions are now designated by OFAC.

Tensions between the US and China continued, resulting in (additional) sanctions and export controls imposed by the US, amongst others in response to China’s alleged human rights abuses in Hong Kong and against China’s Uyghur minority population. In addition, the U.S. Department of Commerce’s Bureau of Industry and Security (BIS) continued applying U.S. export controls on dual-use goods, software, and technology, and it imposed a number of significant new controls on trade with China and Hong Kong. BIS also added several entities on the Entity List under the US Export Administration Regulations, and thereby further tightened the export control regime in that respect. In response, China has announced to take resolute countermeasures deemed required to safeguard the legitimate rights and interests of Chinese companies and related personnel as well as China’s sovereignty, security and development interests. These announced Chinese actions include visa restrictions and potentially other measures firmly opposing US sanctions.
The US issued criminal indictments against President Maduro and several other high-level officials of the Venezuelan government. In addition, the US government further restricted dealings with the Venezuela’s oil sector and imposed sanctions on certain parties included in the sale and transport of Venezuelan crude.

In respect of Syria, the US continued to pressure the Assad regime as well as other actors in the region to stop committing human rights abuses against the Syrian civilian population.
The EU blocking regulation remained in full force in 2020. This EU regulation aims to shield EU companies from U.S. sanctions against Iran, Cuba and Libya, in part by prohibiting European companies from complying with the sanctions that the EU considers to be “extraterritorial” in nature.
With a view to these and other developments, ING continuously evaluates its sanctions compliance controls to respond to risks of new or expanding sanctions regimes.

For additional information regarding regulatory developments, including with respect to the 5th AML Directive, FATCA, CRS, DAC6 and MIFID II, see also this Form 20F 2020, under “Additional Information – ING Group Risk Management- Compliance Risk- Regulatory Developments”.

C. Organisational structure

ING Groep N.V., a publicly-listed company, is the parent of one main legal entity: ING Bank N.V. (ING Bank). ING Bank is the parent company of various Dutch and foreign banking and other subsidiaries.

Reference is made to Exhibit 8 “List of subsidiaries of ING Groep N.V.” for a list of principal subsidiaries of ING Groep. N.V. For the majority of ING’s principal subsidiaries, ING Groep 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.

D. Property, plants and equipment

ING predominantly leases the land and buildings used in the normal course of its business. In addition, ING has invested in land and buildings. Management believes that ING’s facilities are adequate for its present needs in all material respects.

For information on property, plants and equipment, reference is made to Note 9 ‘Property and equipment’, for information on lease liabilities reference is made to Note 16 ‘Other liabilities’ and for information on investment properties reference is made to Note 11 ‘ Other assets’ in the consolidated financial statements.

Item 4A. Unresolved Staff comments

Not applicable.

Item 5. Operating and financial review and prospects

The following operating and financial review and prospects should be read in conjunction with the consolidated financial statements and the related Notes thereto included elsewhere herein. The consolidated financial statements have been prepared in accordance with IFRS-IASB. Unless otherwise indicated, financial information for ING Group included herein is presented on a consolidated basis under IFRS-IASB.

A. Operating results

Our business is shaped by events and developments in the world around us and our operating results for the financial year should be viewed in the context of these event and developments. The biggest of these in 2020 was the coronavirus pandemic, which was first and foremost a human tragedy, but which also impacted governments, economies, supply chains and jobs.

ING has had to adapt to the practical implications this had for customers and employees, as well as to the 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 For further information on regulatory changes reference is made to “Item 4. Information on the Company – Regulation and Supervision”.

Other material events and uncertainties that have an impact on our operating results are:

- Covid-19 pandemic
- Marco economic developments
- Climate change
- Financial crime risk
- Cybersecurity resilience
- Fluctuations in equity markets, interest rates and foreign exchange rates

For further information on other factors that can impact ING Group’s results of operations, reference is made to “Item 3. Key information - Risk Factors”.

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. Please see the Environmental, social and governance risk chapter for more information.

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.

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.

Fluctuations in equity markets

Our banking operations are exposed to fluctuations in equity markets. ING maintains an internationally diversified and mainly client-related trading portfolio. Accordingly, market downturns are likely to lead to declines in securities trading and brokerage activities which we execute for customers and therefore to a decline in related commissions and trading results. In addition to this, ING also maintains equity investments in its own non-trading books. Fluctuations in equity markets may affect the value of these investments.

Fluctuations in interest rates

Our banking operations are exposed to fluctuations in interest rates. Mismatches in the interest re-pricing and maturity profile of assets and liabilities in our balance sheet can affect the future interest earnings and economic value of the bank's underlying banking operations. In addition, changing interest rates may impact the (assumed) behavior of our customers, impacting the interest rate exposure, interest hedge positions and future interest earnings, solvency and economic value of the bank's underlying banking operations. In the current low (and in some cases negative) interest rate environment in the Eurozone, the stability of future interest earnings and margin also depends on the ability to actively manage pricing of customer assets and liabilities. Especially, the pricing of customer savings portfolios in relation to re-pricing customer assets and other investments in our balance sheet is a key factor in the management of the bank's interest earnings.

Fluctuations in exchange rates

ING Group is exposed to fluctuations in exchange rates. Our management of exchange rate sensitivity affects the results of our operations through the trading activities and because we prepare and publish our consolidated financial statements in euros. Because a substantial portion of our income, expenses and foreign investments is denominated in currencies other than euros, fluctuations in the exchange rates used to translate foreign currencies, particularly the U.S. Dollar, Pound Sterling, Turkish Lira, Chinese Renminbi, Australian Dollar, Japanese Yen, Polish Zloty, Korean Won, Brazilian Real, Singapore Dollar, Thai Baht and Russian Ruble into euros can impact our reported results of operations, cash flows and reserves from year to year. Fluctuations in exchange rates will also impact the value (denominated in euro) of our investments in our non-euro reporting subsidiaries. The impact of these fluctuations in exchange rates is mitigated to some extent by the fact that income and related expenses, as well as assets and liabilities, of each of our non-euro reporting subsidiaries are generally denominated in the same currencies. FX translation risk is managed by taking into account the effect of translation results on the Core Equity Tier 1 ratio (CET1).

Consolidated result of operations

ING Group monitors and evaluates the performance of ING Group at a consolidated level and by segment using results based on figures according to IFRS as adopted by the European Union (IFRS-EU). The Executive Board and the Management Board Banking consider this measure to be relevant to an understanding of the Group's financial performance, because it allows investors to understand the primary method used by management to evaluate the Group's operating performance and make decisions about allocating resources. In addition, ING Group believes that the presentation of results in accordance with IFRS-EU helps investors compare its segment performance on a meaningful basis by highlighting result before tax attributable to ongoing operations and the profitability of the segment businesses. IFRS-EU result is derived by including the impact of the IFRS-EU 'IAS 39 carve out' adjustment from IFRS-IASB.

The IFRS-EU 'IAS 39 carve-out' adjustment relates to fair value portfolio hedge accounting strategies for the mortgage and savings portfolios in the Benelux, Germany and Other Challengers that are not eligible under IFRS-

IASB. As no hedge accounting is applied to these mortgage and savings portfolios under IFRS-IASB, the fair value changes of the derivatives are not offset by fair value changes of the hedge items (mortgages and savings).

As from the financial year 2020 the information presented to the executive Board is no longer based on underlying results but on IFRS as endorsed by the EU. Previously monitoring and evaluation of ING Group's segments was based on a non-GAAP financial performance measure called underlying. Underlying result was derived by excluding the impact of the IFRS-EU 'IAS 39 carve-out' adjustment, special items, divestments and results from former insurance related activities from the IFRS-EU results. 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 special item related to the settlement agreement with the Dutch authorities on regulatory issues, as well as a EUR 90 million net result from the former Insurance activities.

Segment Reporting

The published 2020 Annual Accounts of ING Group includes financial information in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU). The segment reporting in the annual report on Form 20-F has been reconciled with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS-IASB) for consistency with the other financial information contained in this report. The difference between the accounting standards is reflected in the Wholesale Banking segment, and in the geographical split of the segments in the Netherlands, Belgium, Germany and Other Challengers. Reference is made to Note 1 'Accounting Policies' for a reconciliation between IFRS-EU and IFRS-IASB.

Recognition and measurement of segment results are in line with the accounting policies as described in Note 1 'Accounting policies'. Transfer prices for inter-segment transactions are set at arm's length. 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 Executive Board of ING Group and the Management Board Banking 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 Executive Board of ING Group and the Management Board Banking.

ING Group's segments are based on the internal reporting structures by lines of business. The following table specifies the segments by line of business and the main sources of income of each of the segments:

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.

Corporate Line

In addition to these segments, ING Group 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 expense items 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 as well as a EUR 90 million net result from the former Insurance activities. 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.

Total Operations

The following table sets forth the contribution of ING's business lines and the corporate line to the net result for each of the years 2020, 2019 and 2018. As of year 2020 consolidated results of ING Group are based on IFRS as adopted by the European Union (IFRS-EU), and not on underlying anymore; furthermore, results of former Insurance activities are included in Corporate Line; historical figures have been adjusted (only in 2018). Reference is made to 2019 Annual report on Form 20F for detailed information on the discussion of 2019 and 2018 results.

Total operations

1 January to 31 December 2020 Amounts in millions of euros	Retail Banking Netherlands	Retail Banking Belgium	Retail Banking Germany	Retail Other	Wholesale Banking	Corporate Line	Total
Income:							
- Net interest income	3,511	1,816	1,587	2,760	3,718	212	13,604
- Net fee and commission income	681	413	437	412	1,069	-1	3,011
- Total investment and other income	279	145	93	89	609	-192	1,022
Total income	**4,471**	**2,373**	**2,117**	**3,261**	**5,396**	**18**	**17,637**
Expenditure:							
- Operating expenses	2,236	1,737	1,110	2,469	3,218	383	11,153
- Additions to loan loss provision	157	514	57	593	1,351	2	2,675
Total expenditure	**2,393**	**2,251**	**1,167**	**3,063**	**4,568**	**385**	**13,828**
Result before taxation	**2,078**	**122**	**950**	**199**	**827**	**-367**	**3,809**
Taxation	523	51	331	105	295	-58	1,246
Non-controlling interests	-1	0	4	55	20	0	78
Net result IFRS-EU	**1,556**	**71**	**615**	**39**	**512**	**-308**	**2,485**
Adjustment of the EU 'IAS 39 carve-out'	0	0	0	0	-234	0	-234
Net result IFRS-IASB	**1,556**	**71**	**615**	**39**	**278**	**-308**	**2,250**

1 January to 31 December 2019 Amounts in millions of euros	Retail Banking Netherlands	Retail Banking Belgium	Retail Banking Germany	Retail Other	Wholesale Banking	Corporate Line	Total
Income:							
- Net interest income	3,541	1,907	1,579	2,787	3,794	470	14,079
- Net fee and commission income	674	374	268	423	1,135	-6	2,868
- Total investment and other income	290	161	138	298	369	103	1,360
Total income	**4,505**	**2,442**	**1,985**	**3,509**	**5,298**	**568**	**18,306**
Expenditure:							
- Operating expenses	2,210	1,609	1,080	2,210	2,937	307	10,353
- Additions to loan loss provision	91	186	-53	364	532	0	1,120
Total expenditure	**2,301**	**1,794**	**1,027**	**2,574**	**3,469**	**307**	**11,472**
Result before taxation	**2,204**	**647**	**957**	**935**	**1,830**	**261**	**6,834**
Taxation	558	192	328	234	464	179	1,955
Non-controlling interests	0	0	3	82	14	0	99
Net result IFRS-EU	**1,646**	**455**	**627**	**619**	**1,352**	**82**	**4,781**
Adjustment of the EU 'IAS 39 carve-out'					-878		-878
Net result IFRS-IASB	**1,646**	**455**	**627**	**619**	**474**	**82**	**3,903**

1 January to 31 December 2018 Amounts in millions of euros	Retail Banking Netherlands	Retail Banking Belgium	Retail Banking Germany	Retail Other	Wholesale Banking	Corporate Line	Total
Income:							
- Net interest income	3,749	1,830	1,671	2,690	3,686	290	13,916
- Net fee and commission income	664	371	225	395	1,152	-8	2,798
- Total investment and other income	335	169	76	230	673	-20	1,462
Total income	**4,747**	**2,369**	**1,972**	**3,315**	**5,510**	**262**	**18,176**
Expenditure:							
- Operating expenses	2,220	1,610	1,027	2,033	2,771	1,022	10,682
- Additions to loan loss provision	-41	164	-27	350	210	-1	656
Total expenditure	**2,179**	**1,774**	**1,000**	**2,383**	**2,981**	**1,021**	**11,338**
Result before taxation	**2,568**	**595**	**972**	**932**	**2,529**	**-759**	**6,838**
Taxation	626	199	324	200	633	46	2,027
Non-controlling interests	-0	6	3	80	19	-0	108
Net result IFRS-EU	**1,942**	**390**	**646**	**652**	**1,877**	**-804**	**4,703**
Adjustment of the EU 'IAS 39 carve-out'					58		58
Net result IFRS-IASB	**1,942**	**390**	**646**	**652**	**1,935**	**-804**	**4,761**

Year ended 31 December 2020 compared to year ended 31 December 2019

ING's net result (including the adjustment of the EU 'IAS 39 carve-out') decreased by EUR 1,653 million, or 42.4%, to EUR 2,250 million compared with EUR 3,903 million in 2019. The net result was affected by a EUR 234 million negative contribution of fair value changes on derivatives related to asset-liability-management activities for the mortgage and savings portfolios in the Benelux, Germany, France and Czech Republic, versus a EUR 878 million negative contribution in 2019. These negative fair value changes were mainly caused by changes in market interest rates. No hedge accounting is applied to these derivatives under IFRS-IASB.

The IFRS-EU net result (before adjustment of the EU 'IAS 39 carve-out') fell 48.0% to EUR 2,485 million from EUR 4,781 million in 2019. The effective tax rate in 2020 was relatively high at 32.7% (versus 28.6% 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 44.3% to EUR 3,809 million in 2020 from EUR 6,834 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. Net core lending (adjusted for currency impacts, and excluding Treasury and the run-off portfolios) declined by EUR 2.5 billion in 2020, while net customer deposit inflow was high at EUR 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 3.7% to EUR 17,637 million from EUR 18,306 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 EUR 13,604 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's overall net interest margin declined to 1.44% from 1.54% in 2019.

Net fee and commission income increased 5.0% to EUR 3,011 million from 2,868 million in 2019. In Retail Banking, net fee and commission income rose by EUR 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 EUR 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 EUR 1,022 million 2020 from EUR 1,360 million in previous year. The decline was mainly in Retail Banking, largely due to a EUR 230 million goodwill impairment related to ING's stake in TMB, and in the Corporate Line. In 2019, the latter had included a EUR 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 EUR 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 EUR 800 million, or 7.7%, to EUR 11,153 million. Expenses in 2020 included EUR 1,105 million of regulatory costs, compared with EUR 1,021 million previous year. The increase was furthermore caused by EUR 673 million of incidental items recorded in 2020, mainly reflecting EUR 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 EUR 43 million, or 0.5%, 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 56.6% in 2019.

Net additions to loan loss provisions were EUR 2,675 million, or 43 basis points of average customer lending, compared with EUR 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 EUR 590 million of collective provisions related to the worsened macro-economic indicators, including provisioning related to loans subject to a payment holiday.

Year ended 31 December 2019 compared to year ended 31 December 2018

In 2019, ING's operations showed solid commercial performance despite the challenging rate environment, geopolitical uncertainties and demanding regulatory environment. The net result (including the adjustment of the EU 'IAS 39 carve-out') declined 18.0% to EUR 3,903 million in 2019 from EUR 4,761 million in 2018, which has been negatively affected by the EUR 775 million settlement agreement with the Dutch authorities on regulatory issues. The net result was affected by a EUR 936 million negative swing in net contribution of fair value changes on derivatives related to asset-liability-management activities the mortgage and savings portfolios in the Benelux, Germany, France and Czech Republic. These fair value changes are mainly caused by changes in market interest rates. No hedge accounting is applied to these derivatives under IFRS-IASB.

The net result IFRS-EU (excluding the adjustment of the EU 'IAS 39 carve-out') increased 1.6% to EUR 4,781 million from EUR 4,703 million. This was in part due to a decreased effective tax rate of 28.6% from 29.6% in 2018, mainly reflecting lower non-deductible costs, as 2018 included the aforementioned settlement agreement with the Dutch authorities. This decline was partly offset by the cancellation of tax deductibility of interest expenses on additional Tier 1 instruments in the Netherlands as from 2018.

The result before tax declined 0.1% to EUR 6,834 million in 2019 from EUR 6,838 million in 2018, primarily due to higher risk costs. Commercial momentum remained solid, albeit at a slower pace than previous year. ING grew net core lending (adjusted for currency impacts, and excluding Treasury and the run-off portfolios) by EUR 17.2 billion, or 2.9%, and net customer deposits rose by EUR 23.4 billion in 2019. The global retail customer base grew to 38.8 million at year-end, and the number of primary customers rose during the year by 0.8 million to 13.3 million.

The income increased 0.7% to EUR 18,306 million from EUR 18,176 million in 2018, driven by Corporate Line (predominantly one-offs) and Retail Banking, while income in Wholesale Banking (mainly in Financial Markets and Lending) declined. Net interest income rose 1.2% to EUR 14,079 million. The increase was driven by higher interest results on customer lending mainly supported by volume growth, partly offset by lower margins on savings and current accounts. The total lending margin was slightly up compared with 2018, as the impact of improved interest margins on mortgages was largely offset by lower margins on other customer lending. ING's overall net interest margin remained at 1.54% in 2019.

Net fee and commission income rose 2.5% to EUR 2,868 million. The increase was driven by Retail Banking with increases in most countries, partly offset by a small decline in Wholesale Banking. Investment and other income slightly decreased to EUR 1,360 million from EUR 1,462 million in 2018, with a decline in Wholesale Banking, mainly due to negative valuation adjustments in Financial Markets, and some one-offs. The decline was largely offset by increases in Retail Banking and Corporate Line. The latter was supported by a EUR 119 million gain from the release of a currency translation reserve following the sale of ING's stake in Kotak Mahindra Bank and the recognition of a EUR 79 million receivable related to the insolvency of a financial institution.

Operating expenses declined 3.1% to EUR 10,353 million from EUR 10,682 million in 2018, mainly due to the aforementioned settlement agreement with the Dutch authorities. Excluding this settlement, operating expenses increased 4.5% to EUR 10,353 million from EUR 9,907 million in 2018. The increase was visible in all segments, except for Retail Netherlands and Retail Belgium. Regulatory expenses rose to EUR 1,021 million from EUR 947 million in previous year. Excluding regulatory costs and the settlement agreement, expenses were up 4.2%, mainly due to higher KYC-related costs, increased staff costs and continued investments in business growth, partly offset by costs savings and one-offs (including a higher VAT refund, recorded in Corporate Line). The cost/income ratio was 56.6% versus 58.8% in 2018.

The net addition to the provision for loan losses rose to EUR 1,120 million from EUR 656 million in 2018. This increase was mainly caused by a number a large individual files in Wholesale Banking and higher, but still relatively low risk costs in Retail Netherlands. Risk costs rose to 18 basis points of average customer lending, remaining below ING Bank's through-the-cycle average of approximately 25 basis points, compared with 11 basis points of average customer lending in 2018.
For the following information per business line the IFRS-EU measures are in place, in line with management reporting.

Retail Netherlands

Retail Netherlands			
Amounts in millions of euros	**2020**	**2019**	**2018**
Income:			
Net interest income	3,511	3,541	3,749
Net fee and commission income	681	674	664
Investment income and other income	279	290	335
Total income	**4,471**	**4,505**	**4,747**
Expenditure:			
Operating expenses	2,236	2,210	2,220
Additions to the provision for loan losses	157	91	–41
Total expenditure	**2,393**	**2,301**	**2,179**
Result before tax	**2,078**	**2,204**	**2,568**
Taxation	523	558	626
Non-controlling interests	–1	–0	–0
Net result IFRS-IASB	**1,556**	**1,646**	**1,942**

Year ended 31 December 2020 compared to year ended 31 December 2019

The net result of Retail Netherlands decreased by EUR 90 million, or -5.5%, to EUR 1,556 million in 2020 from EUR 1,646 million in 2019.

The result before tax of Retail Netherlands decreased 5.7% to EUR 2,078 million from EUR 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 EUR 34 million, or -0.8%, to EUR 4,471 million, compared with EUR 4,505 million in 2019. Net interest income declined 0.8%, 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 EUR 1.1 billion decline in the WUB run-off portfolio) decreased by EUR 3.2 billion in 2020, of which EUR 0.8 billion was in residential mortgages and EUR 2.4 billion in other lending. Net customer deposits (excluding Treasury) grew by EUR 15.3 billion, predominantly in current accounts. Net fee and commission income increased by EUR 7 million, or 1.0%, primarily due to higher investment product fees. Investment and other income was EUR 11 million lower.

Operating expenses rose by EUR 26 million, or 1.2%, to EUR 2,236 million from EUR 2,210 million in 2019, of which EUR 65 million was caused by higher regulatory costs to EUR 255 million from EUR 190 million in 2019. Expenses excluding regulatory costs declined 1.9% 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 EUR 157 million, or 10 basis points of average customer lending, compared with EUR 91 million, or 6 basis points, in 2019. Risk costs in 2020 included EUR 118 million of collective provisions related to the worsened macro-economic indicators, including provisioning related to loans subject to a payment holiday.

Year ended 31 December 2019 compared to year ended 31 December 2018

The net result of Retail Netherlands decreased by EUR 296 million, or 15.2%, to EUR 1,646 million in 2019 from EUR 1,942 million in 2018.

The result before tax of Retail Netherlands decreased 14.2% to EUR 2,204 million from EUR 2,568 million in 2018. This was mainly due to lower income, mainly reflecting lower margins on customer deposits and lower revenues from Treasury, combined with higher risk costs. Operating expenses declined slightly.

Income fell 5.1% to EUR 4,505 million from EUR 4,747 million previous year. The interest result was 5.5% lower, reflecting margin pressure on savings and current accounts due to lower re-investment yields and lower revenues from Treasury. This was partly compensated by improved margins on mortgages. Net core lending (excluding the WUB run-off portfolio and Treasury-related products) grew by EUR 2.0 billion in 2019, equally divided over mortgages and other lending. Net growth in customer deposits (excluding Treasury) was EUR 8.4 billion in 2019. Net fee and commission income rose by EUR 10 million, or 1.5%, primarily due to higher daily banking fees. Investment and other income declined by EUR 45 million, mainly attributable to lower results from financial markets-related products.

Operating expenses declined 0.5% on 2018, this was mainly due to lower regulatory costs, benefits from the ongoing cost-saving initiatives and some positive one-offs, partly offset by increased salaries as well as higher KYC and IT-related expenses.

Risk costs in 2019 increased to a relatively low EUR 91 million, or 6 basis points of average customer lending, partly caused by a change in the house price index that is used for Dutch mortgages. This compares with a net release of EUR 41 million 2018, which included releases in both mortgages and business lending.

Retail Belgium

Retail Belgium			
Amounts in millions of euros	2020	2019	2018
Income:			
Net interest income	1,816	1,907	1,830
Net fee and commission income	413	374	371
Investment income and other income	145	161	169
Total income	**2,373**	**2,442**	**2,369**
Expenditure:			
Operating expenses	1,737	1,609	1,610
Additions to the provision for loan losses	514	186	164
Total expenditure	**2,251**	**1,794**	**1,774**
Result before tax	**122**	**647**	**595**
Taxation	51	192	199
Non-controlling interests	0	0	6
Net result IFRS-IASB	**71**	**455**	**390**

Year ended 31 December 2020 compared to year ended 31 December 2019

The net result of Retail Belgium (including ING in Luxembourg) declined by EUR 384 million to EUR 71 million in 2020 from EUR 455 million in 2019.

The result before tax of Retail Belgium fell to EUR 122 million, compared with EUR 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 EUR 69 million, or 2.8%, to EUR 2,373 million from EUR 2,442 million in 2019. Net interest income was 4.8% down to EUR 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 EUR 1.5 billion in 2020, evenly spread over mortgages and other lending. Net customer deposits (also excluding Treasury) grew by EUR 4.0 billion, predominantly in current accounts. Net fee and commission income rose by EUR 39 million, or 10.4%, mainly due to higher fee income on investment products and mortgages. Investment and other income declined by EUR 16 million, mainly from Financial Markets.

Operating expenses rose by EUR 128 million, of which EUR 43 million was due to a goodwill impairment related to an acquisition in the past by ING Belgium and EUR 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 EUR 514 million, or 57 basis points of average customer lending, from EUR 186 million, or 21 basis points, in 2019. Risk costs in 2020 included EUR 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.

Year ended 31 December 2019 compared to year ended 31 December 2018

The net result of Retail Belgium (including ING in Luxembourg) increased by EUR 65 million, or 16.7%, to EUR 455 million in 2019 from EUR 390 million in 2018.

The result before tax of Retail Belgium rose 8.7% to EUR 647 million in 2019, compared with EUR 595 million in 2018. The increase reflects higher income and stable expenses, only partly offset by an increase in risk costs.

Income increased to EUR 2,442 million from EUR 2,369 million in 2018. The interest result was 4.2% up to EUR 1,907 million, mainly due to volume growth, increased margins on mortgages, and supported by higher net interest income from Treasury-related products. This was in part offset by lower net interest income from savings and current accounts, reflecting the low interest rate environment, and some margin pressure on non-mortgage lending. The net production in customer lending (excluding Treasury) was EUR 3.3 billion, of which EUR 1.2 billion was in residential mortgages and EUR 2.1 billion in other lending. The net inflow in customer deposits (excluding Treasury) was EUR 4.1 billion in 2019. Net fee and commission income increased 0.8% to EUR 374 million. Investment and other income was EUR 8 million lower, mainly due to lower Treasury-related revenues.

Operating expenses declined 0.1% to EUR 1,609 million, mainly due to lower staff-related expenses stemming from the transformation programmes, partly offset by higher regulatory costs and KYC-related expenses.

Risk costs increased by EUR 22 million to EUR 186 million, or 21 basis points of average customer lending, from EUR 164 million, or 19 basis points, in 2018. The increase was mainly caused by additional provisioning on individual mid-corporates files and higher collective provisions for consumer lending.

Retail Germany

Retail Germany			
Amounts in millions of euros	**2020**	**2019**	**2018**
Income:			
Net interest income	1,587	1,579	1,671
Net fee and commission income	437	268	225
Investment income and other income	93	138	76
Total income	**2,117**	**1,985**	**1,972**
Expenditure:			
Operating expenses	1,110	1,080	1,027
Additions to the provision for loan losses	57	–53	–27
Total expenditure	**1,167**	**1,027**	**1,000**
Result before tax	**950**	**957**	**972**
Taxation	331	328	324
Non-controlling interests	4	3	3
Net result IFRS-IASB	**615**	**627**	**646**

Year ended 31 December 2020 compared to year ended 31 December 2019

The net result of Retail Germany (including ING in Austria) decreased by EUR 12 million, or 1.9%, to EUR 615 million in 2020 from EUR 627 million in 2019.

The result before tax declined 0.7% to EUR 950 million, compared with EUR 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% to EUR 2,117 million from EUR 1,985 million in 2019. The increase was driven by EUR 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% to EUR 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 EUR 4.5 billion, of which EUR 4.2 billion was in residential mortgages and EUR 0.3 billion in consumer lending. Net customer deposits (excluding Treasury) increased by EUR 5.8 billion, largely in current accounts. Investment and other income declined by EUR 45 million, mainly due to the aforementioned accounting asymmetry and lower capital gains.

Operating expenses increased by EUR 30 million, or 2.8%, to EUR 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 EUR 36 million restructuring provision.

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

Year ended 31 December 2019 compared to year ended 31 December 2018

The net result of Retail Germany (including ING in Austria) decreased by EUR 19 million, or 2.9%, to EUR 627 million in 2019 from EUR 646 million in 2018.

The result before tax declined 1.5% to EUR 957 million, compared with EUR 972 million in 2018, mainly due to higher expenses, partly offset by slightly increased income and a higher net release in risk costs.

Income increased 0.7% to EUR 1,985 million in 2019 from EUR 1,972 million a year ago. Net interest income declined 5.5%, mainly due to lower Treasury-related interest results (with a partial offset in other income). Excluding Treasury, net interest income rose marginally, mainly reflecting volume growth in most products and improved margins on mortgages, offset by lower interest results on savings and deposits due to margin pressure. The net growth in core lending (excluding Treasury) was EUR 3.0 billion in 2019, of which EUR 2.4 billion in mortgages and EUR 0.6 billion in consumer lending. Net inflow in customer deposits (excluding Treasury) was EUR 0.8 billion. Net fee and commission income rose 19.1% to EUR 268 million, due to higher fees on mortgages and daily banking. Investment and other income rose by EUR 62 million to EUR 138 million, largely due to the aforementioned accounting asymmetry in Treasury revenues.

Operating expenses rose 5.2% to EUR 1,080 million from EUR 1,027 million in 2018. The increase was mainly due to a restructuring provision related to the completion of ING's Agile transformation in Germany, higher KYC-related expenses, investments to accelerate the acquisition of primary customers, and the launch of Interhyp in Austria.

Risk costs were EUR -53 million, or -6 basis points of average customer lending, compared with EUR -27 million in 2018. The net release in 2019 mainly related to model updates for mortgages, while the net release in 2018 included a significant release in the consumer lending portfolio.

Retail Other

Retail Other			
Amounts in millions of euros	**2020**	**2019**	**2018**
Income:			
Net interest income	2,760	2,787	2,690
Net fee and commission income	412	423	395
Investment income and other income	89	298	230
Total income	**3,261**	**3,509**	**3,315**
Expenditure:			
Operating expenses	2,469	2,210	2,033
Additions to the provision for loan losses	593	364	350
Total expenditure	**3,063**	**2,574**	**2,383**
Result before tax	**199**	**935**	**932**
Taxation	105	234	200
Non-controlling interests	55	82	80
Net result IFRS-IASB	**39**	**619**	**652**

Year ended 31 December 2020 compared to year ended 31 December 2019

Retail Other consists of the Other Challengers & Growth Markets, including the bank stakes in Asia. The net result of Retail Other decreased to EUR 39 million in 2020, from EUR 619 million in 2019.

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

Total income declined by EUR 248 million to EUR 3,261 million in 2020, of which EUR 230 million related to an impairment on ING's equity stake in TMB. Excluding this impairment, total income decreased by EUR 18 million, or -0.5%. Net interest income was down 1.0% to EUR 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 EUR 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 EUR 11.9 billion, with largest increases in Poland and Spain. Net fee and commission income declined 2.6% to EUR 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 EUR 21 million.

Operating expenses increased by EUR 259 million, or 11.7%, to EUR 2,469 million from EUR 2,210 million in 2019, of which EUR 140 million related to an impairment on capitalised software following the decision to stop the Maggie transformation programme (previously called Model Bank) and EUR 27 million of restructuring provisions and impairments related to the project and some other countries. Excluding these incidental items, expenses increased by EUR 92 million, or 4.2%, 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 EUR 229 million on 2019 to EUR 593 million, or 61 basis points of average customer lending. Risk costs in 2020 included EUR 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 EUR 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.

Year ended 31 December 2019 compared to year ended 31 December 2018

Retail Other consists of the Other Challengers & Growth Markets, including the bank stakes in Asia. The net result of Retail Other decreased by EUR 33 million, or 5.1%, to EUR 619 million in 2019 from EUR 652 million in 2018.

Retail Other's result before tax increased 0.3% to EUR 935 million in 2019, from EUR 932 million in 2018. This was mainly due to higher income, partly offset by increased expenses and higher risk costs.

Total income rose by EUR 194 million, or 5.9%, to EUR 3,509 million. This increase was driven by strong results across most of the countries, whereas 2018 included a higher profit from ING Bank's stake in TMB due to one-offs. Net interest income rose 3.6% to EUR 2,787 million, reflecting volume growth in lending and customer deposits, and a stable total interest margin. This increase was offset by accounting asymmetry in Treasury with an offset in other income. The net production in customer lending (excluding currency effects and Treasury) was EUR 7.8 billion, with increases mainly in Spain, Poland and Australia, while Turkey and Italy declined. Net customer deposits grew by EUR 6.9 billion in 2019, with the largest increases in Poland, Spain and Australia. Net commission and fee income increased 7.1% to EUR 423 million driven by increases in most countries, but declined in Spain and Turkey. Investment and other income rose by EUR 68 million, mainly due to the aforementioned accounting asymmetry in Treasury and a higher dividend from Bank of Beijing, partly offset by a lower profit from TMB.

Operating expenses increased by EUR 177 million, or 8.7%, to EUR 2,210 million. This increase was in addition to higher regulatory costs and legal provisions, mainly due to higher expenses to support business growth and the implementation of bank-wide regulatory programmes, including KYC.

Risk costs were EUR 364 million, or 38 basis points of average customer lending, compared with EUR 350 million, or 40 basis points, in 2018. The increase was mainly attributable to higher risk costs in Spain and Poland, while risk costs in Turkey and Italy declined.

Wholesale Banking

Wholesale Banking			
Amounts in millions of euros	**2020**	**2019**	**2018**
Income:			
Net interest income	3,718	3,794	3,686
Net fee and commission income	1,069	1,135	1,152
Investment income and other income	609	369	673
Total income	**5,396**	**5,298**	**5,510**
Expenditure:			
Operating expenses	3,218	2,937	2,771
Additions to the provision for loan losses	1,351	532	210
Total expenditure	**4,568**	**3,469**	**2,981**
Result before tax	**827**	**1,830**	**2,529**
Taxation	295	464	633
Non-controlling interests	20	14	19
Net result IFRS-EU	**512**	**1,352**	**1,877**
Adjustment of the EU 'IAS 39 carve-out'	–234	–878	58
Net result IFRS-IASB	**278**	**474**	**1,935**

Year ended 31 December 2020 compared to year ended 31 December 2019

The net result of Wholesale Banking declined to EUR 278 million in 2020 compared with EUR 474 million in 2019. The adjustment of the EU 'IAS 39 carve-out', included in the net result, was EUR -234 million in 2020, compared with EUR -878 million in 2019, due to fair value changes on derivatives related to asset-liability-management activities for the mortgage and savings portfolios in the Benelux, Germany, France and Czech Republic. These fair value changes were mainly a result of changes in market interest rates. No hedge accounting is applied to these derivatives under IFRS-IASB.

The IFRS-EU net result, which is before the adjustment of the EU 'IAS 39 carve-out', declined to EUR 512 million from EUR 1,352 million in 2019.

The full-year 2020 results for Wholesale Banking were also strongly affected by the impact of the Covid-19 pandemic. The result before tax dropped 54.8% to EUR 827 million, down from EUR 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% to EUR 5,396 million in 2020, compared with EUR 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 EUR 4.9 billion in 2020. The inflow in net customer deposits (excluding currency impacts and Treasury) was EUR 4.4 billion. Net interest income decreased 2.0%, 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% on 2019, mainly due to lower syndicated deal activity in Lending and lower fees in Trade & Commodity Finance. Investment and other income rose by EUR 240 million, primarily due to higher valuation results in Financial Markets, partly offset by Treasury.

Operating expenses rose 9.6% to EUR 3,218 million from EUR 2,937 million in 2019, mainly due to a EUR 260 million goodwill impairment and EUR 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%, 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 EUR 1,351 million, or 75 basis points of average customer lending, compared with EUR 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 EUR 192 million of collective provisions related to the worsened macro-economic indicators.

Lending posted a result before tax of EUR 691 million, down 56.7% compared with EUR 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%, reflecting lower lending margins and lower syndicated deal activity. Expenses declined 3.1%, mainly due to lower regulatory costs.

The result before tax from Daily Banking & Trade Finance fell to EUR 246 million from EUR 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%, mainly due to impairments on Payvision's intangible assets.

Financial Markets recorded a result before tax of EUR 230 million, compared with a loss of EUR 121 million in 2019. The increase was predominantly due to higher income, which included EUR 73 million of positive valuation adjustments versus EUR -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 EUR 50 million compared with 2019, mainly in the Global Capital Markets business.

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

Year ended 31 December 2019 compared to year ended 31 December 2018

The net result of Wholesale Banking declined to EUR 474 million in 2019 compared with EUR 1,935 million in 2018. The adjustment of the EU 'IAS 39 carve-out', included in the net result, turned to a loss of EUR 878 million in 2019, from EUR 58 million in 2018, due to fair value changes on derivatives related to asset-liability-management activities for the mortgage and savings portfolios in the Benelux, Germany, France and Czech Republic. These fair value changes are mainly a result of changes in market interest rates. No hedge accounting is applied to these derivatives under IFRS-IASB. The net result IFRS-EU, which excludes the adjustment of the EU 'IAS 39 carve-out', declined to EUR 1,352 million from EUR 1,877 million in 2018.

The full-year 2019 results for Wholesale Banking show that conditions were challenging in our markets. The result before tax dropped 27.6% to EUR 1,830 million, down from EUR 2,529 million in 2018. The decline reflects elevated risk costs (compared with a relatively low level a year ago), lower revenues in mainly Financial Markets and Lending, as well as higher expenses.

Total income of Wholesale Banking fell 3.8% to EUR 5,298 million compared with 2018, mainly reflecting lower revenues in Financial Markets, Lending and Treasury-related revenues, while 2018 included the aforementioned loss on the intended sale of an Italian lease run-off portfolio. In 2019, the net core lending book (adjusted for currency impacts and excluding Treasury and the Lease run-off portfolio) grew by EUR 1.1 billion. The inflow in net customer deposits (excluding currency impacts and Treasury) was EUR 3.1 billion. Net interest income increased 2.9%, mainly driven by volume growth in Lending at lower margins and higher interest results in Daily Banking & Trade Finance, especially in Bank Mendes Gans and Payments & Cash Management. Net fee and commission income declined 1.5%. Investment and other income fell by EUR 304 million, mainly due to lower valuation results in Financial Markets, while previous year included a gain on a bond transaction in Belgium and a loss on the intended sale of an Italian lease run-off portfolio.

Operating expenses rose 6.0% to EUR 2,937 million, in part due to higher regulatory costs. Excluding regulatory costs, expenses rose 4.7%, mainly attributable to higher KYC, IT and staff-related expenses, partly offset by continued cost-efficiency savings. The cost/income ratio increased to 55.4%, from 50.3% in 2017.

Risk costs increased to EUR 532 million, or 29 basis points of average customer lending, from a relatively low EUR 210 million, or 12 basis points of average customer lending, in previous year. The increase was mainly attributable to a number of large individual files, including a sizeable provision for a suspected external fraud case.

Lending posted a result before tax of EUR 1,597 million, down 20.4% compared with 2018. The decline reflects lower income combined with higher expenses (including increased regulatory costs and KYC-related expenses) and higher risk costs due to a number of large individual files. Despite higher average volumes, Lending income declined, mainly due to some pressure on margins and the EUR 66 million gain related to an equity-linked bond in Belgium recorded in 2018.

The result before tax from Daily Banking & Trade Finance declined 24.3% to EUR 476 million from EUR 629 million in 2018. A modest increase in income, reflecting improved margins at lower average volumes, could not compensate for higher expenses and elevated risk costs. The increased expenses reflect higher regulatory costs and KYC-related expenses as well as investments in Payvision and regulatory changes (including PSD2). Risk costs in 2019 included a sizeable provision for a suspected external fraud case.

Financial Markets recorded a result before tax of EUR -121 million, compared with EUR -36 million in 2018. The drop was predominantly due to lower income, which was impacted by EUR 228 million of negative valuation adjustments versus EUR -1 million in 2018, in part offset by lower expenses on the back of ongoing cost efficiency measures. Excluding valuation adjustments, pre-tax result rose by EUR 142 million compared with 2018, driven by higher client income.

The result before tax of Treasury & Other was EUR -123 million compared with EUR -70 million in 2018. This decline was mainly due to lower results from Treasury-related activities and Corporate Investments, whereas the result of the run-off businesses improved after the EUR 123 million loss on the intended sale of an Italian Lease run-off portfolio recorded in 2018. Expenses increased mainly due to investments in KYC enhancement and innovation, while 2018 included a release from a legal provision.

B. Liquidity and capital resources

ING believes that its working capital is sufficient for its present requirements.

For information regarding our material short and long- term cash requirements from known contractual and other obligations, see "Additional information – ING Group Risk Management section Funding and liquidity risk" and "Note 51 – Capital Management" in the consolidated financial statements.

For information on legal or economic restrictions on the ability of subsidiaries to transfer funds to the company in the form of cash dividends, loans or advances, see “Note 19 – Equity” in the consolidated financial statements.

For information on the maturity profile of borrowings and a further description of the borrowings, please see “Note 17 - Debt securities in issue”, “Note 18 - Subordinated Loans” and “Note 41 – Liabilities and off-balance sheet commitments by maturity” in the consolidated financial statements.

For information on currency and interest rate structure, see “Additional information – ING Group Risk Management section Market risk” and “Additional information – ING Group Risk Management section Funding and liquidity risk”.

For information on the use of financial instruments for hedging purposes, please see “Note 39 - Derivatives and hedge accounting” in the consolidated financial statements.

ING Group Consolidated Cash Flows

cash and cash equivalents			
Amounts in millions of euros	2020	2019	2018
Treasury bills and other eligible bills	0	43	159
Amounts due from/to banks	478	786	–2,617
Cash and balances with central banks	111,087	53,202	49,987
Cash and cash equivalents at end of year	**111,566**	**54,031**	**47,529**

Year ended 31 December 2020 compared to year ended 31 December 2019

Net cash flow from operating activities amounts to EUR 101,243 million for the year-end 2020, compared to EUR 13,055 million at 31 December 2019. The increase in cash flow from operating activities of EUR 88,187 million is explained by higher cash inflows from Loans and advances to banks (increase of EUR 56,989 million to EUR 53,078 million in 2020 due to new TLTRO III as the ECB modified the terms and conditions of its TLTRO programm to further support the provision of credit to households and firms in view of the COVID-19 pandamic) and Customer deposits (increase of EUR 21,700 million to EUR 39,740 million in 2020) as well as lower cash outflows of Loans and advances to Customers (decrease of EUR 19,563 million to EUR 2,876 in 2020) and Trading assets and liabilities (decrease of EUR 5,134 million to EUR 2,566 in 2020). The increases are partly offset by lower cash inflows from (reverse) repurchase transactions (decrease EUR 12,041 to EUR -933 million in 2020).

Net cash flow from investing activities amounts to EUR -8,487 million compared to EUR -2,495 million in 2019 the net cash flow from investing activities decreased by EUR 5,992 million. The movement is explained by a net increase in Securities at amortised costs of EUR 6,337 million.

Net cash flow from financing activities amounts to EUR -34,796 million in 2020, compared to EUR -4,154 million in 2019. The decrease of EUR 30,642 million is explained by a net decrease of EUR 30,200 million of debt securities and EUR 3,117 million of subordinated loans offset by lower dividend payments of EUR 2,676 million.

The operating, investing and financing activities described above result in an increase of EUR 57,960 million in cash and cash equivalents to EUR 111,566 at year end 2020. The increase in cash and cash equivalent was supported by the combination of lower demand for credit and the continued inflow of customer deposits as result of Covid-19, as well as the TLTRO III participation.

Year ended 31 December 2019 compared to year ended 31 December 2018

Net cash flow from operating activities amounts to EUR 13,055 million for the year-end 2019, compared to EUR 6,915 million at 31 December 2018. The increase in cash flow from operating activities of EUR 6,140 million is explained by lower cash outflows from Loans and advances to customer (increase of EUR 14,669 million to EUR -16,687 million in 2019), an increase in other (increase of EUR 7,685 million to EUR + 11,752 million in 2019) mainly relating to assets mandatorily at fair value through profit or loss and other financial liabilities at fair value through profit and loss. The increases are offset by a cash outflow of trading assets and liabilities (decrease of EUR 12,478 million to EUR – 2,568 million) and a cash outflow in loans and advances to banks (decrease of EUR 3,700 million to EUR – 3,911 million).

Net cash flow from investing activities amounts EUR – 2,495 million compared to EUR + 5,451 million in 2018 the net cash flow from investing activities decreased by EUR 7,946 million. The movement is explained by a decrease in financial assets at fair value through other comprehensive income in investments and advances of EUR 5,753 million to EUR – 16,270 million and securities at amortised costs (decreased by EUR 5,708 million to EUR + 13,001 million). Moreover, financial assets at fair value through other comprehensive income decreased by EUR 2,267 million to EUR + 13,390 in disposals and redemptions. These movements are offset by an increase in securities at amortised costs of investments and advances (increase of EUR 5,717 million to EUR – 12,268 million).

Net cash flow from financing activities amounts EUR – 4,154 million in 2019, compared to EUR 15,983 million in 2018. The decrease of EUR 20,137 million is explained by a decrease of EUR -61,750 million to EUR + 90,793 million in proceeds from debt securities and offset by an increase of EUR 36,673 million to EUR – 94,497 million in repayments of debt securities.

The operating, investing and financing activities described above result in an increase of EUR 6,406 million in cash and cash equivalents to EUR 54,031 at year end 2019.

C. Research and development, patents and licenses, etc.

Not applicable.

D. Trend information

For information regarding trend information, see Item 5.A of this Form 20-F.

E. Critical Accounting Estimates

Reference is made to Note 1 'accounting policies' to the consolidated financial statements, for detailed information on Critical Accounting Estimates.

Item 6. Directors, Senior Management and Employees

A. Directors and senior management

Executive Board

Appointment, suspension and dismissal

Members of the Executive Board are appointed, suspended and dismissed by the General Meeting. For the appointment of Executive Board members, the Supervisory Board may draw up a binding list, which may be rendered non-binding by the General Meeting. A resolution of the General Meeting to render this list non-binding, or to suspend or dismiss Executive Board members without this being proposed by the Supervisory Board, requires an absolute majority of the votes cast. Additionally, this majority must represent more than half of the issued share capital. The Articles of Association exclude the waiver of the latter requirement in a second General Meeting. This ensures that significant shareholders proposals cannot be adopted in a General Meeting with a low attendance rate and can only be adopted with substantial support of ING Group's shareholders.

Candidates for appointment to the Executive Board are subject to a suitability and reliability assessment by the Dutch Central Bank and European Central Bank (DNB and ECB) and must continue to meet these while in function.

Function of the Executive Board

The Executive Board is charged with the management of ING Group. This includes responsibility for setting and achieving ING Group's strategy, objectives and policies, as well as ensuring the delivery of results. It also includes the day-to-day management of ING Group. The Executive Board is accountable for the performance of these duties to the Supervisory Board and the General Meeting. The responsibility for the management of ING Group is vested in the Executive Board collectively. The organisation, powers and modus operandi of the Executive Board are detailed in the Charter of the Management Board.

The Charter of the Management Board is available on ing.com.

In accordance with the Banker's Oath that is taken by the members of the Executive Board, they must carefully consider the interests of all stakeholders of ING. In that consideration they must put the customer's interests at the centre of all their activities.

ING Group indemnifies the members of the Executive Board against direct financial losses in connection with claims from third parties, as far as permitted by law, on the conditions laid down in the Articles of Association and their commission contract. ING Group has taken out liability insurance for the members of the Executive Board.

Profile of members of the Executive Board

ING Group aims for its Executive Board to have an adequate and balanced composition. The Supervisory Board regularly assesses the composition of the Executive Board.

The Supervisory Board has drawn up a profile to be used as a basis for selecting members of the Executive Board, which is available on ing.com. This profile among others includes guidelines that relate to the composition of the Executive Board.

Diversity and succession planning

ING aims for the Executive Board of ING to consist of a diverse selection of persons with executive experience, preferably gained in the banking sector, experience in corporate governance of large stock-listed companies and experience in the political and social environment in which such companies operate. In addition, there should be a good balance in the experience of and affinity with the desired nature and culture of the business of ING. ING strives to have at least 30 percent of the seats held by women, and at least 30 percent of the seats by men.

In 2018, ING introduced a new principle in a bid to bolster diversity within our organisation. The 70 percent principle gives managers a basis for building mixed teams around appropriate dimensions of diversity (with a focus on gender, nationality and age group) and strives for a 30 percent difference in team composition. It is our ambition to adhere to this principle across the organisation within both local and global teams. This principle is incorporated into succession planning for the Executive Board.

The Supervisory Board is responsible for selecting and nominating candidates for appointment or reappointment to the Executive Board, among others based on the Executive Board profile.

Finding suitable candidates remains challenging, as there are numerous requirements to take into account, including gender to enhance the composition of the Executive Board and specific criteria for each function, including regulatory requirements.

As an example to demonstrate the aforementioned: with the departure of the CEO 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. The Supervisory Board concluded that Steven van Rijswijk has the right combination of experience, leadership skills and deep understanding of 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 CRO position became vacant. ING appointed Ljiljana Čortan as CRO of ING and member of the Management Board Banking with effective date 1 January 2021. The Supervisory Board will propose to the shareholders to appoint Ljiljana Čortan as member of the Executive Board at the AGM on 26 April 2021. In terms of the dimensions of diversity, Ljiljana Čortan will add both nationality and gender diversity to the Executive Board and Management Board in line with our 70 percent principle.

Succession planning for Executive Board positions is continuously worked on, balancing the career advancement of (female) senior managers, considering female candidates for the role and bringing in talents from outside the bank.

On 31 December 2020, there were no female members of the Executive Board. ING considers that the preferred gender balance will be achieved with the appointment of Ljiljana Čortan following the AGM on 26 April 2021.

ING is still looking long term and taking steps to improve the appointment of women in senior positions throughout the bank in line with the adopted diversity and inclusion principle.

Remuneration and share ownership

Members of the Executive Board are permitted to hold shares in the share capital of ING Group for long-term investment purposes. Transactions by members of the Executive Board in these shares are subject to the ING regulations for insiders. These regulations are available on ing.com.

Details of the remuneration of members of the Executive Board, including shares granted to them, together with additional information, are provided in the Remuneration report.

Ancillary positions/conflicting interests

No member of the Executive Board has corporate directorships at listed companies outside ING.

Transactions involving actual or potential conflicts of interest

In accordance with the DCGC, transactions with members of the Executive Board in which there are significant conflicts of interest will be disclosed in the Annual Report.

Significant conflicting interests are considered to be absent and are not reported if a member of the Executive Board obtains financial products and services, other than loans, which are provided by ING Group subsidiaries in the ordinary course of their business on terms that apply to all employees. In connection with the aforementioned, such loans do not include banking and financial products in which the granting of credit is of a secondary nature, e.g. credit cards and overdrafts in current account.

For an overview of loans granted to members of the Executive Board, the Remuneration report.

Information on members of the Executive Board

S.J.A. (Steven) van Rijswijk, chief executive officer (CEO)

(Born 1970, Dutch nationality, male; appointed in 2017, term expires in 2021)

Steven van Rijswijk has been a member of the Executive Board since 8 May 2017. He was appointed CEO and chairman of the Executive Board and the Management Board Banking with effect from 1 July 2020. Prior to this he was ING's CRO. The Supervisory Board will propose to the shareholders to reappoint him as member of the Executive Board and CEO of ING Group at the AGM on 26 April 2021.
He is responsible for the proper functioning of the Executive Board, the Management Board Banking and its committees, formulating and implementing ING's strategy and acting as main contact for the Supervisory Board. He is also responsible for the following departments: Innovation, Legal, Corporate Strategy, Corporate HR, Centre of Excellence Communications and Brand Experience and Corporate Audit Services. Steven van Rijswijk joined ING in 1995 in the Corporate Finance department holding various positions in the areas of Mergers and Acquisitions and Equity Markets. Before becoming a member of the Executive Board, he was global head of Client Coverage at Wholesale Banking.
He holds a master's degree in business economics from Erasmus University Rotterdam (the Netherlands).

Relevant positions pursuant to CRD IV

CEO and chairman of the Executive Board of ING Groep N.V. and of the Management Board Banking of ING Bank 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, chief financial officer (CFO)

(Born 1965, Thai nationality, male; appointed in 2019, term expires in 2023)

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 AGM 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. Before his appointment to the Executive Board, he was ING Group controller in Amsterdam and between 2015-2018 he was the CFO of ING in Belgium.

He holds a master's degree in Engineering from Imperial College, University of London, and an MBA from Harvard Business School.

As from 1 July 2020 Tanate Phutrakul temporarily assumed the responsibility for risk on the Executive Board until the appointment of a successor to ING's former CRO Steven van Rijswijk.

Relevant positions pursuant to CRD IV

CFO and member of the Executive Board of ING Groep N.V., CFO and member of the Management Board Banking of ING Bank N.V., and Non-executive member of the board of ING Belgium N.V./S.A.

Other relevant ancillary positions

None.

Temporary status chief risk officer (CRO)

With the position change of Steven van Rijswijk on 1 July 2020, the CRO position became vacant.

In November 2020, ING announced the appointment of Ljiljana Čortan as CRO and member of the Management Board Banking from 1 January 2021. In the interim, the day-to-day risk management activities were performed by Karst Jan Wolters, reporting to chief financial officer Tanate Phutrakul.

Changes in the composition

Ralph Hamers stepped down from his position as CEO and chairman of the Executive Board of ING Groep N.V. and of the Management Board Banking of ING Bank N.V. as of 30 June 2020.
He was succeeded by Steven van Rijswijk.

The Supervisory Board will propose to the shareholders to appoint Ljiljana Čortan as member of the Executive Board of ING Group at the AGM on 26 April 2021 (see 'Diversity and succession planning' above).

Supervisory Board

Appointment, suspension and dismissal

Members of the Supervisory Board are appointed, suspended and dismissed by the General Meeting. For the appointment of Supervisory Board members, the Supervisory Board may draw up a binding list, which may be rendered non-binding by the General Meeting.

A resolution of the General Meeting to render this list non-binding, or to suspend or dismiss Supervisory Board members without this being proposed by the Supervisory Board, requires an absolute majority of the votes cast. Additionally, this majority must represent more than half of the issued share capital. The Articles of Association exclude the waiver of the latter requirement in a second General Meeting. This ensures that significant proposals of shareholders cannot be adopted in a General Meeting with a low attendance rate and can only be adopted with substantial support of ING Group's shareholders.

Candidates for appointment to the Supervisory Board are subject to a suitability and reliability assessment by the Dutch Central Bank and European Central Bank (DNB and ECB) and must continue to meet these while in function.

Function of the Supervisory Board

The function of the Supervisory Board is to supervise the policy *(beleid)* of the Executive Board and the general course of affairs of ING Group and the business connected with it, as well as to provide advice to the Executive Board.

In line with Dutch company law, the Articles of Association, the DCGC as well as the Charter of the Supervisory Board, all members of the Supervisory Board are required to:

- be guided by the interests of ING Group and the business connected with it, thereby carefully balancing the interests of all stakeholders of ING and when drawing that balance, give paramount importance to the customer's interest, as set out in the Dutch Banker's Oath;
- foster a culture focused on long-term value creation, financial and non-financial risk awareness, compliance with the Company's risk appetite, responsible and ethical behaviour and stimulate openness and accountability within ING and its subsidiaries;
- perform their duties without mandate and independent of any interest in the business of ING;
- refrain from supporting one interest without regard to the other interests involved; and
- ensure that it functions effectively.

According to the Banker's Oath that is taken by the members of the Supervisory Board, they must carefully consider the interests of all stakeholders of ING. In that consideration they must put the customer's interests at the centre of all their activities. Certain resolutions of the Executive Board, specified in the Articles of Association, in the Charter of the Management Board and in the Charter of the Supervisory Board, are subject to approval by the Supervisory Board.

In accordance with the Articles of Association ING Group indemnifies the members of the Supervisory Board as far as legally permitted against direct financial losses in connection with claims from third parties lodged or threatened to be lodged against them by virtue of their service as a member of the Supervisory Board.

Profile of members of the Supervisory Board

The Supervisory Board has drawn up a profile to be used as a basis for its composition. It is available on ing.com.

In view of their experience and the valuable contribution that former members of the Executive Board can make to the Supervisory Board, it has been decided, taking into account the size of the Supervisory Board and ING's wide range of activities that such individuals may become members of the Supervisory Board of ING Group. Former Executive Board members must wait at least one year before becoming eligible for appointment to the Supervisory Board.

Former members of the Executive Board are not eligible for appointment to the position of chairman or vice-chairman of the Supervisory Board.

After a former member of the Executive Board has been appointed to the Supervisory Board, this member may also be appointed to one of the Supervisory Board's committees. However, appointment to the Audit Committee is only possible if the individual in question resigned from the Executive Board at least three years prior to such appointment.

The Supervisory Board of ING shall consist of a mix of persons with executive experience, preferably gained in the banking sector, experience in corporate governance of large stock-listed companies and experience in the political and social environment in which such companies operate. In the selection of Supervisory Board members, ING is striving for a balance in nationality, gender, age, and educational and work background. In addition, there should be a balance in the experience and affinity with the nature and culture of the business of ING and its subsidiaries. More specifically ING strives to have at least 30 percent of the seats held by women, and at least 30 percent of the seats by men. These guidelines that relate to the composition of the Supervisory Board, are laid down in the Supervisory Board Profile. Based on this profile, the Supervisory Board is responsible for selecting and nominating candidates for appointment or reappointment to the Supervisory Board.

With respect to gender diversity, three female members currently serve on the Supervisory Board: Mariana Gheorghe, Margarete Haase and Herna Verhagen, resulting in the Supervisory Board meeting its 30 percent gender diversity target.

We believe the Supervisory Board is well balanced in terms of other relevant diversity aspects. Overall, the preferred emphasis on members with a financial or banking background has been maintained. In terms of nationality, the ratio between Dutch and non-Dutch nationalities in 2020 was 56 - 44 percent.

Other diversity related aspects are also taken into consideration in light of the overall Supervisory Board composition.ChapSuperV

Term of appointment of members of the Supervisory Board

As a general rule, Supervisory Board members step down from the Supervisory Board in the 4th, 8th, 10th or 12th year after their initial appointment. They are eligible for re-appointment in the 4th year after their initial appointment and, with explanation, also in the 8th and 10th year.

Under special circumstances the Supervisory Board may, with explanation, deviate from this general rule, for instance to maintain a balanced composition of the Supervisory Board and/or to preserve valuable expertise and experience. The retirement schedule is available on ing.com.

Ancillary positions/conflicting interests

Members of the Supervisory Board may hold other positions, including directorships, either paid or unpaid.
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 Group. It is the responsibility of the individual member of the Supervisory Board and the Supervisory Board collectively to ensure that the directorship duties are performed properly and are not affected by any other positions that the individual may hold outside ING Group.

Members of the Supervisory Board are to disclose material conflicts of interest (including potential conflicts of interest) and to provide all relevant information relating to them. The Supervisory Board – excluding the member concerned – decides whether a conflict of interest exists.

In case of a conflict of interest, the relevant member of the Supervisory Board abstains from discussions and decision-making on the topic or the transaction in relation to which he or she has a conflict of interest with ING Group.

Transactions involving actual or potential conflicts of interest

In accordance with the DCGC, transactions with members of the Supervisory Board in which there are material conflicting interests will be disclosed in the Annual Report.

Any relation that a member of the Supervisory Board may have with an ING Group subsidiary as an ordinary, private individual is not considered a significant conflict of interest. Such relationships are not reported, with the exception of any loans that may have been granted.

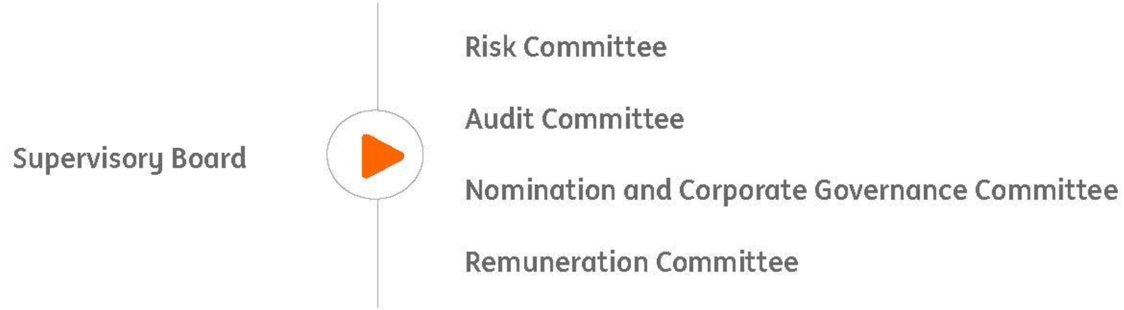
For an overview of loans granted to members of the Supervisory Board, see the Remuneration report.

Independence

The members of the Supervisory Board are requested to assess annually whether the criteria of dependence set out in the DCGC do not apply to them and to confirm this in writing. On the basis of these criteria, 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 independent.

Permanent committees of the Supervisory Board

On 31 December 2020, the Supervisory Board had four permanent committees: the Risk Committee, the Audit Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee. An organisational chart of the four permanent committees of the Supervisory Board can be found above.



The organisation, powers and conduct of the Supervisory Board are detailed in the Supervisory Board Charter on ing.com.

Separate charters have been drawn up for the Risk Committee, the Audit Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee. These charters are also available on ing.com. A short description of the duties of the four permanent committees follows below.

The Risk Committee assists and advises the Supervisory Board with performance of its duties in relation to overseeing (i) the setting and monitoring of the Company’s risk appetite and risk strategy for all types of risk including but not limited to financial and non-financial risk, (ii) the effectiveness of the internal risk management and control systems and (iii) other related risk management topics. The Risk Committee shall prepare the discussions within and decisions of the Supervisory Board on such matters. On 31 December 2020, the members of the Risk Committee were: Mike Rees (chairman), Jan Peter Balkenende, Juan Colombás, Mariana Gheorghe, Margarete Haase, Herman Hulst, Harold Naus and Hans Wijers.

The Audit Committee assists and advises the Supervisory Board with the performance of its duties in relation to the integrity and quality of the Company’s financial reporting and the related effectiveness of the Company’s internal risk management and control systems and shall prepare the discussions within and the decisions of the Supervisory Board on such matters. On 31 December 2020, the members of the Audit Committee were: Margarete Haase (chairwoman), Juan Colombás, Herman Hulst, Mike Rees and Hans Wijers.

The appointment of Margarete Haase in 2017 as Supervisory Board member became effective as per 1 May 2018 and per that date Margarete Haase is considered a financial expert as defined by the SEC in its final rules implementing Section 407 of the Sarbanes-Oxley Act of 2002.

The Nomination and Corporate Governance Committee assists the Supervisory Board with the performance of its duties in relation to selection and nomination of among others the Supervisory Board members and Management Board members, talent management and the effectiveness of the Company’s governance arrangements and shall prepare the discussions with and decisions of the Supervisory Board on such matters. On 31 December 2020, the members of the Nomination and Corporate Governance Committee were: Hans Wijers (chairman), Mariana Gheorghe and Herna Verhagen.

The Remuneration Committee assists the Supervisory Board, with the performance of its duties in relation to remuneration policies and the application and compliance thereof and shall prepare the discussion within and decisions of the Supervisory Board on such matters. In doing so, the Remuneration Committee will take into account the adequacy of information provided to shareholders on remuneration policies and practices. On 31 December 2020 the members of the Remuneration Committee were: Herna Verhagen (chairwoman), Mariana Gheorghe, Harold Naus and Hans Wijers.

The composition of the Supervisory Board committees can also be found on ing.com.

Remuneration and share ownership

Remuneration of the members of the Supervisory Board is determined by the General Meeting and is not dependent on the results of ING Group. Details of remuneration are provided in the Remuneration report. Members of the Supervisory Board are permitted to hold shares in the share capital of ING Group for long-term investment purposes. Transactions by members of the Supervisory Board in these shares are subject to the ING insider regulations, which are available on ing.com.

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. (effective per 1 May 2018), 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.

Company secretary

The Supervisory Board and Executive Board are assisted by the company secretary Cindy van Eldert-Klep.

B. Compensation

Remuneration report

FOR INFORMATION ONLY

In what was a challenging year for ING, one of the biggest factors influencing our business was Covid-19. First and foremost, it's a human tragedy that has affected the lives, jobs and wellbeing of people everywhere, including our customers and employees. Naturally, it also affected our business performance, which has a direct impact on the way we recognise and reward many of our employees. In this context there will be no changes to remuneration for the Executive Board and the Supervisory Board in 2021 and the Executive Board will forgo their variable remuneration for performance year 2020.

ING's approach to remuneration is designed to attract, motivate and retain people with the skills, abilities, values and behaviours needed to achieve its strategy. At the same time, we have a responsibility to be balanced and fair, taking into account all our stakeholders in what was, and continues to be, a difficult environment.

That's why we aim to have an ongoing dialogue with our regulators, customers, shareholders , works councils and other stakeholder groups. Due to the Covid-19 restrictions, we engaged with our stakeholders in 2020 mainly through indirect and online channels. This included consultations in preparation for this year's remuneration approach, strengthening the link between performance and remuneration outcomes. We will continue these interactions in 2021.

Our view on remuneration

ING seeks to effectively reward success and avoid rewarding for failure. We aim to offer well-balanced remuneration that focuses on creating short- and long-term value for all our stakeholders. We make our biggest contribution to society through our business: processing payments, providing loans and protecting people's money. At the same time, as a gatekeeper to the financial system we have responsibility to keep our bank safe, secure and compliant. Achieving the balance between our function as a bank and managing the inherent risks this brings, is reflected in our remuneration approach.

Our remuneration principles are important to achieve our strategy and our purpose – empowering people to stay a step ahead in life and in business. These principles apply to all employees, including members of the Executive Board.

The 2020 Remuneration Report is subject to an advisory vote at the AGM in April 2021. In the report we look back on the year 2020. We report on ING's performance and how 2020 events such as the coronavirus pandemic impacted our business results and subsequently remuneration. We explain how the Executive Board and Supervisory Board remuneration policies are implemented and share details of remuneration awarded in 2020 to the Executive Board and to the Supervisory Board. In addition, we also set out the key performance indicators for the year ahead.

Halfway through the year, Steven van Rijswijk succeeded Ralph Hamers as chief executive officer. The same remuneration principles apply to him as did to his predecessor. As such, Steven's remuneration until 1 July 2020 is reflected in his previous role as chief risk officer, and in the second half of the year as CEO.

In line with ING's commitment to increase transparency and accountability, this year we provide insight into the organisational as well as the personal performance objectives of the Executive Board members. Among other things we aim to clarify the performance metrics used for awarding variable remuneration, how targets are set, how achievements are measured, and the important role risk management plays in influencing remuneration, including the pre- and post award risk assessment.

In addition, we set out the remuneration approach that applies to all employees. We explain more about how remuneration works within ING. This includes the performance management process and its link to remuneration, as well as the measures we have in place to mitigate risk.

Remuneration policy

This 2020 Remuneration Report is the first to reflect ING's new Executive Board and Supervisory Board remuneration policies, which came into effect on 1 January 2020. The policies were drawn up based on the various viewpoints, interests, remarks and concerns of our stakeholder groups. When presented in March 2020, stakeholders were largely positive. At the Annual General Meeting (AGM) in April 2020, shareholders approved the Executive Board and Supervisory Board remuneration policies with 94.4% and 98.6% of the votes respectively.

Under the 2020 policy, and in line with the requirements laid down in the Dutch Banking Code, the total direct compensation of the Executive Board is below the median of our peer group. This group is selected on the basis of geography, talent market, size and governance framework, as well as a balancing factor to ensure relevance of our benchmark. Our peer group in 2020 consists of eight comparable Dutch companies and eight relevant European financial services providers, which are listed in the 'Total direct compensation' paragraph.

Performance year 2020

The impact of the global coronavirus pandemic reverberated across all of our businesses in all locations. While 2020 was a tough year, ING's financial results remained resilient and we continued to attract more primary customers, even during the wide-spread lockdowns that took place around the world. At the same time, the economic headwinds required us to remain flexible and sharpen our focus on activities that will ensure ING delivers on its strategic priorities. And of course, there is a link between performance and remuneration.

In light of the economic headwinds and the pressure Covid-19 placed on our business, our customers and on society, the Supervisory Board and the Executive Board jointly agreed that the Executive Board members will not receive any variable remuneration related to the performance year 2020.
Additionally, the Supervisory Board decided not to increase the base salary of Executive Board members from 1 January 2021. The fees for the Supervisory Board will also be unchanged for 2021.

For all other eligible staff, variable remuneration is based on group, business line and individual performance criteria, is for at least 50% based on non-financial targets and comes in the form of discretionary and collective variable remuneration. The total amount awarded was significantly lower than for the previous year, reflecting declining financial performance and recognising broader stakeholder interests. The biggest reductions occur at the more senior levels of the organisation (see '2020 specifics' for more information). This is in line with the recommendations of the European Central Bank urging moderation with respect to awarding variable remuneration. Similarly, ING complies with the prevailing ECB recommendation on shareholder distributions.

In closing, I'd like to express my heartfelt gratitude to every ING employee, at every level of the organisation, for their ongoing commitment and dedication over the past year. It hasn't always been easy to adapt to working at a distance, often while also juggling the demands of family life or recovering from illness. Yet even in the most challenging circumstances, they have shown true orange spirit and continued to take things on and make them happen for customers, for ING and for all stakeholders. Thank you.

Herna Verhagen
Chairman of the Supervisory Board Remuneration Committee

Remuneration Report Executive Board and Supervisory Board

FOR ADVISORY VOTE AT 2021 ING GROEP N.V. ANNUAL GENERAL MEETING (AGM)

About this report

This Remuneration Report explains the 2020 Executive Board remuneration policy (hereafter called the 2020 EB remuneration policy) and 2020 Supervisory Board remuneration policy (hereafter called the 2020 SB remuneration policy) and how these have been implemented. Both these policies were approved at the 2020 AGM. This section of the report is the Remuneration Report as referred to in the Dutch act implementing the Shareholder Rights Directive II (SRD II). It will be presented to shareholders at the 2021 AGM for an advisory vote. An explanation of how the results of this vote are taken into account will be included in the 2021 Remuneration Report.

This report is prepared in the spirit of the draft (non-binding) 'Guidelines on the standardised presentation of the remuneration report' from the European Commission published in March 2019. Although the finalised guidelines were expected to be published in 2020, these were not available at the time of preparing this report. In that context therefore, 2020 should still be considered a transitional year though with increased transparency where possible. This is for instance processed in the paragraphs '2020 Executive Board performance assessment & reward process' and '2020 Executive Board performance evaluation'. In the 2021 Remuneration Report we aim to disclose fully in line with the final guidelines (if available).

2020 AGM

The 2019 Remuneration Report was presented for an advisory vote at the AGM held on 28 April 2020 (hereafter called the 2020 AGM). The outcome was that 93.4% of shareholders were in favour of the report. There were no additional comments or questions on the advisory vote, aside from the ask for additional transparency on variable remuneration of the Executive Board. As explained at the 2020 AGM, the 2019 Remuneration Report included a new approach for Executive Board variable remuneration also setting out how this links to performance as of performance year 2020. The 2020 Remuneration Report aims to provide greater transparency regarding the Executive Board performance, as also promised during our stakeholder consultation.

In addition to the 2019 Remuneration Report, the 2020 EB remuneration policy and 2020 SB remuneration policy were up for a binding vote at the 2020 AGM. To come to a balanced proposal we incorporated feedback from the broad stakeholder consultation carried out in the autumn and winter of 2019. This extensive stakeholder reach-out was essential before any decision over 2020 was taken. The vote was 94.4% in favour of the EB remuneration policy and 98.6% in favour of the SB remuneration policy. Both policies were adopted by shareholders and became effective retroactively from 1 January 2020 until the 2024 AGM at the latest.

We remain aware of the fact that remuneration is an important topic for many stakeholder groups and that viewpoints on the topic may vary. The Supervisory Board is fully committed to ensuring that our approach to remuneration achieves a balance that aligns the best interest of ING and the viewpoints of our stakeholders. Stakeholder engagement is a key element in the formulation of our remuneration policies, as demonstrated by the extensive process we carried out in 2019. The Supervisory Board will continue to foster a transparent dialogue on remuneration and future policy amendments.

Board changes and business events 2020

Ralph Hamers stepped down as chief executive officer (CEO) and member of the Executive Board of ING Group on 30 June 2020. The Supervisory Board appointed Steven van Rijswijk as his successor from 1 July 2020. Steven van Rijswijk, who was ING's chief risk officer (CRO), was already a member of the Executive Board. The agreed remuneration package for Steven van Rijswijk is the same as for the previous CEO and in line with the 2020 EB remuneration policy.

Until the appointment of a new CRO, Karst Jan Wolters, reporting to chief financial officer (CFO) Tanate Phutrakul, carried out the day-to-day risk management activities ad interim. On 6 November 2020 it was announced that Ljiljana Čortan was appointed as the new CRO and member of the Management Board Banking effective 1 January 2021. The agreed remuneration package for Ljiljana Čortan is the same as for the previous CRO and in line with the 2020 EB remuneration policy. The targets for 2021 are set in anticipation of her CRO role as the Supervisory Board will propose to shareholders to appoint her as member of the Executive Board and CRO of ING Group at the AGM in April 2021.

Shareholders at the 2020 AGM approved the appointment of Juan Colombás, Herman Hulst and Harold Naus to the Supervisory Board. Robert Reibestein resigned from the Supervisory Board effective from 1 January 2020, because of persistent health issues, while Eric Boyer de la Giroday and Hermann-Josef Lamberti retired at the end of the 2020 AGM.

Main decisions on the remuneration of the Executive Board and Supervisory Board for 2021

To summarise, the following decisions have been made in relation to remuneration for 2021:

- no changes to the 2020 EB and SB remuneration policies will be proposed;
- the Supervisory Board and Executive Board jointly agreed that the Executive Board members will not receive any variable remuneration related to the performance year 2020;
- the Supervisory Board decided not to increase the base salary of the Executive Board members from 1 January 2021; and
- no changes to the current remuneration structure for the Supervisory Board members will be made for 2021.

Remuneration Executive Board

Executive Board remuneration policy

The 2020 EB remuneration policy complies with applicable laws and regulations and is in line with the remuneration principles that apply to all ING employees.

The 2020 EB remuneration policy is disclosed in full on ing.com under the section 'Remuneration'. Should policy changes be proposed, we will first engage with our stakeholders to inform and discuss the proposed changes, after which a revised version of the 2020 EB remuneration policy will be submitted for adoption by shareholders at the General Meeting before it becomes effective. Please note that the following paragraphs, present a brief summary of the current applicable 2020 EB remuneration policy.

Total direct compensation

Total direct compensation is the total of fixed and variable remuneration, excluding benefits such as pension and allowances.

Total direct compensation for the Executive Board members is determined and reviewed periodically by the Supervisory Board. In line with the 2020 EB remuneration policy, the Executive Board's total direct compensation for 2020 was compared to a new peer group as formulated in the 2020 EB remuneration policy. This peer group is based on five guiding principles, reflecting ING's current profile, and further explained in the 2020 EB remuneration policy. These principles can be described as follows.

Guiding principle	Short description
Geography	ING is headquartered in the Netherlands, but has an international profile
Talent market	ING is increasingly experiencing a cross-pollination of talent across sectors/industries, not limited to traditional banking competitors
Size	ING acknowledges the importance of including companies that are broadly comparable in terms of size and complexity
Governance framework	ING is subject to the Dutch (financial services) regulatory framework and operates within a Dutch stakeholder environment
Balancing	ING acknowledges the importance of retaining sight of relevant peer companies that do not match on the other criteria

In line with the Dutch Banking Code, the peer group should consist of both financial and non-financial companies, taking into account the relevant international context. In addition, the Supervisory Board decided to exclude the UK and Switzerland from our peer group, due to very different pay structures in their financial sectors. Smaller banks and companies were also excluded because these are less complex compared to a large enterprise like ING. The composition of the peer group is explicitly not included in the 2020 EB remuneration policy. In 2020, the peer group comprised:[1]

ABN AMRO	Ahold Delhaize	BBVA	Deutsche Bank
Aegon	ASML	Banco Santander	Intesa Sanpaolo
NN Group	Heineken	BNP Paribas	Societe Generale
Rabobank	Philips	Credit Agricole	UniCredit

We aim to keep our peer group as constant as possible. In line with the requirements laid down in the Dutch Banking Code the total direct compensation under the 2020 EB remuneration policy is below the median of the peer group. The calculation of the position towards the median of the peer group has been performed based on the actual fixed remuneration 2020 and the actual variable remuneration related to performance year 2019. Due to the fact that there was no variable remuneration related to the current performance year (2020), we use the variable remuneration related to the previous performance year (2019) for this calculation.

1 The exact composition of the peer group is disclosed in the Annual Report annually retroactively.

Fixed remuneration

The individual base salaries are set according to the role, responsibilities and experience of each Executive Board member with reference to market practice. The Remuneration Committee reviews the individual base salaries of the Executive Board members each year and advises the Supervisory Board on this. The Supervisory Board has the discretion to increase the individual base salaries annually. The below factors are given consideration in determining their base salaries:

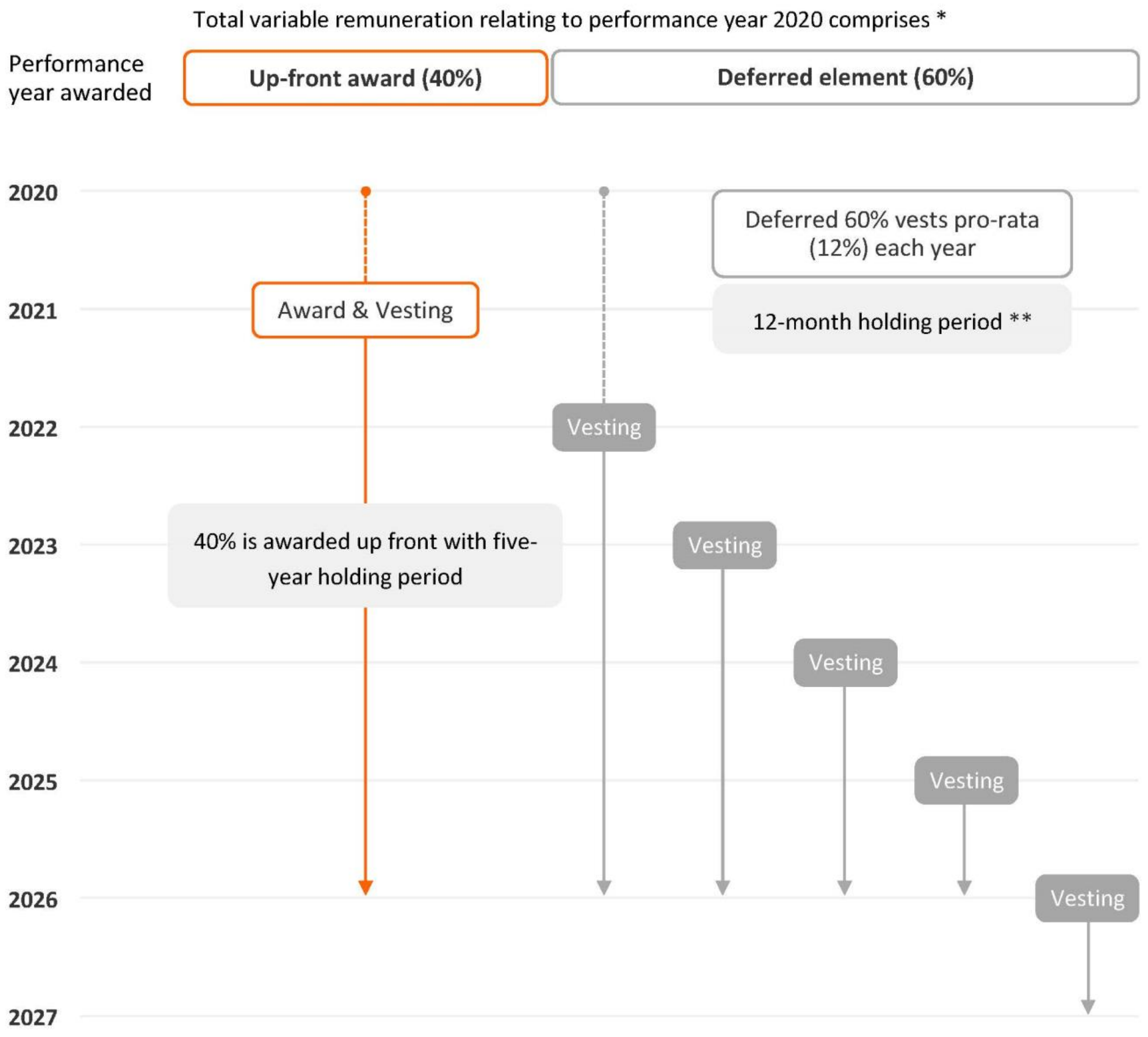
- the individual's level of skill and performance;
- ING's business performance, and market conditions;
- internal pay ratios and salary increases for other employees within ING;
- remuneration level at the external peer group;
- public indexation reference points (e.g. consumer price index); and
- stakeholder views.

Variable remuneration

Variable remuneration for Executive Board members is limited to a maximum of 20% of base salary in line with legislative requirements. At least 50% of this is based on non-financial performance criteria. The 2020 EB remuneration policy provides for an at-target variable remuneration of 16% of base salary. If performance criteria are exceeded, the Supervisory Board can increase the variable component to the maximum. If performance is below target, the variable component will be decreased, potentially to zero. All variable remuneration is awarded fully in shares. There is a minimum holding period of five years from the award date plus an additional holding year as of the vesting date. This combination (i.e. all shares plus a long holding period) fosters alignment with shareholders and a focus on the long term.

The Supervisory Board pre-determines the performance criteria for the Executive Board each year to ensure alignment between ING's strategy, performance objectives and long-term interest.

For further details on the pay-out of variable remuneration please see the 2020 EB remuneration policy which is disclosed in full on ing.com under the section 'Remuneration'.
On the right, is a visual illustrating the potential pay-out scheme of variable remuneration for Executive Board members.



* Fully delivered in shares.
** All awards subject to holdback and clawback provisions and a minimum five-year holding period from award.

Pension

Since 1 January 2015, all members of the Executive Board participate in the Collective Defined Contribution pension plan, which is accrued on an annual salary of up to €110,111 for 2020. This is the same as for all employees working in the Netherlands without a supplementary pension scheme. Executive Board members are compensated for the lack of pension accrual above this amount by means of a savings allowance (see 'Benefits'), to be annually determined, on the same terms that apply to other participants in the Dutch pension scheme. The set-up of this compensation for the lack of pension accrual is in line with best practices.

Benefits

Executive Board members are eligible for additional benefits, such as:

- the use of a company car;
- contributions to company savings plans;
- individual savings allowance;
- expatriate allowances (if applicable);
- banking and insurance benefits from ING (on the same terms as for other employees of ING in the Netherlands);
- tax and financial planning services to ensure compliance with the relevant legislative requirements.

Tenure

Members of the Executive Board are appointed by shareholders at the AGM for a maximum period of four years. They may be reappointed by shareholders at the General Meeting in line with ING's Articles of Association and applicable rules and regulation. Executive Board members have a commission contract for an indefinite period. ING has the option to terminate the contract if a member is not reappointed by shareholders at the AGM, or if their membership of the Executive Board is terminated. There is a three-month notice period for individual board members and a six-month period for ING. During this time the board member continues to work and in principle remains eligible for all agreed remuneration components.

In the event of an involuntary exit, Executive Board members are eligible for an exit arrangement. If termination of the contract is based on mutual agreement, the Executive Board member is also eligible for a severance payment. These arrangements are subject to specific requirements (e.g. limited to a maximum of one year of fixed base salary and under the condition that there should be no reward for failure). If an Executive Board member departs voluntarily or in circumstances involving fraud, gross negligence, wilful misconduct or any activity detrimental to ING, no severance payment or award of variable remuneration over the performance year will be made.

Periodic review of the Executive Board remuneration policy and the remuneration awarded

In accordance with the 2020 EB remuneration policy, the Supervisory Board annually determines the actual remuneration for members of the Executive Board, based on advice from the Remuneration Committee of the Supervisory Board.

The Remuneration Committee's responsibilities include preparing the Supervisory Board for decisions regarding the individual remuneration of members of the Executive Board. Remuneration proposals for individual Executive Board members are drawn up in accordance with the 2020 EB remuneration policy and cover the following aspects: remuneration structure, the amount of the fixed and variable remuneration components, the performance criteria used, scenario analyses that were carried out and, if and when considered appropriate stakeholder engagement, review of the EB remuneration policy, the pay ratios within the company and its affiliated enterprises. In the performance of its tasks the Remuneration Committee works closely together with the Risk Committee.
The Remuneration Committee takes note of the views of individual Executive Board members with regard to the amount and structure of their own remuneration, including the aspects mentioned above.

Special employment conditions

Special employment conditions, for example to secure the recruitment of new executives, may be used in exceptional circumstances subject to approval by the Supervisory Board. The Supervisory Board aims to minimise these payments and ensure they are compliant with regulatory requirements. This is in line with the 2020 EB remuneration policy. In 2020, there were none.

2020 Remuneration Executive Board

This section includes details of remuneration for current and former Executive Board members relating to the period served on the Executive Board in 2020.[2]

In line with the Dutch Corporate Governance Code, ING calculates an internal ratio of remuneration for Executive Board members and a representative reference group. Deemed most relevant for this ratio is the total direct compensation of the CEO compared to the average total direct compensation of all ING employees. On this basis, the internal ratio in 2020 was 1:28 (2019: 1:31, 2018: 1:29). For the sake of transparency we also calculate the ratio of total direct compensation for other Executive Board members compared to the average total direct compensation of all ING employees. On that basis the internal ratio in 2020 was 1:19 (2019: 1:21, 2018: 1:20).[3] The lower ratios for 2020 compared to 2019, are mainly because the Supervisory Board and the Executive Board jointly agreed that the Executive Board members will not receive any variable remuneration award related to the performance year 2020.

As was announced in February 2020, Ralph Hamers stepped down from his position as ING's CEO and chairman of the Executive Board on 30 June 2020. As his departure was voluntary, no exit arrangements were agreed or paid, in line with the 2020 EB remuneration policy. All outstanding variable remuneration that was awarded in previous years and not yet vested before his departure, has lapsed. This means he will not receive any future pay-outs of variable remuneration related to previous performance years.

2 Ralph Hamers stepped down from the Executive Board on 30 June 2020; Tanate Phutrakul was appointed to the Executive Board immediately after the AGM on 23 April 2019. Steven van Rijswijk was an Executive Board member for the full years 2018-2019. For 2020, a pro-rata method is applied to his remuneration as CEO from 1 July 2020.

Remuneration versus company performance and average employee remuneration

The table on the next page shows the link between directors' remuneration (Executive Board and Supervisory Board members), company performance and the average remuneration of an ING employee. This is carried out by showing the development of the remuneration for Executive Board and Supervisory Board members over the last five years presented in percentages. With respect to the remuneration of the Supervisory Board, it should be noted that there is no link to company performance in order to safeguard its independent role. No component of the remuneration of the Supervisory Board members is linked to company performance, since this is all and only dependant on attendance.

The relative performance of the company is presented on three different metrics over the last five years. The metrics consist of:

- Retail primary relationships
- Profit before tax for ING Group
- Return on equity based on IFRS-EU Equity.

Finally, we present the development of the remuneration on average (per employee). For this number we use the same data as is used to determine the internal ratio. As ING has only disclosed the internal ratio since 2017, no comparison for 2016 and 2015 is presented.

Due to the strict regulations on variable remuneration in the Netherlands (i.e. 20% bonus cap) and to the fact that Executive Board members were not awarded any variable remuneration for performance year 2020, the link between remuneration and company performance is correlated but limited. Furthermore, the requirement that variable remuneration must be based on at least 50% non-financial targets means there is only a partial relationship between the company's financial performance and the remuneration of Executive Board members.

3 Total direct compensation comprises fixed base salary and variable remuneration, excluding benefits such as pension arrangements, and allowances.

Development of directors' remuneration, company performance and employee remuneration

Amount in thousands of euros unless otherwise stated	FY 2020	FY 2020 vs FY 2019 [6, 7]	FY 2019 vs FY 2018	FY 2018 vs FY 2017 [8]	FY 2017 vs FY 2016	FY 2016 vs FY 2015
Directors remuneration (Executive Board) [1, 2, 3, 4]						
Ralph Hamers	888	-55.9%	15.2%	-12.8%	1.4%	2.9%
Steven van Rijswijk	1,499	7.2%	16.2%	-11.8%	-	-
Tanate Phutrakul	1,222	25.6%	-	-	-	-
Company's performance [4, 5]					-	
Retail primary relationships (in mln)	13.9	5%	7%	10%	9%	14%
Profit before Tax ING Group (continuing operations) (in mln)	3,809	-44%	0%	-6%	23%	-4%
Return on equity based on IFRS-EU Equity	4.8%	-49%	-4%	-3%	6%	-
Average employee remuneration						
Average fixed and annual variable remuneration	64	-1.7%	7%	-1.1%	-	-
Directors remuneration (Supervisory Board) [5]						
Hans Wijers	209	3.5%	9.2%	340.5%	-	-
Hermann-Josef Lamberti	48	-66%	1.4%	-1.4%	-5.4%	34.2%
Mike Rees	129	76.7%	-	-	-	-
Jan Peter Balkenende	97	-2%	0%	200%	-	-
Juan Colombás	23	-	-	-	-	-
Mariana Gheorghe	108	-8.5%	12.4%	11.7%	-4.1%	145%
Eric Boyer de la Giroday	38	-64.8%	0%	1.9%	-7%	23.9%
Margarete Haase	105	7.1%	55.6%	-	-	-
Herman Hulst	82	-	-	-	-	-
Harold Naus	82	-	-	-	-	-
Herna Verhagen	121	303.3%	-	-	-	-

1 The remuneration of the Executive Board consists of base salary and variable remuneration (total direct compensation).

2 Variable remuneration of the Executive Board is included in the year in which the performance was delivered i.e. prior to the year in which it is paid out.

3 The fixed remuneration for the Executive Board did not change in 2019. Hence, the relative total compensation increase from 2018 to 2019 is fully attributed to the fact that no variable remuneration was awarded for performance year 2018. In addition, as Tanate Phutrakul was not an Executive Board member for the full year, a comparison between 2018 and 2019 cannot be made.

4 Fixed remuneration for Executive Board members of ING is not linked to company performance but is predominantly based on a benchmark exercise and total direct compensation of Executive Board members should stay below the median of the benchmark, based on the Dutch Banking Code. This has a mitigating effect on the correlation with the company performance.

5 Supervisory Board members do not receive any variable remuneration. Their remuneration is based on fixed fees related to their role and number of meetings. The high fluctuations are caused by members joining or leaving the Supervisory Board during the year, role changes during the year, and differences in the number of meetings. Hence there is no correlation between the Supervisory Board remuneration and the company performance.

6 The decrease in the 2020 versus 2019 comparison for Ralph Hamers is due to the fact that his remuneration is only for the period from 1 January 2020 until 30 June 2020, when he stepped down as an Executive Board member. The increase for Tanate Phutrakul in this comparison is because he was appointed by the AGM on 23 April 2019 and therefore his 2019 remuneration reflects a partial year as an Executive Board member while the 2020 remuneration presents a full year as an Executive Board member. The increase for Steven van Rijswijk in this comparison is caused by his appointment as CEO as of 1 July 2020 and the higher remuneration package.

7 The decrease in the 2020 versus 2019 comparison for Hermann-Josef Lamberti and Eric Boyer de la Giroday is fully attributed to the fact that both retired after the AGM on 28 April 2020. The increase in this comparison for Mike Rees and Herna Verhagen is because they were appointed by the AGM on 23 April 2019 and therefore reflect a partial year as Supervisory Board members whereas 2020 is presented as a full year as a Supervisory Board member.

8 The decrease in the 2018 versus 2017 comparison for the CFO and CRO is fully attributed to the fact that for performance year 2018 no variable remuneration was awarded while over performance year 2017 variable remuneration was awarded.

2020 Executive Board performance assessment & reward process

The Executive Board performance process includes a number of key steps. This process serves as the foundation to determine the variable remuneration for Executive Board members.

Target setting before the start of the financial year	**Check-ins** quarterly during the financial year	**Year-end review** after the end of the financial year	**Risk assessment** after the end of the financial year

At the start of the performance year, the Supervisory Board approves the financial and non-financial performance measures applicable to Executive Board members for the upcoming financial year:

- **Financial performance measures** including profit-based and return-based measures.
- **Non-financial performance measures** including customer, people, strategy and sustainability measures.

Each performance measure is weighted and totals 100%. The Dutch Remuneration Policy for Financial Enterprises Act (Wet Beloningsbeleid Financiële Ondernemingen, WBFO) specifies that at least 50% of variable remuneration metrics must be based on non-financial targets. The performance measures for the CEO and CFO are based on group performance. The measures for the CRO are based 75% on functional key performance indicators (KPIs) and 25% on group results, in line with regulations for control functions.

Throughout the year, regular conversations take place between the Supervisory Board and the Executive Board to review their performance to date. While no formal assessments are completed, progress of performance measures is discussed and the extent to which progress is on track.

At the end of the year, the Risk Committee and Remuneration Committee are both responsible for providing input into and assessing the performance of the Executive Board members to determine the variable remuneration to be awarded. They jointly advise the Supervisory Board on the recommendations to get final approval of the awards. This follows a multi-step and integrated process that closely aligns with the way that variable remuneration is determined for the wider ING workforce. The process covers an assessment of their performance, based on individual performance scorecards. It includes KPIs and targets agreed at the beginning of the performance year, along with risk assessments measured on an ex-ante and ex-post risk adjustment basis.

The core performance scorecard for each Executive Board member consists of both quantitative and qualitative-based KPIs. Quantitative-based KPIs are assessed on a primarily formulaic basis where the expected target performance level must be achieved before the on-target pay-out can be earned. Qualitative-based KPIs are assessed using a standard three-point rating scale:
1 = maximum = exceeding expectations; 2 = target = meeting expectations; 3 = threshold = not meeting expectations. The overall outcome of the performance scorecard assessment based on the above is the ‘starting point’ for determining the variable remuneration of the Executive Board members.

The integrated performance assessment process for determining variable remuneration also takes into account financial and operational performance, risk and compliance, as well as behaviour and conduct of each Executive Board member. This is supported by a robust framework for considering risk and conduct, which is in line with regulations. It includes the following elements:

- **Performance hurdles** – Executive Board members are only eligible for consideration for variable remuneration if both of the performance hurdles are met. This is line with all employees who are eligible for discretionary variable remuneration. See ‘Performance hurdles’ for further details.
- **Risk tests and adjustments** – Performance under three metrics (covering financial and non-financial risk) is considered against thresholds set at the beginning of the financial year, taking into account ING’s risk appetite statement framework. When these risk tests are not within the risk appetite it may lead to a downward variable remuneration adjustment.
- **Ex-post risk assessment** – Adjustments may be made based on risk management performance, including events that had a financial or reputational impact on ING. Risk and Human Resources also assess potential holdbacks or clawbacks impacting variable remuneration.

The CRO is responsible for recommending any risk-adjustments to variable remuneration awards. The final decision is at the level of the Supervisory Board. The Supervisory Board, based on the advice of the Remuneration Committee and Risk Committee, decides on any risk adjustments (potentially to zero) to variable remuneration for Executive Board members.
As a final step in the process, in exceptional circumstances the Supervisory Board may apply its discretion to adjust upwards or downwards the variable remuneration of Executive Board members.

2020 Executive Board base salary

The base salary of all Executive Board members increased with 1.5% on 1 January 2020, as was announced in our 2019 Annual Report. This decision was based on reliable indexation reference points, including the (forecast) Consumer Prices Index 2020, in line with the 2020 EB remuneration policy. As stated in our 2019 Remuneration Report, the increase for Executive Board members is below the collective labour agreement CLA increase for employees in the Netherlands.[4]

2020 Executive Board performance evaluation

The Executive Board is evaluated along the following performance target areas:

Financial

- Profit before tax
- Return on equity

Non-financial

- Customer (except for CRO)
- Sustainability
- People
- Strategic priorities
- Regulatory (for CRO only, replacing Customer)

This section includes more details on the financial and non-financial performance of the Executive Board members. Key financial achievements, collectively accomplished by the Executive Board in 2020 in the predefined target areas are summarised in one table. The non-financial, individual performance of each the Executive Board members is summarised in separate tables.

Financial performance

Measure	Target - minimum	Target - maximum	Performance	Assessment
Profit before tax (CEO/CFO weight 25%, CRO 12.5%)	6,509	7,195	3,809	0%
Return on Equity (CEO/CFO weight 25%, CRO 12.5%)	8%	10%	4.8%	0%

The performance assessment and outcome of the Executive Board members is summarised in the tables below.

4 The collective salary increase based on the Collective Labour Agreement in the Netherlands (agreed for the period from 1 January 2019 – 31 December 2020), per 1 September 2019 was 3% for all employees in the Netherlands. In addition, per 1 September 2020 another collective salary increase of 3% took place.

Chief executive officer	
Target	**Performance**
Customer	
Increase number of primary customers	In 2020 the number of primary customers increased by 578,000 to 13.9 million. The increase was lower than projected at the beginning of 2020 and was impacted by the challenges related to Covid-19.
Sustainability	
Cover nine sectors in Terra	In October 2020 the second progress report on Terra was published. Five of the sectors (automotive, power generation, residential real estate, commercial real estate, and cement) are outlined in comparison to 2019. An additional four sectors - fossil fuels, aviation, steel and shipping - were added, in line with the target to cover all nine sectors in scope in 2020, including quantitative results and targets. The report's Climate Alignment Dashboard shows most sectors are on track for climate alignment, with progress still needed in some.
People	
Improve organisational health on three priorities	The Organisational Health Pulse survey for 2020 was focused on progress against three priorities – direction, leadership and innovation & learning. ING reached significant improvement across all business lines with all priorities in the top decile or top quartile.
Strategic priorities	
Deliver on the regulatory commitments	Delivered regulatory commitments related to implementation of new regulations on time and at the required levels.
Deliver on the strategic priorities	- Migrated all private individual customers in Belgium to the OneApp/OneWeb services. - The Wholesale TOM programme achieved cost, risk and income benefits and came to a natural close. - Stopped the Maggie transformation programme and refocused our activities to ensure faster customer delivery and a continuously improving end-to-end digital customer experience. - Extended the roll out of ING's Touchpoint platform, which gives new and existing business initiatives access to 25.2 million ING customers (65% of customer base). - Introduced innovative services such as CoorpID and Blacksmith, which digitalise the know your customer process for corporate clients.

Chief financial officer	
Target	**Performance**
Customer	
Increase number of primary customers	In 2020 the number of primary customers increased with 578,000 to 13.9m. The increase was lower than projected at the beginning of 2020 and was impacted by the challenges of Covid-19.
Sustainability	
Green issuance	In 2Q a US$1 billion green bond was issued to fund loans for renewable energy and green buildings, which was beyond the agreed target.
People	
Improve organisational health on three priorities	The Organisational Health Pulse survey for 2020 was focused on progress against three priorities – direction, leadership and innovation & learning. ING reached significant improvement across all business lines with all priorities in the top decile or top quartile.
Strategic priorities	
Deliver on the regulatory commitments	Delivered regulatory commitments related to implementation of new regulations on time and at the required levels.
Deliver on the strategic priorities	- Migrated all private individual customers in Belgium to the OneApp/OneWeb services. - The Wholesale TOM programme achieved cost, risk and income benefits and came to a natural close. - Stopped the Maggie transformation programme and refocused our activities to ensure faster customer delivery and a continuously improving end-to-end digital customer experience. - Extended the roll out of ING's Touchpoint platform, which gives new and existing business initiatives access to 25.2 million ING customers (65% of customer base). - Introduced innovative services such as CoorpID and Blacksmith, which digitalise the know your customer process for corporate clients.

Chief risk officer	
Target	**Performance**
Regulatory	
Deliver on regulatory commitments	Delivered identified regulatory commitments related to implementation of new regulations on time and at the required levels.
Sustainability	
Digitalisation of retail credit risk	Standardisation and digitalisation of retail credit risk processes in line with target.
Install compliance by design	Elements of compliance and non-financial risk have been digitalised and robotised in line with target, improving sustainable embedding of compliance and NFR processes.
Strategic priorities	
Manage credit- market and non-financial risk within Board approved risk appetite	Credit risk, market risk and non-financial risk effectively managed within ING's risk appetite profile.
People	
Improve organisational health on three priorities	The Organisational Health Pulse survey for 2020 was focused on progress against three priorities – direction, leadership and innovation & learning. ING reached significant improvement across all business lines with all priorities in the top decile or top quartile.

* Sustainability for the CRO has been focused on sustainable embedding of risk in the organisation.

The performance assessment and outcome of the Executive Board members is summarised in the tables below, taking into account the pre- and post award risk assessment.

Outcome performance assessment	CEO			CFO			CRO		
	Weighting (%)	Assessment (%)	Outcome (%)	Weighting (%)	Assessment (%)	Outcome (%)	Weighting (%)	Assessment (%)	Outcome (%)
Profit before tax	25%	0%	0%	25%	0%	0%	12.5%	0%	0%
Return on equity	25%	0%	0%	25%	0%	0%	12.5%	0%	0%
Customer	12.5%	0%	0%	12.5%	0%	0%	-	-	-
Regulatory	-	-	-	-	-	-	25%	100%	25%
Sustainability	12.5%	90%	11.3%	12.5%	90%	11.3%	10%	90%	9%
People	12.5%	100%	12.5%	12.5%	100%	12.5%	10%	100%	10%
Strategic priorities	12.5%	90%	11.3%	12.5%	90%	11.3%	30%	100%	30%
Total	**100%**		**35%**	**100%**		**35%**	**100%**		**74%**

* Due to rounding, percentages presented in the table may not add up precisely to the total percentages provided.

2020 variable remuneration outcome

In light of the economic headwinds and the pressure Covid-19 placed on our business, our customers and on society, the Supervisory Board and the Executive Board jointly agreed for the Executive Board to forgo their variable remuneration related to the performance year 2020. Although it was decided to forgo variable remuneration, in the table on the left the individual performance of the members of the Executive Board against their set-targets is shown to illustrate the performance to stakeholders.

As Steven van Rijswijk had a split year as CRO and then CEO, his award was calculated against the CEO performance results (50%) and the CRO performance results (50%).
In the second half of the year, risk management reported into CFO Tanate Phutrakul ad interim, in addition to his role as CFO. As such, his variable remuneration award was calculated against the CFO performance results for the full year, also taking into consideration the CRO performance results for the second half of the year.

Following the performance hurdles a thorough performance assessment has been completed including ex-ante risk tests. Based on this assessment and the overall achievements, the Supervisory Board has concluded that the Executive Board members delivered relatively strong results despite a challenging year due to Covid-19.

In addition, the Supervisory Board considered if any discretionary adjustment was required and they determined both the financial and non-financial results speak for themselves in the current environment. Furthermore the Supervisory Board considers the behaviour of the Executive Board members and following their assessment no discretionary adjustments were applied.

In the final step, the Supervisory Board reviewed the CRO's assessment of ex-post risk adjustments. Whilst the Global KYC program has made clear progress in 2020 and has delivered on most milestones it was considered a 90% modifier (10% discount) to the CEO portion of his 2020 variable remuneration award would be applied.

Following this performance assessment process the resulting variable remuneration awards for Steven van Rijswijk would have been €158,139 and for Tanate Phutrakul €109,338.

Overall this would have equated to variable remuneration for the CEO at 10.6% of his maximum 20% cap and a 34.1% reduction against target. For the CFO it would represent 9.0% of his maximum 20% cap and a 44.8% reduction against target. The ratio between base salary and total direct compensation is 100% (for 2020).

Awards made to Executive Board members reflect the Supervisory Board's assessment of each of the Executive Board members' performance against the objectives in their scorecards, as outlined in the previous section. The Remuneration Committee also consulted the Risk Committee and took into consideration its feedback on risk and compliance matters. In addition to the modifier as stated above, there was no reasoning to apply any individual risk mitigating measures in accordance with ING's Remuneration Regulations Framework (IRRF).[5]

2020 Executive Board remuneration

Total remuneration

Amounts in euros (rounded figures)	Base salary	Variable remuneration	Total direct compensation	Pension	Emoluments	Total remuneration
Ralph Hamers	888,100	-	888,100	11,600	779,900	1,679,600
Steven van Rijswijk (CEO role)	888,100	-	888,100	11,600	242,000	1,141,700
Tanate Phutrakul	1,221,700	-	1,221,700	23,300	358,500	1,603,500
Steven van Rijswijk (CRO role)	610,800	-	610,800	11,600	169,000	791,400

As recognised in the profit or loss statement of 2020, the expenses for each Executive Board member (active on 31 December 2020), relating to their role on the Executive Board, amount to €2.0 million for the CEO and €1.6 million for the CFO. These amounts include deferred elements from previous years, paid out in 2020.

The following tables (i.e. total direct compensation, pension costs and other emoluments) show the remuneration awarded to individual Executive Board members with respect to the performance years 2020, 2019 and 2018. The 2020 figures reflect a partial year as an Executive Board member for Ralph Hamers. In addition, the figures for Steven van Rijswijk are divided between his two different roles on the Executive Board. The 2019 figures reflect a partial year as an Executive Board member for Tanate Phutrakul. The 2018 and 2019 figures reflect a full year as Executive Board members for Ralph Hamers and Steven van Rijswijk.

All Executive Board remuneration is paid directly by ING with the exception of director's fees for Tanate Phutrakul as non-executive director at ING Belgium.

Total direct compensation for (active) individual Executive Board members

	2020		2019 [4]		2018	
Amounts in euros (rounded figures)	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares
Ralph Hamers (CEO) [1]						
Base salary	888,100		1,750,000		1,750,000	
Variable remuneration (fully in shares) [2]	-	-	266,000	25,726		
Steven van Rijswijk (CEO role) [3]						
Base salary	888,100					
Variable remuneration (fully in shares) [2]	-	-				
Tanate Phutrakul (CFO)						
Base salary	1,221,700		831,100 [5]			
Variable remuneration (fully in shares) [2]	-	-	141,400	13,675		
Steven van Rijswijk (CRO role) [3]						
Base salary	610,800		1,203,600		1,203,600	
Variable remuneration (fully in shares) [2]	-	-	195,000	18,858		
Total aggregated base salary	3,608,700		3,784,700		2,953,600	
Total aggregated variable remuneration	-		602,400			
Total aggregated number of shares		-		58,259		

1 Ralph Hamers stepped down as an Executive Board member on 30 June 2020. His base salary reflects the payments from 1 January 2020 – 30 June 2020.

2 The number of shares is based on the average ING share price on the day the year-end results were published.

3 Steven van Rijswijk was appointed CEO as of 1 July 2020. His total direct compensation is divided between his role as CRO and then as CEO. The annualised base salary for Steven van Rijswijk as of 1 July 2020 is EUR 1,776,250 (this includes the 1.5% salary increase as per 1 January 2020).

4 The variable remuneration percentage for the Executive Board members are as follows: CEO 15%, CFO 15% and CRO 16%. The applicable percentage for the CFO is the full percentage for 2019, partially in his capacity as a Management Board Banking member and since 23 April 2019 in his capacity as an Executive Board member.

5 The 2019 details for Tanate Phutrakul reflect a partial year as an Executive Board member.

5 The IRRF consists of the most important regulatory requirements with respect to remuneration to which all remuneration policies of majority owned entities have to adhere to. Furthermore, it consists of our general remuneration principles that apply to all staff globally working under the responsibility of ING.

Pension costs

Members of the Executive Board participate in the Collective Defined Contribution (CDC) pension plan. In 2020, pension accrual applied to salary up to an amount of € 110,111. The table below shows the pension costs of the individual members of the Executive Board in 2020, 2019 and 2018.

Pension costs for individual Executive Board members			
Amounts in euros (rounded figures) [1]	2020	2019 [4]	2018
Ralph Hamers[2]	11,600	23,000	26,000
Steven van Rijswijk (CEO role) [3]	11,600		
Tanate Phutrakul	23,300	16,000	
Steven van Rijswijk (CRO role) [3]	11,600	23,000	26,000

1 Pension accrual only applies to salary up to an annually set amount (i.e. EUR 105,075 for 2018, EUR 107,593 for 2019 and EUR 110,111 for 2020).
2 Ralph Hamers stepped down as an Executive Board member on 30 June 2020. His pension costs reflect the period from 1 January 2020 – 30 June 2020.
3 Steven van Rijswijk was appointed as CEO from 1 July 2020. Therefore his pension costs for 2020 are divided between his role of CRO and then as CEO.
4 The 2019 emoluments for Tanate Phutrakul reflect a partial year as an Executive Board member.

Benefits

The individual members of the Executive Board receive other emoluments, including savings allowances to compensate for the loss of pension benefits on salary above € 110,111 in 2020, employer contributions to savings schemes, reimbursement of costs related to home/work commute, costs relating to tax and financial planning services, costs related to reimbursement of the Directors & Officers indemnity, costs associated with a company car and for expats, the costs associated with housing and schooling.

The other emoluments in 2020, 2019 and 2018 amounted to the following costs.

Other emoluments			
Amounts in euros (rounded figures)	2020[1]	2019[2]	2018
Ralph Hamers	779,900 [4]	613,000 [5]	561,000
Steven van Rijswijk (CEO role) [3]	242,000	-	–
Tanate Phutrakul	358,500	235,000	-
Steven van Rijswijk (CRO role) [3]	169,000	367,000	369,000

1 The 2020 emoluments reflect the partial year as an Executive Board member for Ralph Hamers.
2 The 2019 emoluments for Tanate Phutrakul reflect a partial year as an Executive Board member.
3 Steven van Rijswijk was appointed as CEO from 1 July 2020. His emoluments are divided between his role as CRO and then as CEO.
4 This amount does not consist of any exit arrangements due to the fact his departure was voluntary and therefore nothing has been agreed or paid, which is fully in line with the 2020 EB remuneration policy.
5 The prior period has been updated to improve consistency and comparability.

Breakdown of other emoluments paid in 2020				
Amounts in euros (rounded figures)	Ralph Hamers [1]	Steven van Rijswijk (CEO role) [2]	Tanate Phutrakul	Steven van Rijswijk (CRO role) [2]
Contribution individual savings	31,100	31,100	42,800	21,400
Individual savings allowance	193,100	192,400	257,200	128,800
Travel and accident insurance	8,200	8,300	16,500	8,200
Other amounts[3]	547,500	10,200	42,000	10,600

1 The 2020 emoluments reflect the partial year as an Executive Board member for Ralph Hamers.
2 Steven van Rijswijk was appointed as the new CEO as of 1 July 2020. The emoluments are divided between his role as CRO and then as CEO.
3 Other amounts includes the following elements: personnel facility (mortgage), tax and financial planning, reimbursement of costs under the Directors & Officers indemnity provided by ING, redemption of the holiday allowance for Ralph Hamers and payment of director's fees for Tanate Phutrakul as non-executive director at ING Belgium.

Long-term incentives awarded in previous years

Long-term incentives to the Executive Board members in previous years are disclosed in the table 'ING shares held by Executive Board members'. In line with the 2020 EB remuneration policy we do not operate (active) long-term incentive plans anymore.

Employee stock options

The table below contains information on outstanding employee stock options and movements during the financial year of employee stock options held by the members of the Executive Board on 31 December 2020. This includes employee stock options awarded prior to their appointment to the Executive Board. Please note that all unexercised options lapsed in 2020 when the applicable stock option plans reached the end of their 10-year lifespan.

Options held by Executive Board members

Number of options	Outstanding on 31 December 2019	Exercised in 2020	Waived or expired in 2020	Outstanding on 31 December 2020	Grant price in euros	Grant date	Vesting date	Expiry date
Ralph Hamers	22,124	0	22,124	0	7.35	17 March 2010	17 March 2013	17 March 2020
Tanate Phutrakul	11,062	0	11,062	0	7.35	17 March 2010	17 March 2013	17 March 2020
Steven van Rijswijk	2,318	0	2,318	0	7.35	17 March 2010	17 March 2013	16 March 2020
Steven van Rijswijk	10,694	0	10,694	0	7.35	17 March 2010	17 March 2013	17 March 2020

Shares

Deferred shares are shares conditionally granted subject to a tiered vesting over a period of five years (for awards in 2020 and before), with the ultimate value of each deferred share based on ING's share price on the vesting date. This is conditional on there being no holdback.
The main condition for exercise is that these require continued employment through vesting date.

Shares vested for Executive Board members during 2020

Number of shares	Shares [3]	Grant date	Vesting date	End date of retention period	No. of shares granted[5]	No. of shares vested	Vesting price in euros	No. of unvested shares remaining [6]
Ralph Hamers[1]	LSPP	11 May 2017	11 May 2020	11 May 2022	23,092	4,619	5.15	-
	LSPP	10 May 2018	11 May 2020	10 May 2023	18,547	2,225	5.15	-
	LSPP	11 May 2020	11 May 2020	11 May 2025	25,726	10,290	5.15	-
Tanate Phutrakul[2]	LSPP Units [4]	25 March 2016	27 March 2020	N/A	7,987	1,065	5.73	-
	LSPP Units [4]	27 March 2017	27 March 2020	N/A	6,032	482	5.73	1,449
	LSPP Units [4]	27 March 2018	27 March 2020	N/A	4,972	397	5.73	1,592
	LSPP	27 March 2019	27 March 2020	27 March 2021	2,837	227	5.73	908
	LSPP[7]	11 May 2020	11 May 2020	11 May 2025	17,694	7,078	5.15	10,616
Steven van Rijswijk[2]	LSPP	27 March 2017	27 March 2020	27 March 2021	13,890	2,315	5.73	-
	LSPP	27 March 2018	27 March 2020	27 March 2021	3,460	346	5.73	1,038
	LSPP	10 May 2018	11 May 2020	10 May 2023	6,584	790	5.15	2,370
	LSPP	11 May 2020	11 May 2020	11 May 2025	18,858	7,543	5.15	11,315

1 All the outstanding deferrals of Ralph Hamers lapsed when he voluntarily stepped down as an Executive Board member.
2 Shares granted to Tanate Phutrakul (March 2016 to March 2019) and Steven van Rijswijk (March 2017 to March 2018) were awarded for their performance in positions prior to their Executive Board appointment.
3 All current Executive Board members participate in the ING Group Long-term Sustainable Performance Plan (LSPP) and receive their shares under its plan rules.
4 Deferred share units of Tanate Phutrakul are cash settled instruments. The value of these are based on ING Group's share price at the vesting date. No retention period applies.
5 Number of shares granted includes both the deferred and upfront part awarded at the granting date.
6 The balance of unvested shares post holdback, where applicable.
7 The number of shares granted is split between the service period Tanate Phutrakul was a Management Board member and Executive Board member.

Total value of vested and unvested shares of Executive Board members - 2020

Amounts in euros (rounded figures)	Vested shares	Unvested shares	Share price in euros[1]	Total value in euros
Ralph Hamers	17,134	–	7.61	130,390
Tanate Phutrakul	9,249	14,565	7.61	181,225
Steven van Rijswijk	10,994	14,723	7.61	195,706

1 The opening share price on 31 December 2020.

Loans and advances to Executive Board members

The table below presents the loans and advances provided to Executive Board members that were outstanding on 31 December 2020, 2019 and 2018. Since Ralph Hamers was no longer an Executive Board member on 31 December 2020, there is no information included for 2020. These loans were provided on market conditions with due observance of the applicable policies within ING.

Loans and advances to individual Executive Board members – 2020

Amount in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments
Steven van Rijswijk	–	–	–
Tanate Phutrakul	–	–	–

Loans and advances to individual Executive Board members – 2019

Amount in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments
Ralph Hamers	2,402	1.4%	97
Tanate Phutrakul	-	-	-
Steven van Rijswijk	-	-	-

Loans and advances to individual Executive Board members – 2018

Amount in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments
Ralph Hamers	2,499	1.4%	-
Steven van Rijswijk	-	-	-

ING shares held by Executive Board members

Executive Board members are encouraged to hold ING shares as a long-term investment to maintain alignment with ING. The table below shows an overview of the shares held by members of the Executive Board on 31 December 2020, 2019 and 2018.

ING shares held by Executive Board members

Numbers of shares	2020	2019	2018
Ralph Hamers [1]	–	93,833	67,392
Steven van Rijswijk	75,490	69,490	66,153
Tanate Phutrakul	13,251	9,200	-

1 Since Ralph Hamers was no longer an Executive Board member on 31 December 2020, there is no information included for 2020.

2021 Executive Board remuneration

The Supervisory Board decided not to increase the base salary of the Executive Board members from 1 January 2021.

The pandemic did not result in any adjustment of the target areas compared to 2020. Therefore, for 2021 the following target areas will be taken into account:

Financial

- Profit before tax
- Return on equity

Non-financial

- Customer (except for CRO)
  - Increase number of primary customers as it leads to deeper relationships, greater customer satisfaction and, ultimately, customers choosing ING for more of their financial needs
  - Increase mobile sales per 1,000 active customers
  - Increase percentage of personal interaction with customers
- People
  - Strengthen organisational health with a focus on four priority areas: direction, leadership, innovation & learning and role clarity
  - Strengthen ING’s leadership cadre
  - Increase gender balance in ING’s leadership cadre
- Strategy
  - Deliver on digitalisation initiatives
  - Deliver on innovation initiatives
- Sustainability
  - Development of integrated climate risk strategy
- Regulatory
  - Deliver commitments to regulators

Remuneration Supervisory Board

Supervisory Board remuneration policy

In line with the Dutch act implementing SRD II, the 2020 SB remuneration policy was presented to shareholders at the 2020 AGM. Based on the result of the binding vote (98.6% in favour), the 2020 AGM adopted the SB remuneration policy with retroactive effect from 1 January 2020 until the 2024 AGM at the latest. The 2020 SB remuneration policy is disclosed in full on ing.com in the section ‘Remuneration’.

The Supervisory Board remuneration levels for 2020, similar to 2019, are shown below:

Supervisory Board remuneration structure	
Annual fees in euros	2020
Chairman Supervisory Board	125,000
Vice chairman Supervisory Board	95,000
Supervisory Board member	70,000
Committee fees (annual amounts)	
Chairman committee	20,000
Member committee	10,000
Attendance fees (per event)	
Attendance fee outside country of residence	2,000
Attendance fee outside continent of residence	7,500

All fees are paid out fully in cash. No variable remuneration is provided to ensure that the Supervisory Board members can maintain independence. The Supervisory Board members are not eligible for retirement benefits nor any other benefits in relation to their position on the Supervisory Board. Members of the Supervisory Board are reimbursed for their travel and ING-related business expenses.

2020 Remuneration Supervisory Board

The table below shows the remuneration, including attendance fees for each Supervisory Board member. All fees for the Supervisory Board are paid directly by ING. The only exception to this is for Eric Boyer de la Giroday who received payments from ING Belgium for his role in the Supervisory Board of ING Belgium.

2020 Remuneration Supervisory Board		2020		2019		2018
Amount in euros (rounded figures)	Remuneration	VAT	Remuneration	VAT	Remuneration	VAT
Hans Wijers (chairman)	173,000	36,000	167,000	35,000	153,000	32,000
Hermann-Josef Lamberti (vice-chairman) [1]	48,000		141,000		139,000	
Mike Rees (vice-chairman) [2]	129,000		73,000			
Jan Peter Balkenende	80,000	17,000	82,000	17,000	82,000	17,000
Juan Colombás [3]	23,000					
Mariana Gheorghe	108,000		119,000		105,000	
Eric Boyer de la Giroday [1]	38,000		108,000		108,000	
Margarete Haase	105,000		98,000		63,000	
Herman Hulst [4]	68,000	14,000				
Harold Naus [4]	68,000	14,000				
Herna Verhagen	100,000	21,000	25,000	5,000		

1 Hermann-Josef Lamberti and Eric Boyer de la Giroday retired after the AGM on 28 April 2020. The remuneration figures for 2020 reflect a partial year as a member of the Supervisory Board.
2 Mike Rees became vice-chairman after the AGM on 28 April 2020.
3 Juan Colombás was appointed to the Supervisory Board by the AGM on 28 April 2020 and became effective on 1 October 2020. The remuneration figures for 2020 reflect a partial year as a member of the Supervisory Board.
4 Herman Hulst and Harold Naus were appointed to the Supervisory Board by the AGM on 28 April 2020 with effect from that date. The remuneration figures for 2020 reflect a partial year as a member of the Supervisory Board.

Compensation of former members of the Supervisory Board not included in the table above amounted to nil in 2020, €176,000 in 2019 and €333,000 in 2018.

Loans and advances to Supervisory Board members

Supervisory Board members may obtain banking and insurance services from ING Group and its subsidiaries in the ordinary course of their business and on terms that are customary in the sector. The Supervisory Board members do not receive privileged financial services. On 31 December 2020, there were no loans and advances outstanding to Supervisory Board members.

ING shares and employee stock options held by Supervisory Board members

Supervisory Board members are permitted to hold ING shares as a long-term investment. The table below shows the holdings by members of the Supervisory Board on 31 December 2020, 2019 and 2018.

ING shares held by Supervisory Board members			
Numbers of shares	2020	2019	2018
Hermann-Josef Lamberti[1]		5,700	5,700
Eric Boyer de la Giroday[1]		47,565	47,565
Margarete Haase		800	800
Herman Hulst	3,650		
Harold Naus	1,645		

1 Since both Hermann-Josef Lamberti and Eric Boyer de la Giroday retired after the 2020 AGM on 28 April 2020, there is no information included for 2020.

The following table contains information on employee stock options outstanding and awards vested for Supervisory Board members.

Employee stock options on ING Groep N.V. shares held by members of the Supervisory Board on 31 December 2020						
Number of stock options	Outstanding on 31 December 2020	Expired in 2020	Outstanding on 31 December 2019	Expired in 2019	Outstanding on 31 December 2018	Expired in 2018
Eric Boyer de la Giroday	-	-	-	-	–	113,479

2021 Remuneration Supervisory Board

The Supervisory Board decided not to change the fees for 2021.

General information for all staff

FOR INFORMATION ONLY AT 2021 ING GROEP N.V. ANNUAL GENERAL MEETING (AGM)

The primary objective of ING’s remuneration principles is to attract, motivate and retain qualified and expert leaders as well as senior staff (including Executive Board members) and other highly qualified staff who have the desired Orange Code values and behaviours, skills and knowledge to deliver on ING’s purpose and Think Forward strategy in a sustainable way.

The remuneration principles are an integral part of ING’s strategy and risk profile. They maintain a sustainable balance between short and long-term value creation and build on ING’s long-term responsibility towards its employees, customers, shareholders and other stakeholders. Our approach to the remuneration principles did not change in 2020.

Our remuneration principles apply to all staff and are embedded in ING’s Remuneration Regulations Framework (IRRF) and our people offer (OPO). Introduced in 2020, OPO sets out ING’s differentiating offer as an employer in the marketplace and states what we ask of our people in return. It gives guidance to our global people practices, while supporting our Think Forward Strategy. The IRRF and OPO comply with relevant international and local legislation and regulations.

Our remuneration principles

Our remuneration principles apply to all employees and comprise the following:

Aligned with business strategy ING’s remuneration principles are aligned with the business strategy and company goals.
Creates long-term value ING’s remuneration principles contribute to long-term value creation and support a focus on the long-term interests of its stakeholders, including employees, customers and shareholders.
Responsible and fair In line with our Orange Code values and behaviours, ING acts responsibly and treats staff fairly across the globe.
Mitigates risk and optimises controls Risk management is an enabler of long-term value creation. ING ensures its remuneration principles are properly correlated with its risk profile and stakeholder interests.
Performance driven ING operates a fair, objective and transparent performance management process linked to remuneration to steer and motivate all employees to deliver on its strategic goals, aiming to reward success and prevent rewarding for failure.
Sustainable ING supports the sustainable recruitment, engagement and retention of all employees.

Performance management

We aim to reward for success and avoid rewarding for failure. That is why ING’s remuneration approach is strongly linked to a robust and transparent performance management process. Outcomes of performance evaluations (including collective and individual risk assessments) provide input for remuneration. As not all employees are eligible for variable remuneration there is not necessarily a link to financial performance. In the Netherlands, for example the vast majority of the employees do not receive any variable remuneration.

Step Up Performance Management is our global performance management approach applicable to the majority of employees. It aims to improve people’s individual performance and thereby team performance and ultimately ING's performance. Step Up Performance Management is one of our people practices that help to increase focus, alignment and transparency. We do this through continuous conversations between managers, employees and teams. To support these conversations, there are three formal moments to discuss performance during the year: target setting, mid-year review and year-end evaluation.

The Step Up Performance Management approach consists of three dimensions:

- **Job:** the impact employees have in their daily work on an individual and team level, based on factors such as qualitative job description, dynamic planning and specific selected quantitative priorities.
- **Orange Code behaviours:** how employees do their work and how effective their behaviour is as a professional and colleague. We expect all employees to act in line with ING's Orange Code.
- **Stretch ambitions:** at ING, we believe high performance requires stretch and investment (to achieve the stretch). Therefore we ask people to set ambitions beyond their day-to-day role and connect their personal passion, expertise or interest with the long-term success of ING.

All targets are agreed between the employee and their manager, as well as within management teams, to ensure consistency across the bank. ING uses three labels to evaluate performance: excellent, well done and improvement required.

Step Up Performance Management does not prescribe the targets employees should set. However, the following regulatory requirements apply to specific groups:

- For employees eligible for variable remuneration, a minimum of 50% non-financial priorities.
- For all employees in control functions (Legal, Risk, Finance, Compliance, Audit and Human Resources), no individual financial KPIs are allowed, unless required by local law.
- For identified risk takers, risk mitigation measures may lead to a downwards adjustment of the performance outcome and negatively affect variable remuneration (a risk modifier can be applied).

Total direct compensation

ING aims to provide total direct compensation or expected business and individual performance at levels which, on average, are at the median of the markets in which we operate, benchmarked against relevant peer groups. In line with the Dutch Banking Code, the current remuneration levels of the Executive Board are below the median of the peer group introduced with the 2020 EB remuneration policy. This year, remuneration levels for members of the Management Board Banking were also benchmarked against the same peer group as the Executive Board. The Executive Board and the other members of the Management Board Banking are on average below the median. Three members of the Management Board Banking are on or slightly above the median. Due to their ING-specific roles it is difficult to have a good comparison inside and outside of the financial industry in the Netherlands as well as abroad. There are limited comparable positions for these roles. To ensure we adhere to our 2020 EB remuneration policy, we regularly monitor and benchmark salary levels across ING.

Fixed remuneration represents a sufficiently high proportion, in line with the level of expertise and skills, and allows a fully flexible variable remuneration award. When no variable remuneration is awarded, the compensation level is still enough for a decent standard of living. Variable remuneration is performance driven, subject to regulatory caps and prevents excessive risk taking, where applicable.

The comprehensive process around variable remuneration

The awarding of variable remuneration, where applicable, is based on group, business line and individual performance criteria unless local legislation prescribes otherwise. In all ING countries, we adhere to the applicable variable remuneration caps.

For Identified Staff (i.e. staff considered to have a material impact on ING's risk profile), at least 40% of variable remuneration is deferred over a period of three to five years with a tiered vesting schedule. Furthermore, at least 50% of variable remuneration is awarded in equity (or equity-linked instruments unless local legislation prescribes otherwise).

Performance and risk assessment

ING applies measures to mitigate risk relating to variable remuneration. Our global remuneration policy takes into consideration risk, capital, liquidity and the likelihood and timing of earnings. Measures include pre-award and post-award risk assessments of variable remuneration.

In 2020, the Management Board Banking and the Supervisory Board approved the Variable Remuneration Accrual Model (VRAM) set-up and approach to determine the 2020 discretionary risk-adjusted variable remuneration pools.

The VRAM takes a holistic view of the overall performance of ING across three key dimensions:

(i) financial,
(ii) non-financial, and
(iii) risk.

Within each of these three elements specific criteria are used to measure performance (e.g. profit, return on equity, customer, people, strategy, sustainability as well as financial and non-financial risk).

The proposal for the variable remuneration pool is prepared by Human Resources, Risk and Finance, and follows the VRAM's step-by-step process and construct including CEO discretion to adjust the proposed variable remuneration pool. The CEO considers several factors when making this decision. This discretion is checked by the Supervisory Board and requires their approval.
The Management Board Banking reviews the variable remuneration pool on behalf of the Supervisory Board, taking into account the advice of the Risk Committee and the Remuneration Committee.

The total variable remuneration pool (for individual and collective variable remuneration), encompasses all employees eligible for variable remuneration globally, including Identified Staff.
ING takes a multi-step approach to determine whether to award variable remuneration in a given performance year and the maximum amount of the pool. Within this process, a range of risk elements is assessed at various levels and, where appropriate, risk adjustments are made to the variable remuneration pools.

Performance hurdles

To unlock the discretionary variable remuneration pools, both of the following performance hurdles must be met. These are:

- The Common Equity Tier 1 (CET1) ratio must be at or above the threshold established by applicable regulations;
- The return on equity (underlying RoE) is equal to or higher than the percentage determined at the beginning of each performance year by the Management Board Banking and the Supervisory Board. Underlying RoE, in line with the VRAM Policy (as established in PY 2019) and approved by governing bodies, can be adjusted due to one-time charges or infrequent occurrences, such as but not limited to macro-economic events and pandemic events, during a given performance year.

A variable remuneration pool is also separately accrued for staff in control functions and support functions and for those employees subject to a collective variable remuneration plan. The amount is defined by the Management Board Banking and approved by the Supervisory Board.

Risk adjustments

In determining the overall size of the variable remuneration pool, a multi-layered, consistent and bank-wide approach for risk tests and adjustments is applied to the process, based on an assessment by the CRO.

To establish appropriate risk-adjusted variable remuneration pools, ex ante risk adjustments are made based on measures used to assess the bank's current and future risks and whether performance sufficiently aligns with risk appetite levels. The risk adjustment assessment includes measurements on 'forward looking' capital, liquidity and non-financial risk, where adjustments are made on deviation from risk appetite.

In addition, ex post risk adjustments are a key element in the process of determining both final variable remuneration pools and individual awards. Here, the CRO may provide additional input at a more granular level to adjust ING's overall, business line and/or country variable remuneration pools based on their risk management performance.

The ex-ante and/or ex-post risk adjustments require Supervisory Board approval, taking into account the input of the Risk and Finance functions and the advice of the Risk Committee and Remuneration Committee.

The final risk adjustment measure lies in the individual performance assessment itself. An employee's performance is extensively assessed before variable remuneration is proposed and awarded. Every manager carefully assesses the performance delivered by their individual team members on the basis of pre-agreed performance priorities and in line with the Step Up Performance Management framework. In addition, managers have the discretionary power to lower the proposed variable remuneration if risk taking is perceived as inappropriate. In this way, variable remuneration is aligned with any additional risks identified on an individual basis during the performance year.

Additional risk requirements apply to Identified Staff who are considered risk takers in accordance with CRD IV. These risk requirements set the minimum standards to be met during the performance year. Deviation from these standards may lead to downward adjustment of the variable remuneration, a so-called risk modifier. This process is run independently by the Risk function for which the CRO is ultimately responsible. Within the Executive Board, risk modifiers were applied to the CEO for the performance year 2020. The Supervisory Board, advised by its Risk Committee, is responsible for risk modifiers within the Management Board Banking.

Finally, a post-award risk assessment can be applied. This assessment analyses whether any events or findings occurred that should lead to a downward adjustment of variable remuneration of previous years by applying a holdback (i.e., forfeiture of up to 100% of the awarded, but unvested, variable remuneration) or clawback (surrender of up to 100% of the paid or vested variable remuneration).

Shareholders' mandate to exceed 100% variable remuneration cap

ING's remuneration policies comply with international and local legislation and regulations. Under the Dutch WBFO (which sets various requirements on remuneration), financial institutions are permitted to set a variable remuneration cap higher than 100% (but not higher than 200%) of fixed remuneration for employees outside of the European Economic Area (EEA), provided that the higher cap is approved by shareholders and does not conflict with ING's capital adequacy requirements.

At the 2017 AGM, shareholders approved to apply an increased maximum percentage of up to 200% for employees outside the EEA for a period of five performance years until end-2021. For 2020, it was applied to zero employees worldwide. At the 2021 AGM, we will ask for a new mandate to apply an increased maximum percentage of up to 200% for employees outside the EEA for a further period of five performance years, from 2022 until 2026. This mandate is rarely used by ING and was applied to zero employees worldwide in 2018 and 2019.

2020 specifics

ING awards variable remuneration across the global organisation in line with our remuneration principles, global and local legislation and market practices. The awarding of variable remuneration, where applicable, is based on group, business line and individual performance criteria, both financial and non-financial, and comes in the form of discretionary and collective variable remuneration.

Collective variable remuneration is based on collective labour agreements and/or profit sharing schemes that are driven by regulation, law and/or workers council agreements in various countries. Over the past years the total amount of collective variable remuneration has been relatively stable and typically accounted for around 25% of the total amount of variable remuneration.

The award of discretionary variable remuneration is based on a clear, transparent and verifiable mechanism for measuring performance and applying adjustments for risks (the Variable Remuneration Accrual Model or VRAM). The starting point is an aggregate of the individual target incentive amounts from all eligible employees across the group. The next step is to unlock the discretionary pool based on the results of the performance hurdles. First, the underlying RoE was calculated and this performance hurdle passed. The underlying RoE, in line with the VRAM Policy and approved by governing bodies, has been adjusted for macro-economic and pandemic events during performance year 2020. The CET1 performance hurdle was also calculated and passed. Subsequent to the results of these performance hurdles the discretionary pool was unlocked. This 'discretionary pool' is then subject to a number of adjustments including for financial and non-financial performance and for risk.

In 2020 the impact of COVID-19 presented unprecedented challenges for ING. While considerations around staff well-being and the wider societal impact of the pandemic are paramount, these circumstances have led to weaker performance results and this led to a negative adjustment to the discretionary pool. Furthermore, in line with our policy, executive discretion was applied to further adjust the pool amount downwards in light of declining financial performance and recognising broader stakeholder interests. Overall, these adjustments accounted for a downward adjustment of the discretionary pool amount by approximately 26% from target discretionary pool and resulting in approximately 20% decline versus the previous performance year. A differentiated approach was taken in the allocation of the discretionary variable remuneration, with a significantly larger reduction for senior leaders than for junior employees (on average 30% reduction for senior leaders).

The total actual amount of both discretionary and collective variable remuneration awarded to all eligible employees globally for 2020 was €314.2 million (€93.6 million in collective variable remuneration), compared to total staff expenses of €5,812 million. For 2019, the total amount was €378.0 million (€98.0 million in collective variable remuneration) on €5,755 million staff expenses and €303.1 million (€93.9 million in collective variable remuneration) out of €5,420 million in 2018.

In 2020, two employees – excluding members of the Management Board Banking – were awarded total annual remuneration (including employer pension contributions and excluding severance payments made) of €1 million or more.

C. Board practices

For information regarding board practices, see Item 6.A

Severance payments to members of the Executive Board

The contracts entered into with the members of the Executive Board provide for severance payments that become due upon termination of the applicable Executive Board member's contract, including if termination occurs in connection with a public bid as defined in section 5:70 of the Dutch Financial Supervision Act. For purposes of calculating the amounts due, it is not relevant whether or not termination of the employment or commission contract is related to a public bid. Severance payments to the members of the Executive Board are limited to a maximum of one year's fixed salary, in line with the Dutch Financial Supervision Act and the Corporate Governance Code

D. Employees

The average number of employees at a full time equivalent basis was 55,901 at the end of 2020, of which 15,201 or 27%, were employed in the Netherlands. Substantially all of the Group's Dutch employees are subject to a collective labor agreement covering ING in the Netherlands.

The distribution of employees with respect to the Group's continuing operations for the years 2020, 2019 and 2018 were as follows:

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

The Group employs a significant numbers of temporary employees. The average number of temporary employees, not included in the table above, at a full time equivalent basis was 7,886 at the end of 2020.

E. Share ownership

For information regarding share ownership, see Item 6.B of this Form 20-F and Note 27 'Staff expenses' to the consolidated financial statements.

Item 7. Major shareholders and related party transactions

A. Major shareholders

ING Group ordinary shares are listed on the stock exchanges of Amsterdam (Euronext Amsterdam) and Brussels (Euronext Brussels). ING Group American Depositary Shares ("ADSs") are listed on the New York Stock Exchange (NYSE). Options on ING Group ordinary shares or in the form of American depository receipts (ADRs) are traded on the Euronext Amsterdam Derivative Markets and the Chicago Board Options Exchange.

Holders of ordinary shares or American Depositary Shares with a stake of 3% or more

To the best of our knowledge, as of 31 December 2020, no holder of ordinary shares or ADSs, other than BlackRock Inc. held 3% or more of ING Group's issued share capital.

On 4 February 2019, BlackRock, Inc. disclosed by way of a Schedule 13G filed with the SEC, beneficial ownership of 233,492,874 ordinary shares of ING Group as of 31 December 2018, representing 6.0% of ING Group's issued share capital. On 5 February 2020, BlackRock, Inc. disclosed by way of a Schedule 13G filed with the SEC, beneficial ownership of 259,231,767 ordinary shares of ING Group as of 31 December 2019, representing 6.7% of ING Group's issued share capital. On 29 January 2021, BlackRock, Inc. disclosed by way of a Schedule 13G filed with the SEC, beneficial ownership of 289,185,500 ordinary shares of ING Group as of 31 December 2020, representing 7.4% of ING Group's issued share capital.

On 31 December 2020, ING Groep N.V. and its subsidiaries held 571,671 ordinary shares or ADSs, ,representing 0.01% of ING Group's issued share capital. ING Groep N.V. does not have voting rights in respect of shares and ADSs it holds or which are held by its subsidiaries. Pursuant to section 5.3 of the Dutch Financial Supervision Act ("Major Holdings Rules"), any person who, directly or indirectly, acquires or disposes of an interest in the voting rights and/or the capital of (in short) a public limited company incorporated under the laws of the Netherlands with an official listing on a stock exchange within the European Economic Area, as a result of which acquisition or disposal the percentage of his voting rights or capital interest - whether through ownership of shares, American depositary receipts (ADRs) or any other financial instrument, whether stock-settled or cash-settled, such as call or put options, warrants, swaps or any other similar contract - reaches, exceeds or falls below the threshold levels of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95% is required to provide updated information on its holdings. As a result, other than based on information available from public filings available under the applicable laws of any other jurisdiction, ING Groep N.V. is not aware of any changes in the ownership of ordinary shares or ADSs between the thresholds levels mentioned in the previous sentence.

On 31 December 2020, no person is known to ING Groep N.V. to be the owner of more than 10% of the ordinary shares or ADSs. As of 31 December 2020, members of the Supervisory Board and their related third parties held 5,295 Ordinary Shares. Members of the Supervisory Board do not hold ING options.

As at 31 December 2020, members of the Executive Board and their related third parties held 88,741 ordinary shares.

As at 31 December 2020 ING Groep N.V. was not a party to any material agreement that becomes effective, or is required to be amended or terminated in case of a change of control of ING Groep N.V. following a public bid as defined in the Dutch Financial Supervision Act. ING Groep N.V.'s subsidiaries may have customary change of control arrangements included in agreements related to various business activities, such as joint venture agreements, letters of credit and other credit facilities, ISDA-agreements, hybrid capital and debt instruments, reinsurance contracts and futures and option trading agreements. Following a change of control of ING Groep N.V. (as the result of a public bid or otherwise), such agreements may be amended or terminated, leading, for example, to an obligatory transfer of the interest in the joint venture, early repayment of amounts due, loss of credit facilities or reinsurance cover and liquidation of outstanding futures and option trading positions.
As of 31 December 2020 ING Groep N.V. was not aware of any arrangements the operation of which may result in a change of control of ING Groep N.V.

B. Related Party Transactions

In the normal course of business, ING Group 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 Group include, among others, its subsidiaries, associates, joint ventures, key management personnel, and various defined benefit and contribution plans. Transactions between related parties include rendering or receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

ING Group has entered into various transactions with related parties. For more information, reference is made to Note 49 "Related parties" in the consolidated financial statements.

As described under "Item 6. Directors, Senior Management and Employees", some members of the Supervisory Board are current or former senior executives of leading multi-national corporations based primarily in the Netherlands. ING Group may at any time have lending, investment banking or other financial relationships with one or more of these corporations in the ordinary course of business on terms which we believe are no less favorable to ING than those reached with unaffiliated parties of comparable creditworthiness.

C. Interests of experts and counsel

This item does not apply to annual reports on Form 20-F.

Item 8. Financial information

A. Consolidated statements and other financial information

Consolidated statements

For information regarding consolidated statements and other financial information, see Item 18 of this Form 20-F.

Legal Proceedings

For a description of ING's legal proceedings, see Note 45 'Legal proceedings' in the consolidated financial statements.

Policy on dividend distribution

In the third quarter of 2020, ING announced a change in its distribution policy from a progressive dividend to a pay-out ratio of 50% of resilient net profit and additional return of structural excess capital. For detailed information on ING's 2020 dividend, reference is made to Note 51 'Capital Management'.

Cash distributions on ING Groups ordinary shares are generally paid in Euros. However, the Executive Board may decide, with the approval of the Supervisory Board, to declare dividends in the currency of a country other than the Netherlands in which the shares are traded. Amounts payable to holders of ADSs that are paid to the Depositary in a currency other than dollars will be converted to dollars and subjected to a charge by the Depositary for any expenses incurred by it in such conversion.

If the Executive Board has been designated as a body authorised to resolve to issue shares, it may decide, with the approval of the Supervisory Board, that a distribution on ordinary shares shall be made in the form of ordinary shares instead of cash or to determine that the holders of ordinary shares shall be given the choice of receiving the distribution in cash or in the form of ordinary shares on such terms as the Executive Board, with the approval of the Supervisory Board, may decide.

The right to dividends and distributions in respect of the ordinary shares will lapse if such dividends or distributions are not claimed within five years following the day after the date on which they were made available.

There are no legislative or other legal provisions currently in force in the Netherlands or arising under ING Groups' Articles of Association restricting the remittance of dividends to holders of ordinary shares, or ADSs not resident in the Netherlands. Insofar as the laws of the Netherlands are concerned, cash dividends paid in Euro may be transferred from the Netherlands and converted into any other currency, except that for statistical purposes such payments and transactions must be reported by ING Group to DNB and, further, no payments, including dividend payments, may be made to jurisdictions or persons, that are subject to certain sanctions, adopted by the Government of the Netherlands, implementing resolutions of the Security Council of the United Nations, or adopted by the European Union.

Dividends are subject to withholding taxes in the Netherlands as described under Item 10, "Additional Information - Taxation - Netherlands Taxation".

B. Significant changes

For information on subsequent events reference is made to Note 50 'Subsequent events' of the consolidated financial statements.

Since 31 December 2020, until the filing of this report, no other significant changes have occurred in the financial statements of the Group included in "Item 18 Consolidated Financial Statements" of this document.

Item 9. The offer and listing

A. Offer and listing details

Ordinary Shares (nominal value EUR 0.01 per share) are traded on Euronext Amsterdam, the principal trading market for the Ordinary Shares, under the symbol “INGA”. The Ordinary Shares are also listed on the stock exchange of Euronext Brussels, under the symbol “INGA”. ADSs, representing an equal number of Ordinary Shares, are traded on the New York Stock Exchange under the symbol “ING”.

B. Plan of distribution

This item does not apply to annual reports on Form 20-F.

C. Markets

For information regarding markets, see Item 9.A of this Form 20-F.

D. Selling shareholders

This item does not apply to annual reports on Form 20-F.

E. Dilution

This item does not apply to annual reports on Form 20-F.

F. Expenses of the issue

This item does not apply to annual reports on Form 20-F.

Item 10. Additional information

A. Share capital

This item does not apply to annual reports on Form 20-F.

B. Memorandum and articles of association

For a description of ING's memorandum and articles of association, please see Exhibit 2.1 "Description of Securities Registered under Section 12 of the Exchange Act", which is incorporated by reference herein.

C. Material contracts

There have been no material contracts outside the ordinary course of business to which ING Groep N.V. or any of its subsidiaries is a party in the last two years.

D. Exchange controls

Cash distributions, if any, payable in Euros on Ordinary Shares and ADSs may be officially transferred from the Netherlands and converted into any other currency without violating Dutch law, except that for statistical purposes such payments and transactions must be reported by ING Groep N.V. to the Dutch Central Bank and, further, no payments, including dividend payments, may be made to jurisdictions or persons subject to certain sanctions, adopted by the government of the Netherlands or the European Union.

E. Taxation

The following is a summary of certain Netherlands tax consequences, and the United States federal income tax consequences, of the ownership of our Ordinary Shares or American Depositary Shares ("ADSs") by U.S. Shareholders (as defined below) who hold Ordinary Shares or ADSs as capital assets.

For the purposes of this summary, a "U.S. Shareholder" is a beneficial owner of Ordinary Shares or ADSs that is:

- an individual citizen or resident of the United States,
- a corporation organized under the laws of the United States or of any state of the United States, or any entity taxable as United States corporation,
- an estate, the income of which is subject to United States federal income tax without regard to its source, or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust.

Further, this summary is limited to U.S. Shareholders who are not, and are not deemed to be, a resident of the Netherlands for Dutch tax purposes.

This summary is based on the United States Internal Revenue Code of 1986 and the laws of the Netherlands, each as amended, their legislative history, existing and proposed regulations, published rulings and court decisions, and the tax treaty between the United States and the Netherlands for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income ("Treaty"), all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. The information provided below is neither intended as tax advice nor purports to describe all of the tax considerations that may be relevant to investors and prospective investors. It should not be read as extending to matters not specifically discussed, and investors should consult their own advisors as to the tax consequences of their ownership and disposal of Ordinary Shares or ADSs. In particular, the summary does not take into account the specific circumstances of particular investors (such as tax-exempt organizations, banks, insurance companies, dealers in securities, traders in securities that elect to mark-to-market their securities holdings, investors liable for alternative minimum tax, investors whose functional currency is not the U.S. dollar, investors that actually or constructively own 10% or more of the combined voting power of the voting stock or of the total value of ING Groep N.V., investors that hold Ordinary Shares or ADSs as part of a straddle or a hedging or conversion transaction, investors that acquired or dispose of Ordinary Shares or ADSs as part of a wash sale, or investors that own Ordinary Shares or ADSs through a partnership), some of which may be subject to special rules.

Moreover, this summary does not discuss the Dutch tax treatment of a holder of Ordinary Shares or ADSs that is an individual who receives income or capital gains derived from the Ordinary Shares and ADSs and this income received or capital gains derived are attributable to the past, present or future employment activities of such holder.

The summary is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms. In general, for United States federal income tax and Netherlands tax purposes, holders of ADSs will be treated as the owners of the Ordinary Shares underlying the ADSs, and exchanges of Ordinary Shares for ADSs, and exchanges of ADSs for Ordinary Shares, will not be subject to United States federal income tax or Netherlands income tax. References to Ordinary Shares in this section include references to ADSs.

It is assumed, for purposes of this summary, that a U.S. Shareholder is eligible for the benefits of the Treaty and that a U.S. Shareholder's eligibility is not limited by the limitation on benefits provisions of the Treaty.

Netherlands Taxation

Withholding tax on dividends

The Netherlands imposes a withholding tax on a distribution of a dividend at the statutory rate of 15%. Dividends include:

i. dividends paid in cash and in kind;
ii. deemed and constructive dividends;
iii. the consideration for the repurchase or redemption of shares in excess of the qualifying average paid-in capital unless such repurchase is made for temporary investment purposes or is exempt by law;
iv. any (partial) repayment of paid-in capital not qualifying as capital for Dutch dividend withholding tax purposes;
v. liquidation proceeds in excess of the qualifying average paid-in capital for Dutch dividend withholding tax purposes; and
vi. stock dividends up to their nominal value (unless distributed out of ING Groep N.V.'s qualifying paid-in capital).

Reduction of Dutch dividend withholding tax based on Dutch law

Under certain circumstances, a reduction of Dutch dividend withholding tax can be obtained based on Dutch law:

i. An exemption at source is available if the Dutch participation exemption applies and the Ordinary Shares or ADSs are attributable to a business carried out in the Netherlands. To qualify for the Dutch participation exemption, the U.S. Shareholder must generally hold at least 5.0 percent of our nominal paid-in capital and meet certain other requirements.
ii. An exemption at source is available for dividend distributions to certain qualifying corporate U.S. Shareholders owning our Ordinary Shares or ADSs if such shareholder would have been able to apply the Dutch participation exemption if it would have been resident of the Netherlands, unless such shareholder holds the Ordinary Shares or ADSs with the primary aim or one of the primary aims to avoid the levy of Dutch dividend withholding tax at the level of another person and the Ordinary Shares or ADSs are not held for valid commercial reasons that reflect economic reality.
iii. Certain tax exempt organizations (e.g. pension funds and excluding collective investment vehicles) may be eligible for a refund of Dutch dividend withholding tax upon their request. Based on domestic law not yet entered into force, in those circumstances, an exemption at source may also become available upon request.
iv. Upon request and under certain conditions, certain qualifying individual and corporate U.S Shareholders of Ordinary Shares or ADSs which are not subject to personal or corporate income tax in the Netherlands may request a refund of Dutch dividend withholding tax insofar the withholding tax withheld on the gross dividend is higher than the personal or corporate income tax which would have been due on the net dividend if they were resident or established in the Netherlands. This refund is however not applicable when, based on the Treaty, the Dutch dividend withholding tax can be fully credited in the United States by the U.S. Shareholder. However, it is unclear whether (i) which (financing) costs can be taken into account when determining the hypothetical personal or corporate income tax due on the net income (ii) or how the Netherlands would determine whether, based on the double taxation convention, a full credit is available in the country of residence of the holder for purposes of this refund. See "United States Taxation—Taxes on dividends" for more information. The provision in essence is intended to be a codification of certain judgments by both the European Free Trade Association Court of Justice and the European Court of Justice that already indicated that in certain circumstances a refund should be available prior to the introduction of the provision in Dutch law. It is possible that this provision is an insufficient codification of these judgments and that based on EU law a larger refund should be provided.

Reduction of Dutch dividend withholding tax based on the Treaty

Pursuant to the provisions of the Treaty, certain corporate U.S. Shareholders owning directly at least 10% of our voting power are eligible for a reduction to 5% Dutch dividend withholding tax provided that the U.S. Shareholder is the beneficial owner of the dividends received and does not have an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or permanent representative in the Netherlands to which the dividends are attributable. The Treaty also provides for a dividend withholding tax exemption on dividends, but only for a shareholder owning directly at least 80.0 percent of our voting power and meeting all other requirements.

Provided that certain conditions are met, under the Treaty dividends paid to qualifying exempt pension trusts and other qualifying exempt organizations, as defined in the Treaty, are exempt from Dutch dividend withholding tax. To obtain a refund of the tax withheld such qualifying exempt pension trusts are required to file a request. Only if certain conditions are fulfilled, such qualifying exempt pension trusts may be eligible for relief at source upon payment of the dividend. Qualifying exempt organizations (other than qualifying exempt pension trusts) can only file for a refund of the tax withheld.

Anti-dividend stripping rules

Pursuant to the Dutch anti-dividend stripping rules, in the case of dividend-stripping, the 15% dividend withholding tax cannot be reduced or refunded. Dividend-stripping is deemed to be present if the recipient of a dividend is, different from what has been assumed above, not the beneficial owner thereof and is entitled to a larger credit, reduction or refund of dividend withholding tax than the beneficial owner of the dividends. Under these rules, a recipient of dividends will not be considered the beneficial owner thereof if as a consequence of a combination of transactions a person other than the recipient wholly or partly benefits from the dividends, whereby such person retains, whether directly or indirectly, an interest similar to the shares on which the dividends were paid.

Credit for ING Groep N.V.

ING Groep N.V. may, with respect to certain dividends received from qualifying non-Netherlands subsidiaries, credit taxes withheld from those dividends against the Netherlands withholding tax imposed on certain qualifying dividends that are redistributed by ING Groep N.V., up to a maximum of the lesser of:

3% of the amount of qualifying dividends redistributed by ING Groep N.V.; and

3% of the gross amount of certain qualifying dividends received by ING Groep N.V.

The reduction is applied to the Dutch dividend withholding tax that ING Groep N.V. must pay to the Dutch tax authorities and not to the Dutch dividend withholding tax that ING Groep N.V. must withhold.

Taxes on income and capital gains

Income and capital gains

Income and capital gains derived from the Ordinary Shares or ADSs by an individual or corporate U.S. Shareholder are generally not subject to Netherlands income tax or corporation tax, unless:

i. such income and gains are attributable to a (deemed) permanent establishment or (deemed) permanent representative in the Netherlands of the U.S. Shareholder; or
ii. the shareholder is entitled to a share in the profits of an enterprise or (in case of a non-Dutch resident corporate shareholder only) a co-entitlement to the net worth of an enterprise, that is effectively managed in the Netherlands (other than by way of securities) and to which enterprise the Ordinary Shares or ADSs are attributable; or
iii. such income and capital gains are derived from a direct, indirect or deemed substantial interest in the share capital of ING Groep N.V. (such substantial interest not being a business asset), and in the case of a non-Dutch resident corporate shareholder only, that substantial interest is being held with the primary aim or one of the primary aims to avoid the levy of income tax from another person and is put in place without valid economic reasons that reflect economic reality;
iv. in case of a non-Dutch resident corporate shareholder, such shareholder is a resident of Aruba, Curacao or Saint Martin with a permanent establishment or permanent representative in Bonaire, Eustatius or Saba to which the Ordinary Shares or ADS are attributable, while the profits of such shareholder are taxable in the Netherlands pursuant to Article 17(3)(c) of the Dutch Corporate Tax Act 1969; or
v. in case of a non-Dutch resident individual, such individual derives income or capital gains from the Ordinary Shares or ADSs that are taxable as benefits from ‘miscellaneous activities’ in the Netherlands (‘resultaat uit overige werkzaamheden’, as defined in the Dutch Income Tax Act 2001), which includes the performance of activities with respect to the Ordinary Shares or ADSs that exceed regular portfolio management.

Substantial interest

Generally speaking, for Dutch tax purposes, an interest in the share capital of ING Groep N.V., should not be considered a substantial interest if the holder of such interest, and, in case of an individual, his or her spouse, registered partner, certain other relatives or certain persons sharing the holder's household, alone or together, does or do not hold, either directly or indirectly, the ownership of, or certain rights over, shares or rights resembling shares representing 5% or more of the total issued and outstanding capital, or the issued and outstanding capital of any class of shares, of ING Groep N.V.

Gift or inheritance tax

No Netherlands gift or inheritance tax will be imposed on the transfer or deemed transfer of the Ordinary Shares or ADSs by way of a gift by or on the death of a U.S. Shareholder if, at the time of the gift or the death of that shareholder, such shareholder is not a (deemed) resident of the Netherlands.

Netherlands inheritance or gift taxes (as the case may be) are due, however, if the transfer of the bearer receipts or ADSs are construed as an inheritance or as a gift made by or on behalf of a person who, at the time of the gift or death, is deemed to be a resident of the Netherlands. For the purposes of Netherlands gift or inheritance tax, an individual of Dutch nationality is deemed to be a resident of the Netherlands if he or she has been a resident thereof at any time during the ten years preceding the time of the gift or death. For the purposes of Netherlands gift tax, any person is deemed to be a resident of the Netherlands if he or she has resided therein at any time in the twelve months preceding the gift.

United States Taxation

Taxes on dividends

The tax treatment of owning Ordinary shares will depend in part on whether or not ING Groep N.V. is classified as a passive foreign investment company, or PFIC, for United States federal income tax purposes. Except as discussed below under "-PFIC Rules", this discussion assumes that we are not classified as a PFIC for United States federal income tax purposes.

Under the United States federal income tax laws, a U.S. Shareholder will be required to include in gross income the full amount of a cash dividend (including any Netherlands withholding tax withheld) as ordinary income when the dividend is actually or constructively received by the U.S. Shareholder. For this purpose, a "dividend" will include any distribution paid by ING Groep N.V. with respect to the Ordinary Shares, but only to the extent such distribution is not in excess of ING Groep N.V.'s current and accumulated earnings and profits as determined for United States federal income tax purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of a U.S. Shareholder's basis in the Ordinary Shares and thereafter as capital gain. Because ING Groep N.V. does not keep account of its earnings and profits, as determined for United States federal income tax purposes, U.S. Shareholders should generally expect to treat any distribution as a dividend for U.S. federal income tax purposes.

For foreign tax credit purposes, dividends will generally be income from sources outside the United States and will, depending on the circumstances of the U.S. Shareholder, generally be "passive" income for purposes of computing the foreign tax credit allowable to the shareholder. A dividend will not be eligible for the dividends received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. Dividends paid to a non-corporate U.S. Shareholder that are considered qualified dividend income will be taxable to the shareholder at preferential rates applicable to long-term capital gains provided that the shareholder holds the Ordinary Shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meets other holding period requirements. Dividends paid by ING Groep N.V. with respect to the Ordinary Shares generally will be qualified dividend income, provided that, in the year that you receive the dividend, we are eligible for the benefits of the Treaty. We believe that we are currently eligible for the benefits of the Treaty and we therefore expect that dividends on the Ordinary Shares will be qualified dividend income, but there can be no assurance that we will continue to be eligible for the benefits of the Treaty.

Subject to certain limitations, a U.S. Shareholder may generally deduct from income, or credit against its United States federal income tax liability, the amount of any Netherlands withholding taxes under the Treaty. The Netherlands withholding tax will likely not be creditable against the U.S. Shareholder's United States tax liability, however, to the extent that ING Groep N.V. is allowed to reduce the amount of dividend withholding tax paid over to the Netherlands Tax Administration by crediting withholding tax imposed on certain dividends paid to ING Groep N.V. In addition, special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to preferential rates. To the extent a reduction or refund of the tax withheld is available to you under Dutch law or under the Treaty, the amount of tax withheld that could have been reduced or is refundable will not be eligible for credit against your United States federal income tax liability. In addition, to the extent an amount of Dutch tax withheld is contingent on the availability of a credit against the amount of income tax owed to another country, that amount of Dutch tax withheld will not be eligible for a credit against your United States federal income tax liability. It is unclear whether or how the Netherlands would apply this rule in determining whether, based on the Treaty, a credit is available in the United States for purposes of the dividend withholding tax refund provision described in Section IV under “Netherlands Taxation—Withholding tax on dividends—Reduction of Dutch dividend withholding tax based on Dutch law”.

Since payments of dividends with respect to Ordinary Shares will be made in Euros, a U.S. Shareholder will generally be required to determine the amount of dividend income by translating the Euro into United States dollars at the “spot rate” on the date the dividend distribution is includable in the income of the U.S. Shareholder. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend distribution is includable in the income of the U.S. Shareholder to the date such payment is converted into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. Such gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Taxes on capital gains

Gain or loss on a sale or exchange of Ordinary Shares by a U.S. Shareholder will generally be a capital gain or loss for United States federal income tax purposes. If such U.S. Shareholder has held the Ordinary Shares for more than one year, such gain or loss will generally be long-term capital gain or loss. Long-term capital gain of a non-corporate U.S. Shareholder is generally taxed at preferential rates. In general, gain or loss from a sale or exchange of Ordinary Shares by a U.S. Shareholder will be treated as income or loss from sources within the United States for foreign tax credit limitation purposes.

PFIC rules

ING Groep N.V. believes it is not a PFIC for United States federal income tax purposes, and it does not expect to become a PFIC in the foreseeable future. However, this conclusion is a factual determination that must be made annually and thus may be subject to change. It is therefore possible that we could become a PFIC in a future taxable year

If ING Groep N.V. were to be treated as a PFIC, unless a U.S. Shareholder made an effective election to be taxed annually on a mark-to-market basis with respect to the Ordinary Shares, any gain from the sale or disposition of Ordinary Shares by a U.S. Shareholder would be allocated ratably to each year in the holder’s holding period and would be treated as ordinary income. Tax would be imposed on the amount allocated to each year prior to the year of disposition at the highest rate in effect for that year, and interest would be charged at the rate applicable to underpayments on the tax payable in respect of the amount so allocated. The same rules would apply to “excess distributions”, defined generally as distributions in a single taxable year exceeding 125% of the average annual distribution made by ING Groep N.V. over the shorter of the three preceding taxable years or the portion of the holder’s holding period that preceded the current taxable year. Dividends received by a U.S. Shareholder will not be eligible for the special tax rates applicable to qualified dividend income if ING Groep N.V. were to be treated as a PFIC with respect to the shareholder either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

A U.S. Shareholder who owns Ordinary Shares during any year that ING Groep N.V. is a PFIC may be required to file Internal Revenue Service Form 8621.

F. Dividends and paying agents

This item does not apply to annual reports on Form 20-F.

G. Statement by experts

This item does not apply to annual reports on Form 20-F.

H. Documents on display

ING Groep N.V. is subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, ING Groep N.V. files reports and other information with the Securities and Exchange Commission (”SEC”). These materials, including this Annual Report and its exhibits, may be inspected and copied on the SEC’s website at www.sec.gov. You may also inspect ING Groep N.V.’s SEC reports and other information on the website of ING Groep N.V. (www.ing.com).

I. Subsidiary information

This item does not apply to annual reports on Form 20-F.

Item 11. Quantitative and Qualitative Disclosure of Market Risk

See “Item 5. Operating and Financial Review and Prospects – Factors Affecting Results of Operations” and “Additional information - ING Group Risk Management” for these disclosures, including disclosures relating to operational, compliance and other non-market-related risks.

Item 12. Description of Securities Other Than Equity Securities

A. Debt securities

This item does not apply to annual reports on Form 20-F.

B. Warrants and rights

This item does not apply to annual reports on Form 20-F.

C. Other securities

This item does not apply to annual reports on Form 20-F.

D. American depositary shares

Fees and Charges Payable by a Holder of ADSs

JPMorgan Chase Bank, N.A., as ADR depositary, may collect fees for, among other things, the delivery and surrender of ADSs directly from investors, or from intermediaries acting for them, depositing Ordinary Shares or surrendering ADSs for the purpose of withdrawal.

The charges of the ADR depositary payable which may be payable by investors are as follows:

Type of Service	ADR Depositary Actions	Fee Payable
Depositing or substituting the underlying Ordinary Shares	Issuance of ADSs against the deposit of Ordinary Shares, including deposits and issuances in respect of: · share distributions, rights and other distributions. · a stock dividend or stock split. · a merger, exchange of securities or other transactions or events affecting the ADSs or the underlying Ordinary Shares.	$5.00 for each 100 ADSs (or portion thereof) issued, delivered or upon which a share distributive or elective distribution is made or offered. The ADR depositary may sell sufficient securities or property received in respect of share distributions, rights and other distributions prior to such deposit to pay such charge.
Receiving or distributing cash dividends	Distribution of cash dividends or other cash distributions, or offering of elective cash/stock dividends.	$0.05 or less per ADS held.
Selling or exercising rights	· additional ADRs resulting from a dividend or free distribution consisting of Ordinary Shares, or U.S dollars resulting from sales of Ordinary Shares received in a distribution. · Instruments representing rights to acquire additional ADRs as a result of distribution on Ordinary Shares, or U.S dollars resulting from sales of such rights. · other securities available to the ADR depositary resulting from any distribution on the deposited Ordinary Shares, or U.S dollars resulting from sales of such other securities.	An amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities.
Withdrawing an underlying Ordinary Share	Acceptance of ADSs surrendered for withdrawal of deposited Ordinary Shares	$5.00 for each 100 ADSs (or portion thereof) reduced, cancelled or surrendered.

Type of Service	ADR Depositary Actions	Fee Payable
Transferring, splitting or grouping of ADRs	Registration, registration of transfer, combination and split-up of ADRs in the ADR register as evidenced by the ADRs surrendered or upon delivery of proper instruments of transfer	$1.50 per ADR.
General depositary services, particularly those charged on an annual basis	Other services performed by the ADR depositary in administering the ADR program	$0.05 per ADS per calendar year (or portion thereof), which may be charged on a periodic basis during each calendar year against holders of the record date(s) set by the ADR depositary and shall be payable at the sole discretion of the ADR depositary by billing such holders or deducting such charge from one or more cash distributions.
Reimbursement of fees, charges and expenses of the ADR depositary	The ADR depositary and/or any of its agents may incur fees, charges and expenses (including expenses incurred on behalf of holders of ADRs in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the underlying Ordinary Shares or other deposited securities, the sale of securities (including, without limitation, deposited securities), the delivery of deposited securities or otherwise in connection with the ADR depositary's compliance with applicable law, rule or regulation.	Fees and charges shall be assessed on a proportionate basis against holders of ADRs as of the record date or dates set by the ADR depositary and shall be payable at the sole discretion of the ADR depositary by billing such holders of ADRs or by deducting such charge from one or more cash dividends or other cash distributions.
Type of Service	**ADR Depositary Actions**	**Fee Payable**
Other charges and expenses of the ADR depositary	The ADR depositary may incur charges and expenses on behalf of holders in connection with: · stock transfer or other taxes and other governmental charges. · SWIFT, cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing, or holders of ADRs delivering underlying Ordinary Shares, ADRs or deposited securities. · transfer or registration fees for the registration or transfer of deposited securities. · fees, expenses and other charges of the ADR depositary or its agent in connection with the conversion of foreign currency into U.S. dollars.	Payable by holders or persons depositing Ordinary Shares. Payable by persons depositing, or holders of ADRs delivering underlying Ordinary Shares, Ads or deposited securities. Payable by persons depositing or withdrawing deposited securities. Payable by persons receiving such foreign currency, as the ADR depositary will deduct any fees, expenses and other charges prior to distributing such foreign currency.

Fees and Payments made by the ADR depositary to ING

In consideration for acting as depositary, the ADR depositary has agreed to provide ING with certain amounts on an annual basis. In the year ended 31 December 2020, the ADR depositary paid aggregate fees and made other direct and indirect payments to ING in an amount of USD 3,335,215.

Under certain circumstances, including removal of the ADR depositary or termination of the ADR program by ING, ING is required to repay the ADR depositary certain amounts reimbursed and/or expenses paid to or on behalf of ING.

PART II.

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Internal control over financial reporting

Due to the listing of ING shares on the New York Stock Exchange, ING Group is required to comply with the SEC regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act (SOX 404). These regulations require that the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of ING Group report and certify on an annual basis on the effectiveness of ING Group's internal control over financial reporting. Moreover, the external auditors are required to provide an opinion on the effectiveness of ING Group's internal control over financial reporting.

SOX 404 activities are organized along the lines of the governance structure, and involve the participation of senior management across ING. Following the SOX 404 process, ING is in the position to publish an unqualified statement that the Company's internal control over financial reporting was effective as of 31 December 2020.

The SOX 404 statement by the Executive Board is included on this page, followed by the report of the external auditor as issued on Form 20-F.

Disclosure Controls and Procedures

The Company's management, under the supervision and with the participation of the CEO and CFO, has performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of December 31, 2020, the end of the period covered by the 2020 Form 20-F.

Report of the Executive Board on Internal Control Over Financial Reporting

The Executive Board is responsible for establishing and maintaining adequate internal control over financial reporting. 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 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Executive Board assessed the effectiveness of internal control over financial reporting as of 31 December 2020. In making this assessment, the Executive Board performed tests based on the criteria of the Committee of Sponsoring Organisations of the Treadway Commission ("COSO") in Internal Reporting – Integrated Framework (2013 Framework). Based on the Executive Board's assessment and those criteria, the Executive Board concluded that the Company's internal control over financial reporting was effective as of 31 December 2020.

Attestation Report of the Registered Public Accounting Firm

Our independent registered public accounting firm has audited and issued their report on ING's internal control over financial reporting, which appears on the page below.

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the period covered by this Annual Report that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Supervisory Board
ING Groep N.V.:

Opinion on Internal Control Over Financial Reporting

We have audited ING Groep N.V. and subsidiaries' ('the Company') internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ('PCAOB'), the consolidated statements of financial position of the Company as of December 31, 2020 and 2019, the related consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes and specific disclosures described in Note 1 of the consolidated financial statements as being part of the consolidated financial statements (collectively, 'the consolidated financial statements'), and our report dated March 8, 2021 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of the Executive Board on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG Accountants N.V.
Amstelveen, The Netherlands
March 8, 2021

Item 16A. Audit Committee Financial Expert

The Supervisory Board has determined that Margarete Haase, who is a member of the Supervisory Board, qualifies as an "audit committee financial expert" as defined by the SEC pursuant to section 407 of the Sarbanes-Oxley Act of 2002. The Supervisory Board has further determined that Margarete Haase is "independent", as defined in Rule 10A-3 under the U.S. Securities Exchange Act of 1934. She was appointed as a member of the Supervisory Board at the General Meeting in May 2017 and her appointment became effective as per 1 May 2018, as decided by the Supervisory Board in January 2018. Margarete Haase is chairwoman of the Audit Committee.

Item 16B. Code of Ethics

How we work

Creating a differentiating employee experience starts with ING's distinctive culture: entrepreneurial, open, collaborative, innovative and energetic. Who we are and how we work are set out in the Orange Code, our internal Code of Ethics. Putting **'integrity above all'**, it comprises:

Our values. The non-negotiable promises we make to the world no matter what.

- We are honest.
- We are responsible.
- We are prudent.

Our behaviours. The 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.

The Orange Code is supported by a compliments tool, kudos, that allows employees to give each other compliments based on Orange Code behaviours. Employees are introduced to the Orange Code early with new joiners invited to complete a global online e-learning introduction module that explains more about ING's culture, how we work and what we expect from employees. In 2019, ING also developed a global code of conduct that builds on the Orange Code and sets the standards we expect our people to uphold. This ING Global Code of Conduct was launched in February 2020. All employees were requested to perform online e-learning explaining the Global Code of Conduct in more detail and signed off on adherence to the Global Code of Conduct.

Our Orange Code is included within the performance management process and discussed throughout the year. It is also linked to our Employee Value Proposition (or Our People Offer), which forms the basis of all people-related programmes. Through these activities, our aim is to develop a culture that is focused on long- term value creation.

The Orange Code applies to all employees worldwide, including the principal executive, financial and accounting officers. The values and behaviours of the Orange Code are available on the ING website at https://www.ing.jobs/Global/Careers/Orange-code.htm.
In 2020, there were no amendments to the Orange Code. ING did not grant any waivers (including implicit waivers) under the Orange Code to the principal executive, financial or accounting officers in 2020.

Regarding the management of actual or potential conflicts of interest, ING maintains a Policy on Information Barriers and Conflicts of Interest which applies to all employees worldwide, including the principal executive, financial and accounting officers. A description of the Policy on Information Barriers and Conflicts of Interest is available to view on the ING website at https://www.ing.com/About-us/Compliance/Information-Barriers-Conflicts-of-Interest.htm.

The Conflict of Interest Policy "aims to identify, assess, manage and mitigate or prevent actual and potential conflicts between ING customers and between the interests of ING an the private interests of ING Employees, including members of ING's Senior Management which could adversely influence the performance of their duties and responsibilities".

In 2020, an updated Conflicts of Interest was launched and implemented throughout ING globally. . ING did not grant any waivers (including implicit waivers) under the Conflicts of Interest Policy to the principal executive, financial or accounting officers in 2020.

Regarding reporting of breaches of the Orange Code, encouraging a speak up culture and raising concerns about suspected or actual criminal conduct, unethical conduct or other misconduct by or within ING, ING maintains a Whistleblower Policy next to the standard reporting and escalation lines. This requires prompt internal reporting of violations of the Orange Code and applies to all employees worldwide, including the principal executive, financial and accounting officers. A description of the Whistleblower Policy is available on the ING website at www.ing.com/About-us/Compliance/ING-Group-Whistleblower-Policy.htm.

ING did not grant any waivers (including implicit waivers) under the Whistleblower Policy to the principal executive, financial or accounting officers in 2020.

Banker's Oath

All employees working for ING in the Netherlands (including ING's principal executive, financial or accounting officers) take the Banker's Oath. The oath contains a set of principles affirming the banking industry's commitment to maintain high standards of ethical behaviour. Accountability and a disciplinary sanction mechanism are linked to breaches of these principles.
Compliance is trained to support employees in dealing with dilemmas via workshops and dialogue sessions, using the Orange Code Decision Making model (a so-called "four-step approach" weighing the rights and interest of stakeholders involved).

In 2020, there were no amendments to the Banker's Oath. ING did not grant any waivers under the Banker's Oath to principal executive, financial or accounting officers in 2020. The text of the Banker's oath can be found here: https://www.ing.com/About-us/Corporate-governance/Dutch-Banking-Code.htm

Item 16C. Principal Accountant Fees and Services

At the Annual General Meeting held on 23 April 2019, KPMG was re-appointed as the external audit firm for ING Group for the financial years 2020 through 2023. This appointment includes the responsibility to provide an audit opinion on the financial statements and internal control over financial reporting on 31 December 2020 and to report on the outcome of these audits to the Executive Board and the Supervisory Board.

The external auditor may be questioned at the Annual General Meeting in relation to its audit opinion on the financial statements. The external auditor will therefore attend and be entitled to address this meeting. The external auditor attended the meetings of the Risk Committee and of the Audit Committee and attended and addressed the 2020 Annual General Meeting, at which the external auditor was questioned about its audit opinion.

The external auditor may only provide services to ING Group and its subsidiaries with the permission of the Audit Committee, in line with the ING Group Policy on External Auditors' Independence. All services were approved by the Audit Committee.

More information on the ING Group Policy on External Auditors' Independence is available on the website of ING Group www.ing.com.

Audit fees

Audit fees were paid for professional services rendered by the auditors for the audit of the consolidated financial statements of ING Group and statutory financial statements of ING's subsidiaries or services provided in connection with the audit of Form 20-F and other filings for regulatory and supervisory purposes as well as the review on interim financial statements and work performed relating to comfort letters issued in connection with prospectuses and reviews of SEC product filings.

Audit-related fees

Audit-related fees were paid for assurance and related services that are reasonably related to the performance of the audit or review of the consolidated financial statements and are not reported under the audit fee item above. These services consisted primarily of specific agreed-upon procedure engagements and assurance engagements.

Tax fees

Over 2020 no tax fees were paid. Under the current ING Policy on External Auditor Independence most tax services are prohibited and some tax services are only allowed after specific approval under an 'exception procedure'.

Reference is made to Note 28 'Other operating expenses' in the consolidated financial statements for audit, audit-related, tax and all other fees paid to the external auditors in 2020, 2019 and 2018.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no purchases by us or any of our affiliated purchasers of any of our equity securities registered pursuant to Section 12 of the U.S. Securities Exchange Act of 1934 during the fiscal years ended December 31, 2020 and 2019.

Item 16F. Changes in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

Dutch Corporate Governance Code

ING Group uses the Dutch Corporate Governance Code (DCGC) as reference for its corporate governance structure and practices.

ING's application of the DCGC is described in the 2020 'Application of the Dutch Corporate Governance Code by ING Groep N.V.', dated 8 March 2021, available on ing.com. This is to be read in conjunction with this chapter and is deemed to be incorporated into this chapter.

The DCGC can be downloaded from the website mccg.nl.

Dutch Banking Code

The Dutch Banking Code (Banking Code), is only applicable to ING Bank N.V. (ING Bank) and not to ING Group. However, ING Group voluntarily applies the principles of the Banking Code regarding remuneration to its Executive Board members and senior management. 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.

The Banking Code can be downloaded from the website nvb.nl/english/.

Differences between Dutch and US corporate governance practices

ING Group is a public limited liability company (naamloze vennootschap) organised under the laws of the Netherlands. It qualifies as a foreign private issuer under the US Securities and Exchange Commission (SEC) rules and for the purposes of the New York Stock Exchange (NYSE) listing standards. Under NYSE listing standards, listed companies that are foreign private issuers are permitted to follow home-country practice in some circumstances, in lieu of the provisions of the corporate governance rules contained in Section 303A of the NYSE Listed Company Manual applicable to US-listed companies. In accordance with the requirements of the SEC and NYSE, ING Group must disclose in its Annual Report on Form 20-F any significant differences between its corporate governance practices and those applicable to US companies under NYSE listing standards. ING Group believes the following to be the significant differences between its corporate governance practices and the NYSE corporate governance rules applicable to US companies:

- ING Group has a two-tier board structure, in contrast to the one-tier board structure used by most US companies. In the Netherlands, a public limited liability company with a two-tier board structure has an executive board as its management body and a supervisory board that advises and supervises the executive board. Supervisory board members are often former state or business leaders and sometimes former members of the executive board. A member of the executive board or other officer or employee of the company cannot simultaneously be a member of the supervisory board. The supervisory board must approve specified decisions of the executive board.

- NYSE listing standards generally require a majority of board members to be 'independent' as determined under the NYSE listing standards. Under the DCGC, all members of the supervisory board, with the exception of not more than one person, should be 'independent' as determined under the DCGC. However, the definition of 'independent' under the DCGC differs in its details from the definition of 'independent' under the NYSE listing standards. In some cases, Dutch requirements are stricter; in other cases the NYSE listing standards are stricter. All members of ING's Supervisory Board, are independent as determined under the DCGC.

- NYSE listing standards require a US company to have a compensation committee and a nominating/corporate governance committee, each composed entirely of independent directors (as determined under the NYSE listing standards). ING's Nomination and Corporate Governance Committee and Remuneration Committee are composed entirely of members of the Supervisory Board who are independent as determined under the

DCGC.

- NYSE listing standards require that, when a member of the audit committee of a US company serves on four or more audit committees of public companies, the company should disclose (on its website, in its annual proxy statement or in its annual report filed with the SEC) that the board of directors has determined this simultaneous service would not impair the director's service to the company. Dutch law does not require the Supervisory Board to make such a determination.

- In contrast to the NYSE listing standards, the DCGC contains an 'apply-or-explain' principle, offering the possibility of deviating from the DCGC. For any deviations by ING Group, please refer to the paragraph 'Dutch Corporate Governance Code'.

- NYSE listing standards applicable to US companies require external auditors to be appointed by the audit committee. By contrast, Dutch law requires ING Group's external auditors to be appointed by the General Meeting and not by the Audit Committee. The Audit Committee is responsible for preparing the Supervisory Board's nomination to the General Meeting for the appointment and remuneration of ING Group's external auditor, and annually evaluates the independence and functioning of, and developments in the relationship with, ING Group's external auditor and informs the Supervisory Board of its findings and proposed measures.

- Under NYSE listing standards, shareholders of US companies must be given the opportunity to vote on all equity compensation plans and to approve material revisions to those plans, with limited exceptions set forth in the NYSE rules. The NYSE rules require a shareholder vote on all equity compensation plans applicable to any employee, director or other service provider of a company. The results of such votes are advisory in nature rather than binding. Under Dutch law and the DCGC, binding shareholder approval is only required for equity compensation plans (or changes thereto) for members of the executive board and supervisory board, and not for equity compensation plans for other groups of employees.

Item 16H. Mine Safety Disclosure

Not applicable.

PART III.

Item 17. Consolidated Financial Statements

Not applicable.

Item 18. Consolidated Financial Statements

Reference is made to the Consolidated financial statements of ING Group on page F-249.

Item 19. Exhibits

The following exhibits are filed as part of this Annual Report:

Exhibit 1.1	Amended and Restated Articles of Association of ING Groep N.V., dated May 6, 2020 (incorporated by reference to Exhibit 99.1 of ING Groep N.V.'s Report on Form 6-K filed on 25 August 2020)
Exhibit 2.1	Description of Securities Registered under Section 12 of the Exchange Act
Exhibit 2.2	Subordinated Indenture, dated 18 July 2002, between the Company and The Bank of New York, (incorporated by reference to Exhibit 2.1 of ING Groep N.V.'s Annual Report on Form 20-F for the year ended 31 December 2002, File No. 1-14642 filed on 27 March 2003)
Exhibit 2.3	Third Supplemental Indenture, dated 28 October 2003, between the Company and The Bank of New York (incorporated by reference to Exhibit 2.4 of ING Groep N.V.'s Annual Report on Form 20-F for the year ended 31 December 2003, File No. 1-14642 filed on 30 March 2004)
Exhibit 2.4	Fourth Supplemental Indenture, dated 26 September 2005, between the Company and The Bank of New York (incorporated by reference to Exhibit 4.2 of ING Groep N.V.'s Report on Form 6-K filed on 23 September 2005)
Exhibit 2.5	Sixth Supplemental Indenture, dated 13 June 2007, between the Company and The Bank of New York (incorporated by reference to Exhibit 4.1 of ING Groep N.V.'s Report on Form 6-K filed on 12 June 2007)
Exhibit 2.6	First Supplemental Indenture between ING Groep N.V. and The Bank of New York Mellon, London Branch, as trustee, dated 16 April 2015, in respect of 6.000% Perpetual Additional Tier 1 Contingent Convertible Capital Securities (incorporated by reference to Exhibit 4.2 of ING Groep N.V.'s Report on Form 6-K filed on 16 April 2015)
Exhibit 2.7	Second Supplemental Indenture between ING Groep N.V. and The Bank of New York Mellon, London Branch, as trustee, dated 16 April 2015, in respect of 6.500% Perpetual Additional Tier 1 Contingent Convertible Capital Securities (incorporated by reference to Exhibit 4.3 of ING Groep N.V.'s Report on Form 6-K filed on 16 April 2015)
Exhibit 2.8	Senior Debt Securities Indenture between ING Groep N.V. and The Bank of New York Mellon, London Branch, as Trustee, dated 29 March 2017 (incorporated by reference to Exhibit 4.1 of ING Groep N.V.'s Report on Form 6-K filed on 29 March 2017)
Exhibit 2.9	First Supplemental Indenture between ING Groep N.V. and The Bank of New York Mellon, London Branch, as trustee, dated 29 March 2017, in respect of 3.150% Fixed Rate Senior Notes due 2022, 3.950% Fixed Rate Senior Notes due 2027 and Floating Rate Senior Notes due 2022 (incorporated by reference to Exhibit 4.2 of ING Groep N.V.'s Report on Form 6-K filed on 29 March 2017)
Exhibit 2.10	Third Supplemental Indenture between ING Groep N.V. and The Bank of New York Mellon, London Branch, as trustee, dated 9 April 2019, in respect of 3.550% Fixed Rate Senior Notes due 2024 and 4.050% Fixed Rate Senior Notes due 2029 (incorporated by reference to Exhibit 4.1 of ING Groep N.V's Report on Form 6-K filed on 9 April 2019)
Exhibit 2.11	Third Supplemental Indenture between ING Groep N.V. and The Bank of New York Mellon, London Branch, as trustee, dated 10 September 2019, in respect of 5.750% Perpetual Additional Tier 1 Contingent Convertible Capital Securities (incorporated by reference to Exhibit 4.1 of ING Groep N.V's Report on Form 6-K filed on 10 September 2019)
Exhibit 8	List of Subsidiaries of ING Groep N.V.
Exhibit 12.1	Certification of the Registrant's Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
Exhibit 12.2	Certification of the Registrant's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 13.1	Certification of the Registrant's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 13.2	Certification of the Registrant's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 15.1	Consent of KPMG Accountants
Exhibit 101	eXtensible Business Reporting Language (XBRL)

SIGNATURES

The registrant hereby certifies that it meets all the requirements for filing on Form 20-F and that it has duly caused and authorised the undersigned to sign this annual report on its behalf.

ING Groep N.V.
(Registrant)

By:/s/T. Phutrakul
T. Phutrakul
Chief Financial Officer

Date: March 8, 2021

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.

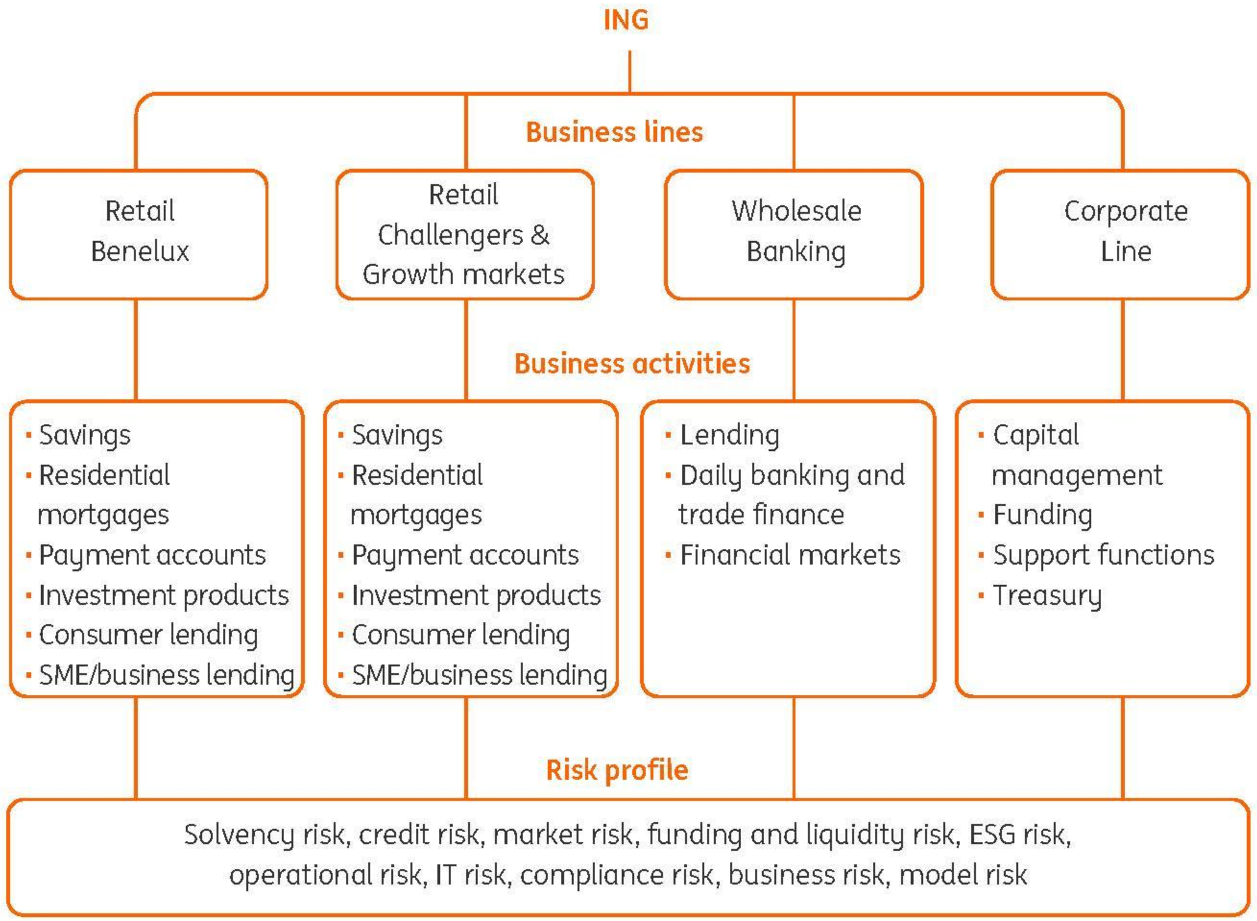
The risk management function supports the Executive Board in formulating the risk appetite, strategies, policies and limits. It provides review, oversight and support functions throughout ING on risk-related items. ING's main financial risks exposures are to credit risk (including transfer risk), market 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 Group 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 51 '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.

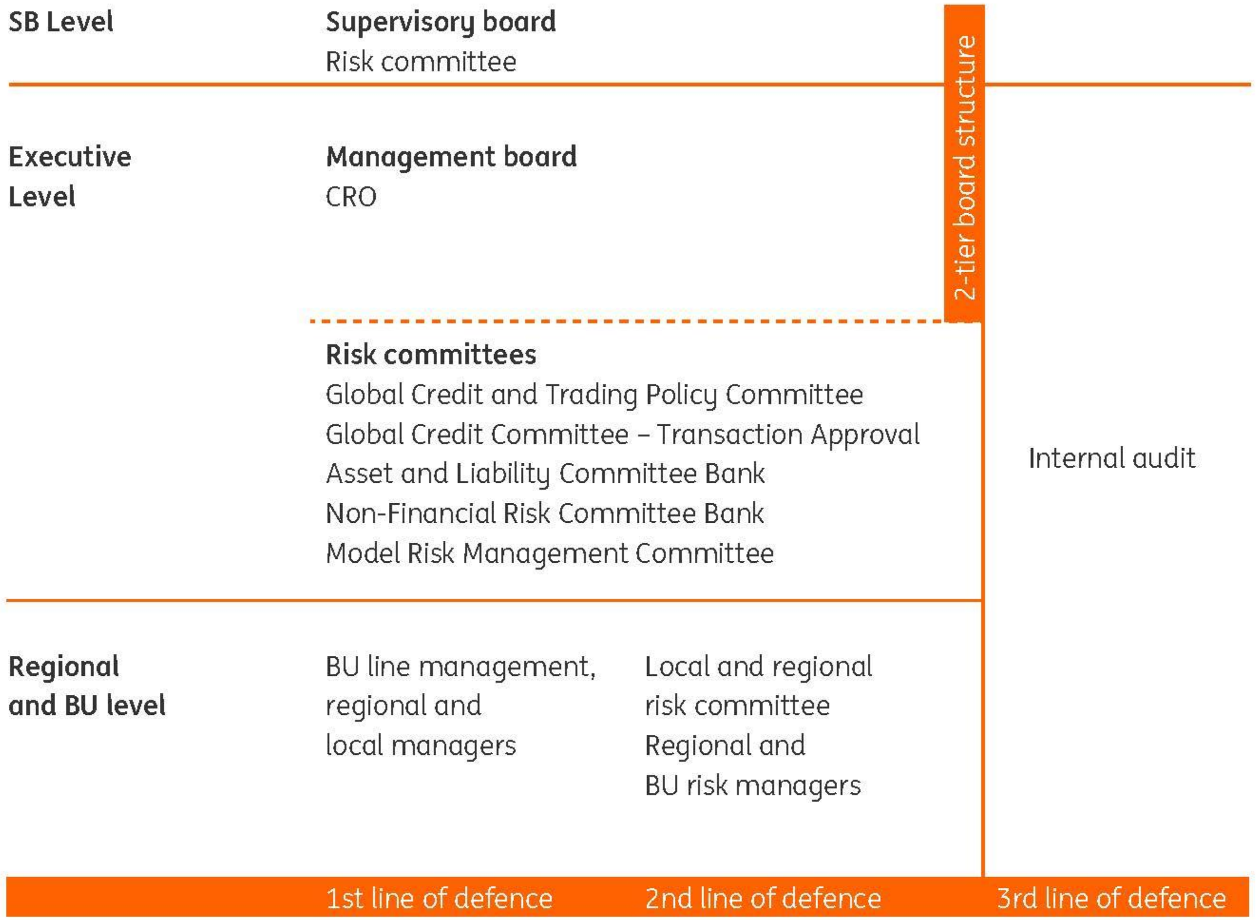
The second line of defence consists of oversight and specialised functions in risk management and compliance. They (i) have co-responsibility for risk management, through articulating and translating the risk appetite into methodologies and policies to support and monitor business management's control 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



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.

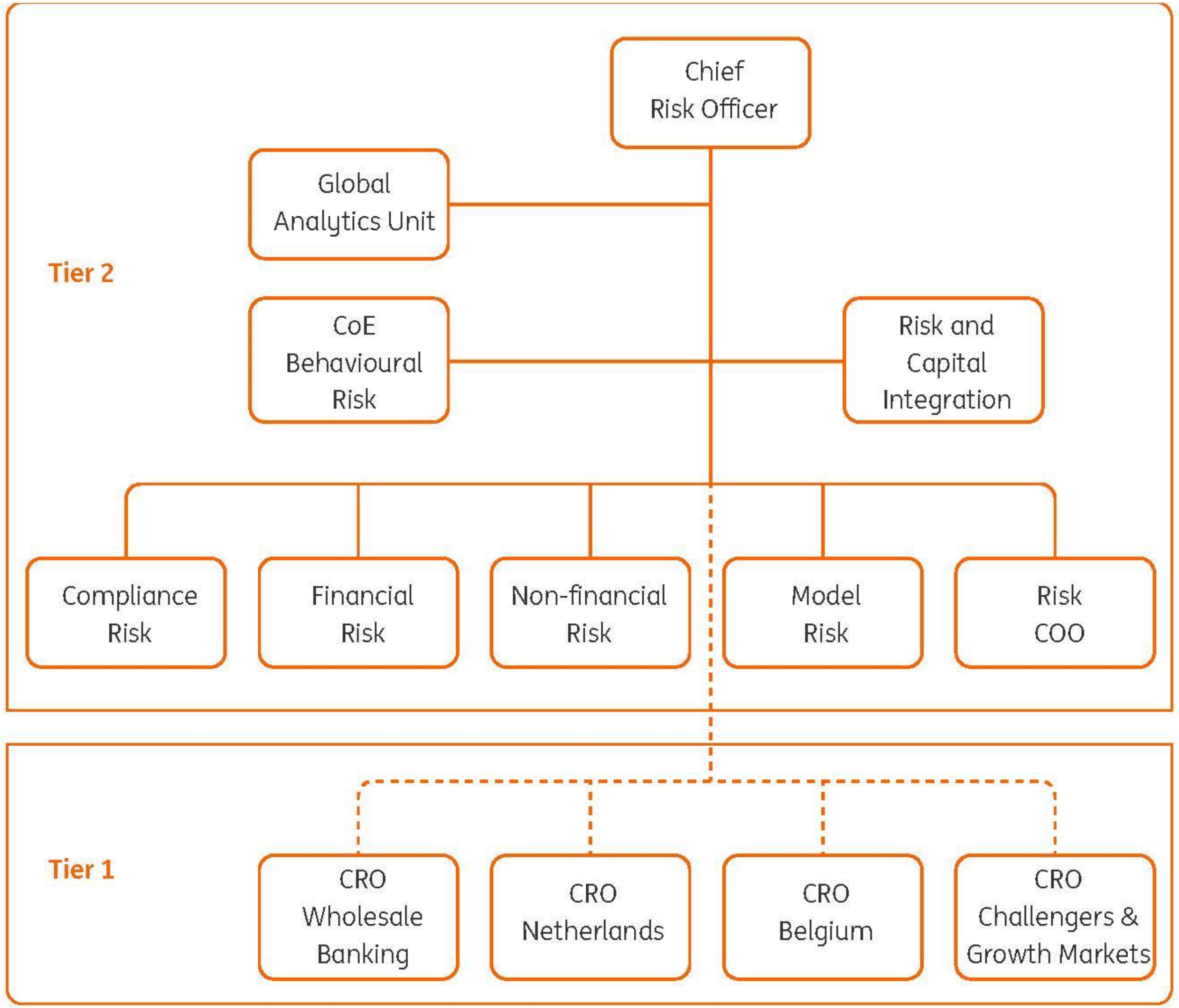
The regional and/or business unit CROs are involved in these activities. The local (regional and BU) CRO is responsible for the analysis, monitoring and management of risks across the whole value chain (from front to back office). The local risks are discussed in local risk committees that roll up to 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.

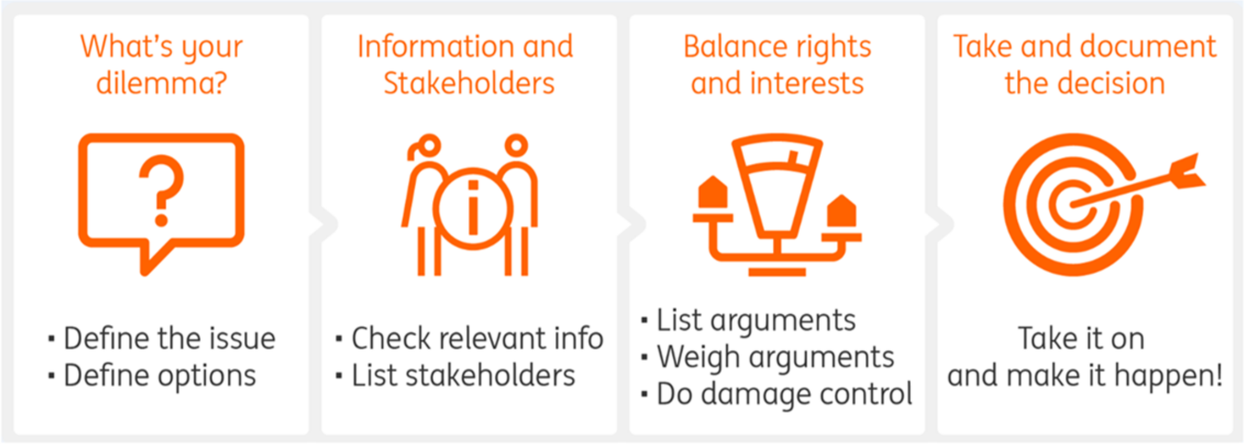
The Orange Code is the sum of two parts, the ING values and ING behaviours, with integrity being the overarching principle. The ING values (being honest, prudent and responsible) are designed to be non-negotiable promises we make to the world, principles we seek to stick to, no matter what. The ING behaviours (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.

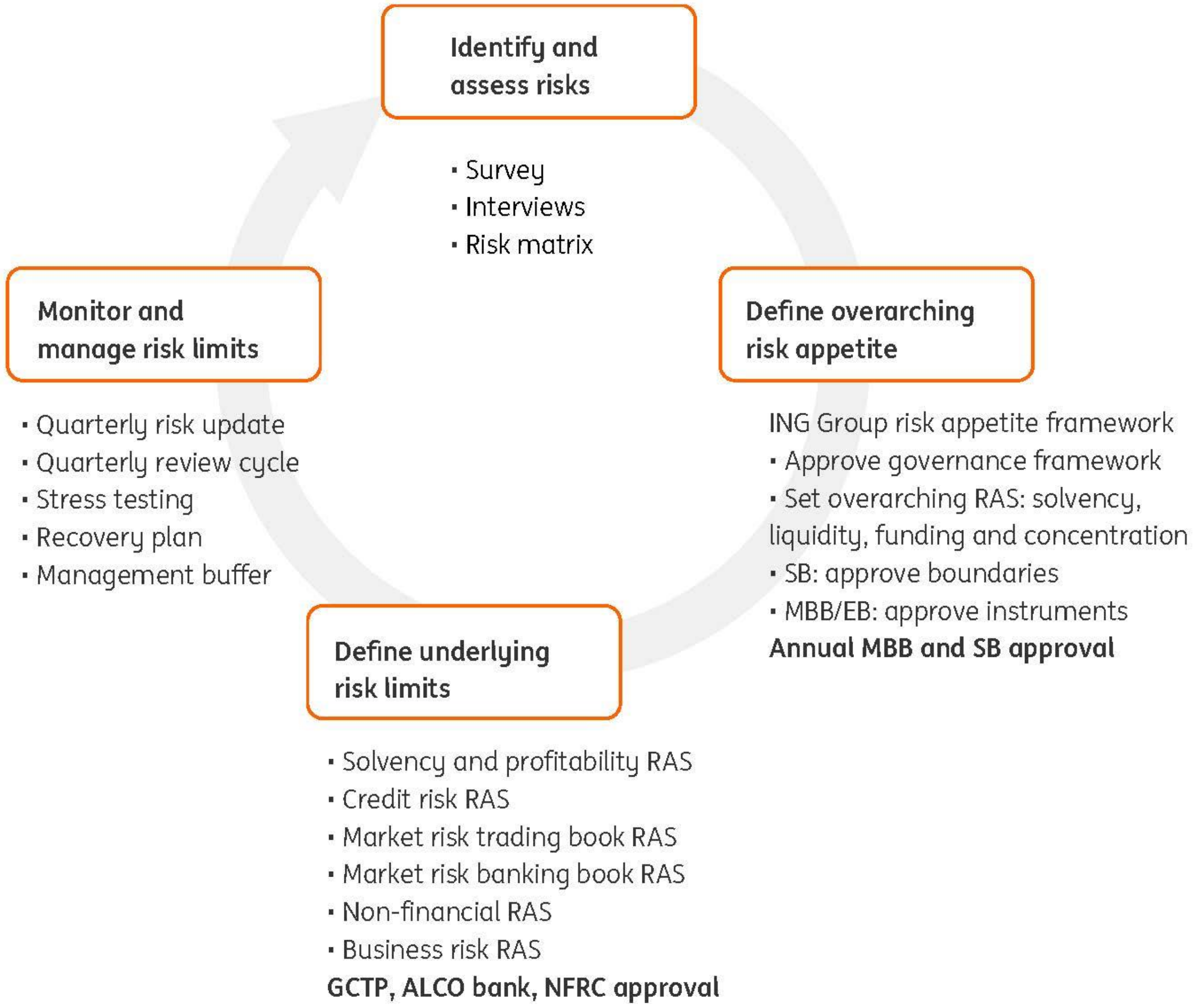
Policy

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.

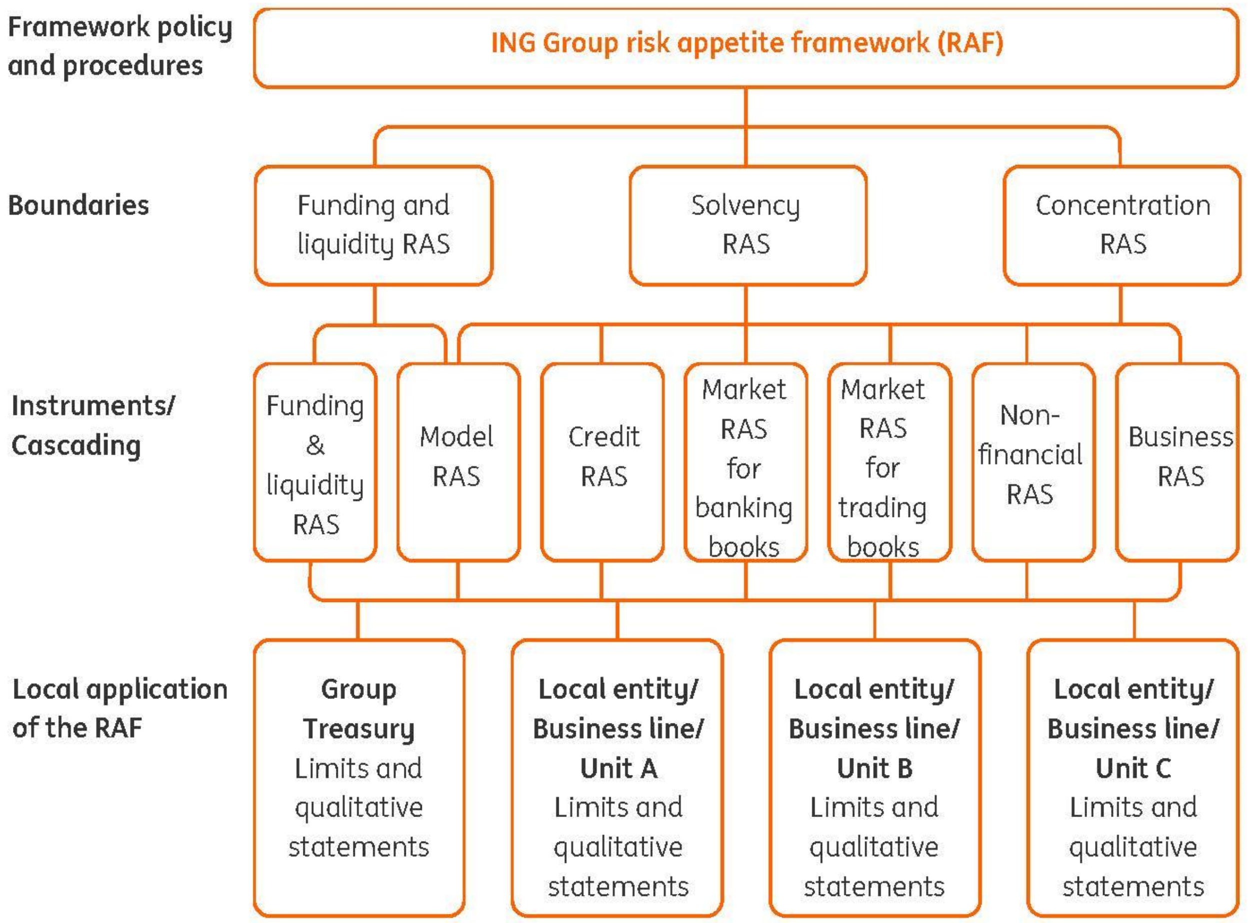
Step 2. Set Risk Appetite Framework

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	44	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	43	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	349	323	144,409	136,588
	8-10 (BBB)	104,987	115,888	120,714	115,192	53,346	49,681	2,692	3,190	281,738	283,951
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**	**5,857**	**30,524**	**887,454**	**853,930**
Industry											
Private Individuals		25	31	160,884	164,466	172,390	167,262			333,299	331,758
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	3,010	3,502	53,509	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	55,894
Non-Bank Financial Institutions		40,581	37,695	1,488	1,396	323	378	456	512	42,848	39,981
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**	**5,857**	**30,524**	**887,454**	**853,930**

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	2,965	25,340	225,532	210,046
	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	312	340	66,745	69,912
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**	**5,857**	**30,524**	**887,454**	**853,930**

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 €33.5 billion (+ 3.93%) to €887.5 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	1,640	265	4,546	607	468	6,931	3,478	6,218	6,926	7,434	13,222	1,476	298	53,509
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	14,726	3,089	376	0	42,848
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	**225,532**	**121,282**	**140,722**	**39,101**	**34,512**	**31,018**	**25,330**	**22,721**	**82,324**	**66,745**	**47,594**	**48,451**	**2,121**	**887,454**
Rating class														
Investment grade	169,111	78,294	118,082	26,045	26,622	25,924	19,528	16,688	51,233	44,279	35,879	34,545	127	646,357
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	**225,532**	**121,282**	**140,722**	**39,101**	**34,512**	**31,018**	**25,330**	**22,721**	**82,324**	**66,745**	**47,594**	**48,451**	**2,121**	**887,454**

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	2,852	1,178	2,856	1,252	175	7,462	2,983	1,318	4,117	12,145	3,178	315	149	39,981
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
Utilities	1,331	1,056	1,673	654	418	2,032	571	445	3,103	3,493	1,380	843	265	17,263
Lower Public Administration	522	5,949	5,798	727	4	0	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	11,628	9,774	3,260	4,614	664	1,560	1,331	712	8,045	6,694	3,536	782	2	52,603
Total	**210,046**	**116,894**	**118,561**	**36,156**	**30,785**	**29,400**	**27,827**	**20,703**	**88,679**	**69,912**	**55,188**	**47,066**	**2,713**	**853,930**
Rating class														
Investment grade	144,134	73,010	95,685	22,921	23,598	24,429	21,444	15,418	50,878	42,689	41,134	31,542	175	587,056
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	**210,046**	**116,894**	**118,561**	**36,156**	**30,785**	**29,400**	**27,827**	**20,703**	**88,679**	**69,912**	**55,188**	**47,066**	**2,713**	**853,930**

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	388,270	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	**841,367**	**771,536**	**26,761**	**121,811**	**341,039**	**36.9%**	**12.7%**	**50.4%**
Pre-settlement	46,086							
Total Bank	**887,454**							

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	378,444	154,351	21,073	93,407	296,286	36.7%	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	**803,258**	**729,171**	**24,981**	**120,236**	**333,326**	**31.4%**	**15.0%**	**53.5%**
Pre-settlement	50,672							
Total Bank	**853,930**							

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: 53.5%). 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

Industry	Outstandings	Cover type: Mortgages	Cover type: Financial Collateral	Cover type: Guarantees	Cover type: Other covers	Value to Loan: No Cover	Value to Loan: >0% - 25%	Value to Loan: >25%-50%	Value to Loan: >50% - 75%	Value to Loan: >75% - <100%	Value to Loan: ≥ 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	22,225	1,139	10,771	3,766	46,286	42.9%	3.5%	2.3%	3.6%	4.6%	43.2%
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	17,931	313	107	1,546	3,868	74.8%	1.0%	3.4%	1.7%	8.2%	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	**388,270**	**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	22,593	1,434	11,339	5,638	41,084	30.9%	3.7%	5.1%	6.5%	7.1%	46.6%
Transportation & Logistics	29,303	3,293	169	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	130	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	**378,444**	**154,351**	**21,073**	**93,407**	**296,286**	**36.7%**	**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	100,918	61,180	3,298	9,245	59,268	51.6%	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		40,800	5,967	6,872	7,442	40,815	38.3%	7.3%	6.0%	5.4%	10.2%	32.7%
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		**388,270**	**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	81,383	60,334	3,265	8,845	52,909	37.4%	2.8%	3.7%	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		48,048	7,253	7,856	8,827	39,792	39.7%	6.1%	5.0%	6.6%	9.2%	33.4%
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		**378,444**	**154,351**	**21,073**	**93,407**	**296,286**	**36.7%**	**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	863,506	831,340
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	**887,454**	**853,930**

1 Based on lending and investment activities

Total group outstanding increased by 4% (€+33.5 billion), mainly visible in the Investment grade rating class (€+59.3 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	195	290	484
America		3		3
Asia		3		3
Australia		310	18	328
Total		**2,619**	**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
	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
Europe	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	1,178
Total	**2,968**	**2,864**	**705**	**805**	**270**	**144**	**96**	**79**	**1,534**	**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)		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)	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)	294,923	88	7,418	12			302,341	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		**841,562**	**581**	**61,981**	**1,476**	**13,398**	**3,797**	**916,942**	**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)	295,449	55	4,905	6	0	0	300,353	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		**817,247**	**490**	**41,082**	**881**	**10,955**	**3,275**	**869,284**	**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	**817,247**	**490**	**41,082**	**881**	**10,955**	**3,275**	**869,284**	**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	12,563		-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	**841,562**	**581**	**61,981**	**1,476**	**13,398**	**3,797**	**916,942**	**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 (€599.7 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 (€-1.0 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 €-0.3 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	**788,537**	**501**	**46,949**	**925**	**10,758**	**3,141**	**846,244**	**4,568**
Transfer into 12-month ECL (Stage 1)	12,856	30	-12,579	-253	-277	-23	0	-246
Transfer into lifetime ECL not credit impaired (Stage 2)	-21,577	-73	22,382	474	-805	-81	0	320
Transfer into lifetime ECL credit impaired (Stage 3)	-2,210	-6	-1,753	-135	3,964	1,113	0	972
Net remeasurement of loan loss provisions	0	-77	0	36	0	283	0	242
New financial assets originated or purchased	180,605	205	0	0	0	0	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	-14,880	0	-4,807	0	1	0	-19,686	0
Changes in models/risk parameters	0	15	0	2	0	-8	0	9
Increase in loan loss provisions	**0**	**-9**	**0**	**-39**	**0**	**1,147**	**0**	**1,099**
Write-offs	-1	-1	-2	-2	-1,027	-1,028	-1,030	-1,031
Recoveries of amounts previously written off	0	0	0	0	0	55	0	55
Foreign exchange and other movements	0	-1	0	-3	0	-41	0	-45
Closing balance	**817,247**	**490**	**41,082**	**881**	**10,955**	**3,275**	**869,284**	**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 (€612.6 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 (€0.0 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 €-0.3 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	448	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 Group 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.

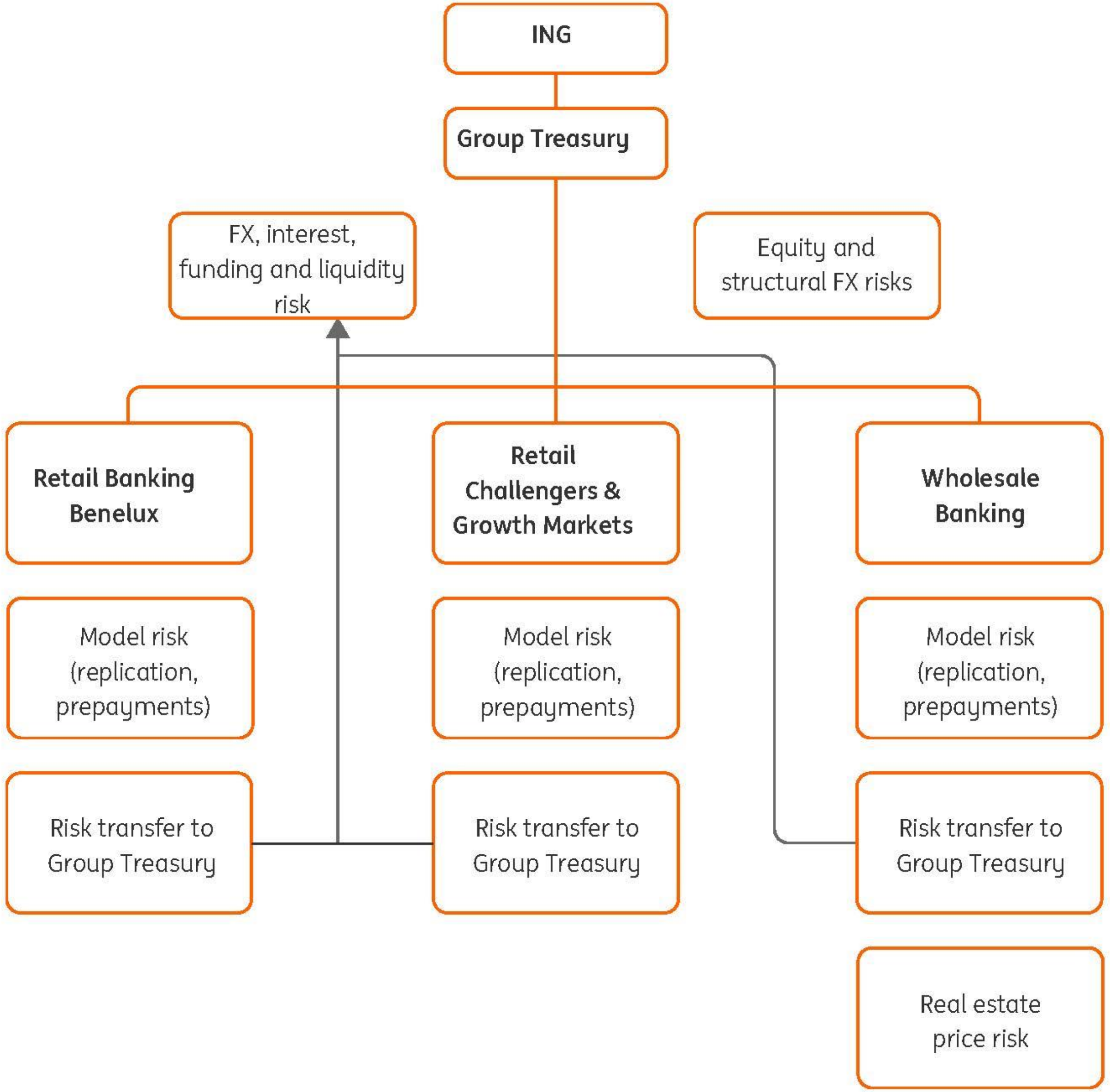
Market risk in banking books (*)

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 Group 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 Group 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 Group, 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 Group 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 Group 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 Group.

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 Group 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 39 '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 Group. 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.

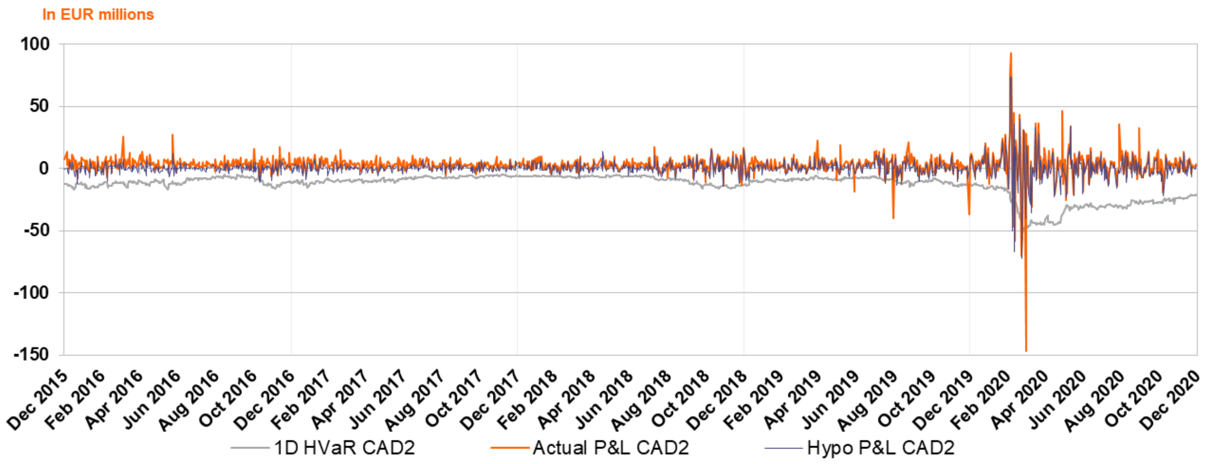
Other trading controls

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 (CSO1) [2]		**Credit Spread (CSO1)** [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 (*)

	2020		2019	
in EUR thousand	Corporate	Financial Institutions	Corporate	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 (*)

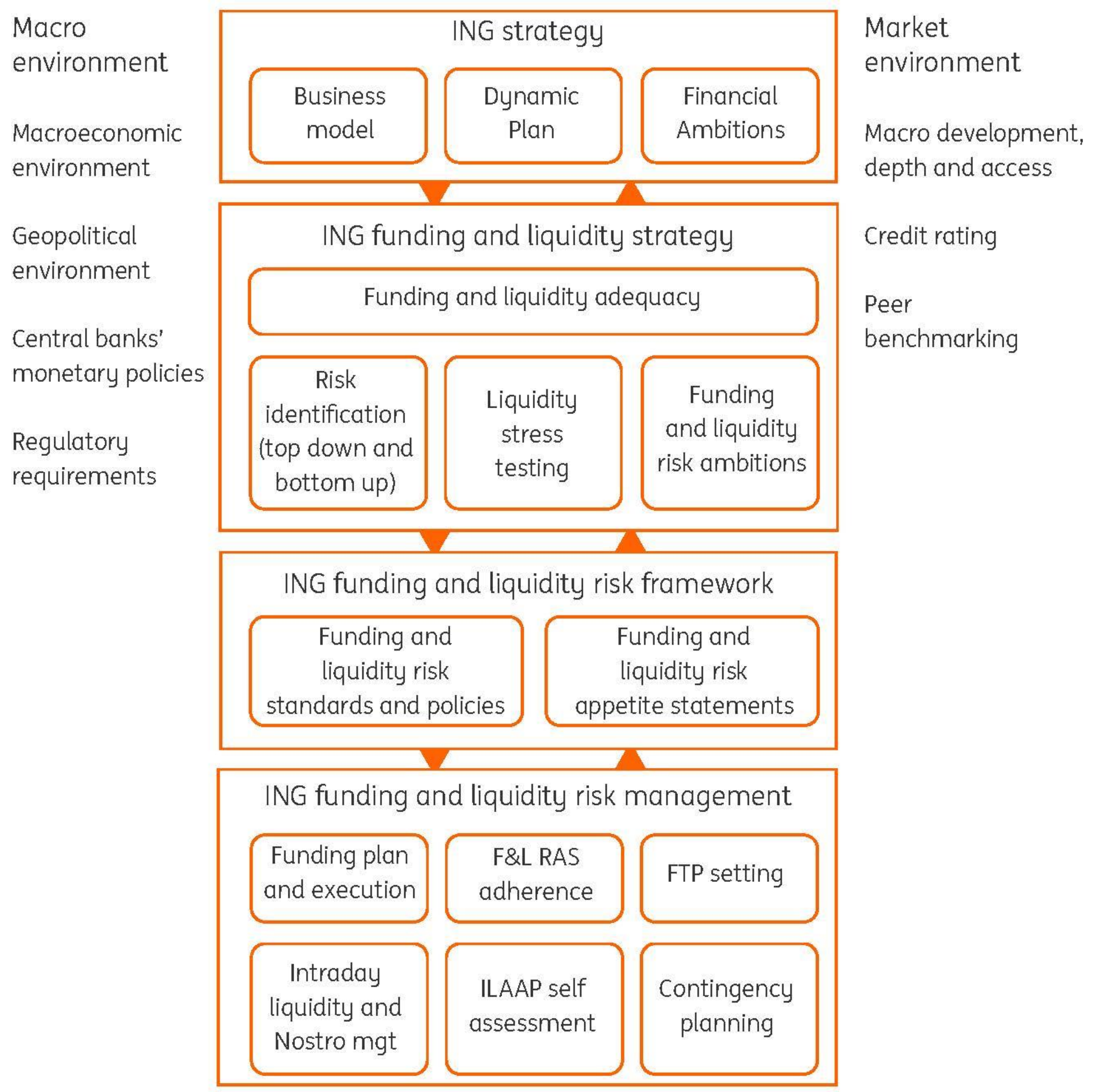
Introduction (*)

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)	20%	21%
Interbank	9%	5%
Lending/repurchase agreement	6%	5%
CD/CP	2%	5%
Long-term senior debt	9%	11%
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.

ING Group long-term debt maturity profile by currency (*)								
in EUR billion (nominal amounts)	2021	2022	2023	2024	2025	2026	Beyond 2026	Total
Currency								
EUR	8	7	5	1	4	5	24	**54**
USD	2	4	3	1	0	2	10	**21**
Other	2	1	1	1		1	1	**8**
Total	**13**	**12**	**9**	**3**	**4**	**8**	**35**	**83**

ING Group long-term debt maturity profile by currency at year-end 2019 (*)								
in EUR billion (nominal amounts)	2020	2021	2022	2023	2024	2025	Beyond 2026	Total
Currency								
EUR	9	9	8	5	1	4	26	**62**
USD	3	2	4	4	1		8	**22**
Other	1	2	1	1	1		2	**10**
Total	**13**	**14**	**13**	**10**	**3**	**4**	**37**	**94**

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 Group 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.

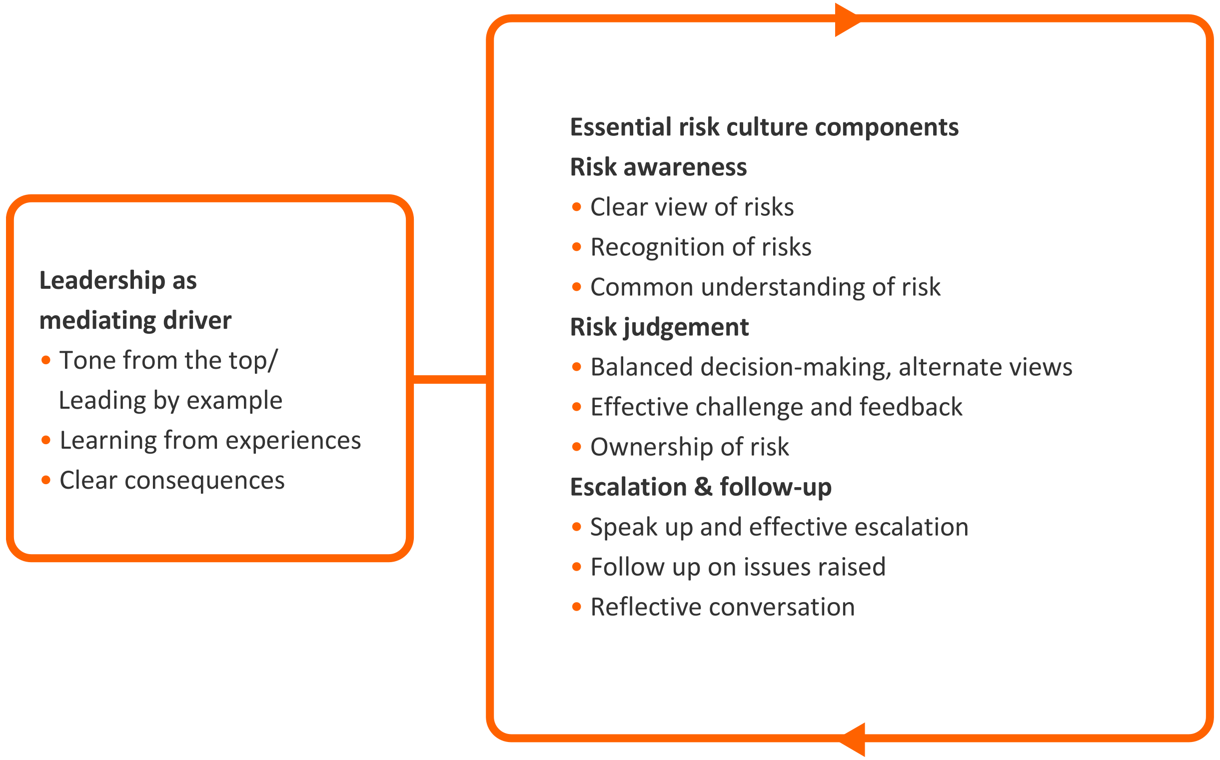
Risk culture

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 overlays, and close monitoring of portfolio developments.

Models governance (*)

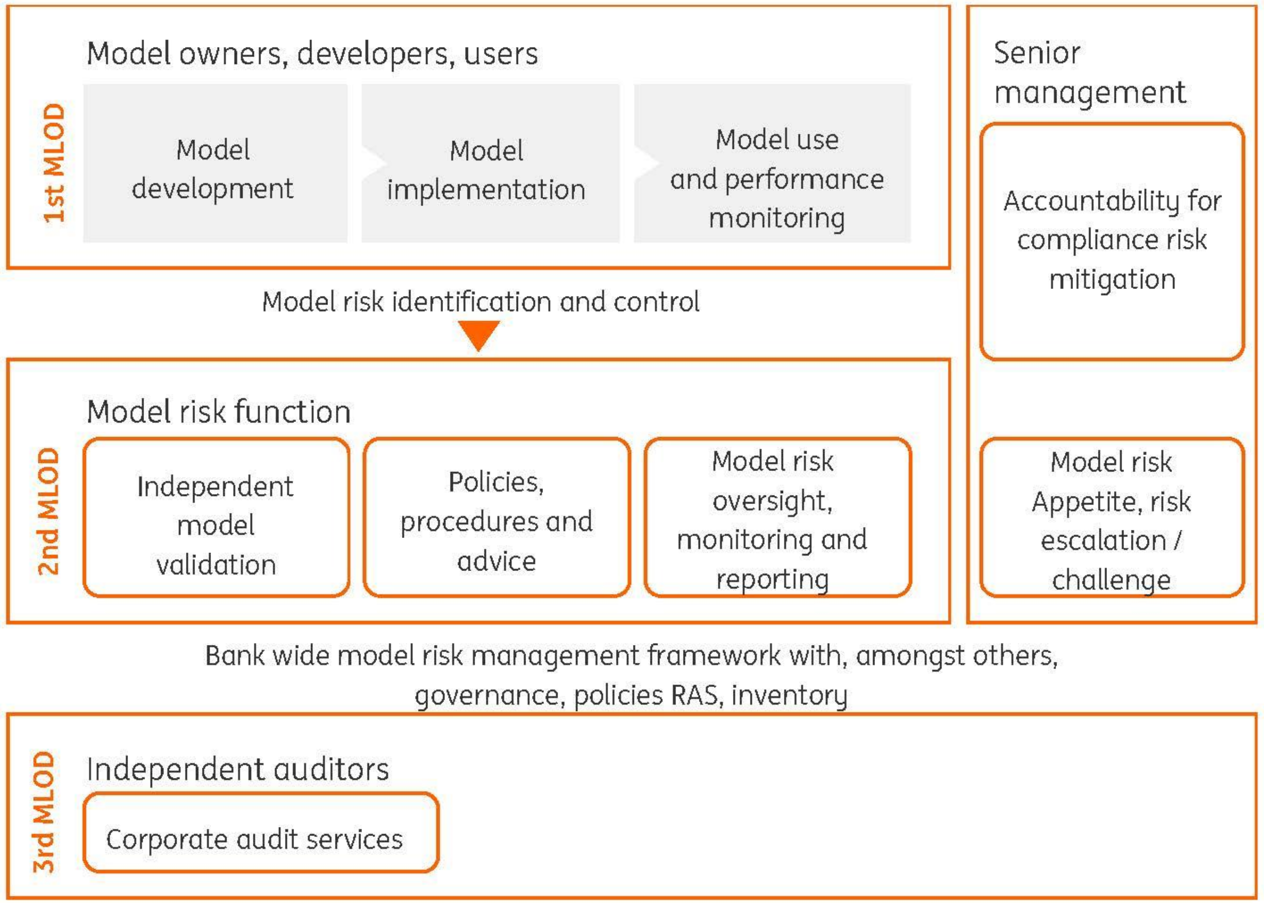
The growing complexity and number of models created and utilised every year for decision-making makes it important to manage and control the associated model risk accordingly. Within ING the overarching responsibility for this risk type lies within Model Risk Management (MoRM) department. The MoRM, is 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.

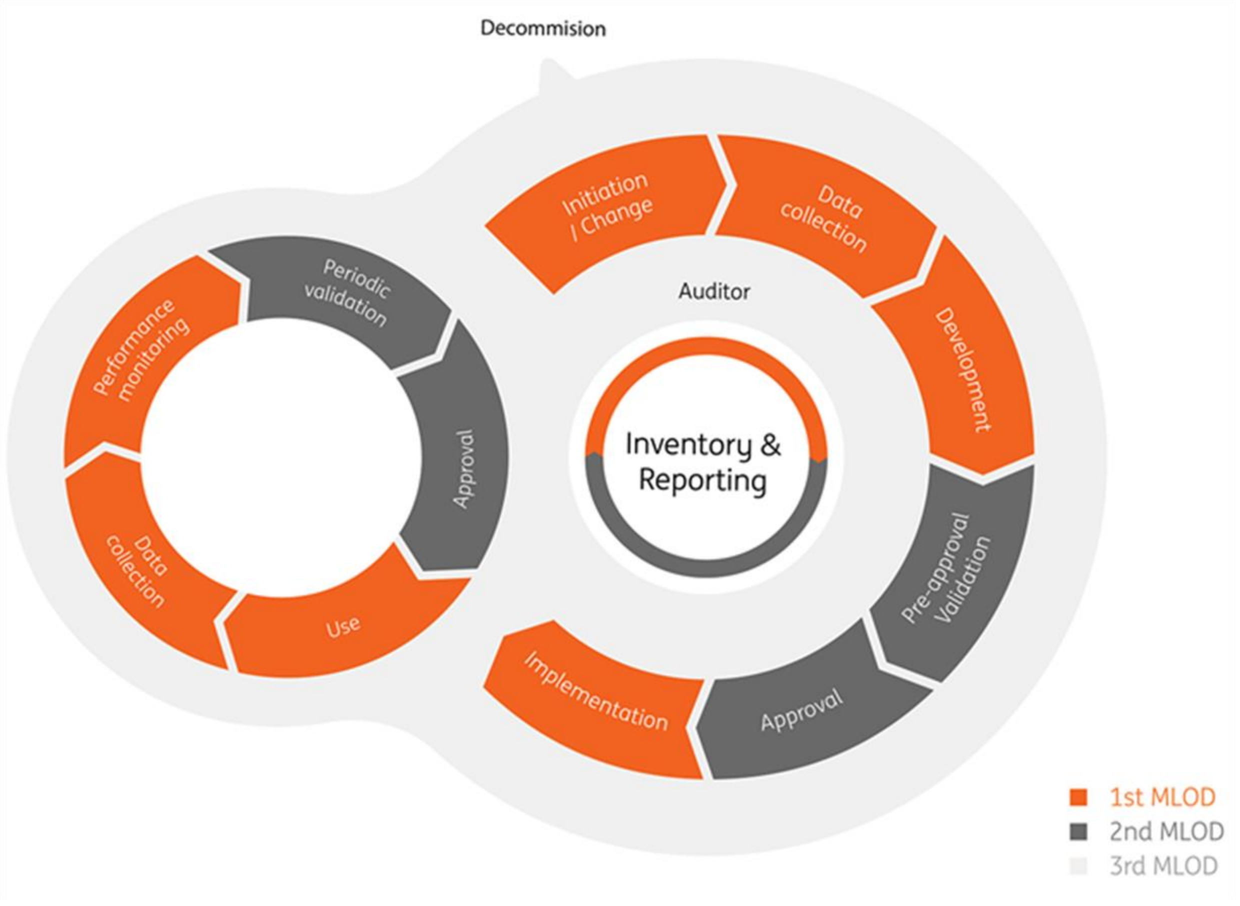
Model risk management (*)

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.

Selected Statistical Information on Banking Operations

Reference is made to Note 1 ‘ Accounting Policies’ of the Consolidated financial statements for information on Changes in accounting principles, estimates and presentation of the consolidated financial statements and related notes.

The information in this section sets forth selected statistical information regarding the Group’s operations. Information for 2020, 2019 and 2018 is set forth under IFRS-IASB. Unless otherwise indicated, average balances, when used, are calculated from monthly data and the distinction between domestic and foreign is based on the location of the office where the assets and liabilities are booked, as opposed to the domicile of the customer. However, the Company believes that the presentation of these amounts based upon the domicile of the customer would not result in material differences in the amounts presented in this section.

Average balances and interest rates

The following tables show the Group’s operations, average interest-earning assets and average interest-bearing liabilities, together with average rates, for the periods indicated. The interest income, interest expense and average yield figures do not reflect interest income and expense on derivatives and other interest income and expense not considered to be directly related to interest-bearing assets and liabilities. These items are reflected in the corresponding interest income, interest expense and net interest income figures in the consolidated financial statements. A reconciliation of the interest income, interest expense and net interest income figures to the corresponding line items in the consolidated financial statements is provided hereunder.

ASSETS									
Interest-earning assets									
	2020			2019			2018		
	Average balance	Interest income	Average yield %	Average balance	Interest income	Average yield %	Average balance	Interest income	Average yield %
	(EUR millions)			(EUR millions)			(EUR millions)		
Time deposits with banks									
domestic	3,495	39	1.1	4,516	49	1.1	3,418	41	1.2
foreign	4,788	57	1.2	4,433	121	2.7	4,199	201	4.8
Loans and advances									
domestic	187,189	4,831	2.6	190,118	5,673	3.0	186,629	5,889	3.1
foreign	431,665	10,606	2.5	428,646	12,825	3.0	407,495	12,683	3.1
Securities purchased with agreements to resell									
domestic	5,242	3	0.1	3,722	52	1.4	789	4	0.5
foreign	55,682	573	1.0	63,337	1,939	3.1	74,788	1,670	2.2
Interest-earning securities[1]									
domestic	33,400	313	0.9	29,892	347	1.2	29,454	336	1.1
foreign	54,542	708	1.3	50,156	917	1.8	50,699	1,055	2.1
Other interest-earning assets									
domestic	43,417	27	0.1	30,659	56	0.2	36,898	34	0.1
foreign	48,453	44	0.1	24,978	66	0.3	30,224	80	0.3
Total	**867,875**	**17,201**	**2.0**	**830,456**	**22,047**	**2.7**	**824,594**	**21,994**	**2.7**
Non-interest earning assets	48,761			54,459			59,345		
Derivatives assets	29,423			25,322			27,432		
Total assets	**946,059**			**910,238**			**911,370**		
Percentage of assets applicable to foreign operations		69.7%			70.0%			70.2%	
Interest income on derivatives		4,546			5,499			5,556	
Other		812			617			579	
Total interest income		**22,559**			**28,163**			**28,129**	

1 Substantially all interest-earning securities held by the banking operations of the Company are taxable securities.

LIABILITIES									
	Interest-bearing liabilities								
	2020			2019			2018		
	Average balance (EUR millions)	Interest expense	Average yield %	Average balance (EUR millions)	Interest expense	Average yield %	Average balance (EUR millions)	Interest expense	Average yield %
Time deposits from banks									
domestic	35,079	10	0.0	17,673	28	0.2	17,805	22	0.1
foreign	18,888	123	0.7	14,270	200	1.4	15,262	210	1.4
Demand deposits									
domestic	82,639	121	0.1	66,667	498	0.7	60,679	289	0.5
foreign	124,337	12	0.0	108,193	32	0.0	95,977	29	–
Time deposits[1]									
domestic	11,798	129	1.1	14,019	336	2.4	21,746	391	1.8
foreign	9,538	132	1.4	14,114	300	2.1	14,607	259	1.8
Savings deposits									
domestic	95,455	77	0.1	93,911	114	0.1	92,203	121	0.1
foreign	267,713	627	0.2	266,470	1,301	0.5	261,398	1,257	0.5
Securities sold under agreements to repurchase									
domestic		0		36	33	92.8	450	6	1.3
foreign	46,225	317	0.7	52,158	1,429	2.7	86,191	1,344	1.6
Commercial paper									
domestic	10,127	12	0.1	13,554	21	0.2	13,746	22	0.2
foreign	13,360	163	1.2	14,143	350	2.5	20,006	436	2.2
Short term debt									
domestic	8,995	97	1.1	9,005	159	1.8	4,507	73	1.6
foreign	3,389	28	0.8	3,784	55	1.5	11,515	116	1.0
Long term debt									
domestic	64,418	1,387	2.2	72,012	1,700	2.4	55,080	1,548	2.8
foreign	14,994	234	1.6	14,110	317	2.2	12,765	781	6.1
Subordinated liabilities									
domestic	16,676	616	3.7	15,304	664	4.3	16,444	721	4.4
foreign	–0			77	3	4.3	81	3	4.1
Other interest-bearing liabilities									
domestic	2,960	31	1.1	1,472	113	7.6	3,777	94	2.5
foreign	8,173	44	0.5	9,101	121	1.3	10,040	119	1.2
Total	**834,764**	**4,159**	**0.5**	**800,076**	**7,773**	**0.8**	**814,280**	**7,842**	**0.8**

Non-interest bearing liabilities	31,711	35,010	22,527
Derivatives liabilities	27,232	24,376	25,927
Total Liabilities	**893,707**	**859,461**	**862,734**
Group Capital	52,353	50,777	48,635
Total liabilities and capital	**946,059**	**910,238**	**911,369**
Percentage of liabilities applicable to foreign operations	62.3%	63.5%	65.2%
Other interest expense:			
Interest expenses on derivatives	4,227	5,925	6,212
other	622	654	114
Total interest expense	**9,007**	**14,353**	**14,169**
Total net interest result	**13,552**	**13,811**	**13,960**

1 These captions do not include deposits from banks.

Analysis of changes in net interest income

The following table allocates changes in the Group's operations' interest income and expense and net interest result between changes in average balances and rates for the periods indicated. Changes due to a combination of volume and rate have been allocated to changes in average volume. The net changes in interest income, interest expense and net interest result, as calculated in this table, have been reconciled to the changes in interest income, interest expense and net interest result in the consolidated financial statements. See introduction to "Average Balances and Interest Rates" for a discussion of the differences between interest income, interest expense and net interest result as calculated in the following table and as set forth in the consolidated financial statements.

	2020 over 2019 Increase (decrease) due to changes in			2019 over 2018 Increase (decrease) due to changes in		
	Average volume	Average rate	Net change	Average volume	Average rate	Net change
		(EUR millions)			(EUR millions)	
Interest-earning assets						
Time deposits to banks						
domestic	–11	1	–10	13	–5	8
foreign	10	–74	–64	11	–91	–80
Loans and advances						
domestic	–78	–764	–842	122	–337	–216
foreign	96	–2,316	–2,220	682	–540	142
Securities purchased with agreements to resell						
Domestic	21	–69	–48	15	32	47
foreign	–234	–1,132	–1,366	–256	525	269
Interest-earning securities						
Domestic	41	–75	–35	5	7	12
foreign	80	–290	–210	–11	–127	–138
Other interest-earning assets						
domestic	23	–52	–29	–6	28	22
foreign	62	–84	–22	–14	–1	–15
Interest income						
domestic	–4	–960	–964	149	–275	–126
foreign	14	–3,895	–3,882	412	–233	179
Total	**9**	**–4,855**	**–4,846**	**561**	**–508**	**53**
Other interest income			–759			–18
Total interest income			**–5,604**			**35**

	2020 over 2019			2019 over 2018		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Average volume	Average rate	Net change	Average volume	Average rate	Net change
	(EUR millions)			(EUR millions)		
Interest-bearing liabilities						
Time deposits from banks						
domestic	28	–46	–18	–0	7	7
foreign	65	–142	–77	–14	4	–9
Demand deposits						
domestic	119	–496	–377	29	180	209
foreign	5	–24	–20	4	–1	3
Time deposits						
domestic	–53	–154	–207	–139	84	–55
foreign	–97	–70	–167	–9	49	40
Savings deposits						
domestic	2	–39	–37	2	–10	–8
foreign	6	–680	–674	25	18	44
Short term debt						
domestic	–0	–62	–62	73	13	86
foreign	–6	–22	–27	–78	17	–61
Securities sold under agreements to repurchase						
domestic	–41	8	–33	–6	33	27
foreign	–162	–950	–1,113	–531	616	85
Commercial paper						
domestic	–5	–4	–10	–0	–1	–1
foreign	–19	–168	–187	–128	41	–87
Long term debt						
domestic	–179	–134	–313	476	–323	152
foreign	20	–103	–83	82	–547	–464
Subordinated liabilities						
domestic	59	–107	–47	–50	–8	–58
foreign	–3	0	–3	–0	0	0
Other interest-bearing liabilities						
domestic	114	–195	–81	–57	76	19
foreign	–12	–64	–77	–11	13	2

Interest expense						
domestic	44	–1,230	–1,186	328	50	378
foreign	–205	–2,224	–2,428	–659	212	–447
Total	**–161**	**–3,454**	**–3,615**	**–331**	**262**	**–69**
Other interest expense			–1,731			253
Total interest expense			**–5,345**			**184**
Net interest						
domestic	–48	270	222	–179	–325	–504
foreign	218	–1,672	–1,454	1,071	–445	626
Net interest	**170**	**–1,402**	**–1,231**	**893**	**–770**	**122**
Other net interest result			972			–271
Net interest result			**–259**			**–149**

The following table shows the interest spread and net interest margin for the past two years.

	2020 Average rate %	2019 Average rate %
Interest spread		
Domestic	1.1	1.2
Foreign	1.7	2.0
Total	**1.5**	**1.7**
Net interest margin		
Domestic	1.0	1.0
Foreign	1.7	2.1
Total	**1.5**	**1.7**

Investments in debt securities

The following tables show the weighted average yield of ING's investments on debt securities measured at amortised cost and fair value through other comprehensive income. The weighted average yield is calculated as follows:

Nominal value * coupon rate * remaining maturity

Nominal value * remaining maturity

Weighted average yield

2020	1 year or less	Between 1 and 5 years	Between 5 and 10 years	Over 10 years
Fair value through other comprehensive income				
Government bonds	1.90%	2.19%	0.98%	3.07%
Sub-sovereign, Supranationals and Agencies	2.61%	1.79%	1.03%	0.82%
Covered bonds	0.72%	0.44%	0.30%	
Corporate bonds	2.03%	0.98%	0.13%	
Financial institutions bonds	0.11%	1.21%	0.06%	
ABS portfolio			0.13%	0.02%

(1) Since substantially all investment securities held by the banking operations of the Company are taxable securities, the yields are on tax-equivalent basis.

Weighted average yield

2020	1 year or less	Between 1 and 5 years	Between 5 and 10 years	Over 10 years
Securities at amortised cost				
Government bonds	3.37%	2.17%	1.29%	4.27%
Sub-sovereign, Supranationals and Agencies	2.08%	1.33%	0.53%	0.14%
Covered bonds	2.18%	0.67%	0.24%	
Corporate bonds	0.26%	0.06%	0.08%	
Financial institutions bonds	0.25%	0.94%	2.06%	
ABS portfolio			0.16%	0.65%

(1) Since substantially all investment securities held by the banking operations of the Company are taxable securities, the yields are on tax-equivalent basis.

Loan Portfolio

Loans and advances to banks and customers

Loans and advances to banks include all receivables from credit institutions, except for cash, current accounts and deposits with other banks (including central banks). Loans and advances to customers includes lending facilities to corporate and private customers encompass among others, loans, overdrafts and finance lease receivables.

Maturities and sensitivity of loans to changes in interest rates

The following table analyses loans and advances to banks and customers by time remaining until maturity as of 31 December 2020.

2020	1 year or less	1 year to 5 years	5 years through 15 years	After 15 years	Total
By domestic offices:					
Loans guaranteed by public authorities	1,758	2,229	19,998	307	24,292
Loans secured by mortgages	6,207	16,436	88,339	4,194	115,176
Loans guaranteed by credit institutions	7,091	568	87		7,747
Other private lending	1,256	902	861		3,019
Other corporate lending	21,828	12,206	3,366	194	37,594
Total domestic offices	**38,140**	**32,341**	**112,652**	**4,695**	**187,827**
By foreign offices:					
Loans guaranteed by public authorities	4,205	6,145	5,828	1,032	17,210
Loans secured by mortgages	24,891	61,006	115,900	35,157	236,954
Loans guaranteed by credit institutions	16,604	3,236	2,981	14	22,836
Other private lending	6,931	12,346	5,042	456	24,776
Other corporate lending	52,432	65,760	16,625	711	135,527
Total foreign offices	**105,064**	**148,493**	**146,376**	**37,370**	**437,303**
Total gross loans and advances to banks and customers	**143,204**	**180,834**	**259,028**	**42,065**	**625,130**

The following table analyzes loans and advances to banks and customers by interest rate sensitivity by maturity as of 31 December 2020.

	Predetermined interest rates	Floating or adjustable interest rates [1]
Loans guaranteed by public authorities	26,314	9,225
Loans secured by mortgages	219,225	101,829
Loans guaranteed by credit institutions	3,318	3,547
Other private lending	15,968	3,640
Other corporate lending	20,285	78,577
Total	**285,109**	**196,817**

(1) Loans that have an interest rate that remains fixed for more than one year and which can then be changed are classified as "adjustable interest rates".

Allowance for credit losses

The following table presents the movements in allocation of the provision for loan losses on loans accounted for as loans and advances to banks and customers for 2020, 2019 and 2018 under IFRS-IASB.

Movements in allocation of the provision for loan losses on loans	2020	2019	2018
Balance on 1 January	4,645	4,568	4,521
Effect of changes in accounting policy			795
Change in the composition of the Group			
Write-offs	-1,200	-1,030	-1,044
Recoveries	39	55	53
Net write-offs	**-1,160**	**-975**	**-992**
Additions and other adjustments (included in value Adjustments to receivables of the Banking operations)	2,369	1,052	244
Balance on 31 December	**5,854**	**4,645**	**4,568**
Average loans and advances to banks and customers	645,134	644,139	616,140
Ratio of net charge-offs to average loans and advances to banks and customers	**0.18%**	**0.15%**	**0.16%**
Ratio of allowance for credit losses to total loans and advances to banks and customers outstanding	**0.94%**	**0.72%**	**0.73%**

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 macro-economic 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 potential credit losses as a result of the Government support measures. Reference is made to Note 1 'Accounting policies' and 'Additional information – Risk Management' for detailed information on loan loss provisioning.

Deposits

Reference is made to 'Additional information – Average balances and interest rates' for detailed information on average amount of and the average rate paid on deposit categories.

For the years ended 31 December 2020, 2019 and 2018 the aggregate amount of deposits by foreign depositors in domestic offices was EUR27,850 million EUR 27,649 million and EUR 27,586 million, respectively.

Uninsured deposits

For the years ended 31 December 2020 and 2019 the amount of uninsured deposits, which were not covered by DGS, was EUR 171,802 million and EUR 164,793 million, respectively.

Deposit guarantee schemes (DGS) reimburse a limited amount to compensate depositors whose bank has failed. A fundamental principle underlying DGS is that they are funded entirely by banks, and that no taxpayer funds are used. Under EU rules, the Deposit Guarantee Scheme (DGS) guarantees deposits up to a maximum of EUR 100,000 per depositor in case of a bank failure.

On 31 December 2020, the amount of time deposits in excess of (local) deposit insurance regime and time deposits which are otherwise uninsured is as follows:

	Time deposits in excess on deposit insurance regime (EUR millions)	**Other uninsured Time deposits (EUR millions)**
3 months or less	2,352	11,754
6 months or less but over 3 months	523	2,401
12 months or less but over 6 months	406	914
Over 12 months	804	64,900
Total	**4,085**	**79,969**

For further detailed information on deposits reference is made to Note 12 ‘Deposits from banks’ and Note 13 ‘ Customer deposits’ of the consolidated financial statements.

Contents

Segment reporting

Additional notes to the consolidated financial statements

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Supervisory Board
ING Groep N.V.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of ING Groep N.V. and subsidiaries (‘the Company’) as of December 31, 2020 and 2019, the related consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes and specific disclosures described in Note 1 of the consolidated financial statements as being part of the consolidated financial statements (collectively: ‘the consolidated financial statements’). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (‘PCAOB’), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 8, 2021 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Changes in Accounting Principle

The Company changed its method of accounting for leases and financial instruments due to the adoption of International Financial Reporting Standard 16, ‘*Leases*’ in 2019, the early adoption of the amendments to IAS 39 ‘*Financial Instruments: Recognition and Measurement*’ and IFRS 7 ‘*Financial Instruments: Disclosures*’ in relation to the Interest Rate Benchmark Reform in 2019.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The Critical Audit Matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the Audit Committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements, and (2) involved our especially challenging, subjective, or complex judgements. The communication of Critical Audit Matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the Critical Audit Matters below, providing separate opinions on the Critical Audit Matters or on the accounts or disclosures to which they relate.

Assessment of Expected Credit Losses on loans and advances to customers and banks

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 594 billion and EUR 25 billion, respectively, as at December 31, 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 Critical 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.

The following are the primary procedures we performed to address this Critical 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 assessing 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.

Assessment of goodwill impairment

As discussed in Note 10 to the consolidated financial statements, goodwill was EUR 533 million as at December 31, 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 Critical 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.

The following are the primary procedures we performed to address this Critical 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).

/s/ KPMG Accountants N.V.

We have served as the Company's auditor since 2016.

Amstelveen, The Netherlands
March 8, 2021

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	25,364	35,136
Financial assets at fair value through profit or loss 4		
– Trading assets	51,356	49,254
– Non-trading derivatives	3,583	2,257
– 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	593,970	608,029
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	419	251
Deferred tax assets 37	1,596	1,242
Other assets 11	5,893	7,018
Total assets	**933,891**	**888,520**

in EUR million	2020	2019
Liabilities		
Deposits from banks 12	78,098	34,826
Customer deposits 13	609,517	574,355
Financial liabilities at fair value through profit or loss 14		
– Trading liabilities	32,709	28,042
– Non-trading derivatives	1,629	2,215
– Designated as at fair value through profit or loss	48,444	47,684
Current tax liabilities	342	554
Deferred tax liabilities 37	343	322
Provisions 15	691	688
Other liabilities 16	11,609	12,829
Debt securities in issue 17	82,065	118,528
Subordinated loans 18	15,805	16,588
Total liabilities	**881,250**	**836,631**
Equity 19		
Share capital and share premium	17,128	17,117
Other reserves	2,342	4,013
Retained earnings	32,149	29,866
Shareholders' equity (parent)	**51,619**	**50,996**
Non-controlling interests	1,022	893
Total equity	**52,640**	**51,889**
Total liabilities and equity	**933,891**	**888,520**

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	20,715	25,056	25,249
Other interest income	1,843	3,107	2,880
Total interest income	**22,559**	**28,163**	**28,129**
Interest expense using effective interest rate method	-7,402	-11,268	-11,171
Other interest expense	-1,605	-3,084	-2,997
Total interest expense	**-9,007**	**-14,353**	**-14,169**
Net interest income 20	**13,552**	**13,811**	**13,960**
Fee and commission income	4,514	4,439	4,240
Fee and commission expense	-1,503	-1,571	-1,442
Net fee and commission income 21	**3,011**	**2,868**	**2,798**
Valuation results and net trading income 22	474	-159	1,227
Investment income 23	152	188	183
Share of result from associates and joint ventures 8	66	82	146
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	20	214	118
Total income	**17,227**	**17,125**	**18,324**

	2020	2019	2018
Addition to loan loss provisions 7	2,675	1,120	656
Staff expenses 27	5,812	5,755	5,420
Other operating expenses 28	5,341	4,598	5,262
Total expenses	**13,828**	**11,472**	**11,338**
Result before tax from continuing operations	**3,399**	**5,653**	**6,986**
Taxation 37	1,070	1,652	2,116
Net result from continuing operations	**2,329**	**4,001**	**4,869**
Net result (before non-controlling interests)	**2,329**	**4,001**	**4,869**
Net result attributable to Non-controlling interests	78	99	108
Net result attributable to shareholders of the parent	**2,250**	**3,903**	**4,761**
in EUR			
Earnings per ordinary share 29			
Basic earnings per ordinary share	0.58	1.00	1.22
Diluted earnings per ordinary share	0.58	1.00	1.22
Earnings per ordinary share from continuing operations 29			
Basic earnings per ordinary share from continuing operations	0.58	1.00	1.22
Diluted earnings per ordinary share from continuing operations	0.58	1.00	1.22
Dividend per ordinary share 30	**0.12**	**0.24**	**0.68**

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)	2,329	4,001	4,869
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	58	1
Remeasurement of the net defined benefit asset/liability 36	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	199
Items that may subsequently be reclassified to the statement of profit or loss:			
Net change in fair value of debt instruments at FVOCI	25	-42	-177
Realised gains/losses on debt instruments at FVOCI reclassified to the statement of profit or loss	-34	-34	-56
Changes in cash flow hedge reserve	355	640	382
Exchange rate differences	-1,620	-29	-396
Share of other comprehensive income of associates and joint ventures and other income	6		14
Total comprehensive income	**728**	**4,674**	**4,381**
Comprehensive income attributable to:			
Non-controlling interests	133	142	132
Equity holders of the parent	595	4,532	4,250
	728	**4,674**	**4,381**

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 37 '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	17,117	4,013	29,866	50,996	893	51,889
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		20		20	5	25
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 36		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	43	6		6
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		**-1,770**	**114**	**-1,656**	**55**	**-1,601**
Net result		94	2,156	2,250	78	2,329
Total comprehensive income net of tax		**-1,676**	**2,271**	**595**	**133**	**728**
Dividends 30					-3	-3
Changes in treasury shares		5		5		5
Employee stock option and share plans	11		11	22	0	22
Changes in the composition of the group and other changes					-1	-1
Balance as at 31 December 2020	**17,128**	**2,342**	**32,149**	**51,619**	**1,022**	**52,640**

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	17,088	3,621	28,339	49,049	803	49,851
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		-43		-43	1	-42
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		49	9	58	-0	58
Remeasurement of the net defined benefit asset/liability 36		58		58		58
Exchange rate differences and other		-36		-36	7	-29
Share of other comprehensive income of associates and joint ventures and other income		69	-69			
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		211	418	629	44	673
Net result		180	3,723	3,903	99	4,001
Total comprehensive income net of tax		391	4,141	4,532	142	4,674
Dividends 30			-2,650	-2,650	-29	-2,679
Changes in treasury shares		1		1		1
Employee stock option and share plans	28		13	41	0	41
Changes in the composition of the group and other changes			23	23	-23	-0
Balance as at 31 December 2019	**17,117**	**4,013**	**29,866**	**50,996**	**893**	**51,889**

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	**17,045**	**4,362**	**27,022**	**48,429**	**715**	**49,144**
Effect of change in accounting policy due to implementation of IFRS 9		-604	-390	-993	-14	-1,008
Balance as at 1 January 2018	**17,045**	**3,759**	**26,632**	**47,435**	**700**	**48,136**
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		-177		-177	0	-177
Realised gains/losses on debt instruments at fair value through other comprehensive income reclassified to the statement of profit or loss		-54		-54	-2	-56
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 36		6		6		6
Exchange rate differences and other		-380		-380	-16	-396
Share of other comprehensive income of associates and joint ventures and other income		283	-270	14		14
Change in fair value of own credit risk of financial liabilities at fair value through profit or loss		199		199		199
Total amount recognised directly in other comprehensive income net of tax		-301	-211	-512	24	-488
Net result		160	4,601	4,761	108	4,869
Total comprehensive income net of tax		-141	4,391	4,250	132	4,381
Dividends 30			-2,607	-2,607	-61	-2,668
Changes in treasury shares		4		4		4
Employee stock option and share plans	44		19	63	0	63
Changes in the composition of the group and other changes [1]			-96	-96	31	-65
Balance as at 31 December 2018	**17,088**	**3,621**	**28,339**	**49,049**	**803**	**49,851**

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 31				
Result before tax		3,399	5,653	6,986
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	1,671	1,213	-1,763
Taxation paid		-1,734	-2,345	-1,602
Changes in:	– Net change in Loans and advances to/from banks, not available/payable on demand	53,078	-3,911	-211
	– Net change in Trading assets and Trading liabilities	2,566	-2,568	9,910
	– Loans and advances to customers	2,876	-16,687	-31,356
	– Customer deposits	39,740	18,040	19,709
	– Other31	-3,856	11,752	4,067
Net cash flow from/(used in) operating activities		**101,243**	**13,055**	**6,915**
Cash flows from investing activities				
Investments and advances:	- Acquisition of subsidiaries, net of cash acquired		-17	-111
	- Associates and joint ventures	-24	-507	-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

		2020	2019	2018
Disposals and redemptions:	– Associates and joint ventures	24	67	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**	**-2,495**	**5,451**
Cash flows from financing activities				
Proceeds from debt securities		65,308	90,793	152,543
Repayments of debt securities		-99,212	-94,497	-131,170
Proceeds from issuance of subordinated loans		2,165	3,429	1,859
Repayments of subordinated loans		-2,786	-933	-4,646
Repayments of principal portion of lease liabilities [1]		-273	-271	n/a
Purchase/sale of treasury shares		5	1	4
Dividends paid		-3	-2,679	-2,607
Other financing		-1	2	
Net cash flow from/(used in) financing activities		**-34,796**	**-4,154**	**15,983**
Net cash flow		**57,960**	**6,406**	**28,349**
Cash and cash equivalents at beginning of year 33		54,031	47,529	18,977
Effect of exchange rate changes on cash and cash equivalents		-425	95	204
Cash and cash equivalents at end of year 33		**111,566**	**54,031**	**47,529**

1 The amounts for the period ended 31 December 2020 and 2019 have been prepared in accordance with IFRS 16. 2018 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 was mainly driven by ING’s participation of EUR 59.5 billion in the targeted longer-term refinancing operations (TLTRO III) in 2020, which was mainly placed on deposit with the ECB as at 31 December and by increased customer deposits. Reference is made to Note 33 ‘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	23,352	28,957	28,722
Interest paid	-9,672	-14,550	-14,948
	13,680	**14,407**	**13,774**
Dividend received [1]	144	219	183
Dividend paid	-3	-2,679	-2,607

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 Groep N.V. is a company domiciled in Amsterdam, the Netherlands. Commercial Register of Amsterdam, number 33231073. These Consolidated financial statements, as at and for the year ended 31 December 2020, comprise ING Groep N.V. (the Parent company) and its subsidiaries, together referred to as ING Group. ING Group 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 Group Consolidated financial statements, as at and for the year ended 31 December 2020, were authorised for issue in accordance with a resolution of the Executive Board on 8 March 2021.

1.2 Basis of preparation of the Consolidated financial statements

The ING Group Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board for purposes of reporting with the U.S. Securities and Exchange Commission (SEC), including financial information contained in this Annual report on Form 20-F. The term 'IFRS-IASB' is used to refer to International Financial Reporting Standards as issued by the International Accounting Standards Board, including the decisions ING Group made with regard to the options available under IFRS-IASB.

The ING Group Consolidated financial statements have been prepared on a going concern basis and there are no significant doubts about the ability of ING Group to continue as a going concern. In 2020 ING Group's capital and liquidity position remained strong despite the Covid-19 impact and ING Group 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 Group 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.

1.2.2 Reconciliation between IFRS-EU and IFRS-IASB

The published 2020 Annual Accounts of ING Group are prepared in accordance with IFRS-EU. IFRS-EU refers to International Financial Reporting Standards ('IFRS') as adopted by the European Union (EU), including the decisions ING Group made with regard to the options available under IFRS as adopted by the EU. IFRS-EU differs from IFRS-IASB in respect of certain paragraphs in IAS 39 'Financial Instruments: Recognition and Measurement' regarding hedge accounting for portfolio hedges of interest rate risk.

Under IFRS-EU, ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (fair value macro hedges) in accordance with the EU carve-out version of IAS 39. Under the EU IAS 39 carve-out, hedge accounting may be applied, in respect of fair value macro hedges, to core deposits and hedge ineffectiveness is only recognised when the revised estimate of the amount of cash flows in scheduled time buckets falls below the original designated amount of that bucket and is not recognised when the revised amount of cash flows in scheduled time buckets is more than the original designated amount. Under IFRS-IASB, hedge accounting for fair value macro hedges cannot be applied to core deposits and ineffectiveness arises whenever the revised estimate of the amount of cash flows in scheduled time buckets is either more or less than the original designated amount of that bucket.

This information is prepared by reversing the hedge accounting impacts that are applied under the EU 'carve-out' version of IAS 39. Financial information under IFRS-IASB accordingly does not take account of the possibility that had ING Group applied IFRS-IASB as its primary accounting framework it might have applied alternative hedge strategies where those alternative hedge strategies could have qualified for IFRS-IASB compliant hedge accounting. These decisions could have resulted in different shareholders' equity and net result amounts compared to those indicated in this Annual Report on Form 20-F.

A reconciliation between IFRS-EU and IFRS-IASB is included below.
Both IFRS-EU and IFRS-IASB differ in several areas from accounting principles generally accepted in the United States of America (US GAAP).

Reconciliation net result under IFRS-EU and IFRS-IASB

	Net result		
	2020	2019	2018
In accordance with IFRS-EU (attributable to the shareholders of the parent)	2,485	4,781	4,703
Adjustment of the EU IAS 39 carve-out	-410	-1,181	148
Tax effect of the adjustment [1]	176	303	-90
Effect of adjustment after tax	-234	-878	58
In accordance with IFRS-IASB (attributable to the shareholders of the parent)	2,250	3,903	4,761
Non-controlling interests	78	99	108
In accordance with IFRS-IASB Total net result	**2,329**	**4,001**	**4,869**

[1] includes the effect of changes in tax rate.

Reconciliation shareholders' equity under IFRS-EU and IFRS-IASB

	Total Equity		
	2020	2019	2018
In accordance with IFRS-EU (attributable to the shareholders of the parent)	54,637	53,769	50,932
Adjustment of the EU IAS 39 carve-out	-4,081	-3,658	-2,460
Tax effect of the adjustment	1,063	885	577
Effect of adjustment after tax	-3,018	-2,773	-1,883
Shareholders' equity	51,619	50,996	49,049
Non-controlling interests	1,022	893	803
In accordance with IFRS-IASB Total Equity	**52,640**	**51,889**	**49,851**

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 Group 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 Group 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 Group. 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 Group 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 Group 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, 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 Group.

The various measures by governments and ING Group 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 the 'Credit risk' paragraph of the 'Risk management' section.

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 Group 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 Group 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 Group 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 39 'Derivatives and hedge accounting' for more information on the adoption of these amendments.

In 2020 ING Group 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 Group's accounting policies, ING Group'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 Group 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 Group. ING Group 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 Group'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 Group:

<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 are effective for annual reporting periods beginning on or after 1 June 2020, with early application permitted. Once they become effective for ING Group in 2021, the amendments will not have material impact on ING Group's accounting policies, ING Group's results or financial position. In 2020 ING Group did not receive rent concessions as a lessee. This is why the amendments were not relevant and, hence, not early adopted by ING Group 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 Group, 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 Group applies these amendments, ING Group 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 Group applies Phase 2 amendments, ING Group 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 Group 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.

ING Group did not early adopt Phase 2 amendments in 2020 as Phase 2 reliefs were largely not yet relevant for ING Group. During 2021, ING Group 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 Group.

<u>Effective in 2022:</u>

- 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 Group is currently assessing the detailed impact of the above amendments, it is expected that they will not have a significant impact on ING Group's accounting policies, ING Group's results or financial position.

<u>Effective in 2023:</u>

- 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 Group is currently assessing the detailed impact of the above amendments, it is expected that they will not have a significant impact on ING Group’s accounting policies, ING Group’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 Group 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 Group 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 Group’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 Group 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 Group updated its Definition of Default in 1Q 2020. Consequently, ING Group 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 Group’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 Group 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 Group 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 Group 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 Group has a reasonable expectation that the lending targets will be met.

ING Group 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 Group’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 Group applied judgement in:

- assessing and concluding that in ING Group’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 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 Group 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 Group 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 Group has transferred substantially all risks and rewards of ownership. If ING Group 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 Group 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 Group 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 Group'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 Group 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 Group'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 Group 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 Group 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 Group 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 Group 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 Group applies the fair value through OCI option to investments which are considered strategic, consisting of investments that add value to ING Group'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 Group'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 Group 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 Group 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 Group 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 Group 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 Group'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 Group (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 Group applies an additional 'Funding Valuation Adjustment' (FVA) to the uncollateralised derivatives based on the market price of funding liquidity.

ING Group 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 Group observed large volatility in the market resulting in widened spreads, markets distortion and illiquidity in some specific markets which has stressed ING Group'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 Group continued to limit the unobservable input to arrive at the most appropriate Fair Market value.

Reference is made to note 38 '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 Group'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 Group 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 Group documents the relationship between hedging instruments and hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. ING Group 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 Group 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 of 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 Group early adopted the Phase 1 amendments to IFRS which allowed ING Group 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 Group 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 Group in 2020. ING Group will cease to apply the amendments when this uncertainty is no longer present or when the hedging relationship is discontinued. Refer to Note 39 'Derivatives and hedge accounting' for the disclosures relating to the application of the amendments as part of Phase 1.

In 2020 ING Group 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 Group as part of its risk management strategies, but which do not qualify for hedge accounting under ING Group'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 Group 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 44 '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 Group 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 Group 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 Group'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 Group 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 Group 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 Group for internal risk management purposes, which is also the definition used for regulatory purposes.

Macroeconomic scenarios

ING Group has established a quarterly process whereby forward-looking macroeconomics scenarios and probability weightings are developed for the purpose of ECL. ING Group applies data predominantly from a leading service provider (Oxford Economics (OE)) enriched with the internal ING Group 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 Group 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 Group 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 Group 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 Group'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 Group 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 Group'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 Group 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 Group 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 Group 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 Group 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 Group ends the relationship with the client and situations where ING Group (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 Group 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 Group'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 Group 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 Group'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 Group 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 Group 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 Group 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 Group comprises ING Groep N.V. (the Parent Company), ING Bank N.V. and all other subsidiaries. Subsidiaries are entities controlled by ING Groep N.V. Control exists if ING Groep 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 Group 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 47 ‘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 Group has agreed to sell but is still legally owned by ING Group may still be controlled by ING Group 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 Groep N.V.

ING Groep 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 Group, engaged in providing products or services, whose operating results are regularly reviewed by the Executive Board of ING Group 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 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 segments operating in other economic environments.

The CODM examines ING Group’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 Group'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 Group'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 shareholders' 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 Group 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 Group 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 Group's investment in associates and joint ventures (net of any accumulated impairment loss) includes goodwill identified on acquisition. ING Group'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 Group'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 Group 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 Group and its associates and joint ventures are eliminated to the extent of ING Group'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 Group.

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 shareholders' 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 Group 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 Group 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 Group. 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 Group business and treasury departments. It is determined by either ING Group 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 to 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 Group as the lessor

When ING Group acts as a lessor, a distinction should be made between finance leases and operating leases. For ING Group 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 Group 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 Group'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 Group'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 Group'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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group; 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 Group. 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 Group 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 Group 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 45 '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 Shareholders' 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 Shareholders' 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 Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. ING Group 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 Group 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 Group 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 Group 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 service providers in order to perform the service for ING Group’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 Group 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 Earnings per ordinary share

Earnings per ordinary share is calculated on the basis of the weighted average number of ordinary shares outstanding. In calculating the weighted average number of ordinary shares outstanding:

- Own shares held by group companies are deducted from the total number of ordinary shares in issue;
- The computation is based on daily averages; and
- In case of exercised warrants, the exercise date is taken into consideration.

Diluted earnings per share data are computed as if all convertible instruments outstanding at year-end were exercised at the beginning of the period. It is also assumed that ING Group uses the assumed proceeds thus received to buy its own shares against the average market price in the financial year. The net increase in the number of shares resulting from the exercise is added to the average number of shares used to calculate diluted earnings per share.

Share options with fixed or determinable terms are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. They are treated as outstanding on the grant date. Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

1.22 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.

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 42 '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	7,442	13,641	17,939	21,499	25,381	35,140
Cash advances, overdrafts and other balances	0	0	6	4	6	5
	7,442	**13,641**	**17,945**	**21,504**	**25,387**	**35,145**
Loan loss provisions	-10	-6	-13	-3	-23	-9
	7,432	**13,635**	**17,933**	**21,501**	**25,364**	**35,136**

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	51,356	49,254
Non-trading derivatives	3,583	2,257
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
	103,370	**96,187**

(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 Group 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 Group’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	7,809	8,499
Debt securities	5,183	6,256
Derivatives	27,238	21,694
Loans and receivables	11,126	12,806
	51,356	**49,254**

Trading assets include assets that are classified under IFRS as Trading, but are closely related to servicing the needs of the clients of ING Group. 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	1,033
	3,583	**2,257**

Reference is made to Note 39 ‘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 Group.

For details on ING Group'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 2020	Carrying value 2019	Dividend income 2020	Dividend income 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 Group's total exposure to debt securities.

6 Securities at amortised cost

Securities at amortised cost fully consist of Debt securities.
ING Group'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 Group'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	115,176	117,199	236,954	231,327	352,130	348,526
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	37,594	39,645	135,527	150,233	173,121	189,878
	180,385	**185,873**	**419,364**	**426,746**	**599,749**	**612,619**
Loan loss provisions	-1,286	-1,193	-4,493	-3,398	-5,779	-4,590
	179,099	**184,680**	**414,871**	**423,349**	**593,970**	**608,029**

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	593,871	607,908
Subordinated	99	121
	593,970	**608,029**

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 invest-ments	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 invest-ments	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	23	1,109	1,509	55,804	49,974	1,145	891
Other investments in associates and joint ventures			281				
			1,790				

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

TMB Bank Public Company Limited

ING Group 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 Group.

Significant influence for associates in which the interest held is below 20%, is based on the combination of ING Group'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	1,203
Additions	24	507
Revaluations	-3	-18
Share of results	66	82
Dividends received	-12	-58
Disposals	-12	-10
Impairments	-235	-34
Exchange rate differences	-144	113
Other	0	4
Closing balance	**1,475**	**1,790**

Share of results from associates and joint ventures of EUR 66 million (2019: EUR 82 million) as included in the table above is mainly attributable to results of TMB of EUR 70 million (2019: EUR 77 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

	Method used for recoverable amount	Discount rate	Terminal growth rate	Goodwill	Goodwill
Group of CGU's				2020	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 Group 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 Group 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 Group. 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	781	783
Amounts to be settled	2,215	2,835
Other	2,079	2,546
	5,893	**7,018**

Disclosures in respect of Net defined benefit assets are provided in Note 36 '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	336,392	326,864
Credit balances on customer accounts	256,636	224,022
Corporate deposits	15,941	22,329
Other	548	1,140
	609,517	**574,355**

Customer deposits by type

	Netherlands		Rest of the world		Total	
	2020	2019	2020	2019	2020	2019
Non-interest bearing	24,206	19,030	42,211	24,782	66,417	43,812
Interest bearing	174,641	159,546	368,459	370,997	543,100	530,543
	198,847	**178,576**	**410,671**	**395,779**	**609,517**	**574,355**

Savings accounts relate to the balances on savings accounts, savings books, savings deposits, and time deposits of private individuals.

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	2,215
Designated at fair value through profit or loss	48,444	47,684
	82,781	**77,942**

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	953
	1,629	**2,215**

Reference is made to Note 39 '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	6,276	8,053
Funds entrusted	41,911	39,386
Subordinated liabilities	258	246
	48,444	**47,684**

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 Group 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 8,634 million).

15 Provisions

Provisions by type

	2020	2019
Reorganisation provisions	381	385
Other provisions	310	303
	691	**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	201	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	4	-31	4	-31
Closing balance	**105**	**102**	**205**	**201**	**310**	**303**

Reference is made to Note 45 '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
Share-based payment plan liabilities	2	6
Other taxation and social security contributions	435	442
Rents received in advance	15	9
Costs payable	2,018	2,111
Amounts to be settled	4,877	4,741
Lease liabilities	1,339	1,507
Other	1,999	2,921
	11,609	**12,829**

Disclosures in respect of Net defined benefit liabilities are provided in Note 36 '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 Group, 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 Group 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	8,339	10,358
More than 2 years but less than 3 years	6,193	9,527
More than 3 years but less than 4 years	2,731	6,321
More than 4 years but less than 5 years	3,685	2,836
More than 5 years	28,706	29,007
Total fixed rate debt securities	**67,969**	**84,920**
Floating rate debt securities		
Within 1 year	8,699	24,938
More than 1 year but less than 2 years	3,050	3,126
More than 2 years but less than 3 years	1,526	3,041
More than 3 years but less than 4 years	138	1,541
More than 4 years but less than 5 years	91	144
More than 5 years	592	816
Total floating rate debt securities	**14,095**	**33,608**
Total debt securities	**82,065**	**118,528**

In 2020 Debt securities in issue decreased by EUR 36.5 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 8.6 billion in matured long term bonds and a reduction of EUR 2.1 billion in matured covered bonds.

18 Subordinated loans

Subordinated loans by group companies

	2020	2019
ING Groep N.V.	13,150	13,069
ING Group companies	2,654	3,519
	15,805	**16,588**

Subordinated loans issued by ING Groep N.V. include bonds issued to raise Tier 1 and Tier 2 (CRD IV eligible) capital for ING Bank N.V. Under IFRS these bonds are classified as liabilities and for regulatory purposes, they are considered capital. Subordinated loans issued by ING Group companies comprise, for the most part, subordinated loans which are subordinated to all current and future liabilities of ING Bank N.V.

Changes in subordinated loans

	2020	2019
Opening balance	16,588	13,724
New issuances	2,165	3,429
Repayments	-2,786	-933
Exchange rate differences and other	-163	367
Closing balance	**15,805**	**16,588**

In 2020 ING Groep N.V. issued in February USD 750 million 4.875% Perpetual Additional Tier 1 Contingent Convertible Capital Securities and in May EUR 1.5 billion 2.125% Subordinated Tier 2 Notes.

In 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 Groep N.V. redeemed USD 1 billion 6.000% Perpetual Additional Tier 1 Contingent Convertible Capital Securities and USD 700 million 6.125% Perpetual Debt Securities in April.

The average interest rate on subordinated loans is 3.73% (2019: 4.38%). The interest expense during the year 2020 was EUR 612 million (2019: EUR 660 million).

19 Equity

Total equity

	2020	2019	2018
Share capital and share premium			
- Share capital	39	39	39
- Share premium	17,089	17,078	17,050
	17,128	**17,117**	**17,088**
Other reserves			
- Revaluation reserve: Equity securities at FVOCI	1,181	1,580	1,914
- Revaluation reserve: Debt instruments at FVOCI	309	322	398
- 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	204
- Net defined benefit asset/liability remeasurement reserve	-307	-336	-394
- Currency translation reserve	-3,636	-2,079	-2,043
- Share of associates and joint ventures and other reserves	3,246	3,189	2,940
- Treasury shares	-4	-10	-11
	2,342	**4,013**	**3,621**
Retained earnings	32,149	29,866	28,339
Shareholders' equity (parent)	51,619	50,996	49,049
Non-controlling interests	1,022	893	803
Total equity	**52,640**	**51,889**	**49,851**

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	14,729,000	14,729,000	14,729,000	147	147	147
Unissued share capital	10,828,331	10,832,266	10,837,272	108	108	108
Issued share capital	**3,900,669**	**3,896,734**	**3,891,728**	**39**	**39**	**39**

Changes in issued share capital

	Ordinary shares (par value EUR 0.01)	
	Number x 1,000	Amount
Issued share capital as at 1 January 2018	3,885,790	39
Issue of shares	5,938	
Issued share capital as at 31 December 2018	**3,891,728**	**39**
Issue of shares	5,006	
Issued share capital as at 31 December 2019	**3,896,734**	**39**
Issue of shares	3,934	
Issued share capital as at 31 December 2020	**3,900,669**	**39**

In 2020, ING Groep N.V. issued 3.9 million ordinary shares (2019: 5.0 million ordinary shares, 2018: 5.9 million). These issues were made in order to fund obligations arising from share-based employee incentive programmes.

In 2020, 2019 and 2018 respectively, ING Groep N.V. issued USD 750 million, USD 2,750 million and nil Perpetual Additional Tier 1 Contingent Convertible Capital Securities which can, in accordance with their terms and conditions, convert by operation of law into ordinary shares if the conditions to such conversion are fulfilled. As a result of this conversion, the issued share capital can increase by no more than 83 million ordinary shares (2019: 306 million ordinary shares). Reference is made to Note 18 'Subordinated loans'.

Ordinary shares

All ordinary shares are registered. No share certificates have been issued. The par value of ordinary shares is EUR 0.01. The authorised ordinary share capital of ING Groep N.V. currently consists of 14,729 million ordinary shares. As at 31 December 2020, 3,901 million ordinary shares were issued and fully paid.

Ordinary shares held by ING Group (Treasury shares)

As at 31 December 2020, 0.6 million ordinary shares (2019: 0.9 million and 2018: 1.1 million) of ING Groep N.V. with a par value of EUR 0.01 are held by ING Groep N.V. or its subsidiaries. The obligations with regard to the existing stock option plan and the share plans will be funded either by cash or by newly issued shares at the discretion of ING Group.

Share premium

Share premium	2020	2019	2018
Opening balance	17,078	17,050	17,006
Issue of shares	11	28	44
Closing balance	**17,089**	**17,078**	**17,050**

The increase in share premium, is a result of the issuance of ordinary shares related to share-based employee incentive programmes.

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	322	398	n/a	n/a	n/a	3,447	1,208	604	263	-114	8	n/a	253	204	203
Effect of change in accounting policy due to the implementation of IFRS 9			2,432			629			-3,447						-190			
Changes in credit liability reserve													-19	-116	199			
Unrealised revaluations	-337	137	-461	20	-43	-177				242	604	342				-7	58	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**	**309**	**322**	**398**	**n/a**	**n/a**	**n/a**	**1,450**	**1,208**	**604**	**-117**	**-114**	**8**	**221**	**253**	**204**

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 36 'Pension and other post-employment benefits'.

Currency translation reserve

Changes in currency translation reserve	2020	2019	2018
Opening balance	-2,079	-2,043	-1,663
Unrealised revaluations	106	-134	71
Realised gains/losses transferred to the statement of profit or loss	-1	-138	0
Exchange rate differences	-1,662	236	-451
Closing balance	**-3,636**	**-2,079**	**-2,043**

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 -18 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	2,940	2,527
Effect of change in accounting policy due to the implementation of IFRS 9			-28
Result for the year	94	180	160
Transfer to/from retained earnings	-37	69	280
Closing balance	**3,246**	**3,189**	**2,940**

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.

Treasury shares

Changes in treasury shares	Amount			Number		
	2020	2019	2018	2020	2019	2018
Opening balance	-10	-11	-15	919,387	1,137,701	944,257
Purchased/sold	5	1	4	-347,716	-218,314	193,444
Closing balance	**-4**	**-10**	**-11**	**571,671**	**919,387**	**1,137,701**

Retained earnings

Changes in retained earnings	2020	2019	2018
Opening balance	29,866	28,339	27,022
Effect of change in accounting policy due to the implementation of IFRS 9			-390
Transfer to/from other reserves	108	418	-211
Result for the year	2,156	3,723	4,601
Dividend		-2,650	-2,607
Employee stock options and share plans	11	13	19
Changes in composition of the group and other changes	6	23	-96
Closing balance	**32,149**	**29,866**	**28,339**

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 nil (2019: EUR 2,650 million and 2018: EUR 2,607 million) was paid to the shareholders of ING Group.
For further information, reference is made to Note 30 'Dividend per ordinary share'.

Ordinary shares - 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; 2018: EUR 1,638 million) related to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN is included.

ING Groep N.V. is subject to legal restrictions regarding the amount of dividends it can pay to the holders of its ordinary shares. 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 Groep N.V.'s ability to pay dividends is dependent on the dividend payment ability of its subsidiaries, associates and joint ventures. ING Groep 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 Group's subsidiaries, associates and joint ventures are as follows:

Non-distributable reserves

	2020	2019	2018
ING Bank	9,829	8,397	7,603
Other	2	0	97
Non-distributable reserves	**9,831**	**8,398**	**7,700**

In addition to the legal and regulatory restrictions on distributing dividends from subsidiaries, associates and joint ventures to ING Groep N.V. there are various other considerations and limitations that are taken into account in determining the appropriate levels of equity in the Group'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 Group 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 ordinary shares are the most junior securities issued by ING Groep N.V., no specific dividend payment restrictions with respect to ordinary shares exist. The European Central Bank has recommended banks in December 2020 to limit dividend distributions out of cumulative 2019 and 2020 profits, given the persisting uncertainty over the economic impact the Covid-19 pandemic.
Refer to 'Capital Management' section for further details.

Furthermore, ING Groep N.V. is subject to legal restrictions with respect to repayment of capital to holders of ordinary shares. Pursuant to the Dutch Civil Code, capital may only be repaid if none of ING Groep N.V.'s creditors opposes such a repayment within two months following the announcement of a resolution to that effect.

Cumulative preference shares (not issued)

Pursuant to the Articles of Association of ING Groep N.V. the authorised cumulative preference share capital consists of 4.6 billion cumulative preference shares, of which none have been issued. The par value of these cumulative preference shares is EUR 0.01.

The cumulative preference shares rank before the ordinary shares in entitlement to dividend and to distributions upon liquidation of ING Groep N.V.

The dividend on the cumulative preference shares will be equal to a percentage, calculated on the amount compulsorily paid up or yet to be paid up. This percentage shall be equal to the average of the Euro short-term rate (€STR) as calculated by the European Central Bank during the financial year for which the distribution is made; this percentage being weighted on the basis of the number of days for which it applies, and increased by 2.585 percentage points.

If, and to the extent that the profit available for distribution is not sufficient to pay the dividend referred to above in full, the shortfall will be made up from the reserves insofar as possible. If, and to the extent that, the dividend distribution cannot be made from the reserves, the profits earned in subsequent years shall first be used to make up the shortfall before any distribution may be made on shares of any other category.

ING Groep N.V.’s Articles of Association make provision for the cancellation of cumulative preference shares. Upon cancellation of cumulative preference shares and upon liquidation of ING Groep N.V., the amount paid up on the cumulative preference shares will be repaid together with the accrued dividend as well as any dividend shortfall in preceding years, insofar as this shortfall has not yet been made up.

No specific dividend payment restrictions with respect to the cumulative preference shares exist.

Notes to the Consolidated statement of profit or loss

20 Net interest income

Net interest income

	2020	2019	2018
Interest income on loans	15,624	19,028	18,966
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	4,319	4,497
Negative interest on liabilities	678	422	453
Total interest income using effective interest rate method	**20,715**	**25,056**	**25,249**
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)	1,154	1,181	1,059
Interest income other	32	30	25
Total other interest income	**1,843**	**3,107**	**2,880**
Total interest income	**22,559**	**28,163**	**28,129**

	2020	2019	2018
Interest expense on deposits from banks	177	361	362
Interest expense on customer deposits	1,331	2,934	2,607
Interest expense on debt securities in issue	1,732	2,350	2,254
Interest expense on subordinated loans	612	660	711
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	**7,402**	**11,268**	**11,171**
Interest expense on financial liabilities at fair value through profit or loss	514	1,695	1,578
Interest expense on non-trading derivatives (no hedge accounting)	1,029	1,311	1,387
Interest expense on lease liabilities	18	25	n/a
Interest expense other	44	54	33
Total other interest expense	**1,605**	**3,084**	**2,997**
Total interest expense	**9,007**	**14,353**	**14,169**
Net interest income	**13,552**	**13,811**	**13,960**

Total net interest income amounts to EUR 13,552 million (2019: EUR 13,811 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 678 million (2019: EUR 422 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	448
	1,503	**1,571**	**1,442**

Reference is made to Note 34 ‘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	116
Change in fair value of derivatives relating to			
– fair value hedges [1]	538	507	185
– cash flow hedges (ineffective portion)	-5	47	-19
– other non-trading derivatives [1]	-90	-732	868
Change in fair value of assets and liabilities (hedged items)	-541	-518	-176
Valuation results on assets and liabilities designated at FVPL (excluding trading)	-123	-358	366
Foreign exchange transactions results	422	801	69
	474	**-159**	**1,227**

1 The 2019 prior period has been updated to improve consistency and comparability.

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 Group'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 39 '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 -1 million (2019: EUR -424 million; 2018: EUR 302 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	19	41	49
External employees	881	974	901
Education	43	64	87
Other staff costs	186	208	202
	5,812	**5,755**	**5,420**

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, Executive Board and Supervisory Board

Reference is made to Note 49 'Related parties'.

Stock option and share plans

ING Groep 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 Executive Board, general managers and other officers nominated by the Executive Board), and to a considerable number of employees of ING Group. The purpose of the option and share schemes, apart from promoting a lasting growth of ING Group, is to attract, retain and motivate senior executives and staff.

ING grants various types of share awards, namely deferred shares, performance shares and upfront shares, which form part of the variable remuneration offering via the Long-term Sustainable Performance Plan (LSPP). 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 is 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 Group as well as identified staff, have a retention obligation that must be adhered to upon vesting, typically a minimum retention of 12 months applies. ING has the authority to apply a holdback to awarded but unvested shares and a clawback to vested shares.

In addition to the LSPP share awards, ING paid a number of senior employees fixed shares. The number of shares were determined each month from a cash value that forms part of the employee fixed remuneration. The shares were immediately vested to the employee, but had 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, 63,837 share awards (2019: 0; 2018:31,743) were granted to the members of the Executive Board of ING Groep N.V., and 122,338 share awards (2019: 2,837; 2018: 80,036) were granted to the Management Board Banking. To senior management and other employees 3,678,776 share awards (2019: 2,167,817; 2018: 3,989,214) were granted.

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 share plans are funded by newly issued shares at the discretion of ING Group.

Changes in share awards	Share awards (in numbers)			Weighted average grant date fair values (in euros)		
	2020	2019	2018	2020	2019	2018
Opening balance	3,857,048	5,854,999	7,222,279	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	-244,803	8.55	11.39	11.52
Closing balance	**3,878,219**	**3,857,048**	**5,854,999**	7.25	11.14	11.62

As at 31 December 2020 the share awards consists of 3,326,457 share awards (2019: 3,346,004; 2018: 5,211,339) relating to equity-settled share-based payment arrangements and 551,762 share awards (2019: 511,044; 2018: 643,660) relating to cash-settled share-based payment arrangements.

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	2,356,343	5,123,853	15,141,980	7.35	5.69	12.36
Exercised	-679,471	-2,186,316	-827,755	7.34	4.40	5.91
Forfeited	-2,490	-45,852	-89,816	7.35	7.01	8.09
Expired	-1,674,382	-535,342	-9,100,556	7.36	3.51	16.75
Closing balance	**0**	**2,356,343**	**5,123,853**		7.35	5.69

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	418	416	358
Office expenses	320	325	564
Travel and accommodation expenses	68	140	179
Contributions and subscriptions	110	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	532	477	1,332
	5,341	**4,598**	**5,262**

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

Total audit and non-audit services include the following fees for services provided by the Group's auditor.

Fees of Group's auditors

	2020	2019	2018
Audit fees	25	21	19
Audit related fees	1	2	1
Total [1]	**26**	**23**	**20**

1 The Group's auditors did not provide any non-audit services.

Fees as disclosed in the table above relate to the network of the Group's auditors and are the amounts related to the respective years, i.e. on an accrual basis. The increase in 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 45 ‘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 45 ‘Legal proceedings’.

29 Earnings per ordinary share

Earnings per ordinary share

	Amount (in EUR million)			Weighted average number of ordinary shares outstanding during the period (in millions)			Per ordinary share (in EUR)		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Basic earnings	2,250	3,903	4,761	3,898.9	3,894.8	3,888.9	0.58	1.00	1.22
Basic earnings from continuing operations	**2,250**	**3,903**	**4,761**				**0.58**	**1.00**	**1.22**
Effect of dilutive instruments:									
Stock option and share plans				2.2	0.5	1.5			
				2.2	**0.5**	**1.5**			
Diluted earnings	2,250	3,903	4,761	3,901.1	3,895.3	3,890.4	0.58	1.00	1.22
Diluted earnings from continuing operations	**2,250**	**3,903**	**4,761**				**0.58**	**1.00**	**1.22**

Dilutive instruments

Diluted earnings per share is calculated as if the stock options and share plans outstanding at the end of the period had been exercised at the beginning of the period and assuming that the cash received from exercised stock options and share plans is used to buy own shares against the average market price during the period. The net increase in the number of shares resulting from exercising stock options and share plans is added to the average number of shares used for the calculation of diluted earnings per share.

30 Dividend per ordinary share

Dividends to shareholders of the parent

	Per ordinary share (in EUR)	Total (in EUR million)
Dividends on ordinary shares:		
In respect of 2018		
- Interim dividend, paid in cash in August 2018	0.24	934
- Final dividend, paid in cash in May 2019	0.44	1,714
Total dividend in respect of 2018	**0.68**	**2,648**
In respect of 2019		
- Interim dividend, paid in cash in August 2019	0.24	935
- Final dividend		0
Total dividend in respect of 2019	**0.24**	**935**
In respect of 2020		
- Interim dividend, paid in February 2021	0.12	468
Total dividend in respect of 2020	**0.12**	**468**

ING Groep N.V. is required to withhold tax of 15% on dividends paid.

In March 2020, ING Group announced that it will suspend any payment of dividends until 1 October 2020 following an industry wide recommendation of the ECB. The ECB subsequently updated their recommendation, lastly in December 2020, extending the timeframe to 1 October 2021. Final dividend 2019 was therefore not paid in 2020.

ING paid in February 2021 a cash-only interim dividend of EUR 468 million (EUR 0.12 per share). This amount is equal to 15% of adjusted net profit for 2020, in line with the ECB recommendation of 15 December 2020, which included a definition of adjusted net profit.

Refer to note 51 Capital Management for more information about the change in ING's dividend policy and the ECB recommendations regarding dividend payments

31 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		3,399	5,653	6,986
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	1,671	1,213	-1,763
Taxation paid		-1,734	-2,345	-1,602
Changes in:	– Loans and advances to banks, not available on demand	10,033	-1,338	-777
	– 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	**53,078**	**-3,911**	**-211**
	– Trading assets	-2,101	605	16,928
	– Trading liabilities	4,667	-3,173	-7,018
	Net change in Trading assets and Trading liabilities	**2,566**	**-2,568**	**9,910**
	Loans and advances to customers	2,876	-16,687	-31,356
	Customer deposits	39,740	18,040	19,709
	– Non–trading derivatives	-1,440	1,072	-215
	– Assets designated at fair value through profit or loss	-1,369	-7	-725
	– Assets mandatorily at fair value through profit or loss	-1,963	23,343	-6,968
	– Other assets	1,082	1,363	684
	– Other financial liabilities at fair value through profit or loss	1,189	-12,235	10,522
	– Provisions and other liabilities	-1,355	-1,784	769
	Other	**-3,856**	**11,752**	**4,067**
Net cash flow from/(used in) operating activities		**101,243**	**13,055**	**6,915**

32 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	118,528	119,751	16,588	13,724	1,507	n/a	136,622	133,475
Effect of change in accounting policy due to the implementation of IFRS 16						1,301		1,301
Cashflows:								
Additions	65,308	90,793	2,165	3,429	0	0	67,472	94,222
Redemptions / Disposals	-99,212	-94,497	-2,786	-933	-273	-271	-102,270	-95,700
Non cash changes:								
Amortisation	68	135	5	1	18	25	92	161
Other	-105	21	-20	26	118	443	-6	490
Changes in FV	880	1,018	397	201	0	0	1,277	1,220
Foreign exchange movement	-3,403	1,306	-545	140	-31	8	-3,980	1,454
Closing balance	**82,065**	**118,528**	**15,805**	**16,588**	**1,339**	**1,507**	**99,208**	**136,622**

33 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	478	786	-2,617
Cash and balances with central banks	111,087	53,202	49,987
Cash and cash equivalents at end of year	**111,566**	**54,031**	**47,529**

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	9,266	9,304	5,903
	478	**786**	**-2,617**
Not included in cash and cash equivalents:			
– Deposits from banks	-69,310	-26,307	-28,811
– Loans and advances to banks	16,098	25,832	24,519
	-53,212	**-476**	**-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	25,364	35,136	30,422
	-52,733	**310**	**-6,909**

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 42 'Transfer of financial assets, assets pledged and received as collateral' for restrictions on Cash and balances with central banks.

Segment reporting

34 Segments

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

The Executive Board of ING Group and the Management Board Banking 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 Executive Board of ING Group and the Management Board Banking.

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 Group monitors and evaluates the performance of ING Group at a consolidated level and by segment using results based on figures according to IFRS as adopted by the European Union (IFRS-EU). The Executive Board and the Management Board Banking consider this measure to be relevant to an understanding of the Group's financial performance, because it allows investors to understand the primary method used by management to evaluate the Group's operating performance and make decisions about allocating resources.

In addition, ING Group believes that the presentation of results in accordance with IFRS-EU helps investors compare its segment performance on a meaningful basis by highlighting result before tax attributable to ongoing operations and the profitability of the segment businesses. IFRS-EU result is derived by including the impact of the IFRS-EU 'IAS 39 carve out' adjustment.

The IFRS-EU 'IAS 39 carve-out' adjustment relates to fair value portfolio hedge accounting strategies for the mortgage and savings portfolios in the Benelux, Germany and Other Challengers that are not eligible under IFRS-IASB. As no hedge accounting is applied to these mortgage and savings portfolios under IFRS-IASB, the fair value changes of the derivatives are not offset by fair value changes of the hedge items (mortgages and savings).

The segment reporting in the annual report on Form 20-F has been prepared in accordance with International Financial Reporting Standards as issued by the EU (IFRS-EU) and reconciled to International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS-IASB) for consistency with the other financial information contained in this report. The difference between the accounting standards is reflected in the Wholesale Banking segment, and in the geographical split of the segments in the Netherlands, Belgium, Germany and Other Challengers.

Reference is made to Note 1 'Basis of preparation and accounting policies' for a reconciliation between IFRS-EU and IFRS-IASB. 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.

ING Group 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, as well as a EUR 90 million net result from the former Insurance activities. 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 executive Board is no longer based on underlying results but on IFRS as endorsed by the EU. Previously monitoring and evaluation of ING Group's segments was based on a non-GAAP financial performance measure called underlying. Underlying result was derived by excluding the impact of the IFRS-EU 'IAS 39 carve-out' adjustment, special items, divestments and results from former insurance related activities from the IFRS-EU results. 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 special item related to the settlement agreement with the Dutch authorities on regulatory issues, as well as a EUR 90 million net result from the former Insurance activities.

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

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.

Reconciliation between IFRS-IASB and IFRS-EU income, expense and net result

	2020					2019					2018 [4]				
	Income	Expenses	Taxation	Non-controlling interests	Net result [1]	Income	Expenses	Taxation	Non-controlling interests	Net result [1]	Income	Expenses	Taxation	Non-controlling interests	Net result [1]
Net result IFRS-IASB attributable to equity holder of the parent	**17,227**	**13,828**	**1,070**	**78**	**2,250**	**17,125**	**11,472**	**1,652**	**99**	**3,903**	**18,324**	**11,338**	**2,116**	**108**	**4,761**
Remove impact of:															
Adjustment of the EU 'IAS 39 carve out' [2]	410		176		234	1,181		303		878	-148		-90		-58
Result IFRS-EU [3]	**17,637**	**13,828**	**1,246**	**78**	**2,485**	**18,306**	**11,472**	**1,955**	**99**	**4,781**	**18,176**	**11,338**	**2,027**	**108**	**4,703**

1. Net result, after tax and non-controlling interests.
2. ING prepares the Form 20-F in accordance with IFRS-IASB. This information is prepared by reversing the hedge accounting impacts that applied under the EU 'carve-out' version of IAS 39. For the IFRS-EU result, the impact of the carve-out is re-instated as this is the measure at which management monitors the business.
3. IFRS-EU figures are derived from figures according to IFRS-IASB by excluding the impact of adjustment of the EU 'IAS 39 carve-out'.
4. As from 2020 results of former Insurance activities are included in Corporate Line; prior period figures have been adjusted.

ING Group Total

	2020			2019			2018		
	ING Bank N.V.	Other [1]	Total ING Group	ING Bank N.V.	Other [1]	Total ING Group	ING Bank N.V.	Other [1]	Total ING Group
Income									
– Net interest income	13,600	3	13,604	14,074	4	14,079	13,949	-34	13,916
– Net fee and commission income	3,011	-0	3,011	2,868	-0	2,868	2,803	-5	2,798
– Total investment and other income	1,034	-12	1,022	1,352	8	1,360	1,350	112	1,462
Total income	**17,645**	**-9**	**17,637**	**18,295**	**12**	**18,306**	**18,102**	**74**	**18,176**
Expenditure									
– Operating expenses	11,160	-8	11,153	10,343	9	10,353	10,695	-13	10,682
– Addition to loan loss provisions	2,675	-0	2,675	1,120	0	1,120	656	0	656
Total expenses	**13,835**	**-8**	**13,828**	**11,463**	**9**	**11,472**	**11,351**	**-13**	**11,338**
Result before taxation	**3,810**	**-1**	**3,809**	**6,831**	**3**	**6,834**	**6,751**	**87**	**6,838**
Taxation	1,317	-71	1,246	1,889	66	1,955	2,036	-9	2,027
Non-controlling interests	78		78	99		99	108		108
Net result IFRS-EU	**2,415**	**70**	**2,485**	**4,843**	**-63**	**4,781**	**4,607**	**96**	**4,703**
Adjustment of the EU 'IAS 39 carve out'	-234		-234	-878		-878	58		58
Net result IFRS-IASB attributable to equity holder of the parent	**2,180**	**70**	**2,250**	**3,966**	**-63**	**3,903**	**4,665**	**96**	**4,761**

1 Comprises for the most part the funding charges of ING Groep N.V. (Holding). In 2018, Other also includes former Insurance activities result of EUR 90 million (2020 and 2019: nil).

Segments by line of business [1]

	2020							2019							2018						
	Retail Netherlands	Retail Belgium	Retail Germany	Retail Other	Wholesale Banking	Corporate Line	Total	Retail Netherlands	Retail Belgium	Retail Germany	Retail Other	Wholesale Banking	Corporate Line	Total	Retail Netherlands	Retail Belgium	Retail Germany	Retail Other	Wholesale Banking	Corporate Line[2]	Total
Income																					
– Net interest income	3,511	1,816	1,587	2,760	3,718	212	13,604	3,541	1,907	1,579	2,787	3,794	470	14,079	3,749	1,830	1,671	2,690	3,686	290	13,916
– 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	-8	2,798
– Total investment and other income	279	145	93	89	609	-192	1,022	290	161	138	298	369	103	1,360	335	169	76	230	673	-20	1,462
Total income	**4,471**	**2,373**	**2,117**	**3,261**	**5,396**	**18**	**17,637**	**4,505**	**2,442**	**1,985**	**3,509**	**5,298**	**568**	**18,306**	**4,747**	**2,369**	**1,972**	**3,315**	**5,510**	**262**	**18,176**
Expenditure																					
– Operating expenses	2,236	1,737	1,110	2,469	3,218	383	11,153	2,210	1,609	1,080	2,210	2,937	307	10,353	2,220	1,610	1,027	2,033	2,771	1,022	10,682
– Additions to loan loss provision	157	514	57	593	1,351	2	2,675	91	186	-53	364	532	-0	1,120	-41	164	-27	350	210	-1	656
Total expenses	**2,393**	**2,251**	**1,167**	**3,063**	**4,568**	**385**	**13,828**	**2,301**	**1,794**	**1,027**	**2,574**	**3,469**	**307**	**11,472**	**2,179**	**1,774**	**1,000**	**2,383**	**2,981**	**1,021**	**11,338**
Result before taxation	**2,078**	**122**	**950**	**199**	**827**	**-367**	**3,809**	**2,204**	**647**	**957**	**935**	**1,830**	**261**	**6,834**	**2,568**	**595**	**972**	**932**	**2,529**	**-759**	**6,838**
Taxation	523	51	331	105	295	-58	1,246	558	192	328	234	464	179	1,955	626	199	324	200	633	46	2,027
Non-controlling interests	-1	0	4	55	20	-0	78	-0	0	3	82	14	-0	99	-0	6	3	80	19	-0	108
Net result IFRS-EU	**1,556**	**71**	**615**	**39**	**512**	**-308**	**2,485**	**1,646**	**455**	**627**	**619**	**1,352**	**82**	**4,781**	**1,942**	**390**	**646**	**652**	**1,877**	**-804**	**4,703**
Adjustment of the EU 'IAS 39 carve out'					-234		-234					-878		-878					58		58
Net result IFRS-IASB	**1,556**	**71**	**615**	**39**	**278**	**-308**	**2,250**	**1,646**	**455**	**627**	**619**	**474**	**82**	**3,903**	**1,942**	**390**	**646**	**652**	**1,935**	**-804**	**4,761**

1. As of 2020 consolidated results of ING Group are based on IFRS as adopted by the European Union (IFRS-EU), and not on underlying results anymore; prior period figures have been adjusted to confirm to current year reporting.
2. As from 2020 reporting, results of former Insurance activities are included in Corporate Line; prior period 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	208	13,604
– 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	-184	1,022
Total income	**5,557**	**2,896**	**2,684**	**2,084**	**2,078**	**2,315**	**23**	**17,637**
Expenditure								
– Operating expenses	3,347	2,037	1,270	1,566	1,272	1,273	387	11,153
– Additions to loan loss provision	421	589	267	298	412	684	2	2,675
Total expenses	**3,769**	**2,627**	**1,537**	**1,864**	**1,684**	**1,957**	**390**	**13,828**
Result before taxation	**1,788**	**269**	**1,146**	**220**	**395**	**357**	**-367**	**3,809**
Retail Banking	2,078	122	950	-27	225			3,348
Wholesale Banking	-290	147	197	247	169	357	-0	827
Corporate Line							-367	-367
Result before taxation	**1,788**	**269**	**1,146**	**220**	**395**	**357**	**-367**	**3,809**
Taxation	518	89	381	91	141	85	-59	1,246
Non-controlling interests	-1	0	4		75		-0	78
Net result IFRS-EU	**1,271**	**180**	**761**	**129**	**178**	**273**	**-308**	**2,485**
Adjustment of the EU 'IAS 39 carve out'	-177	27	-115	30				-234
Net result IFRS	**1,094**	**207**	**647**	**159**	**178**	**273**	**-308**	**2,250**

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	461	14,079
– Net fee and commission income	994	533	315	283	304	446	-7	2,868
– Total investment and other income	119	233	169	16	420	292	111	1,360
Total income	**5,325**	**2,999**	**2,606**	**2,107**	**2,334**	**2,370**	**566**	**18,306**
Expenditure								
– Operating expenses	2,994	1,925	1,237	1,318	1,277	1,293	308	10,353
– Additions to loan loss provision	146	268	-40	171	271	303	-0	1,120
Total expenses	**3,140**	**2,194**	**1,197**	**1,489**	**1,548**	**1,596**	**308**	**11,472**
Result before taxation	**2,185**	**805**	**1,409**	**618**	**785**	**774**	**258**	**6,834**
Retail Banking	2,204	647	957	307	628			4,744
Wholesale Banking	-19	158	451	311	157	774	-3	1,830
Corporate Line							261	261
Result before taxation	**2,185**	**805**	**1,409**	**618**	**785**	**774**	**258**	**6,834**
Taxation	549	247	476	207	159	144	173	1,955
Non-controlling interests	-0	0	3		96		-0	99
Net result IFRS-EU	**1,637**	**558**	**929**	**411**	**530**	**630**	**85**	**4,781**
Adjustment of the EU 'IAS 39 carve out'	-273	-372	-232	-0				-878
Net result IFRS	**1,363**	**186**	**697**	**411**	**530**	**630**	**85**	**3,903**

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	1,637	1,550	285	13,916
– Net fee and commission income	980	520	273	254	293	486	-8	2,798
– Total investment and other income	509	379	99	-92	328	249	-11	1,462
Total income	**5,863**	**3,037**	**2,572**	**1,895**	**2,258**	**2,285**	**266**	**18,176**
Expenditure								
– Operating expenses	2,929	1,932	1,171	1,217	1,160	1,236	1,038	10,682
– Additions to loan loss provision	-65	153	6	163	274	126	-1	656
Total expenses	**2,863**	**2,085**	**1,176**	**1,380**	**1,435**	**1,362**	**1,037**	**11,338**
Result before taxation	**3,000**	**952**	**1,396**	**515**	**824**	**923**	**-771**	**6,838**
Retail Banking	2,568	595	972	285	647			5,067
Wholesale Banking	432	357	424	229	177	923	-13	2,529
Corporate Line							-759	-759
Result before taxation	**3,000**	**952**	**1,396**	**515**	**824**	**923**	**-771**	**6,838**
Taxation	741	291	459	178	141	175	42	2,027
Non-controlling interests	1	6	3		98		-0	108
Net result IFRS-EU	**2,258**	**655**	**935**	**337**	**584**	**748**	**-813**	**4,703**
Adjustment of the EU 'IAS 39 carve out'	106	22	-72	2				58
Net result IFRS	**2,364**	**677**	**863**	**339**	**584**	**748**	**-813**	**4,761**

1 As of 2020 consolidated results of ING Group are based on IFRS as adopted by the European Union (IFRS-EU), and not on underlying results anymore; prior period figures have been adjusted to confirm to current year reporting.
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; prior period figures have been adjusted.
3 As from 2020, results of former Insurance activities are included in geographical segment Other (Corporate Line); prior period figures have been adjusted.

35 Information on geographical areas

ING Group'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 Group's country of domicile.

In order to increase ING Group'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	5,100	5,198	6,130	283,664	267,368	259,387	612	1,397	1,973	285	437	738	588	684	528
Belgium	Belgium	ING België N.V.	Wholesale / Retail	7,397	7,694	8,248	2,637	2,277	2,838	133,269	121,813	120,287	212	291	898	75	142	285	66	258	71
	Luxemburg	ING Luxembourg S.A.	Wholesale / Retail	855	841	791	279	292	315	15,290	16,608	13,310	100	123	199	25	29	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	2,376	2,141	2,315	162,539	147,642	144,861	896	1,032	1,203	310	355	397	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	239	308	323	11,555	12,058	12,063	-71	70	111	-17	35	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	146	88	106	3,848	4,494	6,278	59	10	39	12	2	10	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	68	2,051	2,575	2,868	66	58	65	8	8	8	8	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**	**17,227**	**17,125**	**18,324**	**933,891**	**888,520**	**884,603**	**3,399**	**5,653**	**6,986**	**1,070**	**1,652**	**2,116**	**1,734**	**2,345**	**1,602**	

2020

The higher tax charge of 47% 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 high tax charge of 31% in the Netherlands (compared to statutory rate of 25%) is mainly caused by the non-deductible Dutch bank tax (EUR 177 million) and the non-deductible AT1 interest expenses (EUR 276 million).

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 37% 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

36 Pensions and other post-employment benefits

Most group companies sponsor defined contribution pension plans. The assets of all ING Group’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 Group 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 Group 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 Groep 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 Group during 2021.

Although Covid-19 has had an impact on most investment markets in 2020, the effect on the fair value of ING Group'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								-1	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 Group 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 Group'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.

37 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 Group 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	-107	10	-10	0		-108
Investment properties	-7		3	0	5	2
Financial assets and liabilities at FVPL	947		246	10		1,202
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	62	16	-1	-5	-83
	920	**40**	**301**	**-9**	**0**	**1,253**
Presented in the statement of financial position as:						
– Deferred tax liabilities	-322					-343
– Deferred tax assets	1,242					1,596
	920					**1,253**

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).

Financial assets and liabilities FVPL changes through net result in 2020 relates to the increase in fair value of derivatives due to decreased interest yield curves.

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	-118	23	-11	-1		-107
Investment properties	-6		-1	-0		-7
Financial assets and liabilities at FVPL	632		314	2	-2	947
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	**778**	**-176**	**318**	**2**	**-2**	**920**
Presented in the statement of financial position as:						
– deferred tax liabilities	-180					-322
– deferred tax assets	958					1,242
	778					**920**

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).

Financial assets and liabilities FVPL changes through net result in 2019 relates to the increase in fair value of derivatives due to decreased interest yield curves.

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 Groep 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	355	488	587	1,016	1,481	1,264	1,371	1,970	1,851
Deferred taxation	-72	-51	151	-230	-267	114	-301	-318	265
	284	**437**	**738**	**786**	**1,214**	**1,379**	**1,070**	**1,652**	**2,116**

Reconciliation of the weighted average statutory income tax rate to ING Group's effective income tax rate

	2020	2019	2018
Result before tax from continuing operations	3,399	5,653	6,986
Weighted average statutory tax rate	25.2%	25.8%	25.8%
Weighted average statutory tax amount	**856**	**1,459**	**1,803**
Participation exemption	-46	-49	-77
Other income not subject to tax	-6	-76	-70
Expenses not deductible for tax purposes	320	237	346
Impact on deferred tax from change in tax rates	-47	-57	50
Deferred tax benefit from previously unrecognised amounts	-6		
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	-85	16	7
Effective tax amount	**1,070**	**1,652**	**2,116**
Effective tax rate	**31.5%**	**29.2%**	**30.3%**

The weighted average statutory tax rate in 2020 (25.2%) is comparable to that of 2019.

The effective tax rate of 31.5% 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.

The weighted average statutory tax rate in 2019 was equal to the rate of 25.8% in 2018.

The effective tax rate of 29.2% 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 30.3% 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	-1	11	90
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	62	7	-18
Total income tax related to components of other comprehensive income	**40**	**-176**	**-25**

Tax Contingency

The contingent liability (also disclosed in note 44 ‘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.

38 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	-140
Model Risk	-25	-214
CVA	-238	-223
DVA	-124	-118
CollVA	-16	-23
FVA	-111	-76
Total Valuation Adjustments	**-634**	**-794**

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 Group 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 Group 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 Group 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.

Financial instruments at fair value

The fair values of the financial instruments were determined as follows:

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	7,897	8,508	2	2	138	148	8,037	8,657
- Debt securities	3,378	4,963	4,867	3,441	1,269	919	9,514	9,323
- Derivatives	1		30,623	23,797	197	154	30,821	23,951
- Loans and receivables		-0	53,733	52,668	1,265	1,588	54,998	54,256
	11,276	**13,471**	**89,225**	**79,909**	**2,870**	**2,807**	**103,370**	**96,187**
Financial assets at fair value through other comprehensive income								
- Equity securities	1,687	2,024			176	281	1,862	2,306
- Debt securities	31,592	30,141	1,385	343			32,977	30,483
- Loans and receivables					1,056	1,680	1,056	1,680
	33,279	**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	1,124	1,081	5,231	7,034	180	184	6,534	8,299
– Deposits	1		48,111	44,707	2		48,114	44,707
– Trading securities	699	1,388	70	7	0	-0	768	1,395
– Derivatives	55	58	27,094	23,176	217	305	27,365	23,540
	1,879	**2,527**	**80,505**	**74,924**	**398**	**490**	**82,781**	**77,942**

The following methods and assumptions were used by ING Group 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 Group.

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	25,364	35,136	2,165	2,367	0	728	7,763	11,469	15,611	20,570	25,539	35,133
Loans and advances to customers	593,970	608,029	17,486	20,343	0	165	14,595	12,622	576,659	588,063	608,740	621,194
Securities at amortised cost	50,587	46,108	0	–0	49,109	43,784	2,550	2,304	622	840	52,281	46,928
	669,921	**689,273**	**19,651**	**22,710**	**49,109**	**44,677**	**24,908**	**26,395**	**592,892**	**609,473**	**686,560**	**703,255**
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]	609,517	574,355	580,262	530,626		0	14,007	19,802	15,704	24,626	609,972	575,055
Debt securities in issue	82,065	118,528	–0		51,906	57,563	24,005	42,638	6,449	18,642	82,360	118,844
Subordinated loans	15,805	16,588	–0	–0	15,013	14,552	1,161	2,701			16,174	17,253
	785,484	**744,297**	**584,180**	**535,222**	**66,919**	**72,116**	**107,645**	**89,042**	**28,167**	**49,858**	**786,911**	**746,239**

1 The prior period has been updated to improve consistency and comparability of customer deposits

The following methods and assumptions were used by ING Group 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.

39 Derivatives and hedge accounting

Use of derivatives

ING Group uses derivatives for economic hedging purposes to manage its asset and liability portfolios and structural risk positions. The primary objective of ING Group'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 Group 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 Group 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 Group migrated various portfolios of interest rate swaps, which were partly designated in macro cash flow hedges. 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 Group 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 Group 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 Group 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 Group 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 Group’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 Group’s approach to manage market risk, including interest rate risk, is discussed in ‘Risk management –Market risk’. ING Group’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 Group also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. ING Group minimises counterparty credit risk in derivative instruments by clearing most of the derivatives through Central Clearing Counterparties. In addition ING Group only enters into transactions with high-quality counterparties and requires posting collateral.

ING Group applies fair value hedge accounting on micro level in which one hedged item is hedged with one or multiple hedging instruments. 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 Group, ING Group 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 Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. ING Group 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.

ING Group 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	4,895	2,050	5,133	5,486
– Other interest derivatives	44	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 2.79% (2019: 2.98%)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	15	1,153	1,263	6,704	6,170	4,281	4,347	16,548	40,481
– Other interest derivatives	-1	-68	-283	-434	-370	-302	-315	394	-1,378
As at 31 December 2019									
Hedging instrument on interest rate risk									
- Interest rate swaps	-59	612	6,394	12,936	7,637	7,195	3,266	16,494	54,475
– 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			n/a		-0		
– Loans and advances to customers	876		121		25		
– Debt instruments at amortised cost	4,222		501		170		
– Debt securities in issue		54,043		3,443	-878		
– Subordinated loans		13,309		510	-397		
– Amounts due to banks					-5		
– Customer deposits and other funds on deposit		54		0	-9		
– Discontinued hedges			561	2			
Total	**25,262**	**67,406**	**1,183**	**3,956**	**-541**	**538**	**-4**
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			n/a				
– Loans and advances to customers	959		75		31		
– Debt instruments at amortised cost	6,133		429		356		
– Debt securities in issue		62,236		2,706	-1,018		
– Subordinated loans		14,970		261	-201		
– Amounts due to banks		8,783		38	1		
– Customer deposits and other funds on deposit		299		2	-12		
– Discontinued hedges			688	7			
Total	**30,373**	**86,288**	**1,192**	**3,014**	**-487**	**504**	**18**

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).

There were no other sources of ineffectiveness in these hedging relationships.

Cash flow hedge accounting

ING Group'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 Group'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 Group 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 Group 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 Group 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 Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. ING Group 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 Group 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 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 Group 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 Group. The risk arises from the fluctuation in spot exchange rates between the functional currency of the subsidiaries and ING Group's presentation currency, which causes the amount of the net investment to vary in the consolidated financial statements of ING Group. This risk may have a significant impact on ING Group's financial statements. ING Group'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 Group and its subsidiaries.

ING Group'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 Group 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 Group 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 Group'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.

40 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'.

> 40 Assets by contractual maturity

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	15,786	2,796	3,419	3,093	270		25,364
Financial assets at fair value through profit or loss							
– Trading assets	12,100	6,567	9,206	10,206	13,277		51,356
– 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	50,293	19,788	48,261	176,047	299,581		593,970
Other assets [2]	3,797	312	1,148	1,934	1,283	5,142	13,617
Total assets	**223,636**	**44,775**	**75,973**	**230,625**	**351,649**	**7,232**	**933,891**
2019							
Cash and balances with central banks	53,202						53,202
Loans and advances to banks	22,820	3,100	5,090	3,729	397		35,136
Financial assets at fair value through profit or loss							
– Trading assets	12,754	6,589	8,469	8,240	13,203		49,254
– Non-trading derivatives	110	161	215	998	773		2,257
– 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	55,138	18,586	45,871	180,972	307,462		608,029
Other assets	4,618	369	1,176	1,683	1,251	6,292	15,389
Total assets	**172,793**	**43,842**	**71,460**	**236,784**	**354,885**	**8,756**	**888,520**

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

41 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 Group'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.

> 41 Liabilities and off-balance sheet commitments by maturity

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	587,137	9,662	8,208	2,169	2,207		134	609,517
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	2,181	3,247	11	631	48,444
Debt securities in issue	5,144	8,428	13,441	25,752	25,430		3,868	82,065
Subordinated loans				661	8,815	5,670	659	15,805
Lease liabilities	17	42	166	611	520		-18	1,339
Financial liabilities	**643,321**	**30,848**	**28,576**	**105,846**	**50,512**	**5,680**	**4,821**	**869,605**
Other liabilities [3]	6,830	568	2,681	765	802			11,646
Total liabilities	**650,150**	**31,416**	**31,257**	**106,611**	**51,315**	**5,680**	**4,821**	**881,250**
Coupon interest due on financial liabilities	229	490	1,155	3,732	3,249	292		9,147
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
Guarantees issued by ING Groep N.V.	292							292
Irrevocable facilities	124,991		0					124,991
	162,186		**0**	**47**	**550**			**162,782**

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.

> 41 Liabilities and off-balance sheet commitments by maturity

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	540,544	13,892	13,784	3,646	2,381		108	574,355
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	379	91	152	616	440		539	2,215
– Designated at fair value through profit or loss	27,048	10,467	1,885	2,938	5,089	7	251	47,684
Debt securities in issue	2,616	13,278	35,915	36,895	26,592		3,231	118,528
Subordinated loans				1,780	7,455	6,941	411	16,588
Lease liabilities	16	39	161	668	643		-21	1,507
Financial liabilities	**586,762**	**40,753**	**67,656**	**65,160**	**51,909**	**6,948**	**4,557**	**823,745**
Other liabilities [3]	7,916	820	2,361	728	1,061			12,886
Total liabilities	**594,677**	**41,573**	**70,017**	**65,888**	**52,970**	**6,948**	**4,557**	**836,631**
Coupon interest due on financial liabilities	574	692	1,482	5,790	4,355	379		13,271
Contingent liabilities in respect of [4]								
– Discounted bills								
– Guarantees	26,952				550			27,502
– Irrevocable letters of credit	16,340							16,340
– other	57			75				131
Guarantees issued by ING Groep N.V.	319							319
Irrevocable facilities	120,002							120,002
	163,670			**75**	**550**			**164,296**

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.

42 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:

Financial assets pledged as collateral	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 48 Structured Entities.

43 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 Group 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 20,495 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 593,345 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.

> 43 Offsetting financial assets and liabilities

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 607,849 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		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	Net amount	Amounts not subject to enforceable netting arrangements	Statement of financial position total[1]
Statement of financial position line item	**Financial instrument**								
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**
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 609,517 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.

> 43 Offsetting financial assets and liabilities

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 'Customer Deposits' excluding repurchase agreements is EUR 574,355 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.

44 Contingent liabilities and commitments

In the normal course of business, ING Group 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	27,502
– Irrevocable letters of credit	14,016	16,340
– other	97	131
	37,499	**43,974**
Guarantees issued by ING Groep N.V.	292	319
Irrevocable facilities	124,991	120,002
	162,782	**164,296**

Guarantees relate both to credit and non-credit substitute guarantees. Credit substitute guarantees are guarantees given by ING Group 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 Group’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 Group’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.

As at 31 December 2020, ING Groep N.V. guarantees various US dollar debentures (that mature between 2023 and 2036) which were issued by a subsidiary of Voya Financial Inc. In the Shareholder’s agreement between ING Groep N.V. and Voya Financial Inc. it was agreed that the aggregate outstanding principal amount of the debentures shall be reduced to nil at 31 December 2019. In accordance with the Shareholder’s agreement, the net exposure of ING Groep N.V. as at 31 December 2020 was nil, as the outstanding principal amount of the US dollar debentures was fully covered with collateral of EUR 304 million (2019: EUR 331 million) pledged by Voya Financial Inc.

In addition to the items included in contingent liabilities, ING Group has issued certain guarantees as participant in collective arrangements of national banking funds and as a participant in required collective guarantee schemes which apply in different countries. For example, ING Bank N.V. provided a guarantee to the German Deposit Guarantee Fund (‘Einlagensicherungsfonds’ 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.

45 Legal proceedings

ING Group 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.

Litigation regarding products of a former subsidiary in Mexico: Proceedings in which ING is involved include complaints and lawsuits concerning the performance of certain interest sensitive products that were sold by a former subsidiary of ING in Mexico. A provision has been taken in the past.

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.

46 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'.

47 Principal subsidiaries, investments in associates and joint ventures

For the majority of ING's principal subsidiaries, ING Groep 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 Group 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 Groep 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**		
ING Bank N.V.	Amsterdam	the Netherlands	100%	100%
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 35 'Information on geographical areas.

2 Reference is made to Note 8 Investments in Associates and Joint Ventures.

48 Structured entities

ING Group'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 Group'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 Group 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 Group enters into liquidity management securitisation programmes in order to obtain funding and improve liquidity. Within the programme ING Group 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 Group acts as investor of the securitised notes. ING Group 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 Group as collateral in the money market for secured borrowings.

ING Group 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 Group'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 Group. ING Group 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 Group originated various securitisations for liquidity management optimisation purposes. As at 31 December 2020, these consisted of approximately EUR 2 billion (2019: EUR 3 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 Group's consolidated statement of financial position and profit or loss.

2. Consolidated ING originated Covered bond programme (CBC)

ING Group 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 Group.

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 Group.

3. Consolidated ING sponsored Securitisation programme (Mont Blanc)

In the normal course of business, ING Group 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 Group facilitates these transactions by acting as administrative agent, swap counterparty and liquidity provider to Mont Blanc Capital Corp. ING Group 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 Group 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 Group 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 Group 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 Group, as ING facilitates these transactions as administrative agent by providing structuring, accounting, funding, lending, and operation services.

ING Group offers various investment fund products to its clients. ING Group does not invest in these investment funds for its own account nor acts as the fund manager.

49 Related parties

In the normal course of business, ING Group 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 Group 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 36 '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.

Subsidiaries

Transactions with ING Groep N.V.'s main subsidiaries

	2020	2019
Assets	45,625	44,242
Liabilities	134	163
Income received	1,122	1,103
Expenses paid	9	9

Transactions between ING Groep N.V. and its subsidiaries are eliminated on consolidation. Reference is made to Note 47 'Principal subsidiaries' for a list of principal subsidiaries and their statutory place of incorporation.

Assets from ING's subsidiaries mainly comprise long-term funding. Liabilities to ING's subsidiaries mainly comprise short-term deposits.

Associates and joint ventures

Transactions with ING Group'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 of the Management Board Banking 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**

50 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.

51 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.
- Common equity Tier 1 ratio ambition – is built on the CET1 requirements specified for ING, uncertainty of expected regulatory RWA inflation, potential increase in the regulatory requirement of the Countercyclical Buffer and the potential impact of a standardised and pre-determined 1-in-10-year stress event (i.e. at a 90% confidence level with a 1-year horizon).
- Leverage ratio (LR) – is defined as Tier 1 capital divided by the leverage exposure.

Capital developments

Our capital position remained strong despite the higher risk costs due to Covid-19. At both the consolidated and entity level, ING has sufficient buffers to withstand certain adverse scenarios without breaching regulatory requirements in a forward looking scenario.

In 2020, ING has changed its CET1 ambition from around 13.5% to around 12.5%, reflecting among others a structural reduction of capital requirements and increased visibility of expected regulatory RWA inflation. This new ambition level is still comfortably above the current Maximum Distributable Amount (MDA) level of 10.51%, implying a management buffer of ~200 basis points.

ING'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 Groep N.V. has a Common equity Tier 1 ratio of 15.5% as at 31 December 2020 versus an overall CRR II / CRD V solvency requirement (including buffer requirements) of 10.51%. The Group's Tier 1 ratio (including grandfathered securities) increased to 17.3%. The Total capital ratio (including grandfathered securities) increased from 19.1% to 20.1% compared to last year.

ING Group capital position according to CRR II / CRD V

in EUR million	2020	2019
Shareholders' equity [4]	54,637	53,769
- Reserved profit not included in CET1 capital [1]	-3,266	-1,754
- Other adjustments	-4,037	-4,464
Regulatory adjustments	-7,303	-6,217
Available common equity Tier 1 capital	**47,333**	**47,552**
Additional Tier 1 securities [2]	5,643	6,916
Regulatory adjustments additional Tier 1	48	51
Available Tier 1 capital	**53,024**	**54,519**
Supplementary capital Tier 2 bonds [3]	9,359	8,943
Regulatory adjustments Tier 2	-846	-1,158
Available Total capital	**61,537**	**62,303**
Risk weighted assets	306,324	326,414
Common equity Tier 1 ratio	15.45%	14.57%
Tier 1 ratio	17.31%	16.70%
Total capital ratio	20.09%	19.09%

1. The reserved profit not included in CET1 capital ING Group as per 31 December 2020 was EUR 3,266 million, of which EUR 1,512 million relates to the result of 2020 and EUR 1,754 million relates to the result of 2019.
2. Including EUR 4,660 million which is CRR-compliant (2019: EUR 5,312 million) and EUR 983 million to be replaced as capital recognition is subject to CRR grandfathering rules (2019: EUR 1,604 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.

Dividend

In the third quarter of 2020, ING announced a change in its distribution policy from a progressive dividend to a pay-out ratio of 50% of resilient net profit and additional return of structural excess capital. The latter to be considered periodically, taking into account alternative opportunities as well as macroeconomic circumstances and the outcome of our capital planning. Resilient net profit is defined as net profit adjusted for significant items not linked to the normal course of business. The 50% pay-out may be in the form of cash or a combination of cash and share repurchases.

For 2020, the resilient net profit amounts to EUR 3,025 million of which EUR 1,512 million is reserved for distribution outside of CET1 capital. The resilient net profit includes EUR 540 million of positive P&L adjustments to the IFRS-EU net result related to impairments on goodwill (EUR 310 million) and the TMB stake (EUR 230 million). In February 2021, ING paid a cash-only interim dividend of EUR 468 million (EUR 0.12 per share). This amount is equal to 15% of adjusted net profit for 2020, in line with the ECB recommendation of 15 December 2020, which included a definition of adjusted net profit. At the end of 2020 and including the final 2019 dividend, ING has reserved EUR 3,266 million for distribution. This includes EUR 468 million of cash-only 2020 interim dividend and the remainder, subject to prevailing ECB recommendation, for distribution after September 2021.

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 Group are: a CET1 ratio of 4.5%, a Tier 1 ratio of 6% and a Total capital ratio of 8% of risk-weighted assets.

In 2020, as a reaction to the Covid-19 pandemic, relevant regulators introduced a number of changes to the regulatory capital requirements applicable to ING, including structural reductions. The structural reductions of capital requirements reflect the application of Art.104a in CRD V, which allowed ING to replace CET1 capital with additional Tier 1 / Tier 2 securities to meet the Pillar II requirement, and a reduction in the overall systemic buffer (i.e. the Systemic Risk Buffer plus the highest of the O-SII and G-SII buffer) by the Dutch National Bank from 3% to 2.5%. Similarly, various competent authorities changed or removed their Countercyclical Buffer (CCyB) requirements reducing the CCyB for ING from 24 basis points to 3 basis points.

As a consequence, the overall CET1 requirement (including buffer requirements) for ING Group at a consolidated level was 10.51% in 2020. This requirement is the sum of a 4.5% Pillar I requirement, a 0.98% Pillar II requirement, a 2.5% Capital Conservation Buffer (CCB), a 0.03% Countercyclical Buffer (CCyB) (based on December 2020 positions) and a 2.5% O-SII buffer that is set separately for Dutch systemic banks by the Dutch Central Bank (De Nederlandsche Bank). This requirement excludes the Pillar II guidance, which is not disclosed.

The Maximum Distributable Amount (MDA) trigger level stood at 10.51% in 2020 for CET1, 12.33% for Tier 1 Capital and 14.77% for Total Capital (after the application of Art.104a of the CRD V), based on stable Pillar II capital requirements. In the event that ING Group breaches the MDA level, ING may face restrictions on dividend payments, AT1 instruments coupons and payment of variable remuneration.

Ratings

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

Main credit ratings of ING at 31 December 2020

	Standard & Poor's		Moody's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
ING Groep N.V.						
Long-term	A-	Negative	Baa1	Stable	A+	Negative
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.