



ING Luxembourg

Annual Report 2019

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Our purpose

We believe that all sustainable progress is driven by people with the necessary imagination and determination to improve their future and the futures of those around them.

We believe that the role of a bank is to help people and organisations realise their own vision for a better future – however modest or grand.

Empowering people to stay a step ahead in life and in business.

ACTIVITY REPORT

1 Message from the CEO

“Our ambition is to offer an empowering and differentiating customer experience”

In ING, we delivered excellent financial results in 2019. It was an intense year in which we continued to transform ourselves, inspired by our purpose to empower people to stay a step ahead in life and in business.

The ‘people’ part of that purpose is not just customer-focused. It also recognises the important role we play in society. That societal role includes facilitating an efficient economy and the safe and secure financial system it depends on, supporting people to be financially healthy, and fighting climate change. To me, that’s what responsible banking is all about.

The fundamental force shaping the financial services sector is digitisation. It’s not only profoundly influencing customer preferences and expectations, but also the competitive landscape. As with all disruptive change, it presents both opportunities and threats – one increasingly urgent example is the growing threat of financial economic crime. Keeping the bank safe in that context was the first priority of 2019.

ING’s ambition is to be a leader in terms of the digital banking experience, offering private individuals and companies everywhere the same empowering and differentiating experience. More than 80 percent of our customer interactions are through mobile devices. Over a third of our customers only interact with us through a mobile device. Digitisation is also increasingly an integral part of Wholesale

> Message from the CEO

Banking client service: we saw growth in the number of clients using our virtual cash management, which allows companies with local accounts to manage their cash position via a single master account.

Globally ING is transforming to achieve our platform ambition. That means creating a uniform and modular technology foundation that helps us share innovations quickly across the different countries and that can be scaled up easily to accommodate growth, as well as open architecture so we can connect to third-party platforms and them with us. We are uniting in one way of working across ING to increase effectiveness and reduce the time it takes to bring innovations to the customer. All Delivery teams of ING Luxembourg are now working in agile mode.

A safe and secure bank

The easy, 24/7 access to financial services that digitisation makes possible, also poses challenges. This requires banks to sharpen non-financial risk management skills in order to continue to play their crucial role as gatekeepers ensuring that the financial system is better protected from fraud and other criminal activities.

In all ING entities, this took the form of a continued focus in 2019 on our Know Your Customer (KYC) enhancement programme. We also started building structural solutions in this area and have made promising strides in the pilots in which we are applying artificial intelligence, machine learning and other technologies to increase the efficiency and effectiveness of compliance and anti-money laundering procedures. The Tech team of ING in Luxembourg is helping to build one of these structural solutions namely for Private Banking customers.

Performance

Looking back at 2019, we see a year of solid commercial performance despite the difficult rate environment, geopolitical uncertainties and an increasingly complex and demanding regulatory environment.

ING in Luxembourg recorded a full-year 2019 underlying net result of EUR 101 million and a record income level of EUR 310 million. Net growth in our core lending book came to EUR 8.8 billion, or 4 percent, while customer deposits remained stable at EUR 17 billion in 2019.

Going forward, ultra-low and negative interest rates, particularly in Europe, are challenging banks to maintain profitability as they try to mitigate the effects of lower rates on margins while balancing this with the interests of customers, particularly retail savings customers.

At the same time, our responsibility goes beyond the strict confines of our business and extends to the special role we and other banks can play in the wider society, whether that be in the environmental and social area or in preventing financial economic crime.

The issue of climate change acquired increased urgency in 2019. At ING we strongly believe that through our decisions banks can play a role in influencing the direction and pace of society's transition to a more sustainable, low-carbon economy. Since we moved to our headquarters ING Lux House, across from Luxembourg's central train station, more than 80% of our staff uses public transportation or comes to the office on foot or cycling. And by banning plastic cups we have stopped using 440,000 disposable cups per year and have reduced our carbon footprint significantly.

[> Message from the CEO](#)

Measuring success

There are many ways to measure a company's performance but I believe the most important way is to look at yourself through the eyes of your customers. It is their satisfaction and loyalty that ultimately form the basis for long-term success, as shown by the strong net promoter scores (NPS®) achieved in 2019: Retail and Wholesale Banking reached +29, Private Banking achieved an NPS® of +40; all three excellent results.

The successes we achieved in 2019 and the steps we took to prepare for the future would not have been possible without the dedication and tireless efforts of our employees. Their commitment is recognized and appreciated by the Executive Committee and the Board of Directors.



> Our strategy and how we create value

2 Our strategy and how we create value

ING's Think Forward strategy continued to guide us during 2019. It was a year of rapid transformation in the competitive landscape, regulation, customer preferences and the economic context. It was marked as well by the growing threat of climate change. These developments present both challenges and opportunities.

There were numerous developments in 2019 with important implications for financial services providers and their future strategic direction. Digitisation increased, with a growing percentage of customers doing their banking with mobile devices. Big Tech platforms continued to leverage their expertise in the digital customer experience to encroach on banks' market share by targeting lucrative parts of their traditional value chains, such as payments.

Competition was further spurred by implementation in 2019 of the EU's PSD2 directive opening the payments market to non-bank competitors. Persistently low interest rates in Europe edged still lower, pressuring banks' interest income and profits. And the growing threat of climate change intensified the debate about the role business can and should play to promote a sustainable future.

Our Think Forward strategy – with its purpose to empower people to stay a step ahead in life and in business – continued to guide our strategic response to the challenges and opportunities these developments present. Chief among these is how banks can master the digital customer experience and tap into its opportunities.

The strategic priorities that are the focus of the Think Forward strategy aim to create a differentiating customer experience. We do so by deepening the relationship with the customer, getting to know our customers better and anticipating their evolving needs, and by fostering an innovation culture that will ensure we are able to continuously adapt our offerings and business model to anticipate and meet those needs in future. And the Customer Promise – clear and easy, anytime anywhere, empower, and keep getting better – forms the basis of the customer experience we aim for.

In concrete terms, this translates into a focus on primary relationships. These are relationships where we serve multiple banking or other needs of retail customers and wholesale banking clients and which allow us to know these customers and their needs better so we can add value for them and grow the relationship. To do this, we use a customised methodology and a set of common processes, language and tools, called PACE¹. Central to providing a differentiating customer experience it uses a combination of Lean Start-up, Agile Scrum and Design Thinking methods. A feature of PACE is continuous validation with the customer to ensure we are creating the right product or service for them. This way, we use our scarce resources to develop only what the customer really wants.

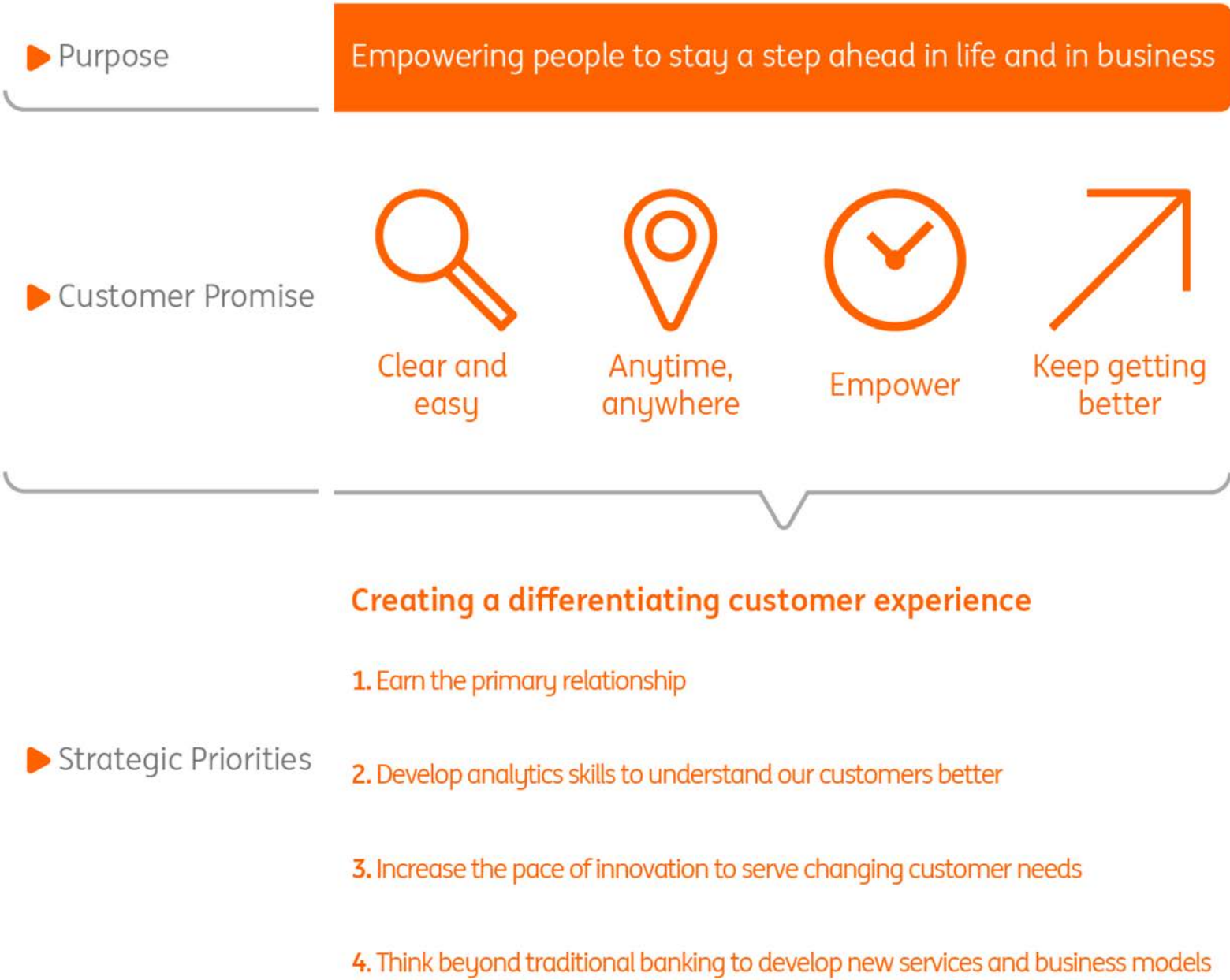
ING's empowerment purpose is not limited to our own customers. In striving to help people to stay a step ahead in life and in business, we see a key role for ING in promoting a sustainable society, as well as important opportunities both for us and our customers.

* PACE is the new way of innovating within ING. This methodology aims to continuously validate with our clients the products and services we create for them and to determine whether they are suitable for them. This allows us to develop what they really want.

> Our strategy and how we create value

To promote people’s financial health, we focus on giving them the knowledge and tools to make informed decisions, and we support initiatives that are developing awareness about the drivers behind how people arrive at financial decisions so better methods and tools can be developed in the future. And through our financing we seek to positively influence society’s transition to a more sustainable, low-carbon economy.

Our strategy on one page



› Data and key figures 2019

3 Data and key figures 2019

Who are we?

We are a global financial institution with a strong European base, offering banking services. Our customers are at the heart of everything we do.

Highlights

- › The number of new customers increased by 0.6%; 47% of total customers choose ING as their primary bank.
- › Customer experience quality remained high with a NPS® rising to +40 for Private Banking customers and +29 for Retail Banking customers.
- › Expanded digital features on the My ING app boosted adoption rates to 83.8% of our customers.
- › Continued commercial momentum in all business lines delivered an underlying net result (after tax) of EUR 101 million.
- › Investing in the environment: flagship fund ING Aria Lion rewarded with LuxFLAG's prestigious ESG label.

In 2019, despite a low interest rate environment combined with growing constraints on non-financial risks, we continued to develop our customer positions. As a result, the Bank ended the financial year with a result well above budget forecasts.



> Data and key figures 2019

Total balance sheet

 **EUR 18.0** billion

Stable compared with 2018.

Customer lending

 **+7%**

Customer lending increased by 7% compared with the previous year, particularly in mortgages and Wholesale Banking contracts.

Customers

 **+2.2%**

Just over 121,000 customers placed their trust in us in 2019. Customer experience remains one of ING's main drivers: of the customers surveyed in the NPS® survey, 74% had already recommended us to their family and friends.

Underlying net result

 **EUR 101** million


Thanks to our customer-centred approach and the development of new and existing products, we continue to post good figures in an increasingly challenging economic environment.

Customer deposits

 **EUR 15.8** billion

Deposits decreased slightly compared to the 2018 financial year.

Mobile-first approach

 **84%** digital adoption

Four out of five customers have adopted our digital solutions thanks to the promise we made to them: to continue to improve by offering a different, innovative and secure experience, enabling them to manage their finances more easily, available anytime, anywhere.

Income

 **EUR 310** million

After two record years, our bank once again achieved very high income levels, demonstrating its commercial effectiveness.

CET1 solvency ratio

 **21%**

Largely meets the regulatory threshold of 9.27%.

Employees

 **895** employees overall

Our performances are the result of the passionate work of all of our teams, which develop new products and services so that our customers can stay a step ahead both in life and in business.

› Key events of 2019

4 Key events of 2019

January

› ING sponsors the second edition of the Multiplica digital art festival at Rotondes

February

› Paperjam 10x6 “5 trillion opportunities” sponsored by ING

› ING Eurocross in Dierkirch

› Innovation camp Jonk Entrepreneuren with ING

› Paperjam hosts the yearly CEO cocktail sponsored by ING

March

› ING international Survey Retirement and Savings

› ING raises EUR 2,500 for Fondation Cancer during the 13th edition of Relais pour la Vie

› ING presents its art collection to students of the “Owning and Investing in Art: Challenges, Opportunities and Risks” programme of the University of Luxembourg

› Partnership on the “Stand Speak Rise up!” conference

› Zero Single Use Plastic has been removed from ING Lux House

April

› Kick-off workshop for One Agile Way of Working

May

› ING announces 2008 was another record year in terms of financial results

› 14th edition of ING Night Marathon Luxembourg

June

› ING international Survey Digital Banking

› ING participates in the Braderie of Differdange, Ettelbrück, and Mersch

› 24H Run Wiltz: another success

› TEDx Luxembourg City 2019 sponsored by ING

› Run for Youth for UNICEF

› ING sponsors “Siren’s Call” music and culture festival at Neimënster Abbey

July

› ING co-sponsors the 20th edition of Luxembourg Pride

› ING participates in the Braderie of Dudelange

August

› ING agrees Pan-Benelux loan with EIB to finance sustainable investments by business companies

› E-Lake Festival sponsored by ING

› Launch of “ING’s Kid’s corner”, a new family-friendly area in terminal A of Luxembourg airport

› Key events of 2019

September

- › ING participates in the Grande Braderie of Luxembourg City
- › Parc Merveilleux hosts the ING Kannerlaf
- › ING Route du Vin in Remich

October

- › Luxembourg Sustainable Investment Week 2019 at ING Lux House: converting a fund into an ESG fund
- › Sustainable finance seminar with the Belgian Royal Delegation: the transition to a lower carbon future
- › ING awarded “Best initiative of the year in relationship management technology in Europe” (PWM Wealth Tech Awards 2019)
- › ING Aria Sustainable Bonds investment fund awarded LuxFLAG’s ESG label
- › The Blue Connection and ING host a conference on the circular economy, with the attendance of Claude Turmes, Minister for Energy

November

- › ING sponsors the 4th edition of Run in the Dark Luxembourg to raise funds to cure paralysis research
- › 8th edition of the ING Solidarity Awards
- › ING awarded “Employer Brand Strategy Award 2019” (Luxembourg HR Awards)
- › ICT Team of the Year Award (ICT Awards)

December

- › ING’s annual sustainable Finance conference
- › ING is flagship sponsor of 1st edition of TEDx Luxembourg City Women
- › Delivery becomes Agile

Awards obtained in 2019

- › ING was awarded “Best initiative of the year in relationship management technology in Europe” during the “PWM Wealth Tech Awards 2019”;
- › ING Luxembourg’s Tech department won the “ICT Team of the Year” award;
- › ING Luxembourg won the “Employer Brand Strategy” award for 2019 ;
- › ING received the LuxFLAG label for its ING Aria Sustainable Bonds investment fund ;
- › ING Luxembourg was awarded the Happy Trainees label for the 6th year in a row.

> Bodies of the bank

5 Bodies of the bank*

Board of Directors



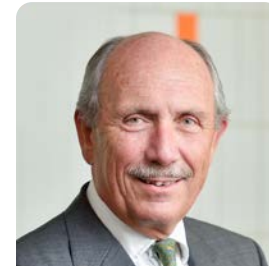
Erik VAN DEN EYNDEN
Chair
Chief Executive Officer of ING Belgium, Brussels



Guy BENIADA
Vice-Chair
Corporate director, Annecy



Colette DIERICK
Member
Managing director



Hubert CLASEN
Member
Chairman of Caves Bernard-Massard, Luxembourg



Robert DENNEWALD
Member
Chairman of Contern S.A., Luxembourg



Alex SCHMITT
Member
Attorney at law, Luxembourg



Philippe WALLEZ
Member
Managing director of ING Belgium, Brussels

Executive Committee

Colette DIERICK
Chair
Chief Executive Officer
Authorized manager

Philippe GOBIN
Chief Financial Officer
Authorized manager

Bernard LHERMITTE
Chief Operations Officer
Authorized manager

Vincent VERMEIRE
Chief Risk Officer

Damien DEGROS
Head of Wholesale Banking
Associated member

Sandrine DE VUYST
Head of Private Banking
Associated member

Frédéric KIEFFER
Head of Retail Banking
Associated member

Pierre KNODEN
Head of Human Resources
Associated member

Audit & Risk Committee

Guy BENIADA
Chair
Vice-Chair of the Board of Directors

Erik VAN DEN EYNDEN
Membre
Chair of the Board of Directors

Nomination & Remuneration Committee

Robert DENNEWALD
Chair
Member of the Board of Directors

Erik VAN DEN EYNDEN
Member
Chair of the Board of Directors

Guy BENIADA
Member
Vice-Chair of the Board of Directors

External auditor

KPMG Luxembourg

* Situation as of 31 December 2019

> Our people

6 Our people

People are at the heart of our business strategy. In an industry that is changing fast, ING's workforce is evolving to keep pace with the skills and capabilities needed to embrace a digital future. To attract and retain talent we strive to offer our employees a differentiating experience and an inspiring workplace that encourages collaboration, innovation and personal growth.

Enhancing our digital competencies is essential to deliver on our Think Forward strategy. At the same time, traditional banking capabilities remain important. What counts is motivated people – our employees – who go the extra mile to make a difference.

Everything we do at ING is guided by the values and behaviours that underpin our way of working. We call this our Orange Code, which puts integrity above all. It is our policy not to ignore, tolerate or excuse any behaviour that is not in line with our Orange Code values. Doing so could potentially put our customers at risk, erode the public's confidence and damage our reputation. That is why integrity is at the very foundation of our culture.

Each and every one of ING's employees has a responsibility to live up to the Orange Code. We assess them against the Orange Code behaviours as part of the performance management process. All new joiners are introduced to the Orange Code through an e-learning module that explains ING's culture, way of working and what we expect from our employees. With an internal digital tool, employees can praise each other's behaviours by giving "kudos". There is also a global dilemma model to help employees recognise dilemmas and make balanced decisions in line with the Orange Code values and behaviours.

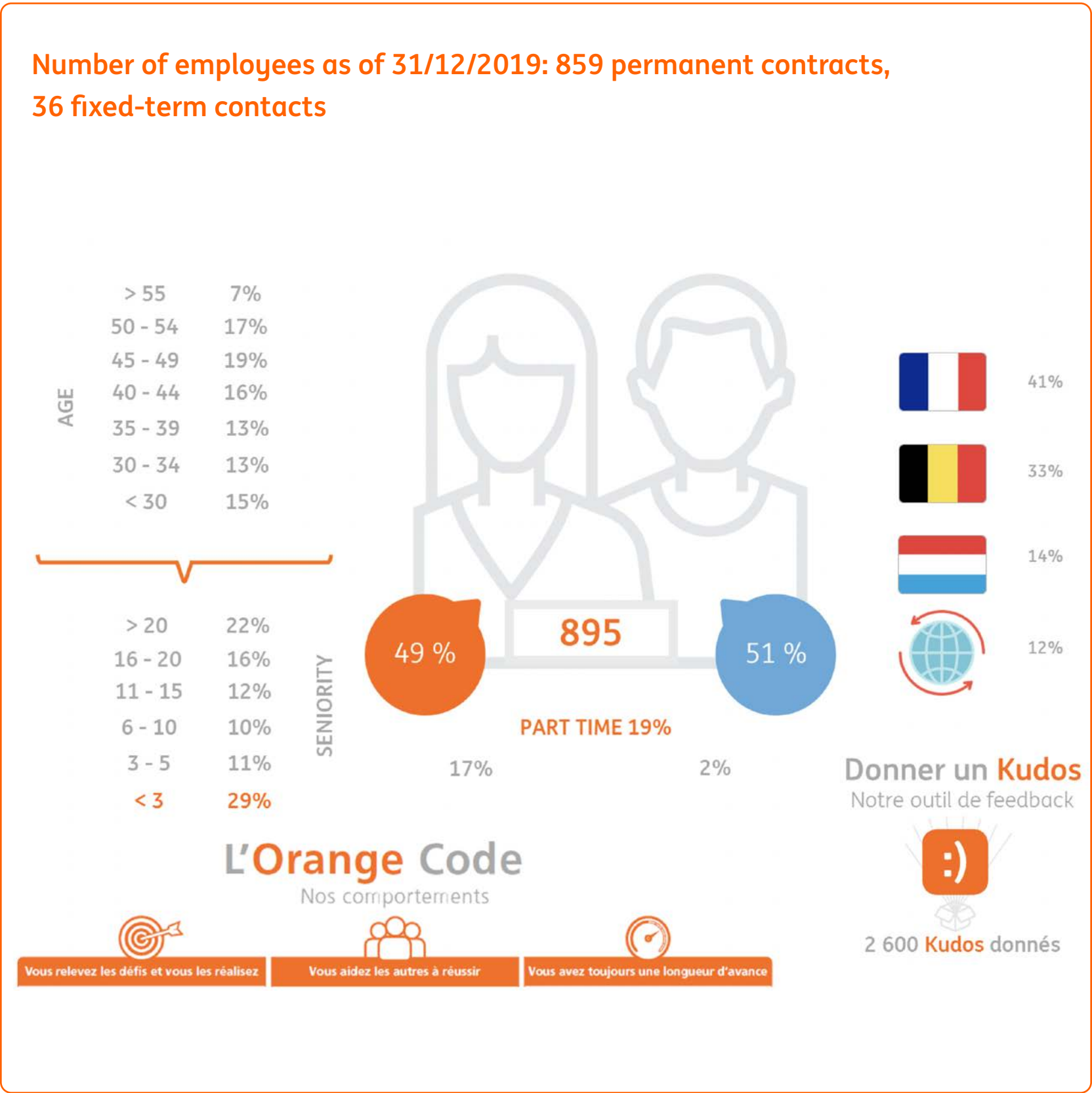


> Our people

To make sure our employees are equipped to do their best to help ING achieve its ambitions and have the opportunity to share their views, we strive to create a continuous dialogue with our people using an innovative approach called continuous listening, with specific measurements linked to business performance.

In 2019 we carried out the Organisation Health Index (OHI) survey, a performance indicator measuring organisational health relative to a global benchmark of 1,900 companies. Just over half of employees (56 percent) completed the survey. The findings help us to set our priorities, define improvement areas and devise action plans to make those improvements

ING is recognised worldwide as a top employer. In 2019 ING in Luxembourg was certified by the Top Employers Institute, alongside ING in Belgium, France, Italy and Poland.



7 ING in the community

As a global financial institution, ING has both the means and the responsibility to drive economic development, steer our society towards social progress and help preserve our natural heritage.

We strive more than ever to provide our customers, individuals and businesses alike, with an innovative and differentiating experience as well as the means to take on today's challenges. And there are many.

So we, at ING, choose to be more than a bank. We make it our duty to be our customers' partner in life and in business, guide and assist them in keeping up with our moving society and playing their part in guaranteeing the future.

Sustainability

Climate change and everyone's financial health have become crucial issues. As a financial institution, we have a responsibility to be accountable both to our customers and to society as a whole.

Being responsible is not just about reducing our own impact. It is about being responsible in all our actions as an investor and creditor as well as in the services offered to our customers. That is why acting sustainably is at the heart of our strategy, especially by incorporating sustainability criteria into both our lending and the selection of securities offered to our customers. As proof of this, we have been awarded the prestigious "Environmental, Social, and Governance" (ESG) LuxFLAG label for our ING ARIA Sustainable Bonds funds.

Financial health is one of the greatest challenges of our customers. Thanks to our innovative tools and the sharing of our skills and research, we can help them and

society in their financial management. Other concrete examples are our conferences on sustainable finance or the conversion of a traditional fund into an ESG sustainable fund as well as our business game for understanding the circular economy in practice.

As a bank, we consider financial education to be an asset for everyone. With this aim in mind, we regularly publish the results of international studies conducted by ING as well as certain studies conducted by other institutions on our "My Money" blog (ing.lu/mymoney) and on other platforms, such as our social media. We are also actively involved in the ABBL's annual "Woch Vun de Suen" initiative, the "Fit for Life" programme and have organised the "Jonk Entrepreneuren" innovation camp, all with the aim of introducing young people to the world of finance.

As a player in our society, we still believe in the importance of the concrete role that we can play. In 2019, we took action to significantly reduce our ecological footprint. Not only were we again awarded the "SuperDrecksKëscht" label, we were amongst the first signatories of the "Zero Single-Use Plastic" Manifesto, drastically reducing our consumption of disposable plastics. We cannot emphasise enough how meaningful this step is and how critical it is for every one of us to contribute to the creation of a safer and more sustainable world: let's all be agents of change.

All this is in addition to the wide array of charitable actions in which we have participated because they are fully in line with our values. The local edition of the Fondation Cancer "Relais pour la Vie" is a fine example. We have not neglected the support that we have given UNICEF Luxembourg for almost 15 years, with EUR 35,000 donated to this organisation through actions such as "ING Run for Youth". Naturally, our engagements extend beyond our partnership with UNICEF. The 8th edition of the ING Solidarity Awards demonstrates the considerable support that we gladly grant to the Luxembourg non-profit sector.

> ING in the community

Lastly, we participated in awareness initiatives throughout the year. We lit up our buildings in orange in opposition to violence against women during Orange Week and in blue for World Children's Rights Day. We donated our old mobile phones to the ASBL Digital Inclusion, which facilitates social inclusion through digital technology while keeping these devices in the circular economy. We organised a theatrical performance to celebrate Diversity Day. All these events complement our long-standing efforts to promote our own employees' well-being and personal development through "Lunch & Learn" and "Lunch Passion" discussion groups, regular health check-ups at the work place, sporting activities between co-workers and other such actions.

Sponsorship

ING pursues a well thought-out sponsorship policy, for its traditional sponsorship activities as well as its corporate social responsibility practices.

ING has partnerships with major players in sport and cultural sectors. These partnerships provide valuable interactions which allow us to strengthen our image and bring us closer to our customers. At the same time, our partners receive financial and material support to further develop their projects.

Without a doubt, ING is synonymous with running here in Luxembourg. The "ING Night Marathon Luxembourg" is an unmissable late-spring event, bringing together more than 16,000 runners and tens of thousands of spectators to the streets. In addition to the marathon, we promote running in connection with other events throughout the year, such as the "ING Eurocross", the "ING Trail Uewersauer", the "ING Route du Vin" and the "ING 24H Run Wiltz". On a lesser scale, we also support football and handball by sponsoring local teams.

With regard to the Luxembourg cultural scene, for the 1st time in 2019, we had the pleasure of supporting our neighbours, the "Rotondes", and their digital art exhibition "Multiplica". We also took part in a new musical adventure in Neimënster by becoming a partner of the "Siren's call" festival.

In addition, we continued to support conferences and events focused on testimonials and exchanges of ideas, such as "TEDx Luxembourg City", which just launched its first 100% women's edition.

Lastly, ING partnered with Luxembourg Pride to demonstrate its commitment to diversity and inclusion.

> ING branches in the Grand Duchy of Luxembourg

8 ING branches in the Grand Duchy of Luxembourg

Luxembourg City

Registered office	26, Place de la Gare, L-1616 Luxembourg	+352 44 99 60 40
Grand-Rue	42, Grand-Rue, L-1660 Luxembourg	+352 44 99 63 10
Cloche d'Or	14, rue Robert Stumper L-2557 Luxembourg	+352 44 99 65 90
Kirchberg	18, rue Edward Steichen, L-2540 Luxembourg	+352 44 99 69 00

District of Luxembourg

Strassen	104, route d'Arlon, L-8008 Strassen	+352 44 99 78 50
Esch-sur-Alzette	41, rue d'Alzette, L-4011 Esch-sur-Alzette	+352 44 99 74 00
Belval	1, avenue du Swing, L-4367 Belval	+352 44 99 62 00
Dudelange	4, rue de la Libération, L-3510 Dudelange	+352 44 99 72 00
Differdange	1, avenue de la Liberté, L-4601 Differdange	+352 44 99 70 00
Rodange	1, route de Longwy, L-4830 Rodange	+352 44 99 77 00
Mersch	8, avenue G.-D. Charlotte, L-7520 Mersch	+352 44 99 76 00

District of Diekirch

Ettelbruck	17, Grand-Rue, L-9050 Ettelbruck	+352 44 99 75 00
Diekirch	1, place Guillaume, L-9237 Diekirch	+352 44 99 71 00
Wiltz	6-7, avenue G.-D. Charlotte, L-9515 Wiltz	+352 44 99 80 00
Weiswampach	21, Gruuss Strooss L-9991 Weiswampach	+352 44 99 79 00

District of Grevenmacher

Echternach	10, place du Marché, L-6460 Echternach	+352 44 99 7300
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MANAGEMENT REPORT

1 Financial results

1 1 Balance sheet

ING Luxembourg's balance sheet at 31/12/2019 was stable compared with the previous year (-2%).

1 1 1 Assets

Customer loans rose by EUR 0.5 billion. This growth resulted from commercial efforts made in mortgages (EUR 0.3 billion) and the development of the "Capital Call" Wholesale Banking product, which tripled over the 2019 financial year. Leases were stable compared with 2018 as well as loans to local Wholesale Banking customers.

Given a level of customer deposits well above the loans granted, cash receivables remained significant (EUR 7 billion compared with EUR 8 billion in 2018). Intra-group deposits decreased in favour of the central bank, which had an exposure of EUR 5 billion at the end of the period.

ING Luxembourg added to its investment portfolio, which grew by EUR 127 million.

1 1 2 Liabilities

Client deposits remained virtually stable compared with 2018. They totalled EUR 15.8 billion, most of which came from Wholesale Banking customers.

Amounts owed to banks decreased by EUR 0.2 billion.

Reserves increased by EUR 61 million. The general meeting decided to allocate part of the 2018 result to wealth tax reserves and to free reserves to enable ING Luxembourg to meet increasingly demanding regulatory capital requirements.

1 2 Profit and loss account

The result for the year was EUR 101 million, down from 2018, which had benefited from a significant write-back of the provision for pending disputes. The 2019 financial year proved to be very satisfactory with a result above budget.

The interest margin increased by EUR 12 million thanks to the development of customer loans.

Net commissions decreased by EUR 2.8 million due to a reduction in commissions received.

The result from financial transactions was down EUR 12 million from 2018. ING Luxembourg made significant gains on the sale of certain bonds at the beginning of the previous financial year.

Other operating income was stable compared with 2018, taking into account the fact that the 2018 amount included a provision write-back of EUR 42.6 million for pending disputes.

Administrative overheads increased significantly by EUR 11 million. Half of this increase was due to staff costs in response to regulatory requirements for Know Your Customer.

Other administrative expenses increased, in particular in connection with Tech investments.

Value adjustments on loans and advances and provisions for contingent liabilities and for commitments increased by EUR 3.4 million. Note a EUR 10 million allowance for the fixed provision.

Income from the dissolution of special items with a share of reserves decreased from EUR 4.5 million in 2018 to 0 in 2019.

1 3 Return on assets

The return on assets as defined by Article 38.4 of the amended law of 5 April 1993 was 0.56% in 2019.

2 Future developments

The bank’s business strategy continues to be based on the development of its lending activities and the increase in customer securities deposits. The environment of persistently low interest rates, intensified by the central banks’ response to the coronavirus health crisis, will continue to erode the bank’s intermediation margin in 2020 through the models replicating customer outstanding loans in euros and the drop in margins on deposits in foreign currencies.

The conversion of a portion of retail deposits into investment products remains a goal in 2020 and for subsequent financial years. This also acts as an alternative to current accounts for customers aiming to achieve a return.

The policy on operating costs will remain the absorption of any indexing of wages and temporary costs associated with the continuation of Know Your Customer actions in

2020. Another challenge will remain the operational management of the COVID-19 crisis, which already required the massive use of telework by our employees in March 2020.

Meanwhile, loan loss provisioning is expected to remain under control.

3 Allocation of result

Distributable income in respect of the 2019 financial year totalled EUR 101,409,377, i.e. EUR 101,354,225 in 2019 net income, plus EUR 55,152 in result brought forward of 2018.

The Board of Directors proposes the following appropriation to the General Meeting:

Allocation to a special reserve for “Wealth Tax”	EUR 17,128,545
Allocation to a free reserve	EUR 0
Payment of a dividend of EUR 56.4437 per share	EUR 84,250,000
Carried forward	EUR 30,832

4 Events after the balance sheet date

The coronavirus health crisis, which emerged from China in January 2020, spread to Europe in February and locked up the planet in March. At the operational level, ING Luxembourg has taken steps to stem the spread of the virus by applying the requirements for separation of teams and teleworking as much as possible. On the

› Events after the balance sheet date

financial front, the consequences of this crisis for ING Luxembourg are still difficult to estimate but could come from various sources: lower rates, falling equity markets, and decreasing business activity. However, the decisions of governments and central banks are likely to mitigate this situation.

5 Buyback of own shares

During the financial year, the Bank did not buy back any of its own shares.

6 Research and development activities

During the financial year, the Bank did not carry out any such activities.

7 Branches

During the financial year, the Bank did not set up any branches.

8 Developments in the Bank's main business lines

Innovation

ING prioritises safe business and wants to be a reliable financial partner for its customers by offering personalised advice, expertise and integrated solutions. In 2019, ING Luxembourg, and more specifically Private Banking in collaboration with ING Amsterdam, developed a common platform to better manage KYC risk for the bank and its customers. The global KYC service has put in place an analysis tool used during the review of individual customers.

The platform, which will be used by all ING Group entities, is updated centrally to reflect regulatory changes.

This will ultimately result in an automated tracking process for employees and a reduction in contacts dedicated solely to administrative requests for customers.

Since 2016, Private Banking customers have had special access to the “My ING Private Banking” mobile app. As of 31 December 2019, 82% of customers held a digital contract.

8 1 Wholesale Banking

Achievements in 2019

Following on from the past few years, the Wholesale Banking activity performed very well in 2019: the strong rise in the result was mainly due to the development of commercial relationships with regulated and non-regulated funds as well as with companies active in Luxembourg.

As was the case last year, the review of activities in terms of risk appetite was an important issue. The objective is to build a model of banking activities that provides support to companies and institutions based in Luxembourg while ensuring strict compliance with a secure environment based on Luxembourg's legal framework and with the risk appetite within the ING Group.

Regarding loans granted in 2019, the year confirmed the success of capital call financing granted to investment fund customers based in Luxembourg. The expertise developed locally, with the support of our colleagues around the world, is a perfect illustration of the strength a group like ING can call on to support Luxembourg companies.

Lastly, the results of the NPS® satisfaction survey show us that customers remain very satisfied with an increase in ING Luxembourg's "promoter" customers. This result represents an increase of 10 points. Customers continue to affirm the quality of the experts, describing them as accessible, understanding, competent and creative.

2020 Outlook

The regulatory context will continue to have a considerable impact on the services offered and delivered to customers. In addition, the coronavirus health crisis is likely to impact the financial health of corporate customers and the deposit margins. Against this backdrop, Wholesale Banking has defined four focus areas for the coming years. Firstly, consolidate the secure and solid framework on which banking activities can be developed. Secondly, maintain the motivation and engagement of employees. Thirdly, continue to improve customer satisfaction by developing financing activities with an emphasis on the activities that contribute to respecting and preserving our environment but also by improving client intimacy. Lastly, based on our daily contacts, guarantee quality service for customers based on an approach that combines digital solutions with a personal contact. These strategic priorities should allow us to achieve a satisfactory financial result again.

8 2 Wholesale Banking - Financial Markets

The mission of Financial Markets is to help its customers manage interest rate and/or foreign exchange volatility risks by providing interest rate and/or foreign exchange hedging solutions. It is organised to provide tailored solutions to very complex problems involving financial market risks to which the Bank's customers sometimes want exposure or, on the contrary, against which they wish to protect themselves in other situations.

Various specialists are gathered and share their skills to propose solutions for each particular case, namely:

› Developments in the Bank's main business lines › 8 2

- › Sales activity: salespeople remain the point of entry to the trading room for customers. They provide solutions that allow businesses to hedge their risks linked to changes in interest and exchange rates.
- › Forex department: professionalism and expertise make it possible to manage macroeconomic and microeconomic changes, including handling everyday foreign exchange risks in order to achieve the budget. Various political and economic events led to increased market volatility. Monetary policy decisions by central banks also influenced these activities. That said, the results achieved by this department were once again excellent in 2019.

8 3 Retail Banking

In Retail Banking, we serve customers in the following segments:

- › Private Persons, consisting of resident, crossborder and non-resident individuals with accounts holdings of less than EUR 1 million;
- › Retail Companies, consisting of companies and self-employed persons with revenue of less than EUR 7.5 million.

We have a network of 16 branches, a Contact Center and four specialised business teams supporting the relationship managers to optimally meet the constantly changing expectations and needs of our customers.

Regarding our offering, as a universal bank, we provide our customers with a range of products in daily banking, investments and loans.



Achievements in 2019

Commercial achievements were good. In 2019, despite the low interest rate environment, we managed to exceed the 2018 income level thanks to a positive change in customer balances of around 9%, the largest contributor being loans.

Risk management and rigorous documentation of customer files were key objectives in 2019. A central team (Business Risk team) was created and reviewed more than 12% of all the files that make up the Retail Banking client portfolio.

The customer experience remains good with a NPS® that continued to be high at +29. We also carried out two PACE projects, ING's way to gather customer feedback in direct consultation with customers to improve customer journeys to. Lastly, a day dedicated exclusively to customers was organised within several ING entities, including Luxembourg. For example, during this Customer Experience Day, 25 employees divided into multidisciplinary teams focused on improving customer processes.

An important project that marked 2019 was PSD2, for which we worked closely with the Group to offer a central connection solution.

In 2019, we also had the pleasure of welcoming some twenty new talents to Retail, highly qualified colleagues who will take on future challenges.

At the organisational level, Retail Banking and the Bank in general made major changes. After an intense preparatory phase, we implemented "One Agile Way of Working" in December 2019 for the "Delivery" part of the Bank. The goal was to be able to adapt with agility and speed to the dynamic environment in which we operate. With this reorganisation and the reassignment of tasks, Retail Banking also revised the organisation of its Management Team.

Outlook 2020

Ensuring a safe business compliant with regulations will also remain central in 2020. In this context, we will continue our approach of centralising administrative tasks and monitoring files. We are convinced that by doing so, we will standardise and improve the quality and response time for our customers.

At the organisation level, the activity serving small and medium-sized enterprises will be moved to Retail Banking in January 2020 to further capitalise on synergies with the branches, which are close to the field, to serve our local professional customers even better. In the same vein, the leasing activity will also report to Retail Banking starting in January 2020.

We are convinced that the training of our employees is an essential competitive advantage to serve our customers well. Due to the technical nature and diversity of our business, we have a large training programme for our teams.

In terms of the accessibility of our points of sale, we will offer extended opening hours for appointments with advisors. We will unveil our new branch at Cloche d'Or in Q1, which will be the first in Luxembourg based on an innovative concept developed by ING Group and meeting customer expectations even better. We will surprise the market with this new branch concept, which we intend to implement more widely in the medium term.

Lastly, several IT projects will be either launched or finalised to capitalise on the Group's tools and solutions both in terms of risk management and customer functionalities to ensure the durability of our local business at a moderate cost.

The coronavirus crisis will have an impact on the assets of our individual customers as well as on the activity of small and medium-sized enterprises, which remains difficult to quantify.

8 4 Private Banking

Achievements in 2019

The expertise of Private Banking is based on advisory and discretionary management, credit offering and financial planning support. In 2019, our teams continued to actively seek to offer quality tailor-made service for the financial, administrative and wealth management of our existing customers and when acquiring new customers.

Over 2019, the Investment Office (IO) Luxembourg team, in close collaboration with the Belgian IO, performed well compared with competition, with a risk/return ratio in the top quartile over 1 year and 3 years, both in discretionary management and in the management of ING Aria funds. Within this SICAV, the Aria Lion and Global Index sub-funds initiated the process of integrating ESG underlying assets, representing 33% and 100% of their AUM respectively at the end of 2019. In the same vein, the former “ING Aria – European Bonds” sub-fund was converted into “ING Aria – ING Sustainable Bonds”. Its objective is now to invest in green, social and sustainable bonds from issuers that have the best practices in ESG. This new bond investment process was distinguished by the prestigious ESG label awarded by LuxFLAG, an independent organisation certifying the most virtuous sustainable products.

The advisory management services are offered specifically and with personalised investment advice, applying a transparent pricing model in line with MiFID II.

Once again, lending in Private Banking was a great success, with quality sales management coupled with an international mortgage offering that includes certain regions in Spain in addition to our offering in France, the United Kingdom and other European Union countries.

Our management company, ISIM, had another year of significant development. This growth was made possible by taking over the management as of 1 May 2019 of ING (B) Collect Portfolio, a Belgian fund distributed by ING Belgium, as well as by the increase in assets of the additional sub-funds launched last year, namely ING Multi-Asset Income Fund and ING Fund's ING Sustainable Moderated and ING Sustainable Balanced sub-funds. The net result for 2019 was remarkable, more than doubling to reach EUR 5.1 million. To support the increase in ISIM's activity, staff has been reinforced with the arrival of five additional people. As of 31 December 2019, ISIM had 15 employees.

In this increasingly stringent regulatory environment, Private Banking is focused on making processes more efficient and improving customer knowledge and experience. All Private Banking employees are continuously trained to give our demanding customers the know-how to guide them through the various portfolio management and estate planning solutions.

This tailor-made customer service is naturally rounded out by a constantly evolving digital offer, enabling our customers to remain a step ahead.

Outlook 2020

In 2020, Private Banking aims to pursue this strategy and to continue offering services both in loans and advice on investment and asset management to meet the increasingly international needs of our (U)HNW customers. Our employees will pay particular attention to providing excellent service to all our customers while ensuring effective and comprehensive risk management in order to comply with all applicable regulations. The drop in equity markets in Q1 2020 resulting from the coronavirus health crisis, will have a downward impact on our customers' positions. At this stage, it is not possible to measure the impact on ING Luxembourg's financial results.

8 5 Group Treasury

Group Treasury handles liquidity and solvency management in a single division. Group Treasury receives the risks of commercial activities according to the management principles put in place. Group Treasury manages all balance sheet risks: daily operational management, strategic advice, cash management, liquidity management, long-term financing and solvency and capital management.

The mission of this department is primarily the careful management of liquidity, capital and solvency, taking every available measure to support the commercial strategy of the segments. This role concretely leads to advice provided to the Executive Committee. Management includes baseline and interest rate risks, long-term and short-term funding profiles and securities portfolio maintenance. Capital management is more strategic with the aim of providing sufficient capital to support commercial ambitions while respecting ING Group's regulatory obligations and global policy. Group Treasury's results are primarily due to effective management of the money market and funding by using foreign exchange opportunities, active management of interest rate risk within the imposed limits and a bond investment portfolio. Group Treasury Luxembourg works closely with other Group Treasury teams in the functional structure. Group Treasury Luxembourg's systems and practices are aligned with those of the Group.

ING Luxembourg has found assets permitting the recycling of Wholesale Banking customers' deposits. Nevertheless, a large part must be deposited with the Luxembourg Central Bank for regulatory liquidity reasons. Group Treasury pays particular attention to the behaviour and stability of these deposits, which represent a large proportion of the balance sheet liabilities. This is monitored closely, requiring close collaboration between Financial Markets Support, Payments, Wholesale Banking and Group Treasury.

9 Risk management objectives and strategies

In terms of risk management the strategy adopted by the Bank is determined by the standards of ING Group, while also ensuring that local requirements are met, whether they are imposed by international regulation or rules specific to the Grand Duchy of Luxembourg.

The Group's strategy in this area requires ING Luxembourg to organise its departments along three lines of defence. The first one is provided by departments with direct (sales departments) or indirect (operational departments) contact with customers. The departments forming the first line of defence carry out checks on customers, both at the beginning and during the relationship, and on all transactions performed on behalf of them.

The second line of defence is provided by the support functions: finance, risk management and human resources. The main role of the second line of defence is to ensure that the Bank's financial statements present a true and fair view, and to this end, it helps the first line identify its risks, proposes control methods to it, defines risk limits for and in collaboration with the various business lines, and ensures that the risks ultimately accepted remain strictly within these limits.

Lastly, the internal audit department makes up the third line of defence. Its role is to verify that the first two lines operate in accordance with the governance and standards stipulated by the Group and the national and supranational regulators.

The Bank's various departments therefore play different roles in risk management depending on whether they belong to one of the three lines of defence. As a whole,

> Risk management objectives and strategies

all of these roles, their interaction and cohesion form the basis for the Bank's system of internal controls required to manage its risks.

One of the focal points of 2018 had been the continuation of the regulations that apply to the various risk areas. This includes but is not limited to MiFID2, PSD2 and GDPR.

ING Luxembourg's top strategic priority for 2019 was to conduct safe business, which is based on a strong risk culture throughout the company. The focus on non-financial risk intensified, including KYC, GDPR, MiFID2, Market Abuse Regulations as well as the Enterprise Risk Management and IT within Risk Appetite programmes, and the strengthening of the three lines of defence. With regards to financial risk, ING Luxembourg continued its approach to credit risk models. In addition to the impacts of TRIM and Basel4 on Credit Risk Weighted Assets and Interest Rate Risk in the Banking Book, a project to review the two local credit risk models was launched.

9 1 Composition of the risk management department

The various risk management functions are centralised under the management of a single member of the Executive Committee, appointed as Chief Risk Officer (CRO). This person directs and supervises 5 departments: the credit risk management department (CRM), the market and liquidity risk and regulatory risk and modelling department (MRM), the department that manages legal risks (Legal), the compliance risk department (Compliance) and lastly the operational risk department, which handles risks linked to data management, including information systems (ORM/IRM) as well as the physical safety of employees and movable and immovable assets that ensure the smooth running of the Bank.

The bank defines a Risk Appetite Statement for each of these risk areas. This document is used to define the indicators of each risk and the level of risk that the Bank is prepared to assume. These Risk Appetite Statements are reviewed at least annually and approved by the Board of Directors.

9 2 Sarbanes-Oxley regulations

As a significant subsidiary of the ING group, which is listed on the New York Stock Exchange, ING Luxembourg has a system of internal controls that meets the demanding corporate governance criteria of the US Sarbanes-Oxley Act. This approach ensures that financial risk management within the Bank meets internationally recognised standards in all areas of activity.

9 3 Market risk

Market risk is the risk of financial loss that may result from fluctuations in the prices of financial instruments that make up an asset portfolio or are inherent to the management of the bank's balance sheet. The various primary market risk factors are interest rates, foreign exchange rates and share prices. Secondary factors are credit risk on bond portfolios and liquidity risk. The Bank's market risks are centralised in Financial Markets for its proprietary trading activity or in Group Treasury for its hedging and regulatory compliance banking activity.

Market risk management requires the ability to give a market value (mark to market) to the assets and liabilities held. The market value can be calculated using either a market price or a mathematical model. Market risk is managed by setting and

➤ Risk management objectives and strategies ➤ 9 3

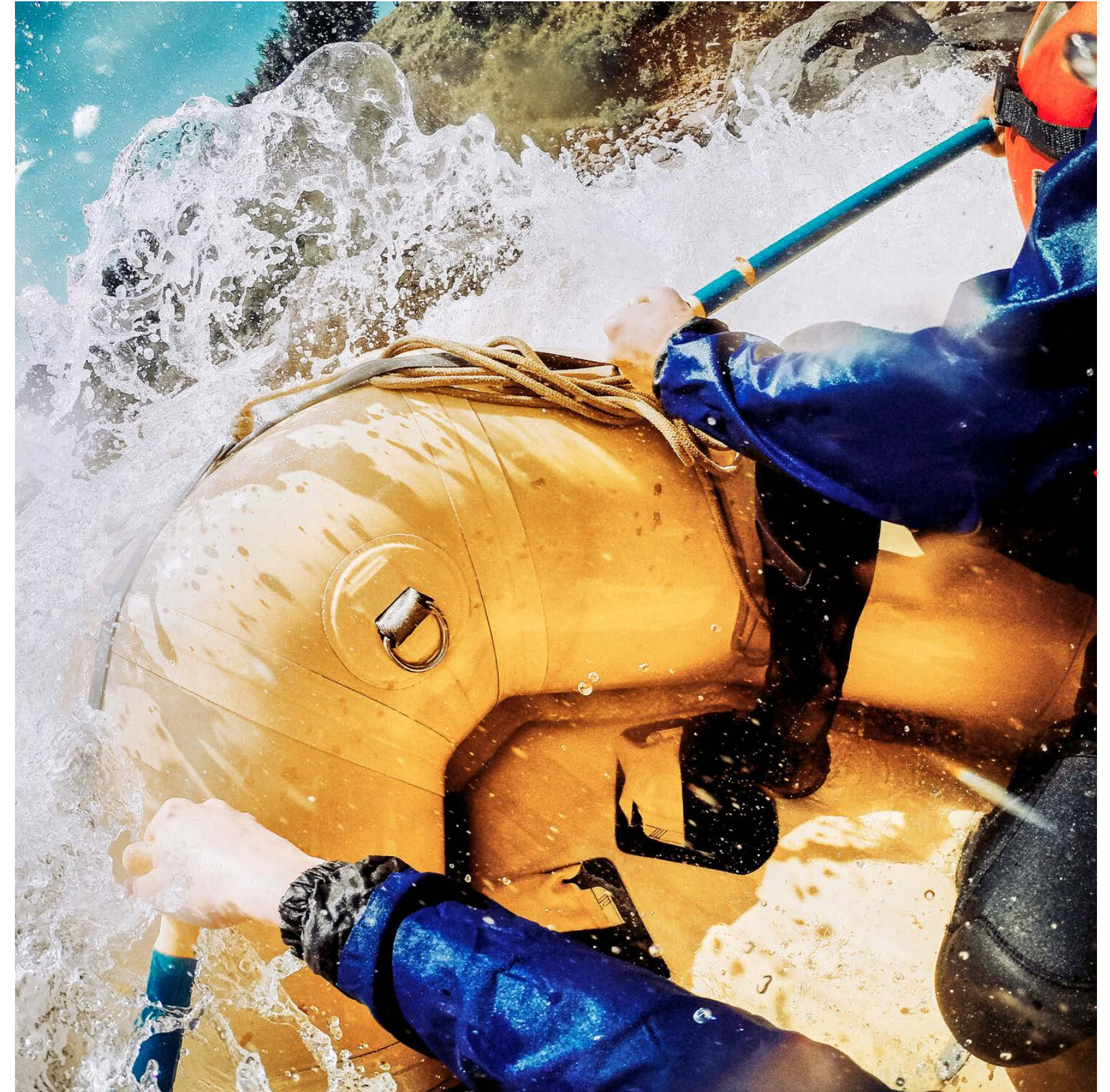
respecting limits, Market Risk Appetite Statement, in terms of sensitivity, position and performance under normal market conditions (business as usual) or extreme market conditions (stress testing).

Value at Risk (VaR), the main measure for the trading activity, enables all underlying risk factors to be centralised in a single metric. It measures both risk and performance as the maximum loss that can be incurred within 1 day and expected to be exceeded in only 1% of cases. Value at Risk and Stressed Value at Risk are two internal models used to calculate regulatory and economic capital reserves.

Each day, Market Risk Management gives the members of the Executive Committee, the management in charge of market activities and the Market Risk Management Consolidation teams in Amsterdam an independent view of all positions, risk indicators and results relating to market activities for the Financial Markets and Group Treasury activities.

The Assets and Liabilities Committee or ALM (ALCO Committee), which meets on a monthly basis, monitors the overall equilibrium of the balance-sheet and off-balance sheet items with regards to market risk (rates and liquidity) as well as compliancy with regulatory liquidity and capital ratios. This committee also ensures that the internal risk transfer mechanisms are adequate, set up based on the policies adopted by the Group. In relation to the replication processes, these mechanisms are reviewed and validated once a year.

Banking operations are clearly distinguished from trading ones. Banking operations form part of a policy to hedge customer assets and reduce sensitivity to market and liquidity risk, within the limits imposed. Trading operations, within the aforementioned limits, enable us to benefit from opportunities in the financial markets and generate short-term profits.



9 4 Liquidity risk

With regard to the management of liquidity risk, including financing risk, ING Luxembourg's framework is in line with that of ING Group, based on ILAAP (Internal Liquidity Adequacy Assessment Process) principles and adapted to local constraints and business models.

The main goal of liquidity risk management is to maintain sufficient liquidity to ensure sound and compliant operations, both under normal and stressed market conditions.

The Risk Appetite Statement Funding & Liquidity is described by a set of principles that express the level of risk that the Bank agrees to take in relation to its strategic and growth objectives. These principles are translated into various metrics and limits.

Liquidity metrics and ratios, including the Liquidity Coverage Ratio (LCR), are monitored on a monthly basis and reported to the ALCO Committee as part of the monitoring of the Risk Appetite Statement Funding & Liquidity Risk. Since the LCR is the main metric in liquidity management, it is monitored on a daily basis in accordance with regulatory rules but also with more restrictive assumptions intended to reflect a situation of stress.

The Bank also has a contingency plan describing the roles and responsibilities of the various parties involved, the operational steps to be followed and the actions to be taken in the event of an indication of a liquidity crisis.

9 5 Credit risk

Limits per counterparty or group of counterparties, the determination of risk classes relating to the quality of debtors and the credit rating (Loan Status Code) form the basis of the credit risk control system.

Since the implementation of the Basel II project, the Bank has a central tool for managing credit risks and reporting to both local authorities and the Group.

This report on the overall quality of the portfolio is regularly presented to the heads of business lines and members of the Executive Committee.

The overall quality of the loan portfolio remains at a very good level, with the percentage of loans in 2019 that have a low and medium risk profile at 90.5%, high risk and very high risk at 7.9% and 1.57% files in default.

In 2019, we established new provisions (LuxGaap) for EUR 4 million. Provisions remain low relative to our assets under management. Charge-offs have also remained under control with EUR 1.84 million at the end of 2019 (versus EUR 2.76 million in 2018). Bankruptcies and untraceable customers are the main causes of these charge-offs.

All of the credit limits granted to customers are adequate for the capacity of the Bank's equity capital and with the Group's own limits as indicated in the Bank's ICLAAP report.

The loan portfolio is included in the stress tests plans carried out annually, which enables the Bank to check that its capital is sufficient to cope with a major crisis.

To take into account market developments and the Bank's risk appetite (formulated in Risk Appetite Statements), Credit Risk Management is responsible for reviewing the various lending policies, particularly by continuous improvement of the criteria applied

in the scoring models. These scorings are incorporated into the software used within the Bank to manage applications for housing, personal and business loans, leasing and rental guarantees meeting certain criteria.

Given that the risk related to a potential downturn in the property market is still present, property development projects (construction and marketing of offices and/or residential properties) have been kept under specific monitoring. At the end of 2019, exposure to property developments (financing of land, construction and issuance of completion guarantees) remained at an acceptable percentage, representing 9.85% of the outstanding loans.

Another part of the growth in the loan portfolio is linked to Private Banking customers, primarily based on the financing of premium real estate goods in France through mortgages supplemented by a pledge on a portfolio of securities, as well as the granting and renewal of advances on securities.

In Wholesale Banking, we mainly developed in 2019 our assets under management at the Financial Institutions department level, mainly by granting new Capital Call Financing (a group product used by funds), which consists of pre-financing of calls for capital to investors with acceptance of the related debt as security. On the other hand, growth in the Trade Receivables Purchase Programs product was slower since we believe that we have reached a sufficient amount of funds in this product.

9 6 Operational Risk

Operational risk is defined as the risk of loss that may result from errors in transactions processing, control deficiencies, problems with IT tools, disputes involving customers or staff, internal and external fraud, and even loss or damage caused to its assets by the natural environment or criminal acts.

The main task of Operational and Information Risk Management (OIRM), in collaboration with the various departments of the Bank, is to identify and assess the operational risks inherent in all products, activities, processes and information systems. OIRM also monitors the solutions put in place to reduce these risks and verifies that their level is consistent with the risk appetite statement defined.

Operational risks are monitored on a monthly basis by the Non-Financial Risks Committee, which includes operational, compliance and legal risk. Via the Non-Financial Risks Dashboard, the ORM/IRM function submits quarterly a report to the Bank's Executive Committee and ING Group on the main operational risks and incidents and provides risk appetite monitoring.

In terms of operational risk, the bank's main focuses in 2019 were:

- > Continuation of the Enterprise Risk Management or ERM (aimed at setting up key controls and conducting tests to ensure the effectiveness of these controls) and IT within Risk Appetite or ITwRA (aimed at better control of IT and information risks) programmes. These two programmes have made it possible to review and carry out numerous risk analyses as well as the implementation of new controls after the ING group established higher quality standards. They will continue in 2020;
- > Finalisation of the Sarbanes-Oxley compliance improvement plan;
- > Strengthening of the governance relating to the first and second lines of defence in order to comply with ING Group standards through the transfer of a significant part of the activities under the responsibility of the first line of defence and that were still carried out within OIRM;

> Risk management objectives and strategies > 9 6

- > Strengthening of governance with regard to sourcing as well as the review and challenge of the remediation plan defined following the requirements of EBA and ING Group with regards to (out)sourcing. This plan will be implemented over the next two years.

9 7 Compliance risk

Compliance risk is defined as the risk of losses (damage to image, legal penalties, financial loss, etc.) which could result from failure to comply with legal, regulatory or ethical requirements.

The Bank's Compliance function is set up to meet the criteria set out in CSSF circular 12/552 as amended and in ING Group's Compliance Risk Management Charter and Framework Policy.

This function is in charge of the daily compliance support (onboarding, control of customer transactions and activity, handling files relating to suspected money laundering and/or insider trading, special investigations and periodic analysis of accounts linked to business contributors (« apporteurs d'affaires »)) as well as analysing legal/regulatory/Group requirements, identifying compliance risks, implementing measures to manage these risks, second-line controls concerning compliance and intra-group reports concerning its scope of activity.

During the last quarter of 2019, the Compliance Policy and Charter was reviewed and split into two separate documents: the Compliance Policy and the Compliance Charter. Both were approved respectively by the Non-Financial Risk Committee (NFRC) on 25 November 2019 and the Bank's Board of Directors on 12 December 2019. They were made available to the Bank's employees.

The objective of the Compliance Policy is to define the framework of the Compliance function, the risk of non-compliance of the Bank, the various categories of risk and the values supported by the Group.

The Compliance Charter describes the model of three lines of defence, in particular the role and responsibilities of the Board of Directors, the Authorised Management, the compliance function and the Bank's employees in the day-to-day management of compliance risks.

To strengthen the framework for managing compliance risks, analysis, advice and second-line of defence controls, these being identified and monitored through a Compliance control plan, conducted by the Compliance units, focused in particular on the AML/CFT, Tax, QI, FATCA/CRS, MiFID, MAD/MAR or GDPR regulatory matters.

The Compliance function thus contributed to the efforts to identify and remedy regulatory risks that apply to the Bank and to the implementation of obligations and measures to manage the related risks.

Within the framework defined by the Group, the Compliance function provides Management and ING Group with a quarterly report through the Non-Financial Risks Dashboard on the major compliance risks and incidents.

The Compliance function ensures that the staff of the Bank and its subsidiaries is aware of the importance of the various compliance matters and assist them in their day-to-day activities relating to them.

In October 2019, Compliance, in collaboration with Human Resources, finalised the review of the compliance training plan, adapted in particular to the Bank's activities and Luxembourg specificities. This programme includes a standard training component for all employees. Further in-depth training may be necessary for employees in more

risk-sensitive or complex roles, for Management and for Non-Financial Risk Officers.

In addition, a comprehensive presentation of compliance risks is provided to all new employees within six months of joining the Bank through the Welcome Days programme.

In 2019, the Compliance department also provided awareness training on compliance matters for employees and the management of the various departments and business lines (AML/CFT, Qualified Intermediary, MADII/MAR, Outsourcing) as well as for the Bank's directors (AML/CFT, Directive on Administrative Cooperation (DAC) 6, etc.).

9 8 Legal risk

Legal risk is the risk of losses resulting from non-compliance with regulations and contractual obligations. It also includes the risk of exposure to lawsuits in relation to all of the Bank's activities, whether this involves customers, suppliers or any other third party.

Responsible for managing the legal risk of the Bank and its subsidiaries, the main task of the legal function is to handle all legal matters that the Bank faces in its relations with its customers, suppliers and employees. In its areas of activity, the legal department is responsible for identifying, analysing, assessing and reducing the legal risk.

A team of lawyers offers its expertise to the Bank (and its subsidiaries) for drafting or reviewing contracts signed by the Bank and the forms used by it, for giving opinions or advice to the various departments, and handling lawsuits against the Bank (and its subsidiaries), the recovery of debts being the responsibility of the Credit department.

9 9 Control & Policy Team

Control & Policy Team centrally handles the management of operational risk as 1st line of defence. Since 2017, the Bank has taken action to improve the effectiveness of 1st vs 2nd line of defence model by strengthening this governance and the setup of the Control & Policy Team under the responsibility of the Chief Operations Officer.

Its tasks include participating in analysing policies, implementing controls and conducting tests. It also conducts monthly local controls in addition to those required by ING Group, which are presented periodically to the managers of the business lines concerned. For Retail Banking, it conducts inspections in the branches. These onsite inspections mainly cover the management of securities and the administrative management of branches. Based on the results of the monthly checks, certain subjects may be explored in greater depth.

It participates in the monthly Non-Financial Risk Committee meeting and is the main point of contact between the first line of defence and the second and third lines of defence.

9 10 Pillar III

The Pillar 3 report has been posted on the Bank's website since 2018.

Luxembourg, 25 March 2020

The Board of Directors

> Report of the Statutory Auditor

To the Board of Directors

ING Luxembourg S.A.

26, Place de la Gare L-1616 Luxembourg

REPORT OF THE STATUTORY AUDITOR ("RÉVISEUR D'ENTREPRISES AGRÉÉ")

Report on the audit of the annual accounts

Opinion

We have audited the annual accounts of ING Luxembourg S.A. (the "Bank") which comprise the balance sheet as at 31 December 2019, the profit and loss account for the financial year ended on that date and the notes to the annual accounts, including a summary of the main accounting methods.

In our opinion, the annual financial statements attached give a true and fair view of the financial position of the Bank as at 31 December 2019 and of the results for the year ended on that date, in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Basis for opinion

We conducted our audit in accordance with EU Regulation Nr. 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISA") as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier ("CSSF"). Our responsibilities under this regulation, law and these standards are further described in the section "Responsibilities of the Statutory Auditor for the audit of the annual accounts" of this report. We are also independent of the Bank in accordance with the International Ethics Standards Board for Accountants' code of ethics for professional accountants (the "IESBA Code") as adopted for Luxembourg by the CSSF as well as the ethical rules that apply to the audit of the annual accounts, and we have fulfilled our other responsibilities under these rules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are the matters that, in our professional judgment, were of most significance in the audit of the annual accounts of the period in question. These matters were addressed in the context of our audit of the annual accounts as a whole and in forming our opinion thereon; we do not express a separate opinion on these matters.

> Report of the Statutory Auditor

Assessment of specific value adjustments regarding loans and advances to customers

Description

The Bank's loans and advances to customers totalled EUR 8.481 million as at 31 December 2019. Specific value adjustments for EUR 5 million are deducted from loans and advances to customers, for which the Bank considers recovery is uncertain.

The assessment of specific value adjustments on loans and advances requires an element of judgement by the Bank, such as the identification of deteriorating loans and advances, the evaluation of objective evidence of depreciation, the assessment of the value of the collateral and the recoverable amount.

Due to the significant extent of loans and advances to customers and of the assessment required for their valuation, this is considered one of the "Key audit matters". For more information, see note 4 of the annual accounts and note 1.9.5 of the management report concerning credit risk management.

Work conducted

Our audit approach included both assessing the effectiveness of key internal controls concerning the identification and determination of the specific value adjustments on loans and advances to customers and of substantive audit procedures.

Our procedures regarding internal controls covered controls concerning the accuracy of data on collateral, the process of identifying and managing arrears as well as determining the value adjustments required.

Concerning the substantive audit procedures, we examined a sample of loans that are, have recently been or are likely to be at risk of being individually depreciated. The sample was selected based on our professional judgement, with emphasis on portfolios that are potentially more sensitive to economic developments.

For the loan files selected above, we tested the Bank's assessment of the recoverable value, including the capacity to generate cash and, where applicable, the value of the obtainable collateral, based on the financial information available, market information and, where applicable, the analysis of alternative recovery scenarios.

Other information

The responsibility for other information falls on the Board of Directors. Other information comprises the information stated in the annual report including the management report but does not include the annual accounts and our Statutory Auditor report (« rapport du réviseur d'entreprises agréé ») on said annual financial statements.

Our opinion on the annual accounts does not cover other information and we do not express any form of assurance regarding this information.

Concerning our audit of the annual accounts, our responsibility is to read the other information and, in doing so, assess whether there is a significant inconsistency between this information and the annual accounts or the knowledge that we acquired during the audit, or if the other information appears to contain a material misstatement. If, in the light of the work that we conducted, we conclude that there is a material misstatement in the other information, we are required to indicate this fact. We have nothing to indicate in this respect.

> Report of the Statutory Auditor

Responsibilities of the Board of Directors in respect of the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of the annual accounts in accordance with Luxembourg legal and regulatory requirements related to the preparation and presentation of the annual accounts, and for the internal control that it deems necessary to enable the preparation of annual accounts that do not contain material misstatements, whether due to fraud or error.

During the preparation of the annual accounts, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, for communicating, where relevant, matters relating to going concern and for applying the going concern accounting principle, except if the Board of Directors intends to liquidate the Bank or to cease operations, or has no other realistic alternative but to do so.

Responsibilities of the Statutory Auditor (« réviseur d'entreprises agréé ») in respect of the audit of the annual accounts

Our objectives are to obtain reasonable assurance that the annual financial statements as a whole do not contain material misstatements, whether due to fraud or error, and to deliver a report of Statutory Auditor (« rapport du réviseur d'entreprises agréé ») that includes our opinion. Reasonable assurance corresponds to a high level of assurance, which nevertheless does not guarantee that an audit conducted in accordance with EU Regulation Nr. 537/2014, the Law of 23 July 2016 and the ISA as adopted for Luxembourg by the CSSF will always detect a material misstatement

that might exist. Misstatements can arise from fraud or result from errors and are considered significant if individually or collectively, they could reasonably be expected to influence the economic decisions of users on the basis of these annual accounts.

As part of an audit conducted in accordance with EU Regulation Nr. 537/2014, the Law of 23 July 2016 and the ISA as adopted for Luxembourg by the CSSF, we exercise our professional judgement and adopt a critical stance throughout this audit. Furthermore:

- > We identify and evaluate the risks that the annual accounts contain material misstatements, whether due to fraud or error, design and implement audit procedures in response to these risks and gather sufficient and appropriate audit evidence to form our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, false declarations or the bypassing of internal control.
- > We obtain an understanding of internal control elements relevant to the audit in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- > We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors as well as of related information provided by the latter.
- > We draw a conclusion regarding the appropriateness of the Board of Directors' use of the going concern accounting principle and, based on the audit evidence obtained, whether a significant uncertainty exists related to events or situations that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a significant uncertainty exists, we are required to draw the attention of the

> Report of the Statutory Auditor

readers of our report to the information provided in the annual accounts concerning this uncertainty or, if this information is not adequate, to express a modified opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or situations could lead the Bank to cease operating.

- > We evaluate the overall presentation, form and content of the annual accounts, including the information provided in the notes, and assess whether the annual accounts represent the underlying operations and events in a manner liable to give a true and fair view.

We communicate to those charged with the corporate governance in particular the scope and planned timing of the audit work and our important observations, including any significant deficiency in internal control that we may have identified during our audit.

As part of the matters communicated to those charged with corporate governance we determine those that were of most importance in the audit of the annual accounts for the period in question: these are the key audit matters. We describe these matters in our report, except if legal or regulatory texts prevent their publication.

Report on other legal and regulatory requirements

We have been appointed as Statutory Auditor (« réviseur d'entreprises agréé ») by the Board of Directors on 27 March 2019, and the duration of our uninterrupted mission, including previous reappointments and renewals, is four years.

The management report is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

We confirm that we have provided audit services and no other prohibited services, as referred to in the EU Regulation Nr. 537/2014 on the audit profession, and that we have remained independent of the Bank during the audit.

Luxembourg, 1 April 2020

KPMG Luxembourg, Société coopérative (cooperative company)

Statutory auditors (« Cabinet de révision agréé »)

Emmanuel Dollé

> Balance sheet

ANNUAL ACCOUNTS

Balance sheet

At 31 December 2019

Assets			
expressed in EUR	Notes	2019	2018
Cash, credit balances with central banks and postal cheque office	28	5,058,828,532	2,620,141,127
Interbank receivables	3, 28, 29	1,989,782,820	5,459,586,666
a) on demand		362,422,789	1,707,732,452
b) other receivables		1,627,360,031	3,751,854,214
Customer loans and advances	4, 28, 29	8,480,667,995	7,954,337,558
Bonds and other fixed income securities	5, 29, 30	2,269,531,671	2,142,973,149
a) from public issuers		909,816,268	908,171,559
b) from other issuers		1,359,715,403	1,234,801,590
Shares and other variable-income securities	6, 28, 29	37,543	36,783
Shareholdings	7, 14	827,182	827,240
Shares in affiliated companies	8, 14	20,806,064	20,806,064
Intangible assets	9, 14	116,985	384,929
Tangible assets	10, 14	10,502,119	11,300,666
Other assets ¹	11	58,973,052	50,833,372
Accruals and deferred income	12	64,215,296	73,800,520
Total assets		17,954,289,259	18,335,028,074

¹ Reclassification of 2018 figures concerning total assets and other assets – See Note 2.12

The notes form an integral part of the financial statements.

Liabilities

expressed in EUR	Notes	2019	2018
Interbank debts	15, 28	567,133,554	800,621,623
a) on demand		105,198,044	160,973,421
b) with agreed maturity dates or periods of notice		461,935,510	639,648,202
Client deposits	16, 28	15,827,608,352	16,000,230,876
a) savings deposits		1,666,565,466	1,684,015,113
b) other deposits		14,161,042,886	14,316,215,763
- on demand		13,596,942,321	13,803,892,136
- with agreed maturity dates or periods of notice		564,100,565	512,323,627
Debt securities	17, 28	458,455	458,125
a) debt securities in issue		458,455	458,125
Deferred tax liabilities	18	2,853,769	3,888,186
Other liabilities ¹	19	169,364,090	177,557,319
Accruals and deferred payments	20	64,390,703	66,012,972
Provisions		98,083,796	79,223,606
a) provisions for taxes		51,926,276	36,375,765
b) other provisions	4, 27	46,157,520	42,847,841
Subordinated liabilities	21	187,822,681	184,343,876
Fund for general banking risks		11,403,102	11,403,102
Subscribed capital	22	83,400,000	83,400,000
Share premium account	22	521,242,531	521,242,531
Reserves	23	310,530,080	249,095,727
Revaluation reserve	18, 23	8,588,769	11,060,626
Result brought forward	23	55,152	42,923
Result for the financial year	23	101,354,225	146,446,582
Total liabilities		17,954,289,259	18,335,028,074

¹ Reclassification of 2018 figures concerning total liabilities and other liabilities – See Note 2.12

> Off-balance sheet

Off-balance

At 31 December 2019

expressed in EUR	Notes	2019	2018
Contingent liabilities	25, 28, 29	525,858,749	502,174,880
of which:			
– guarantees and collateral		3,739,628	4,123,627
Commitments	26, 28, 29	1,436,419,283	1,941,689,239
Fiduciary transactions		2,908,533	108,160,532

The notes form an integral part of the financial statements.

> Profit and loss statement

Profit and loss statement

At 31 December 2019

expressed in EUR	Notes	2019	2018
Interest and related income		323,370,346	301,310,766
of which: on fixed-income securities		32,318,428	31,607,519
Interest and similar charges		(122,445,328)	(111,933,941)
Income from securities	30	26,732	50,890
- income from shares in affiliated undertakings		26,732	50,890
Fees received		98,651,840	102,484,852
Fees paid		(8,887,604)	(9,951,566)
Income from financial transactions	31	9,720,077	21,346,691
Other operating income ¹	27, 32	10,389,092	51,952,024
Administrative overheads ¹		(151,669,792)	(141,136,116)
a) staff costs	36, 37	(85,325,384)	(79,194,936)
of which:			
- wages and salaries		(68,010,840)	(63,780,927)
- social security contributions		(10,365,301)	(9,466,703)
of which:			
- social security contributions for pensions		(9,548,388)	(9,086,285)
b) other administrative costs ¹	38	(66,344,408)	(61,941,180)
Value adjustments on intangible and tangible assets	14	(2,464,451)	(2,537,891)
Other operating charges	27, 33	(9,709,726)	(10,742,578)
Value adjustments on loans and advances and provisions for contingent liabilities and for commitments		(14,902,771)	(11,514,174)

expressed in EUR	Notes	2019	2018
Value readjustments on loans and advances and provisions for contingent liabilities and for commitments		2,667,016	1,598,271
Income from the elimination of special items with a share in reserves		-	4,474,293
Tax on profit from ordinary activities		(33,359,106)	(48,922,839)
Profit/loss on ordinary activities, after tax		101,386,325	146,478,682
Other taxes not included in the above items		(32,100)	(32,100)
Result for the financial year		101,354,225	146,446,582

¹ Reclassification of 2018 figures concerning “Other operating income” to “Other administrative expenses” – See Note 2.12

The notes form an integral part of the financial statements.

Notes

At 31 December 2019

Note 1 – General background

ING Luxembourg S.A. (the “Bank”) was incorporated on 15 September 1960 for an unlimited duration in the form of a « société anonyme » (public limited company) under Luxembourg law.

The Company’s purpose shall be all banking and finance operations generally of all types; these shall comprise in particular the acceptance of deposits, all lending operations facilitating the sale on credit of capital and consumer goods, the purchase and sale of securities, the issue of securities for the account of third parties, the acquisition of equity holdings by way of capital contribution, merger, subscription, the purchase of securities, and technical involvement or involvement by any other means, in all companies or commercial, industrial and financial undertakings.

The Bank also seeks to engage in the activity of an insurance agency pursuant to the amended law of 6 December 1991 on the insurance sector (or any other law that would replace it) through duly authorised natural persons.

The Bank also aims to provide all IT services, mainly to ING Group subsidiaries whose registered office is in the Grand Duchy of Luxembourg, and in particular services as an operator of IT systems and communication networks in the financial sector.

In addition, the Bank may carry out any commercial, industrial or other operations or business, including real estate, undertaken for its principal purpose, either directly, in the form of investments, or in any other way, these provisions being understood in the broadest possible sense. The Bank may also do anything that may contribute in any

way to the achievement of its corporate purpose. It may acquire immovable property, including where such acquisition is necessary or useful for the repayment of its debt obligations.

In accordance with Section 80 of the Law of 17 June 1992 as amended in relation to the annual and consolidated accounts of credit institutions, the Bank is exempt from the obligation to prepare consolidated accounts and a consolidated annual report.

The Bank’s accounts are fully consolidated in the accounts of ING Belgium, which has its registered office at 24 Avenue Marnix, Brussels. ING Belgium’s consolidated accounts and the consolidated annual report are available at its registered office.

The consolidated accounts of ING Belgium are, in turn, consolidated in the accounts of the ING Group, which has its registered office at 106 Bijlmerdreef, Amsterdam. The consolidated accounts of ING Group and its consolidated annual report are available at its registered office.

The financial year begins on 1 January and ends on 31 December.

Note 2 – Accounting policies

The Bank’s financial statements were prepared in accordance with the legal and regulatory requirements applying in the Grand Duchy of Luxembourg, specifically the Law of 17 June 1992 as amended relating to annual and consolidated accounts of credit institutions.

Since 2018, following the approval by the Commission de Surveillance du Secteur Financier, the Bank has prepared its annual financial statements with the IFRS 9 option for the Bank’s bond portfolio. However, the Bank does not apply hedge accounting under IFRS 9 to record for its economic hedging relationships in its annual financial statements.

Significant accounting estimates and judgements

By their nature, the assessments necessary for the preparation of the annual financial statements with application of the IFRS 9 option since 2018 on the Bank’s own portfolio require the formulation of assumptions and present risks and uncertainties as to their future outcome.

Future performance may be influenced by numerous factors, including:

- > Domestic and international market activities;
- > Interest rate and exchange rate fluctuations;
- > Economic and political environment in certain business sectors or countries;
- > Changes to regulations or laws.

This list is not exhaustive.

2 1 Currency conversion

The Bank’s share capital is expressed in euros (EUR), and the accounts are kept in this currency.

Assets, liabilities, and off-balance-sheet items denominated in foreign currencies are converted into euros at the current exchange rate applying on the balance sheet date.

Income and expenses expressed in foreign currencies are converted into euros at the end-of-day exchange rate.

Exchange differences arising from the valuation of balance sheet items in foreign currencies are recorded in the profit and loss statement, except for those arising from spot foreign exchange transactions hedged with forward exchange contracts.

Cash-hedged forward items in foreign currency are considered neutral compared to fluctuations in exchange rates. The conversion of these items does not affect the foreign exchange result.

The main exchange rates used at the balance sheet date are as follows:

31 December 2019	31 December 2018
1 EUR = 1.1234 USD	1 EUR = 1.1446 USD
1 EUR = 0.8508 GBP	1 EUR = 0.8951 GBP
1 EUR = 1.0854 CHF	1 EUR = 1.1267 CHF

2 2 Intangible assets

Intangible assets were recorded on the balance sheet at purchase price or cost less accumulated amortisation.

Computer software is amortised at a rate of 20% according to the straight-line method of amortisation.

2 3 Tangible assets

Tangible assets were recorded in the balance sheet at purchase price or cost less accumulated depreciation. The value of tangible assets is depreciated based on their foreseeable period of use.

The depreciation rates and methods applied were as follows:

	Rate of depreciation	Method
Buildings	2.5%-3%	Straight-line
Fixtures and fittings of buildings and technical installations	3%-20%	Straight-line
Furniture, equipment, and machinery	10%-20%	Straight-line
Other fixed assets	25%	Straight-line

2 4 Fixed-income securities

Aiming to converge towards the international accounting standards as adopted by the European Union, the Bank has valued fixed-income securities in its securities portfolio to comply with the provisions of IFRS 9 – Financial Instruments since 1 January 2018.

IFRS 9 was issued by the IASB in July 2014 and approved by the EU in November 2016. IFRS 9 includes the requirements for classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting. Like ING Group, the Bank applies retroactively the classification and measurement requirements by adjusting the opening balance sheet and equity at 1 January 2018.

This standard affects the Bank’s annual financial statements only for the classification and measurements requirements for fixed-income securities.

Asset impairment and hedge accounting are not valued in accordance with international accounting standards and comply with Luxembourg accounting principles.

Classification and measurement

IFRS 9 is built on a single classification and measurement approach for fixed-income securities that reflects the management model in which they are managed and their cash flow characteristics.

Two criteria are used to determine how fixed-income securities should be classified and measured: at amortised cost, at fair value through equity, or at fair value through profit and loss:

1. The business model assessment performed to determine how a portfolio of financial instruments as a whole is managed in order to classify the business model as:
 - a. Hold to Collect (HtC, collect contractual cash flows),
 - b. Hold to Collect & Sell (collect cash flows and sell),
 - c. Other
2. The Solely Payments of Principal and Interest (SPPI) test determines whether the financial instruments contain only cash flows from principal and interests. Principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money and credit risk.

Changes in fair value recorded by the revaluation reserve are subject to deferred tax.

Impact (Note 5)

The combination of the business model analysis and of the SPPI test had an impact on the classification and measurement of the available-for-sale (AFS) investment portfolio, which is split into a portfolio classified at amortised cost (AC) and a portfolio measured at fair value through equity. The reclassification from AFS to AC results in a reduction of the unrealised revaluation gains in equity at the transition date (1 January 2018) of approximately EUR 27.6 million (after taxes).

Impairment of fixed-income securities at amortised cost and at fair value through equity.

ING Luxembourg evaluates periodically and at each balance sheet date whether there is objective evidence of depreciation loss of a fixed-income security. A security is impaired and impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset but before the balance sheet date (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial assets that can be estimated for the long term.

2 5 Shareholdings and shares in affiliated undertakings

Shareholdings and shares in affiliated undertakings in the nature of fixed assets are valued based on the “Purchase Price” method. Value adjustments are recognized if, in the opinion of the Board of Directors, the impairment is of a lasting nature.

2 6 Shares and other variable-income securities that are not fixed assets

Securities are recorded at purchase price. Where their estimated value is below their purchase price, value adjustments are made in order to recognise unrealised losses.

2 7 Receivables

Instalment and consumer loans are recorded at a value covering the principal, the total interest until maturity of the loan, and all associated charges and fees. The part of this interest yet to be accrued is included in “Accruals and deferred payments” on the liabilities side of the balance sheet. Other loans are recorded at nominal value with accrued interest recorded under “Accruals and deferred income”, on the assets side of the balance sheet.

2 8 Value adjustments and fixed provision

Specific value adjustments made for doubtful debts are deducted from the assets. Value adjustments are made in the same currency as the risk to which they relate.

The provision defined by Luxembourg banking and tax laws is recorded in the currency of the capital. It is deducted from “Receivables: customer loans and advances” on the assets side of the balance sheet. The provision calculated on items other than those on the assets side of the balance sheet is shown on the liabilities side under “Provisions: other provisions”.

2 9 Fund for general banking risk

The Bank has set up a fund for general banking risk on the liabilities side of the balance sheet. This item was booked in the currency of the capital from the profits after tax but before the calculation of the net profit.

2 10 Derivatives

Valuation of cash swaps

Amounts in foreign currencies involved in cash swap transactions are neutral in relation to fluctuations in exchange rates.

Premiums and discounts are recorded in assets and liabilities accruals and deferrals against the interest income.

The amounts recorded correspond pro rata temporis to the total premiums and discounts between the start date of the swaps and 31 December. Exchange differences resulting from the valuation of swap transactions are neutralised by booking through accruals and deferrals.

Valuation of forward foreign exchange contracts (outrights)

Only unrealised losses on outright contracts are recorded as provisions; unrealised gains are not taken into account.

Unrealised gains or losses are calculated based on the forward exchange rate for each currency of the outright contracts with the same maturity date.

Valuation of IRSs (Interest Rate Swaps)

IRSs for hedging purposes and IRSs for cash management with a maximum maturity of 18 months

Interest receivable and payable is recorded under assets and liabilities accruals and deferrals against the interest income. There is no individual revaluation of such transactions.

IRS trading

The Bank records individual unrealised losses on trading open IRSs. For IRS backed by other IRSs, the valuation method is as follows: all of these IRSs are revalued, and provision is made for the total net unrealised loss. The total net unrealised gain is disregarded.

Valuation of foreign exchange options and options relating to other market prices

The imparity principle is applied; unrealised gains are disregarded, and unrealised losses are provisioned.

Valuation of futures

The unrealised net valuation result is included in the profit and loss statement on a monthly basis.

2 11 Taxes

The Bank is subject to all taxes applying to Luxembourg credit institutions.

Tax payable

The tax expense is calculated on the basis of the rules and rates in force determined by the tax authorities.

The tax payable relates to any income tax due or receivable the payment of which is not subject to the performance of future transactions.

Deferred tax

Deferred taxes are recognised when there are temporary differences between the book values of assets and liabilities in the balance sheet and their tax values.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, deferrable tax losses and unused tax credits to the extent that it is likely that the Bank will have future taxable profits against which these temporary differences, tax losses and tax credits may be applied.

Deferred tax assets and liabilities are calculated on the basis of the tax rates expected to apply in the period when the asset will be realised or the liability will be settled according to the tax rates in force at the balance sheet date.

The rate applied for the calculation of deferred taxes at 31 December 2019 was 24.94% for the Bank (2018: 26.01%). This statutory rate combines the corporate income tax (IRC) and the municipal business tax (ICC) of the municipality of Luxembourg.

2 12 Adjustment of 2018 figures

In 2019, ING Luxembourg SA offset the assets and liabilities of Deferred Purchase Prices on Trades Receivables Purchase Programs (TRPP) to better reflect the economic reality of underlying transactions. As a result, the 2018 figures in “Other assets” (Note 11) and “Other liabilities” (Note 19) were modified for EUR 15,275,116. The total of “Other assets” decreased from EUR 66,108,488 to EUR 50,833,372, and the total of “Other liabilities” decreased from EUR 192,832,435 to EUR 177,557,319. Accordingly, the total assets and liabilities were also modified (see page 36).

Following a reclassification of rents received from “Administrative overheads” to “Other operating income” in 2019, the 2018 figures in Note 32 were modified. The total for “Other operating income” increased from EUR 51,312,859 to EUR 51,952,024 following the addition of rents received for EUR 639,135, while the total for “Administrative overhead” increased from EUR 140,496,951 to EUR 141,136,116. “Administrative overhead” increased from EUR 61,302,015 to EUR 61,941,180.

In addition, the table of capital requirements for 2018 (Note 29) was corrected to be aligned with the adjusted balance sheet total before allocation of the fixed provision and to take into account in particular the asset/liability offset of Deferred Purchase Prices on the TRPP, going from EUR 18,397,375,045 to EUR 18,378,049,577, as well as the 100% weighted assets of EUR 5,156,947,250 decreasing to EUR 5,137,621,782. As a result, the amount of capital requirements for 100% weighted assets decreased from EUR 412,555,780 to EUR 411,009,743, and the total decreased from EUR 635,297,305 to EUR 633,751,268.

Note 3 - Interbank receivables

- a) Interbank receivables other than on demand are broken down based on the following residual maturity:

expressed in EUR	2019	2018
Up to 3 months	163,193,364	2,183,748,168
More than 3 months up to 1 year	250,000,000	105,106,046
More than 1 year up to 5 years	749,500,000	831,000,000
More than 5 years	464,666,667	632,000,000
	1,627,360,031	3,751,854,214

For receivables with periodical payments, the residual maturity is the period between the balance sheet date and the due date of each payment. The residual maturity for other items is equivalent to the remaining term between the preparation of the balance sheet and the final maturity of the contract.

- b) Amounts due from affiliated companies, relating to this item, amounted to EUR 1,709,058,227 at 31 December 2019 (2018: EUR 5,163,653,292).

Note 4 - Customer loans and advances

- a) Customer loans and advances are broken down according to the following residual maturity:

expressed in EUR	2019	2018
Up to 3 months	494,120,293	370,414,741
More than 3 months up to 1 year	1,825,238,371	847,321,698
More than 1 year up to 5 years	2,794,317,422	3,574,823,043
More than 5 years	3,366,991,909	3,161,778,076
	8,480,667,995	7,954,337,558

For receivables with periodical payments, the residual maturity is the period between the balance sheet date and the due date of each payment. The residual maturity of other receivables is equivalent to the remaining term at the balance sheet date.

- b) Amounts due from affiliated companies, relating to this item, amounted to EUR 300,028,730 at 31 December 2019 (2018: EUR 378,204,206).
- c) Subordinated loans were included in this item for EUR 11,507,453 at 31 December 2019 (2018: EUR 19,203,466).
- d) Advances and loans granted to members of the administrative and management bodies of the Bank were as follows:

expressed in EUR	2019	2018
Administrative bodies (7 people in 2019 and 8 people in 2018)	21,740	61,005
Management bodies (3 people in 2019 and 4 people in 2018)	128,753	133,700
	150,493	194,705

At 31 December 2019, the total fixed provision set up by the Bank amounted to EUR 54,366,356 (2018: EUR 44,366,356), of which EUR 52,629,236 is fully deducted from the asset item “Customer loans and advances” (2018: EUR 43,021,505) and EUR 1,737,120 is in “Provisions: other provisions” on the liabilities side of the balance sheet (2018: EUR 1,344,851).

Note 5 - Bonds and other fixed-income securities

This item includes debt securities whether or not considered as financial fixed assets, listed or likely to be listed and issued by credit institutions, companies or public bodies insofar as they are not already included in another balance sheet item.

None of the securities in the portfolio were depreciated through profit or loss in 2019 and 2018.

- a) Securities with a residual maturity below one year represented a net amount of EUR 579,331,635 at 31 December 2019 (2018: EUR 383,136,500).
- b) Listed securities amounted to EUR 2,036,783,671 at 31 December 2019 (2018: EUR 1,892,973,149).
- c) As of 31 December 2019 and 2018, there were no bonds or other fixed-income securities issued by affiliated companies relating to this item.
- d) At 31 December 2019 and 2018, this item did not include any bonds and other fixed-income securities of a subordinated nature.
- e) At 31 December 2019 and 2018, no securities were the subject of a loan.
- f) Government bond exposure:

Positions in government debt held by the Bank can be analysed as follows at 31 December:

Governments – Book values expressed in EUR	2019	2018
Belgium	149,796,810	149,773,088
France	174,499,254	163,230,051
Germany	204,607,009	221,049,436
Luxembourg	111,641,090	112,000,530
Austria	9,995,624	9,991,134
Finland	21,892,306	54,615,242
Canada	149,690,241	137,370,560
Denmark	9,983,189	9,980,621
Spain	77,710,745	50,160,897
	909,816,268	908,171,559

- g) At 31 December, the portfolio composition is as follows:

expressed in EUR	2019	2018
Portfolio measured at amortised cost (HTC)	1,745,329,894	1,603,370,434
Portfolio measured at fair value through equity (HTC & S)	524,201,777	539,602,715
	2,269,531,671	2,142,973,149

Note 6 - Shares and other variable-income securities

This item includes shares, members' shares, and units in collective investment undertakings, listed or not, not included in the financial fixed assets.

Shares and other variable-income securities were broken down as follows at 31 December:

expressed in EUR	2019	2018
Unlisted shares	30,000	30,000
Listed shares	7,543	6,783
	37,543	36,783

Note 7 - Shareholdings

At 31 December 2019 and 2018, the shareholdings included in the balance sheet were not listed.

At 31 December 2019 and 2018, this item did not include any shareholding in credit institutions.

Note 8 - Shares in affiliated undertakings

At 31 December 2019, the Bank held at least 20% of the capital of the following companies:

expressed in EUR					
Company	Head office	Book value	% direct	Equity	Of which result
ING Solutions Investment Management S A ¹	26, Place de la Gare L-1616 Luxembourg	1,545,520	68	10,071,683	5,110,989
ING Lease Luxembourg S A ¹	26, Place de la Gare L-1616 Luxembourg	19,260,544	100	16,874,186	3,086,718
		20,806,064			

¹ Based on unaudited draft financial statements at 31 December 2019.

At 31 December 2019 and 2018, shares in affiliated undertakings were not listed.

Shares in affiliated undertakings at 31 December 2019 and 2018 did not include any shares in credit institutions.

Note 9 - Intangible assets

At 31 December 2019, the net book value of computer software amounted to EUR 116,985 (2018: EUR 384,929).

Note 10 - Tangible assets

Land and buildings used for the Bank’s own activities are included in tangible assets for a net amount (purchase price less accumulated depreciation) of EUR 1,342,741 at 31 December 2019 (2018: EUR 1,391,040).

Note 11 - Other assets

This item is broken down as follows at 31 December¹:

expressed in EUR	2019	2018
Short-term receivables (coupons, cheques, securities sold)	9,139,115	5,359,786
Pension fund investments	28,257	30,267
Premiums for options purchased	42,825,569	37,724,491
Other ¹	6,980,111	7,718,828
	58,973,052	50,833,372

¹ Reclassification of 2018 figures concerning Note 11 – See Note 2.12

Note 12 - Accruals and deferred income

The details of accruals and deferred income at 31 December were as follows:

expressed in EUR	2019	2018
Interest	51,021,229	55,736,223
Prepaid commissions	8,554,692	11,640,640
Accrued commissions	450,000	750,000
Other	4,189,375	5,673,657
	64,215,296	73,800,520

Note 13 - Assets in foreign currencies

The euro equivalent of assets denominated in a currency other than the euro amounted to EUR 1,967,810,310 at 31 December 2019 (2018: EUR 4,537,762,234).

Note 14 - Changes in fixed assets

	Gross values at the beginning of the financial year	Entrances and exchange rate impact	Exits and exchange rate impact	Gross values at the end of the financial year	Value adjustments at the beginning of the financial year	Allocations for the financial year	Write-backs for the financial year	Total value adjustments at the end of the financial year	Net values at the end of the financial year
expressed in EUR	2019	2019	2019	2019	2019	2019	2019	2019	2019
Shareholdings	1,076,930	-	(58)	1,076,872	(249,690)	-	-	(249,690)	827,182
Shares in affiliated undertakings	20,806,064	-	-	20,806,064	-	-	-	-	20,806,064
Intangible assets	15,548,377	221	-	15,548,598	(15,163,448)	(268,165)	-	(15,431,613)	116,985
Tangible assets	81,866,257	1,397,961	(982,042)	82,282,176	(70,565,591)	(2,196,286)	981,820	(71,780,057)	10,502,119

Note 15 - Interbank debts

- a) Interbank debts other than on demand are broken down according to the following residual terms:

expressed in EUR	2019	2018
Up to 3 months	362,654,904	57,577,454
More than 3 months up to 1 year	44,507,744	441,757,276
More than 1 year up to 5 years	40,106,195	128,313,472
More than 5 years	14,666,667	12,000,000
	461,935,510	639,648,202

For debts with periodical payments, the residual maturity is the period between the balance sheet date and the due date of each payment.

- b) Debts to affiliated companies, relating to this item, amounted to EUR 500,082,174 at 31 December 2019 (2018: EUR 653,010,497).

Note 16 - Client deposits

- a) Client deposits represented by savings deposits are broken down into the following categories:

expressed in EUR	2019	2018
On demand	1,651,295,536	1,669,453,111
With agreed maturity date	15,269,930	14,562,002
	1,666,565,466	1,684,015,113

- b) Client deposits represented by savings deposits other than on demand are broken down according to the following residual periods:

expressed in EUR	2019	2018
Up to 3 months	15,269,930	14,562,002
	15,269,930	14,562,002

- c) Client deposits classified under the subheading of “Other debts with agreed maturity dates or periods of notice” are broken down according to the following residual maturity:

expressed in EUR	2019	2018
Up to 3 months	434,568,101	290,772,207
More than 3 months up to 1 year	105,370,842	199,183,478
More than 1 year up to 5 years	21,606,883	20,255,820
More than 5 years	2,554,739	2,112,122
	564,100,565	512,323,627

For debts with periodical payments, the residual maturity is the period between the balance sheet date and the due date of each payment.

- d) Debts to affiliated companies, relating to this item, amounted to EUR 180,057,363 at 31 December 2019 (2018: EUR 163,313,032).

Note 17 - Debt securities

Debt securities classed under the sub-heading “Debt securities in issue” with a residual maturity of less than one year amounted to EUR 458,455 at 31 December 2019 (2018: EUR 458,125).

Note 18 - Deferred tax liabilities

At 31 December 2019, deferred taxes totalled EUR 2,853,769 (2018: EUR 3,888,186).

This amount was calculated on the fair value of available-for-sale Bank’s portfolio securities, with a gross value of EUR 11,442,538 (2018: EUR 14,948,812). This fair value is recorded in the revaluation reserve (Note 23) for a net amount of EUR 8,588,769 (2018: EUR 11,060,626).

The tax rate used in 2019 was 24.94% (2018: 26.01%).

Note 19 - Other liabilities

This item is broken down as follows at 31 December¹ :

expressed in EUR	2019	2018
Short-term debts	106,005	164,462
Preferential creditors	17,917,844	13,428,312
Miscellaneous creditors	4,408,238	9,550,718
Premiums for options sold	41,763,636	36,819,112
Other ¹	105,168,367	117,594,715
	169,364,090	177,557,319

¹ Reclassification of 2018 figures concerning Note 19 – See Note 2.12

Other liabilities - other mainly consist of temporary cash or securities positions pending settlement.

Note 20 - Accruals and deferred payments

The details of accruals and deferred payments at 31 December are as follows:

expressed in EUR	2019	2018
Interest	51,378,549	50,510,259
Commissions received in advance	12,997,710	15,405,929
Other	14,444	96,784
	64,390,703	66,012,972

Note 21 - Subordinated liabilities

Details of the subordinated loan as at 31 December 2019 is as follows:

Loan amount expressed in USD	Loan amount expressed in euros	Interest rate	Issue date	Maturity date
211,000,000	187,822,681	6M USD Libor +224.5 bps	03/03/2017	03/03/2027

Note 22 - Subscribed capital and share premiums

At 31 December 2019 and 2018, the share capital amounted to EUR 83,400,000, consisting of 1,492,639 registered shares with no nominal value.

At 31 December 2019 and 2018, share premiums amounted to EUR 521,242,531.

Note 23 - Changes in reserves and results brought forward

	Legal reserve	Free reserve	Other reserves	Total reserves (excl. revaluation reserve)	Revaluation reserve	Results brought forward
expressed in EUR						
Balances at 1 January 2019	8,510,000	89,790,247	150,795,480	249,095,727	11,060,626	42,923
Profit (loss) for the year ended 31 December 2018	-	-	-	-	-	146,446,582
Allocation to free reserves		44,900,000		44,900,000		(44,900,000)
Dividends	-		-		-	(85,000,000)
Transfer	-		16,534,353	16,534,353	-	(16,534,353)
Revaluation of bonds and other fixed-income securities	-	-	-	-	(2,471,857)	-
Balances at 31 December 2019	8,510,000	134,690,247	167,329,833	310,530,080	8,588,769	55,152

Legal reserve:

Under Luxembourg law governing public limited companies (“sociétés anonymes”), an annual deduction of at least 5% is made from net profits. This deduction is used to set up a legal reserve until this reaches 10% of the share capital. Distribution of this reserve is not permitted.

Other reserves:

In accordance with the tax laws in force, the Bank has decided to allocate an amount corresponding to at least five times the amount of the wealth tax (IF) to the reserves that are not available for distribution. This reserve is unavailable for five years from its establishment.

The share of the 2018 profits allocated to the special reserve in 2019 amounted to EUR 16,534,353.

Note 24 - Liabilities in foreign currencies

The euro equivalent of liabilities denominated in a currency other than the euro amounted to EUR 1,895,064,528 at 31 December 2019 (2018: EUR 4,534,182,690).

Note 25 - Contingent liabilities

Contingent liabilities consist of the following items:

expressed in EUR	2019	2018
Guarantees and other direct credit substitutes	3,739,628	4,123,627
Counter-guarantees	522,119,121	498,051,253
	525,858,749	502,174,880

At 31 December 2019, contingent liabilities to affiliated companies amounted to EUR 69,295,076 (2018: EUR 31,584,496).

Note 26 - Commitments

Commitments consist of the following items:

expressed in EUR	2019	2018
Unused confirmed credit lines (None for affiliated companies in 2018 and 2019)	1,436,419,283	1,941,689,239
	1,436,419,283	1,941,689,239

Note 27 - Association for the Guarantee of Deposits in Luxembourg (AGDL)

The law on the resolution, reorganisation and winding-up measures of credit institutions and certain investment firms, on deposit guarantee and investor compensation schemes (the “Law”), transposing into Luxembourg law Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and Directive 2014/49/EU on deposit guarantee and investor compensation schemes into Luxembourg law, was passed on 18 December 2015.

The deposit guarantee and investor compensation scheme in force until then, implemented by the Association for the Guarantee of Deposits in Luxembourg (AGDL), was replaced by a new contributory deposit guarantee and investor compensation scheme. The new system guarantees all eligible deposits of a single depositor for up to EUR 100,000 and investments for up to EUR 20,000. The law further provides that deposits resulting from specific transactions, fulfilling a social objective, or related to special life events are protected beyond EUR 100,000 for a period of 12 months.

By the end of 2024, the amount of financial resources of the SRF must reach at least 1% of the guaranteed deposits, as defined in article 1 number 36 of the Law, of all credit institutions authorised in all participating Member States. This amount is collected from credit institutions through annual contributions during financial years 2015 to 2024.

The target level of FGDL financial resources of 0.8% of guaranteed deposits, as defined in Article 163 number 8 of the Law, of member institutions was reached by paying the contributions annually until 2018. As from 2019 Luxembourg credit institutions will continue to contribute for eight additional years in order to provide an additional safety cushion of 0.8% of guaranteed deposits as defined in Article 163 number 8 of the Law.

The law of 23 December 2016 implementing the 2017 tax reform introduced a neutral tax treatment of reversals of the AGDL provision in several subsequent instalments during a transitional period from 2016 to 2026. The amount of the reversal for each tax year must be at least equal to the amount of FGDL and SRF contributions chargeable to the same tax year. The portion of the provision not yet reversed at the end of the transitional period must be reversed and linked to the result of the 2026 tax year.

On 18 January 2017, the CSSF issued a circular letter on the repeal of the AGDL and the accounting treatment of the reversal of the AGDL provision in order to allow banks to apply an accounting treatment in line with the tax treatment provided for by the law of 23 December 2016.

At 31 December 2019, the AGDL provision not yet reversed amounted to EUR 21,280,262 (2018: EUR 29,199,331).

In 2019, the Bank paid the 2019 FGDL contribution of EUR 2,451,044 (2018: EUR 5,031,796) as well as the 2019 SRF contribution of EUR 5,468,025 (2018: EUR 3,947,624). For the SRF contribution, the Bank opted for the Irrevocable Payment Commitment for EUR 820,204 (2018: EUR 592,144). As a result, the expense for 2019 was EUR 7,098,865, recorded in other operating expenses (2018: EUR 8,387,277) (Note 33).

The Bank thus reversed a portion of its AGDL provision in other operating income for EUR 7,919,069 (2018: EUR 8,387,277) (Note 33).

The total amount of the Irrevocable Payment Commitment was EUR 2,048,298 at 31 December 2019 (2018: EUR 1,228,094) and was recorded in “Other assets - Other”.

Note 28 - Information on financial instruments

Risk management objectives and strategies

A modern bank wishing to ensure a good level of profitability on a continuous basis needs to use and control a range of financial instruments both primary and derivatives.

The Bank's risk management strategy is in accordance with the strategy of ING Group. The management report describes in detail risk management parallel to the Bank's objectives.

Analysis of financial instruments

The financial instruments addressed in the tables below involve both primary and derivatives financial instruments.

Financial instrument means any contract giving rise to both a financial asset of one party and a financial liability or equity instrument of another party.

28 1 Information on primary financial instruments

Primary financial instruments consist solely of instruments belonging to the non-trading book category. Their net book value is classified based on residual maturity.

The fair value corresponds to the market value where the instruments are listed on an active and liquid market or the estimated replacement value for all other unlisted instruments.

At 31 December 2019, non-trading book primary financial instruments are analysed as follows (in EUR):

Instrument category	<= 3 months	> 3 months <= 1 year	>1 year <= 5 years	> 5 years	Total
Financial assets					
Cash, credit balances with central banks, and postal cheque office	5,058,828,532	-	-	-	5,058,828,532
Interbank receivables	525,616,153	250,000,000	749,500,000	464,666,667	1,989,782,820
Customer loans and advances	494,120,293	1,825,238,371	2,794,317,422	3,366,991,909	8,480,667,995
Bonds and other fixed-income securities	16,010,150	563,321,485	871,623,329	818,576,707	2,269,531,671
Shares and other variable-income securities	37,543	-	-	-	37,543
Total	6,094,612,671	2,638,559,856	4,415,440,751	4,650,235,283	17,798,848,561
Financial liabilities					
Interbank debts	467,852,948	44,507,744	40,106,195	14,666,667	567,133,554
Client deposits	15,698,075,888	105,370,842	21,606,883	2,554,739	15,827,608,352
Debt securities	458,455	-	-	-	458,455
Contingent liabilities	481,042,723	14,414,476	16,141,756	14,259,794	525,858,749
Commitments	43,337,038	531,919,877	642,409,204	218,753,164	1,436,419,283
Total	16,690,767,052	696,212,939	720,264,038	250,234,364	18,357,478,393

At 31 December 2018, non-trading book primary financial instruments are analysed as follows (in EUR):

Instrument category	<= 3 months	> 3 months <= 1 year	>1 year <= 5 years	> 5 years	Total
Financial assets					
Cash, credit balances with central banks, and postal cheque office	2,620,141,127	-	-	-	2,620,141,127
Interbank receivables	3,891,480,620	105,106,046	831,000,000	632,000,000	5,459,586,666
Customer loans and advances	370,414,741	847,321,698	3,574,823,043	3,161,778,076	7,954,337,558
Bonds and other fixed-income securities	20,000,367	363,136,133	1,064,666,777	695,169,872	2,142,973,149
Shares and other variable-income securities	36,783	-	-	-	36,783
Total	6,902,073,638	1,315,563,877	5,470,489,820	4,488,947,948	18,177,075,283
Financial liabilities					
Interbank debts	218,550,875	441,757,276	128,313,472	12,000,000	800,621,623
Client deposits	15,778,679,456	199,183,478	20,255,820	2,112,122	16,000,230,876
Debt securities	458,125	-	-	-	458,125
Contingent liabilities	463,947,524	16,006,028	16,760,441	5,460,887	502,174,880
Commitments	28,582,588	583,671,874	1,183,266,276	146,168,501	1,941,689,239
Total	16,490,218,568	1,240,618,656	1,348,596,009	165,741,510	19,245,174,743

At 31 December 2019 and 2018, there are no more primary financial instruments in the trading book.

28 2 Information on derivatives

Derivatives are presented in two parts. The first comprises non-trading book derivatives. Their notional values are classified based on residual maturity. Non-trading book derivatives are not reported at fair value; for these products, the Bank acts as intermediary between its customers and other banks.

Trading book derivatives are classified in the same way as non-trading book derivatives adding fair value at year-end.

The fair value corresponds to the market value where the instruments are listed on an active and liquid market or the estimated replacement value for all other unlisted instruments.

Derivatives are split into three categories: instruments linked to exchange rates, instruments linked to interest rates, and instruments linked to other market prices.

Part of the operations undertaken by the Bank is partly intended to hedge against the effects of fluctuations in interest rates, exchange rates, or market prices and the other part is intended for the Bank's trading activities. Transactions on derivatives are also performed on behalf of customers.

The main instruments linked to exchange rates are:

- > Forward exchange transactions (swaps and outright);
- > Futures;
- > Options.

The main instruments linked to interest rates are:

- > Interest rate swaps;
- > Futures;
- > Forward rate agreements;
- > Options.

The main instruments linked to other market prices are:

- > Futures;
- > Options.

At 31 December 2019, non-trading book derivatives were analysed as follows (in EUR):

Over-the-counter (at notional value)

Instrument category	<= 3 months	> 3 months <= 1 year	>1 year <= 5 years	> 5 years	Total notional value
Financial assets					
Interest rate instruments					
* Swaps	640,000,000	1,055,000,000	2,191,619,130	439,176,972	4,325,796,102
Foreign exchange instruments					
* Swaps	272,055,313	-	-	-	272,055,313
Total	912,055,313	1,055,000,000	2,191,619,130	439,176,972	4,597,851,415
Financial liabilities					
Interest rate instruments					
* Swaps	15,000,000	313,000,000	1,250,469,130	1,897,776,972	3,476,246,102
* Options	268,306,820	-	-	-	268,306,820
Foreign exchange instruments					
* Swaps	-	-	-	-	-
Instruments linked to property					
* Options	395,893,500	-	-	-	395,893,500
Total	679,200,320	313,000,000	1,250,469,130	1,897,776,972	4,140,446,422

At 31 December 2018, non-trading book derivatives were analysed as follows (in EUR):

Over-the-counter (at notional value)

Instrument category	<= 3 months	> 3 months <= 1 year	>1 year <= 5 years	> 5 years	Total notional value
Financial assets					
Interest rate instruments					
* Swaps	100,000,000	850,473,434	3,121,336,552	703,840,806	4,775,650,792
Foreign exchange instruments					
* Swaps	328,081,078	-	-	-	328,081,078
Total	428,081,078	850,473,434	3,121,336,552	703,840,806	5,103,731,870
Financial liabilities					
Interest rate instruments					
* Swaps	520,000,000	64,673,434	1,208,086,552	1,129,840,806	2,922,600,792
* Options	279,324,665	-	-	-	279,324,665
Foreign exchange instruments					
* Swaps	-	-	-	-	-
Instruments linked to property					
* Options	343,130,435	-	-	-	343,130,435
Total	1,142,455,100	64,673,434	1,208,086,552	1,129,840,806	3,545,055,892

Note: Contracts showing a positive or negative fair value as at 31 December are considered financial assets and financial liabilities.

As at 31 December 2019 and 2018, there were no derivatives classified in the non-trading book.

At 31 December 2019, trading book derivatives were analysed as follows (in EUR):

Over-the-counter								
Instrument category	<= 3 months		> 3 months <= 1 year		>1 year <= 5 years		Total	
	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
Financial assets								
Foreign exchange instruments								
* Futures	6,296,226,050	562,294	239,160,736	273,416	20,872,188	53,248	6,556,258,974	888,958
	6,296,226,050	562,294	239,160,736	273,416	20,872,188	53,248	6,556,258,974	888,958
Financial liabilities								
Foreign exchange instruments								
* Futures	160,813,345	(3,026,735)	11,222,234	(261,417)	12,355,350	(275,910)	184,390,929	(3,564,062)
* Options	4,868,721	(9,616)	7,647,197	(38,200)	-	-	12,515,918	(47,816)
Total	165,682,066	(3,036,351)	18,869,431	(299,617)	12,355,350	(275,910)	196,906,847	(3,611,878)

At 31 December 2018 trading book derivatives were analysed as follows (in EUR):

Over-the-counter								
Instrument category	<= 3 months		> 3 months <= 1 year		>1 year <= 5 years		Total	
	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
Financial assets								
Foreign exchange instruments								
* Futures	4,268,315,323	1,382,481	27,800,051	41,917	-	-	4,296,115,374	1,424,398
	4,268,315,323	1,382,481	27,800,051	41,917	-	-	4,296,115,374	1,424,398
Financial liabilities								
Foreign exchange instruments								
* Futures	63,636,055	(526,915)	4,937,179	(34,637)	-	-	68,573,234	(561,552)
* Options	18,357,521	(56,079)	2,014,678	(28,940)	-	-	20,372,199	(85,019)
Total	81,993,576	(582,994)	6,951,857	(63,577)	-	-	88,945,433	(646,571)

At 31 December 2019 and 2018, there were no derivatives classed in the trading book.

Note 29 - Credit risk management

The Bank is required to control the various risks to which it is exposed by calculating the integrated ratio. Good risk management also involves putting in place an administrative and accounting structure to enable the Bank to measure risk, to record and monitor it in an appropriate manner.

Credit risk management also involves ensuring an appropriate level of concentration of loans per counterparty and per geographical zone. The table below shows the concentration of risk by counterparty and by geographical zone at 31 December:

Geographical distribution of loans, bonds, and equities in thousands of EUR		
	2019	2018
Eurozone	10,833,744	13,781,799
United States	501,882	731,202
Canada	354,541	335,674
UK	333,725	219,579
Sweden	124,853	119,892
Norway	141,246	127,515
Other	450,029	241,273
	12,740,020	15,556,934

Breakdown by type of counterparty for loans, bonds, and equities in thousands of EUR		
	2019	2018
Banks	3,091,134	6,434,453
Public sector	942,664	940,494
Legal entities	3,538,733	3,795,179
Private individuals	3,307,515	2,969,226
Financial institutions	1,859,974	1,417,582
	12,740,020	15,556,934

The capital requirement to cover credit risk is as follows ¹ :

	Balance sheet totals *	Weighted totals	Capital requirement
31 December 2019 (in EUR)			
Balance sheet items			
Of which assets weighted at 0%	6,225,533,255	-	-
Of which assets weighted at 20%	3,395,343,902	679,068,780	54,325,502
Of which assets weighted at 50%	3,253,442,992	1,626,721,496	130,137,720
Of which assets weighted at 100%	5,132,598,346	5,132,598,347	410,607,868
	18,006,918,495	7,438,388,623	595,071,090
Off-balance-sheet items other than derivatives			
	1,962,278,032	219,401,755	17,552,140

	Balance sheet totals *	Weighted totals	Capital requirement
31 December 2018 (in EUR)			
Balance sheet items			
Of which assets weighted at 0%	3,770,085,842	-	-
Of which assets weighted at 20%	6,503,006,390	1,300,601,278	104,048,102
Of which assets weighted at 50%	2,967,335,563	1,483,667,782	118,693,423
Of which assets weighted at 100% ¹	5,137,621,782	5,137,621,783	411,009,743
	18,378,049,577	7,921,890,843	633,751,268
Off-balance-sheet items other than derivatives			
	2,443,864,119	223,747,197	17,899,776

* Before allocation of the fixed provision

¹ Adjustment of the 2018 figures concerning Note 29 for the capital requirement to cover credit risk – See Note 2.12

Credit risk for over-the-counter derivatives (use of the mark-to-market method)
(non-trading book)

	Notional principal amounts	Current replacement costs	Potential future replacement costs	Overall replacement costs = Net risk exposure	Capital requirement
31 December 2019 (in EUR)					
Banking counterparties (Weighting assigned to the counterparty or guarantor = 0%)					
Interest rate contracts	4,305,800,000	57,716,483	18,073,000	75,789,483	6,063,159
Foreign exchange and gold contracts	-	-	-	-	-
Banking counterparties (Weighting assigned to the counterparty or guarantor = 20%)					
Interest rate contracts	-	-	-	-	-
Foreign exchange and gold contracts	271,053,813	-	2,710,538	2,710,538	216,843
Non-banking counterparties (Weighting assigned to the counterparty or guarantor = 50%)					
Interest rate contracts	19,996,102	1,797,089	272,750	2,069,839	165,587
Foreign exchange and gold contracts	1,001,500	-	10,015	10,015	801

Credit risk for over-the-counter derivatives (use of the mark-to-market method)
(non-trading book)

	Notional principal amounts	Current replacement costs	Potential future replacement costs	Overall replacement costs = Net risk exposure	Capital requirement
31 December 2018 (in EUR)					
Banking counterparties (Weighting assigned to the counterparty or guarantor = 0%)					
Interest rate contracts	4,753,500,000	35,749,126	25,872,500	61,621,626	4,929,730
Foreign exchange and gold contracts	-	-	-	-	-
Banking counterparties (Weighting assigned to the counterparty or guarantor = 20%)					
Interest rate contracts	-	-	-	-	-
Foreign exchange and gold contracts	210,690,824	-	2,106,908	2,106,908	168,553
Non-banking counterparties (Weighting assigned to the counterparty or guarantor = 50%)					
Interest rate contracts	22,150,792	1,444,740	291,795	1,736,535	138,923
Foreign exchange and gold contracts	117,390,254	-	1,173,903	1,173,903	93,912

Credit risk for over-the-counter derivatives (use of the mark-to-market method)
(trading book)

	Notional principal amounts	Current replacement costs	Potential future replacement costs	Total replacement costs = Net risk exposure	Capital requirement
31 December 2019 (in EUR)					
Banking counterparties (Weighting assigned to the counterparty or guarantor = 20%)					
Foreign exchange and gold contracts	4,925,945,286	-	49,922,006	49,922,006	3,993,760
Non-banking counterparties (Weighting assigned to the counterparty or guarantor = 50%)					
Foreign exchange and gold contracts	1,630,313,688	888,958	16,475,471	17,364,429	1,389,154

Credit risk for over-the-counter derivatives (use of the mark-to-market method)
(trading book)

	Notional principal amounts	Current replacement costs	Potential future replacement costs	Total replacement costs = Net risk exposure	Capital requirement
31 December 2018 (in EUR)					
Banking counterparties (Weighting assigned to the counterparty or guarantor = 20%)					
Foreign exchange and gold contracts	2,795,353,296	14,053	27,953,533	27,967,586	2,237,407
Non-banking counterparties (Weighting assigned to the counterparty or guarantor = 50%)					
Foreign exchange and gold contracts	1,500,762,078	1,410,345	15,007,621	16,417,966	1,313,437

Concentration of risks

At the Bank’s request, the CSSF approved the complete exemption of risks taken on the ING group in the calculation of large exposure limits, in accordance with Part XVI, point 24 of Circular 06/273 as amended and subsequently replaced by Article 400.2 of Regulation (EU) 575/2013 on prudential requirements for credit institutions (“CRR”).

As at 31 December 2019, the Bank’s exposures exempted with regard to the ING Group’s entities were broken down as follows:

Names of related parties	Exposures exempted
expressed in EUR	
ING Bank N.V.	848,787,770
ING Belgium	1,192,771,633
ING Lease Luxembourg S.A.	570,863,834
Other	73,156,376
	2,685,579,613

Note 30 - Income from securities

At 31 December 2019, income from securities mainly consisted of the Luxembourg stock exchange dividend of EUR 26,724 (2018: Luxembourg stock exchange dividends of EUR 26,724 and FS-B of EUR 24,155).

Note 31 - Result from financial operations

At 31 December, this was analysed as follows:

expressed in EUR	2019	2018
Exchange profit (loss)	17,835,095	18,431,175
Option premiums	(2,331,275)	(3,458,074)
Profit (loss) on structured products	3,390,960	3,377,839
Profit (loss) on securities	1,329,488	2,373,372
Loss on transactions related to interest rates	(8,571,649)	(1,146,391)
Loss on transactions related to exchange rates	(2,011,633)	875,501
Miscellaneous	79,091	893,269
	9,720,077	21,346,691

Note 32 - Other operating income

At 31 December, this was analysed as follows¹ :

expressed in EUR	2019	2018
Profit on stock market operations	23,705	17,203
Release of AGDL provision (Note 27)	7,919,069	8,387,277
Release of provision for customer disputes	300,000	42,564,199
Gains realised on disposals of equity interests	121,545	78,341
Release of provision for taxes	798,810	-
Rents received ¹	657,988	639,165
Miscellaneous	567,975	265,839
	10,389,092	51,952,024

The realised gain on disposal received in 2019 concerned Aigle Aviation, which was liquidated and stricken from the Luxembourg trade and companies register as of 31 December 2018.

¹ Reclassification of 2018 figures concerning Note 32 – See Note 2.12

Note 33 - Other operating expenses

At 31 December, these were analysed as follows:

expressed in EUR	2019	2018
Provision for customer disputes	67,503	-
SRF/FGDL contribution (Note 27)	7,098,865	8,387,277
Losses on stock market operations	32,064	42,320
Retrocessions	514,483	368,101
Miscellaneous	1,996,811	1,944,880
	9,709,726	10,742,578

Note 34 - Management and representation services provided by the Bank

The Bank provides the following activities for third parties:

- > Wealth management and advice
- > Keeping and administration of securities
- > Hire of safe-deposit boxes
- > Fiduciary representation
- > Function of agent
- > Administrative agent and custodian of securities on behalf of SICAV.

Note 35 - Breakdown of revenue by geographical zone

A majority of the revenue came from countries in central and western Europe.

Note 36 - Staff

The number of staff members employed on average during the year was as follows:

	2019	2018
Executive Committee and Senior Management	30	30
Middle Management	251	236
Other staff	594	566
	875	832

At 31 December 2019, the number of people employed by the Bank was 895 (31 December 2018: 850).

Note 37 – Remuneration of administration and management bodies

The remunerations allocated to the various bodies of the Bank during the year were broken down as follows:

expressed in EUR	2019	2018
Administrative bodies (7 people in 2019, 8 in 2018)	181,894	183,631
Bodies of the Executive Committee and Senior Management (30 people in 2019, 30 in 2018)	6,633,116	6,691,958
	6,815,010	6,875,589

Note 38 - Statutory auditor's fees

Fees for services invoiced to the Bank during the financial year by KPMG Luxembourg, Société coopérative or member firms of the KPMG network are indicated in the table below:

Amount in EUR (excluding VAT)	2019	2018
Statutory audit of financial statements	282,051	212,817
Other services	-	85,500
	282,051	298,317

These fees are presented as other administrative expenses in the profit and loss account.

Note 39 – Event after 31 December 2019

The coronavirus health crisis, which emerged from China in January 2020, spread to Europe in February and locked up the planet in March. At the operational level, ING Luxembourg has taken steps to stem the spread of the virus by applying the requirements for separation of teams and teleworking as much as possible. The financial consequences of this crisis for ING Luxembourg are still difficult to estimate but could come from various sources: lower rates, falling equity markets, and falling business activity. However, the decisions of governments and central banks are likely to mitigate this situation.

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