

The artworks of ING Lux House

# ING Luxembourg Annual Report 2018



Cover page : [Martine Feipel \(1975\) and Jean Bechameil \(1968\)](#)  
The Cabinet Reversed, 2017 – Wood, inox mirror, neon light and robotic motor – 260 x 140 x 11 cm

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# 1 Financial results

## 1 1 Balance sheet

In 2018, ING Luxembourg continued its expansion to reach a balance sheet total of EUR 18.4 bln (+2.1%), an increase of EUR 0.4 bln compared with 2017.

### 1 1 1 Assets

The growth in its assets was concentrated in cash positions (+EUR 0.6 bln). However, its impact was lessened by the decrease in customer loans (-EUR 0.1 bln) and portfolio securities (-EUR 0.1 bln).

In cash, there was a transfer from “Deposits with the Central Bank” on the order of EUR 1.6 bln to “Items due from banks”, which increased by EUR 2.2 bln, primarily in term debt obligations.

Customer loans decreased by EUR 0.1 bln, despite an increase of EUR 0.4 bln in mortgage lending, a sector that the Bank intends to revitalise. In 2018, there was a EUR 0.2 bln decrease in the Trade Receivable Purchase Program.

“Bonds and other fixed-income securities” totalled EUR 2.1 bln, down EUR 0.1 bln, from investments in the “Public sector” and “Banks”.

### 1 1 2 Liabilities

Compared with 2017, the growth in “Deposits by customers” continued at a slower pace, reaching EUR 0.4 bln (+3%) compared with EUR 2.8 bln the previous year. At the end of 2018, this item totalled EUR 16.0 bln.

With rates remaining low in 2018, growth was concentrated on demand accounts (+EUR 0.9 bln, or +7%), with term deposits decreasing by EUR 0.5 bln.

The “Due to banks” item amounted to EUR 0.8 bln and increased by EUR 0.1 bln compared with 2017.

The revaluation reserve records changes in the value of the Bank’s securities portfolio, which has been valued according to IFRS since 2016. Note that the implementation of IFRS 9 in 2018 resulted in a smaller portion of the portfolio marked to market in favour of a valuation at historical cost.

## 1 2 Profit and loss account

Net income for the 2018 financial year was EUR 146.5 mio, versus EUR 35.7 mio during the previous year. This growth stemmed from a major increase in revenues accompanied by a controlled increase in costs and a write-back of the provision for risks for pending disputes.

Compared with 2017, net banking income increased by EUR 19.6 mio (+7%), exceeding the EUR 300 mio mark (EUR 303.3 mio), which is a new record for ING Luxembourg.

The performance was due to growth in the interest margin (+EUR 18.4 mio or +10.8%), following the increase in lending activities and the application of negative rates for certain deposits.

In 2018, net commissions increased by EUR 1.8 mio to EUR 92.5 mio. At EUR 21.3 mio, “Income from financial transactions” was stable.

Over 2018, “Other operating income” increased by EUR 41.7 mio to EUR 51.3 mio, a direct result of the write-back of provisions for pending disputes for EUR 42.4 mio.

Very good control of “Administrative overheads”, which increased by only EUR 0.9 mio (+0.6%) to EUR 140.5 mio.

Totalling EUR 79.2 mio, personnel costs decreased by EUR 2.8 mio.

The item “Other administrative expenses” increased by EUR 3.7 mio to EUR 61.3 mio. The Insurance savings of EUR 1 mio offset the increase in consultancy costs (+EUR 2.6 mio) and expenses from the Group (+EUR 2.7 mio).

“Other operating expenses” decreased by EUR 73.8 mio. As a reminder, the 2017 financial year was marked by allocations to provisions for pending disputes amounting to EUR 75.1 mio.

Totalling EUR 11.5 mio, “Value adjustments on loans and advances” fell by EUR 2 mio compared with 2017, reflecting the quality of the loan portfolio. Note a EUR 10 mio allocation to the fixed provision.

### 1 3 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 climate of low interest rates will continue to erode the Bank’s intermediation margin in 2019 through the models replicating customer assets in euros.

The conversion of a portion of retail deposits into investment products remains a goal in 2019 and for subsequent financial years. This 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 2019. Meanwhile, provisions for doubtful debt are expected to remain under control.

### 1 4 Allocation of result

Distributable income for the 2018 financial year totalled EUR 146,489,505, or EUR 146,446,582 in 2018 net income plus EUR 42,923 in 2017 retained earnings.

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

Allocation to a special reserve for “Wealth Tax”	EUR 16,534,354
Allocation to a free reserve	EUR 44,900,000
<hr/>	
Payment of a dividend of EUR 56.9461 per share	EUR 85,000,000
<hr/>	
Carried forward	EUR 55,151

### 1 5 Events after the balance sheet date

There are no significant events to report.

### 1 6 Buyback of own shares

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

### 1 7 Research and development activities

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

### 1 8 Branches

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

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

## 2 Developments in the Bank's main business lines

### 2 1 Wholesale Banking

The Wholesale Banking department of ING Luxembourg continued its growth in 2018. The increased results are primarily linked to the growth in customer assets. The lending business was further bolstered in 2018 both in terms of lending to Luxembourg businesses and institutions, and in the new forms of financing granted to international customers (receivable financing, capital call financing, bank financing). An increased number of customers and transactions allowed the ambitious goals of this financial year to be exceeded.

This year was also a success in terms of customer digital adoption with an increase of +/- 8% to nearly 80%. The department's main priority is to ensure that commercial activities are carried out in line with the Bank's risk appetite. This is the main condition for building a strong long-term future.

With regard to commercial activities, the goal is to continue to increase credit volumes in a controlled manner by taking into account the new standards related to the Basel IV rules, which will allow us to confirm our leading position in this area. In 2019, we will begin working on the distinctive experience that we want to offer to SMEs and large companies in Luxembourg. This new approach will be analysed in coordination with the other customer segment: Retail Banking. The development of real estate financing activities will be continued by creating a specific approach for investors looking for rental returns. Lastly, an approach dedicated to the sustainable economy was launched with the support of ING group.

### 2 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 sometimes 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, mainly:

- › The "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 rates and exchange rates.
- › Credit Flow Products, with the service offered to local customers in an intermediation role for internal customer orders.
- › The Forex (FX) 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 had an impact on activities. However, the results achieved by this department were once again excellent in 2018.



› Developments in the Bank's main business lines › 2 3

## 2 3 Retail Banking

Retail Banking comprises the following segments:

- › “Private Persons”, consisting of resident, border resident and non-resident individuals with less than EUR 1 mio in assets in their account;
- › “Retail Companies”, consisting of companies and independent customers with revenue of less than EUR 7.5 mio.

Our Retail Banking customers have access to a network of 16 branches, a Contact Centre and four specialised Business Teams to support advisors in the branches.

Since 1 January 2017, the Campaigns & Customer Intelligence, Digital, and Product Management & Pricing departments have also been part of Retail Banking, working in a cross-functional manner for the Bank's three business lines.

As a universal bank, we offer our customers a broad range of products to meet their needs:

- › In Daily Banking, with the offering ranging from current accounts to saving accounts and our various credit and debit cards.
- › In Investments, with our investment plans, our portfolio management services and a wide range of financial products.
- › In Loans, with our consumer credit offerings, our various mortgage packages, and investment loans and leasing for our businesses.

In terms of projects, as part of our strategy and our omnichannel approach, i.e. the integration of the branches, the contact centre and the digital channels serving our customer base, we continued to invest in the direct channels by making constant

improvements to the tools made available to our customers by relying not only on our experience but especially comments, requests, and actual needs of our customers.

Note that, apart from our commercial actions, a major focus in 2018 was the “Risks & Regulatory Requirements” component, which required a reorganisation of our resources.

For 2019, we will maintain our strategy by continuing to place our customers and their needs at the centre of our attention by ensuring a long-term business relationship with them.

## 2 4 Private Banking

Private Banking's expertise is based on managed advisory and discretionary management, the credit offering and financial planning support. Also in 2018, our teams actively sought to offer quality personalised service in the financial, administrative and wealth management of our existing local and international customers and when acquiring new customers.

The process of moving towards a more focused, less complex business model for (Ultra) High Net Worth ((U)HNW) customers continued in 2018 against a backdrop of increased risk aversion and greater regulation.

Our portfolio management teams, in close collaboration with our colleagues at ING Belgium, achieved satisfactory performance in 2018 in discretionary management and management of ING Aria funds compared with the competition in an environment of highly turbulent markets in the last part of the year. Our advisory management services are offered specifically and with highly personalised investment advice, applying a transparent pricing model.

› Developments in the Bank's main business lines › 2 4

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

Our management company, ISIM, also enjoyed very significant growth in 2018. With the recovery within its scope of activity of funds distributed by other ING entities and the continued development of existing funds, ManCo's assets under management more than doubled over the year. Despite the many economic and regulatory challenges, Private Banking's revenues saw further growth. Good collaboration between business lines within ING Luxembourg, as well as between ING entities, also allowed new customers to be acquired.

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

Of course, this personalised customer service is supplemented by a constantly evolving digital offering to allow our customers to stay one step ahead.

In 2019, Private Banking aims to pursue this strategy and 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.

## 2 5 Group Treasury

With the integration of capital management into what used to be called Bank Treasury, liquidity and solvency management are now grouped in a single department. Group Treasury (GT) covers all aspects of balance sheet management: daily operational management, strategic advice, cash management, liquidity management, long-term financing and now solvency and capital management.

The purpose of this department is primarily the careful management of liquidity, capital and solvency, taking every available measure to support the strategy of the segments while ensuring that it maintains a balance between assets and liabilities. This role is reflected by the advice provided to the Executive Committee. The management of baseline risks and interest rate risks, the long-term and short-term funding profile as well as liquidity portfolio maintenance is now enriched with all aspects of capital management. GT's results are primarily due to effective management of the money market and funding by using foreign exchange opportunities, as well as in the investment portfolio together with risk reduction ambitions. Significant efforts have also been made for even better rate interest rate risk management in close collaboration with other GT teams of the functional structure.

ING Luxembourg's businesses are financed mainly through the deposits of Wholesale Banking customers, GT's attention to the stability of this financing in accordance with regulatory criteria and the creation of the necessary means to ensure the financing of assets in non-euro currencies. With careful management of its assets under management, GT maximises the value of liquidity, primarily by using very short-term investments for volatile portions (both intra-group and at the Central Bank of Luxembourg). This is monitored closely, requiring close collaboration between the functions that organise settlements (Financial Markets Support), Payments, Wholesale Banking and GT.

## 3 Risk management objectives and strategies

As far as risk management is concerned, the strategy adopted by the Bank is determined by the standards of the ING group, while also ensuring that local requirements are met, whether they are imposed by international regulations 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 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 of the relationship 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 resource management. The main role of the second line of defence is to ensure that the Bank's accounts present a true and fair view and, to this end, it helps the first line identify its risks, proposes control methods to it, defines the 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, in their interaction and cohesion, these roles form the basis for the Bank's system of internal controls required to manage its risks.

One of the focal points of 2018 was 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 has been identified as conducting safe business, which is based on a strong risk culture throughout the company. The focus on non-financial risks will continue to increase, including but not limited to 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. In terms of financial risks, ING Luxembourg will continue to focus on the credit risk models and the impacts of TRIM and Basel IV on Credit Risk Weighted Assets and Interest Rate Risk in the Banking Book.

### 3 1 Composition of the risk management department

The various risk management functions have been centralised under the management of a single member of the Executive Committee, appointed as Chief Risk Officer (CRO). This person directs and supervises three departments: the credit risk monitoring department (CRM), the market and liquidity risks and regulatory risks and modelling department (MRM), the department that manages legal risks (Legal), the compliance risks department (Compliance) and lastly the operational risks department, which handles risks linked to data management, including information systems (ORM/IRM), and 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.

## 3 2 Sarbanes-Oxley regulations

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

## 3 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 in 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 the Trading Room, either for its proprietary trading activity (Financial Markets) or for its hedging and regulatory compliance banking activity (Group Treasury).

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

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) is the main measure for the trading activity and allows 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, the Market Risk Management (MRM) department gives the members of the Management Committee, the member of 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 overall balance of the Bank's on- and off-balance-sheet business in relation to market risks (interest rate and liquidity) and compliance with regulatory liquidity and capital ratios are monitored by [A]ssets and [L]iabilities [M]anagement or ALM (ALCO Committee), which meets on a monthly basis. 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 operations. Banking operations form part of a policy to hedge customer assets and reduce sensitivity to the market 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.

## 3 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 market conditions and in times of stress.

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.

## 3 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 system for controlling the credit risk.

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 the business lines and members of the Executive Committee.

For five years, the overall quality of the loan portfolio has remained at a very good level, with the percentage of loans in 2018 that have a low and medium risk profile at 90.3%, high risk and very high risk at 9.5% and customers in default at 0.2%.

Provisions (LuxGaap) decreased from EUR 6.3 mio (2017) to EUR 4 mio (2018). Provisions remain low relative to the changes in our assets under management. Direct amortisations (charged-off) were also controlled with EUR 2.76 mio at the end of 2018 (versus EUR 4.09 mio in 2017). Bankruptcies and insufficient recoveries from public sales of goods were the main causes of these direct amortisations.

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 ICAAP report.

The loan portfolio is incorporated into the schedule of stress tests 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"), the Credit Risk Management department is responsible for reviewing the various lending policies, particularly by continuous improvement of the criteria applied in the automatic scoring models. These scorings are incorporated into the software used within the Bank to manage applications for housing loans, personal loans, 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 2018, exposure to property developments (financing of land, construction and issuance of



completion guarantees) remained at an acceptable percentage, representing 6.1% of the limits.

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 a mortgage supplemented by a pledge on a portfolio of securities, as well as the granting and renewal of advances against securities and of Lombard credit.

In Wholesale Banking in 2018, we mainly developed our assets under management at the Financial Institutions department level, mainly by granting new Capital Call Financing (a group product used by the 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.

## 3 6 Operational Risk

Operational risk is defined as the risk of loss that may occur as a result of mishandling transactions, gaps in checks, 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 the Operational and Information Risk Management (OIRM) department, 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. The OIRM department also monitors the solutions put in place to reduce these risks and verifies that their level is consistent with the Risk Appetite Statement. Lastly, it serves as the Anti-Fraud Officer (AFO) and Insurance Risk Officer.

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

In terms of operational risk, the Bank's main focus in 2018 was:

- > Continuity of the IT within Risk Appetite programme aimed at better control of IT and information risks. This programme resulted in the review or performance of numerous risk analyses and the implementation of new controls after the ING group established higher quality standards. This programme will also continue in 2019.
- > stronger governance between the first and second lines of defence
- > increased employee awareness of operational risk management

## 3 7 Compliance Risk

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

The Bank's Compliance function meets the criteria set by CSSF circular 12/552, amended since, and by the ING Bank Compliance Risk Management Charter of the ING group.

This function is in charge of 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 finders), 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.

The Compliance Policy and Charter was updated on 1 June 2017 and approved by the Executive Committee and the Board of Directors in October 2017. This Charter will be reviewed in 2019 following the publication of the new Compliance Charter enacted by the ING group.

In 2018, the Compliance function's monitoring work focused on FEC, or Financial Economic Crime (state of the processes and controls linked to combating money laundering and terrorism financing), as well as FATCA/CRS, two subjects that are part of a focus within the Bank. In addition, to better manage Compliance risks, ING Luxembourg participated in the risk management standardisation exercise, including the procedures and controls, as well as the monitoring actions and the use of the risk management tool iRisk. The compliance monitoring plan also includes the control actions to be performed by the first line of defence to manage the compliance risks.

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

The training actions in 2018 were carried out at several levels, including periodic educational initiatives during daily activities for new employees and presentations made by the Head of Compliance to management, as well as e-learning on new regulations for example. For 2018, all bank employees were invited to take an in-depth AML training course established by Compliance in collaboration with the Luxembourg professional training association "House of Training".

## 3 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 purpose 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 rest of the Bank (and its subsidiaries) for the drafting or review of 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.

## 3 9 Central Control & Policy Team

The Control & Policy Team unit centrally handles the management of operational risk as the first line of defence. It coordinates and leads the network of Non-Financial Risk Officers (NFRO) spread across the various units of the Bank's first line of defence.

Since 2017, the Control & Policy Team has also been responsible for coordinating and implementing the ING group's policies, as well as for testing, under the responsibility of the COO and through the NFRO network.

These activities include participating in analysing policies, implementing controls and conducting tests. It also conducts monthly local controls in addition to those



➤ Risk management objectives and strategies ➤ 39

required by the ING group, which are presented each month to the managers of the business lines concerned. For Retail Banking, it conducts inspections in the branches. These frontline inspections mainly cover the management of securities and the administrative management of branches. In addition, based on the results of the monthly checks, certain subjects may be explored in greater depth.

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

Luxembourg, 27 March 2019.

**The Board of Directors**

> Report by the Statutory Auditor

To the Board of Directors  
ING Luxembourg S.A.  
26, Place de la Gare L-1616 Luxembourg

## Report by the Statutory Auditor

### Report on the audit of the annual accounts

#### Opinion

We audited the annual accounts of ING Luxembourg S.A. (the “Bank”), including the balance sheet as at 31 December 2018, as well as the profit and loss account for the financial year ended on this date and the notes to the annual accounts, including a summary of the main accounting methods.

In our opinion, the annual accounts attached give a true and fair view of the financial position of the Bank at 31 December 2018 and of the results for the year ended on that date, in accordance with the legal and regulatory obligations relating to the preparation and presentation of accounts applying in Luxembourg.

#### Basis for opinion

We conducted our audit in compliance with Regulation (EU) No. 537/2014, the act of 23 July 2016 concerning the audit profession (the “act of 23 July 2016”) and international audit standards (“ISA”) as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier (“CSSF”). The responsibilities incumbent upon us under this regulation and act and these standards are described in greater detail in the

section “Responsibilities of the Statutory Auditor for the audit of the annual accounts” of this report. We are also independent from 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 fulfilled the other responsibilities incumbent upon us 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

The key audit matters are those matters that, in our professional opinion, were the most important in the audit of the annual accounts for the period in question. These questions were addressed in the context of our audit of the annual accounts viewed as a whole and for the purpose of forming our opinion on them; we do not express a separate opinion on these questions.

### Assessment of the specific value adjustments regarding customer loans and advances

#### Description

The Bank’s customer loans and advances totalled EUR 7,954 mio at 31 December 2018. Specific value adjustments of EUR 4 mio are deducted from customer loans and advances whose recovery the Bank believes is uncertain.



➤ Assessment of the specific value adjustments regarding customer loans and advances

The assessment of specific value adjustments on advances and loans requires an element of judgement by the Bank, including the identification of doubtful advances and loans, the evaluation of objective proof of depreciation, an assessment of the value of the collateral and the recoverable amount.

Due to the significant extent of customer loans and advances and the assessment required to value them, this is considered one of the “Key audit matters”. For more information, see note 4 of the annual accounts and note 3 5 of the management report concerning credit risk management.

## Work conducted

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

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

Concerning the substantive audit procedures, we examined a sample of loans that are, were recently or are at risk of being individually depreciated. The sample was selected based on our professional judgement, with an emphasis placed on portfolios that are potentially the most sensitive to changes in the economic climate.

In the case of 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 available financial information, market information and, where applicable, an analysis of alternative recovery scenarios.

## Assessment of allowances for customer disputes

### Description

The Bank is involved in a certain number of customer disputes related to its activities. In 2017, the Bank recorded allowances for pending customer disputes.

The outcome of these customer disputes is dependent on legal proceedings in progress. Determining the allowances for customer disputes requires significant judgement by the Bank to evaluate the probability of a ruling against it and assessing the related amount.

In 2018, the provisioned amount was reduced by EUR 42.6 mio by a profit and loss account income.

Given the significant extent of allowances for customer disputes and the uncertainty surrounding the assessment of allowances, we consider allowances for customer disputes to be one of the “Key audit matters”. For more information, see section 1 2 of the management report and note 33 of the annual accounts.

### Work conducted

Our audit procedures included evaluating customer disputes and measuring the potential resulting obligations:

1. To assess the exhaustiveness of disputes in progress, we sent requests for confirmation to the Bank’s lawyers.
2. We read the reports by the relevant committees and spoke to the Bank’s management and the members of the Bank’s legal department regarding disputes in progress.

➤ Assessment of allowances for customer disputes

3. To evaluate the facts and circumstances of the disputes, we obtained and evaluated the related documentation.
4. We also evaluated the hypotheses made and the key judgements applied to determine the allowances made by the Bank based on our own evaluation.

## Other information

Responsibility for other information falls to the Board of Directors. Other information is comprised of the information presented in the annual report, including the management report, but does not include the annual accounts and our Statutory Auditor report on these annual financial statements.

Our opinion on the annual accounts does not encompass other information and we cannot provide any kind of assurance regarding this information.

Concerning our audit of the annual accounts, our responsibility is to read the other information and, in so doing, assess whether there is a significant inconsistency between this information and the annual accounts or the knowledge that we acquired during the audit, or furthermore 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.

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

The Board of Directors is responsible for the preparation and accurate presentation of the annual accounts, in accordance with the legal and regulatory obligations related to the preparation and presentation of accounts applying in Luxembourg, and for the internal control that it deems necessary to allow 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, questions relating to going concern and for applying the going concern accounting principle, except if the Board of Directors intends to liquidate the Bank or discontinue its activity, or if no other realistic solution presents itself.

## Responsibilities of the Statutory Auditor regarding the audit of the annual accounts

Our objectives are to obtain reasonable assurance that the annual financial statements viewed as a whole do not contain material misstatements, whether due to fraud or error, and to deliver a Statutory Auditor report containing our opinion. Reasonable assurance corresponds to a high level of assurance, which nevertheless does not guarantee that an audit conducted in accordance with Regulation (EU) No. 537/2014, the act of 23 July 2016 and the ISA as adopted for Luxembourg by the CSSF will always detect any material misstatement that might exist. Misstatements may arise from fraud or result from errors and are considered significant if it is reasonable to expect that, individually or collectively, they may influence the business decisions that users



➤ Responsibilities of the Statutory Auditor regarding the audit of the annual accounts

of the annual accounts make by drawing on them.

As part of an audit conducted in accordance with Regulation (EU) No. 537/2014, the act 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, devise 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 due to fraud is higher than the risk of not detecting a material misstatement due to error, as fraud may involve collusion, falsification, intentional omissions, false declarations or the bypassing of internal control.
- We gain an understanding of the internal control elements relevant to the audit in order to devise audit procedures appropriate to the circumstances, rather than to express an opinion on the effectiveness of the Bank's internal control.
- We evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Board of Directors, as well as of the related information provided by the Board.
- We draw a conclusion regarding the appropriateness of the Board of Directors' use of the going concern accounting principle and, in accordance with the audit evidence obtained, regarding the existence or otherwise of a significant uncertainty linked to events or situations liable to 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 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 draw on the audit evidence obtained until the date of our report. However, future events or situations could lead the Bank to cease operating.

- We evaluate the overall presentation, the form and the 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 the corporate governance managers in particular the extent and planned timetable of the audit work and our important observations, including any significant deficiency in internal control that we may have uncovered during our audit.

We also provide to the corporate governance managers a statement that we complied with the relevant ethical rules concerning independence and communicate to them all of the relations and other factors that might reasonably be considered liable to have an impact on our independence, as well as related safeguards where applicable.

We determine which of the questions submitted to the corporate governance managers were the most important in the audit of the accounts for the period in question: these are the key questions of the audit. We describe these questions in our report, except if legal or regulatory texts prevent their publication.

➤ Report on other legal and regulatory requirements

## Report on other legal and regulatory requirements

We were appointed the Statutory Auditor by the Board of Directors on 28 March 2018 and the total uninterrupted duration of our assignment, including the preceding reappointments and renewals, is three years.

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

We confirm that we have provided auditing services and no other prohibited services, as provided for in the Regulation (EU) No. 537/2014 on the audit profession, and that we remained independent from the Bank during the audit.

Luxembourg, 8 April 2019

**KPMG Luxembourg, Société coopérative (cooperative company)**

**Statutory Auditors**

*Emmanuel Dollé*



## &gt; Balance sheet

# Balance sheet

At 31 December 2018

Assets			
expressed in EUR	Notes	2018	2017
Cash, credit balances with central banks and post office cheque accounts	29	2,620,141,127	4,185,927,906
Due from banks	3, 29, 30	5,459,586,666	3,299,970,718
a) demand		1,707,732,452	2,156,443,998
b) other receivables		3,751,854,214	1,143,526,720
Customer loans and advances	4, 29, 30	7,954,337,558	8,055,448,497
Bonds and other fixed income securities	5, 29, 30	2,142,973,149	2,257,919,539
a) from public issuers		908,171,559	985,402,700
b) from other issuers		1,234,801,590	1,272,516,839
Shares and other variable-income securities	6, 29, 30	36,783	2,575,507
Shareholdings	7, 14	827,240	1,506,136
Shares in affiliated companies	8, 14	20,806,064	19,750,544
Intangible assets	9, 14	384,929	654,562
Tangible assets	10, 14	11,300,666	12,618,876
Other assets	11	66,108,488	65,795,102
Prepayments and accrued income	12	73,800,520	72,368,172
Total assets		18,350,303,190	17,974,535,559

Liabilities			
expressed in EUR	Notes	2018	2017
Due to banks	15, 29	800,621,623	665,558,437
a) demand		160,973,421	95,708,941
b) with agreed maturity dates or periods of notice		639,648,202	569,849,496
Deposits by customers	16, 29	16,000,230,876	15,574,896,839
a) savings deposits		1,684,015,113	1,662,773,352
b) other debts		14,316,215,763	13,912,123,487
- demand		13,803,892,136	12,920,943,697
- with agreed maturity dates or periods of notice		512,323,627	991,179,790
Debts represented by a security	17, 29	458,125	457,334
a) warrants and bonds in circulation		458,125	457,334
Deferred tax liabilities	18	3,888,186	29,195,963
Other liabilities	19	192,832,435	341,442,941
Accrued expenses and deferred income	20	66,012,972	61,916,444
Provisions		79,223,606	136,706,458
a) provisions for taxes		36,375,765	6,251,758
b) other provisions	4, 28	42,847,841	130,454,700
Subordinated debt	21	184,343,876	175,994,662
Special items with a share of reserves	22	-	4,474,293
General banking risk reserve		11,403,102	11,403,102
Subscribed capital	23	83,400,000	83,400,000
Share premium account	23	521,242,531	521,242,531
Reserves	24	249,095,727	248,305,371
Revaluation reserve	18, 24	11,060,626	83,053,029
Retained earnings	24	42,923	833,279
Profit/loss for the financial year	24	146,446,582	35,654,876
Total liabilities		18,350,303,190	17,974,535,559

The notes are an integral part of the accounts.

> Off-balance sheet

# Off-balance sheet

At 31 December 2018

Off-balance sheet			
expressed in EUR	Notes	2018	2017
Contingent liabilities	26, 29, 30	502.174.880	539.299.807
of which:			
– securities and assets given in guarantee		4.123.627	3.316.071
Commitments	27, 29, 30	1.941.689.239	1.642.874.090
Fiduciary transactions		108.160.532	306 240 594

The notes are an integral part of the accounts.

## &gt; Profit and loss account

# Profit and loss account

At 31 December 2018

Profit and loss account			
expressed in EUR	Notes	2018	2017
Interest and similar income		301.310.766	250.101.626
including on fixed income securities		31.607.519	34.795.984
Interest and similar charges		(111.933.941)	(79.119.323)
Income from securities	31	50.890	706.516
- income from shares in affiliated companies		50.890	706.516
Fees received		102.484.852	103.264.492
Fees paid		(9.951.566)	(12.531.348)
Earnings from financial operations	32	21.346.691	21.307.423
Other operating income	28, 33	51.312.859	9.591.625
Administrative overheads		(140.496.951)	(139.584.168)
a) staff costs	37, 38	(79.194.936)	(82.023.055)
of which:			
- wages and salaries		(63.780.927)	(67.167.776)
- social security contributions		(9.466.703)	(9.588.766)
of which:			
- social security contributions for pensions		(9.086.285)	(9.212.209)
b) other administrative costs	39	(61.302.015)	(57.561.113)
Value adjustments on intangible and tangible assets	14	(2.537.891)	(2.604.127)
Other operating expenses	28, 34	(10.742.578)	(84.536.914)
Value adjustments on loans and advances and provisions for contingent liabilities and for commitments		(11.514.174)	(13.564.077)

expressed in EUR	Notes	2018	2017
Value adjustments on loans and advances and provisions for contingent liabilities and for commitments		1,598,271	2,242,687
Value adjustments on securities in the nature of financial assets, shareholdings, and shares in affiliated companies	14	-	(249,690)
Income from the dissolution of items with a share in reserves	22	4,474,293	-
Tax on profit from ordinary activities		(48,922,839)	(19,337,746)
Profit/loss on ordinary activities, after taxes		146,478,682	35,686,976
Other taxes not appearing under the above items		(32,100)	(32,100)
Profit/loss for the financial year		<b>146,446,582</b>	<b>35,654,876</b>

The notes are an integral part of the accounts.



# Notes

At 31 December 2018

## Note 1 - General background

ING Luxembourg S.A. (the “Bank”) was founded 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 Act of 17 June 1992 as amended in relation to annual and consolidated accounts for banks, 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 888 Bijlmerplein, Amsterdam. The consolidated accounts of the ING group and the 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 accounts are prepared in accordance with the legal and regulatory requirements applying in the Grand Duchy of Luxembourg, specifically the Act of 17 June 1992 as amended relating to annual and consolidated accounts of banks.

Since 2016, following the approval by the Commission de Surveillance du Secteur Financier, the Bank has prepared its annual accounts with the IAS 39 option for the Bank’s bond portfolio. However, the Bank does not apply hedge accounting under IAS 39 to account for its economic hedging relationships in its annual accounts.

IAS 39 was replaced by IFRS 9 on 1 January 2018.

### Significant accounting estimates and judgements

By their nature, the assessments necessary for the preparation of the annual accounts with application of the IAS 39 option until 2017 / IFRS 9 from 2018 on the Bank’s own portfolio require the formulation of assumptions and involve 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 conditions 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 EUR, and the accounts are kept in this currency.

Asset, liability, and off-balance-sheet items recorded 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 resulting from the valuation of balance sheet items in foreign currencies are recorded in the income 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 in relation 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 2018	31 December 2017
1 EUR = 1.1446 USD	1 EUR = 1.1989 USD
1 EUR = 0.8951 GBP	1 EUR = 0.8869 GBP
1 EUR = 1.1267 CHF	1 EUR = 1.1697 CHF

## 2 2 Intangible assets

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

Computer software is amortised on a straight-line basis at 20% where the purchase price is more than EUR 100,000. If the licence costs less than EUR 100,000, it is fully booked to expenses.

### 2 3 Tangible assets

Tangible assets are 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 policies applied are as follows:

	Rate of depreciation	Method
Buildings	2,5% - 3%	Linear
Fixtures and fittings of buildings and technical installations	3% - 20%	Linear
Furniture, equipment and machinery	10% - 20%	Linear
Other fixed assets	25%	Linear

Equipment and furniture purchased for up to EUR 868 including VAT or whose normal useful life does not exceed one year are included directly in the expenses for the year.

### 2 4 Fixed-income securities

With a view towards converging towards the international accounting standards as adopted by the European Union, the Bank values fixed-income securities in its securities portfolio to comply with the provisions of IFRS 9 – Financial Instruments. In 2017, the Bank measured all fixed-income securities in its securities portfolio at fair value to comply with the provisions of IAS 39 – Financial Instruments.

IFRS 9 was issued by the IASB in July 2014 and approved by the EU in November 2016. IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” and includes the requirements for classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting. The new requirements are applicable for annual periods beginning on or after 1 January 2018 and were applied by the Bank starting on 1 January 2018. Like the ING group, the Bank applies the classification and measurement requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018 and has decided not to handle comparative periods.

This standard affects the Bank’s annual accounts 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, fair value through equity, or fair value through profit or 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),
- b.

Hold to Collect & Sell (HtC&S),
- c.

Other
2.

The contractual cash flow characteristics test, performed to determine whether the financial instruments give rise to cash flows that are Solely Payments of Principal and Interest (SPPI). 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 the SPPI test had an impact on the classification and measurement of the available-for-sale (AFS) investment portfolio, which is will be split into a portfolio classified at amortised cost (AC) and a portfolio at fair value through other comprehensive income (FVOCI). The reclassification from FVOCI to AC will result in a reduction of the unrealised revaluation gains in equity at the transition date of approximately EUR 27.6 mio (after tax).

**Impact of the adoption of IFRS 9 on equity as of 1 January 2018**

Impact on equity	
expressed in EUR	
Investment portfolio	(27,599,897)
	(27,599,897)

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

ING Luxembourg periodically and at each balance sheet date whether there is objective evidence of an impairment 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 companies**

Shareholdings and shares in affiliated companies in the nature of fixed assets are valued based on the “Purchase Price” method. Value adjustments are recorded 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 value is assessed at below their purchase price, value adjustments are made in order to recognise unrealised losses.

**2 7 Receivables**

Instalment loans and consumer loans are recorded at a value covering the principal, the total interest for the term of the loan, and all associated charges and fees. The part of this interest yet to be accrued is included in “Accrued expenses and deferred income” on the liability side of the balance sheet. Other loans are recorded at nominal value with accrued interest recorded under “Prepaid expenses and accrued income”, which appears on the asset side of the balance sheet.

## 2 8 Value adjustments and fixed provision

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

The fixed provision, set up within the scope of the possibilities available to the Bank under Luxembourg banking and tax laws, is recorded in the currency of the capital. It is deducted from “Receivables: customer receivables” on the asset side of the balance sheet. The fixed provision calculated for items other than those on the asset side of the balance sheet is shown on the liability side under “Provisions: other provisions”.

## 2 9 Fund for general banking risks

The Bank has set up a fund for general banking risks on the liability side of the balance sheet. This item was set up 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 under prepaid expenses and accrued income and accrued expenses and deferred income 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 entry in suspense accounts.

#### Valuation of forward foreign exchange contracts (outrights)

Only unrealised losses on outright contracts are recorded under provisions; unrealised gains are disregarded.

Unrealised gains or losses are calculated based on the forward exchange rate for each currency involved for all 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 due and payable is recorded under prepaid expenses, and accrued income and accrued expenses and deferred income 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 currency options and options relating to other market prices

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

#### Valuation of futures

The unrealised net valuation result is included in the monthly profits and losses.

## 2 11 Taxes

The Bank is subject to all taxes applying to Luxembourg banks.

### 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 where payment 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 on 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 in which the asset will be realised or the liability will be settled according to the tax rates in effect at the balance sheet date.

The rate applied for the calculation of deferred taxes at 31 December 2018 and 2017 is 26.01% for the Bank. This statutory rate combines the corporate income tax (IRC) and the communal business tax (ICC) of the municipality of Luxembourg.

## Note 3 - Due from banks

a) Items due from banks other than on demand are broken down based on the following residual terms:

Items due from banks other than on demand		
expressed in EUR	2018	2017
Up to three months	2,183,748,168	238,990,944
Between three months and one year	105,106,046	200,000,000
Between one and five years	831,000,000	692,535,776
More than five years	632,000,000	12,000,000
	3,751,854,214	1,143,526,720

For items involving payments phased over time, the residual term corresponds to the period between the date of preparation of the balance sheet and the due date for each payment. The residual term for other items is equivalent to the period remaining from the time of the preparation of the balance sheet.

b) Amounts due from affiliated companies, relating to this item, stood at EUR 5,163,653,292 at 31 December 2018 (2017: EUR 3,182,204,502).



## Note 4 - Customer loans and advances

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

Customer loans and advances		
expressed in EUR	2018	2017
Up to three months	370,414,741	432,501,377
Between three months and one year	847,321,698	1,799,355,631
Between one and five years	3,574,823,043	2,847,977,257
More than five years	3,161,778,076	2,975,614,232
	7,954,337,558	8,055,448,497

For items involving payments phased over time, the residual term corresponds to the period between the date of preparation of the balance sheet and the due date for each payment. The residual term of other loans is equivalent to the remaining term until the balance sheet date.

- b) Amounts due from affiliated companies, relating to this item, stood at EUR 378,204,206 at 31 December 2018 (2017: EUR 461,492,379).
- c) Subordinated loans are included in this item for the sum of EUR 19,203,466 at 31 December 2018 (2017: EUR 26,309,504).
- d) Advances and loans granted to members of the administrative bodies and management of the Bank were as follows:

Avances et crédits		
expressed in EUR	2018	2017
Administrative bodies (8 people in 2018, 8 people in 2017)	61,005	45,240
Management bodies (4 people in 2018, 4 people in 2017)	133,700	160,480
	194,705	205,720

At 31 December 2018, the total fixed provision set up by the Bank amounted to EUR 44,366,356 (2017: EUR 34,366,356), of which EUR 43,021,505 is fully deducted from the asset account “Customer loans and advances” (2017: EUR 33,127,923) and EUR 1,344,851 is presented in “Provisions: other provisions” on the liability side of the balance sheet (2017: EUR 1,238,433).

## Note 5 - Bonds and other fixed-income securities

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

None of the securities in the portfolio were impaired through profit or loss in 2018 and 2017.

- a) Securities with a residual life of less than one year represented a net sum of EUR 383,136,500 at 31 December 2018 (2017: EUR 439,872,630).
- b) Listed securities amounted to EUR 1,892,973,149 at 31 December 2018 (2017: EUR 2,008,227,539).
- c) As of 31 December 2018 and 2017, there are no bonds or other fixed-income securities issued by affiliated companies relating to this item.
- d) At 31 December 2018 and 2017, this item did not include any bonds and other fixed-income securities of a subordinated nature.
- e) At 31 December 2018 and 2017, 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:

Countries – Book values		
expressed in EUR	2018	2017
Belgium	149,773,088	200,712,000
France	163,230,051	172,957,400
Germany	221,049,436	280,075,400
Luxembourg	112,000,530	120,046,590
Austria	9,991,134	10,577,200
Finland	54,615,242	78,380,260
Canada	137,370,560	112,662,150
Denmark	9,980,621	9,991,700
Spain	50,160,897	-
	<b>908,171,559</b>	<b>985,402,700</b>

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

Portfolio		
expressed in EUR	2018	2017
Available for sale portfolio	-	2,257,919,539
Portfolio measured at maturity (HTC)	1,603,370,434	-
Portfolio measured at fair value through equity (HTC & S)	539,602,715	-
	<b>2,142,973,149</b>	<b>2,257,919,539</b>

## Note 6 - Shares and other variable-income securities

This item includes shares, units in mutual funds, and other variable-income securities, listed or otherwise, not included in the financial fixed assets.

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

Shares and other variable-income securities		
expressed in EUR	2018	2017
Unlisted securities	30,000	-
Listed securities	6,783	2,575,507
	<b>36,783</b>	<b>2,575,507</b>

## Note 7 - Shareholdings

At 31 December 2018 and 2017, the shareholdings included in the balance sheet were not listed.

At 31 December 2018 and 2017, this item did not include any shareholdings in banks.

## Note 8 - Shares in affiliated companies

At 31 December 2018, the Bank owned at least 20% of the capital of the following companies:

Shares in affiliated companies					
	Head office	Book value	% direct	Equity	Result
expressed in EUR					
ING Solutions Investment Management S.A. <sup>(1)</sup>	26, Place de la Gare L-1616 Luxembourg	1,545,520	68	4,960,694	2,145,949
ING Lease Luxembourg S.A. <sup>(2)</sup>	26, Place de la Gare L-1616 Luxembourg	19,260,544	100	13,787,468	3,098,105
		<b>20,806,064</b>			

(1) Based on unaudited draft accounts as at 31 December 2016.

(2) Based on audited accounts as at 31 December 2017.

At 31 December 2018 and 2017, shares in affiliated companies were not listed.

Shares in affiliated companies at 31 December 2018 and 2017 did not include any shares in banks.

As of 21 December 2018, the Aigle Aviation liquidation process was completed, and the company was removed from the Luxembourg trade and companies register. Following this removal, the Bank released from its books as of 31 December 2018 the value of the shareholding as well as the existing value adjustment with respect to this shareholding.

## Note 9 - Intangible assets

At 31 December 2018, the carrying value of computer software amounted to EUR 384,929 (2017: EUR 654,562).

## Note 10 - Tangible assets

Land and buildings allocated for the Bank’s own activities are included in the tangible assets for a net sum (purchase price less accumulated depreciation) of EUR 1,391,040 at 31 December 2018 (2017: EUR 4,570,145).

## Note 11 - Other assets

This item is broken down as follows at 31 December:

Other assets		
expressed in EUR	2018	2017
Short-term receivables (coupons, cheques, securities sold)	5,359,786	2,803,703
Pension fund investments	30,267	32,277
Premiums for options purchased	37,724,491	37,240,095
Other	22,993,944	25,719,027
	66,108,488	65,795,102

## Note 12 - Prepaid expenses and accrued income

The details of prepaid income accrued income at 31 December are as follows:

Prepaid expenses and accrued income		
expressed in EUR	2018	2017
Interest	55,736,223	52,019,590
Prepaid expenses	11,640,640	14,821,793
Fees receivable	750,000	1,350,000
Other	5,673,657	4,176,789
	73,800,520	72,368,172

## Note 13 - Assets in foreign currencies

The euro equivalent of assets denominated in a currency other than the euro amounted to EUR 4,547,625,771 at 31 December 2018 (2017: EUR 5,924,785,734).



## Note 14 - Changes in fixed assets

### Changes in fixed assets

	Gross values at beginning of financial year	Inflows and foreign exchange impact	Outflows and foreign exchange impact	Gross values at close of financial year	Value adjustments at beginning of financial year	Provisions for financial year	Reversals for financial year	Cumulative value adjustments at close of financial year	Net values at close of financial year
expressed in EUR	2018	2018	2018	2018	2018	2018	2018	2018	2018
Equity investments	1,755,826	-	(678,896)	1,076,930	(249,690)	-	-	(249,690)	827,240
Shares in affiliated companies	22,002,592	1,162,357	(2,358,885)	20,806,064	(2,252,048)	(106,837)	2,358,885	-	20,806,064
Intangible assets	15,548,377	-	-	15,548,377	(14,893,815)	(269,633)	-	(15,163,448)	384,929
Tangible assets	96,304,275	4,078,280	(18,516,298)	81,866,257	(83,685,399)	(2,268,258)	15,388,066	(70,565,591)	11,300,666

## Note 15 - Due to banks

a) Items due to banks other than on demand are broken down according to the following residual terms:

### Due to banks other than on demand

expressed in EUR	2018	2017
Up to 3 months	57,577,454	4,177,640
Between 3 months and 1 year	441,757,276	2,502,293
Between 1 and 5 years	128,313,472	551,169,563
More than 5 years	12,000,000	12,000,000
	<b>639,648,202</b>	<b>569,849,496</b>

For debts involving payments in instalments, the residual term is taken as the period between the closing date of the balance sheet and the due date for each payment.

b) Debts to affiliated companies, relating to this item, amounted to EUR 653,010,497 at 31 December 2018 (2017: EUR 597,842,272).

## Note 16 - Deposits by customers

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

Deposits by customers represented by savings deposits		
expressed in EUR	2018	2017
Demand	1,669,453,111	1,650,563,202
Term	14,562,002	12,210,150
	1,684,015,113	1,662,773,352

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

Dettes envers la clientèle représentées par des dépôts d'épargne autres qu'à vue		
expressed in EUR	2018	2017
Up to 3 months	14,562,002	12,210,150
	14,562,002	12,210,150

- c) Deposits by customers classed under the subheading of “Other debts with agreed maturity dates or periods of notice” are broken down according to the following residual terms:

Deposits by customers classed under the subheading of “Other debts with agreed maturity dates or periods of notice”		
expressed in EUR	2018	2017
Up to 3 months	290,772,207	800,857,718
Between 3 months and 1 year	199,183,478	150,847,753
Between 1 and 5 years	20,255,820	36,504,637
More than 5 years	2,112,122	2,969,682
	512,323,627	991,179,790

For debts involving payments in instalments, the residual term is taken as the period between the closing date of the balance sheet and the due date for each payment.

- d) Debts to affiliated companies, relating to this item, amounted to EUR 163,313,032 at 31 December 2018 (2017: EUR 166,601,691).

## 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 458,125 at 31 December 2018 (2017: EUR 457,334).

## Note 18 - Deferred tax liabilities

At 31 December 2018, the deferred tax amounted to EUR 3,888,186 (2017: EUR 29,195,963). It is calculated on the fair value of Bank portfolio securities of which the gross amount is EUR 14,948,812 (2017: EUR 112,248,992. This fair value is recorded in the revaluation reserve (Note 24) for a net amount of EUR 11,060,626 (2017: EUR 83,053,029).

The tax rate used in 2018 and 2017 is 26.01%.

## Note 19 - Other liabilities

This item is broken down as follows as at 31 December:

Other liabilities		
expressed in EUR	2018	2017
Short-term debts	164,462	4,330,169
Preferential creditors	13,428,312	14,944,453
Miscellaneous creditors	9,550,718	9,348,419
Premiums for options sold	36,819,112	34,806,396
Other	132,869,831	278,013,504
	<b>192,832,435</b>	<b>341,442,941</b>

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

## Note 20 - Accrued expenses and deferred income

The details of accrued expenses and deferred income at 31 December are as follows:

Accrued expenses and deferred income		
expressed in EUR	2018	2017
Interest	50,510,259	44,204,110
Expenses received in advance	15,405,929	17,698,981
Other	96,784	13,353
	<b>66,012,972</b>	<b>61,916,444</b>

## Note 21 - Subordinated liabilities

The breakdown of the subordinated bonds as at 31 December 2018 is as follows:

Subordinated bonds				
Borrowed amount		Interest rate	Date of issue	Date of maturity
expressed in USD	expressed in EUR			
211,000,000	184,343,876	6M USD Libor +224.5 bps	03/03/2017	03/03/2027

## Note 22 - Special items with a share of reserves

The reinvestment gains of EUR 4,474,293 resulting from the application of articles 53 and 54 became fully taxable again at the end of 2018.

## Note 23 - Subscribed capital and issue premiums

At 31 December 2018 and 2017, the share capital amounted to EUR 83,400,000, consisting of 1,492,639 registered shares with no nominal value.

At 31 December 2018 and 2017, issue premiums amounted to EUR 521,242,531.



## Note 24 - Changes in reserves and retained earnings

Changes in reserves and retained earnings						
	Legal reserve	Free reserve *	Other reserves *	Total reserves (excl. revaluation reserve)	Revaluation reserve	Retained earnings
expressed in EUR						
Balances at 1 January 2018 (retired *)	8,510,000	56,648,250	183,147,121	248,305,371	83,053,029	833,279
Profit/loss for the financial year ending 31 December 2017	-	-	-	-	-	35,654,876
Dividends	-	(16,254,876)	-	(16,254,876)	-	(19,400,000)
Transfer	-	49,396,873	(32,351,641)	17,045,232	-	(17,045,232)
Revaluation of bonds and other fixed income securities	-	-	-	-	(71,992,403)	-
Balances at 31 December 2018	8,510,000	89,790,247	150,795,480	249,095,727	11,060,626	42,923

\* An amount of EUR 41,648,250 was reclassified from “Other reserves” to “Free reserves” to reflect the 18 April 2017 decision of the General Assembly.

### Statutory reserve:

Under Luxembourg law governing limited companies, an annual deduction of at least 5% is made from net profits. This deduction is used to set up a statutory 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 to unavailable reserves an amount corresponding to at least five times the amount of the wealth tax (IF). This reserve is unavailable for five years from its establishment.

The share of the 2017 profits allocated to the Special Reserve in 2018 amounted to EUR 17,045,232.

## Note 25 - Liabilities in foreign currencies

The euro equivalent of liabilities denominated in a currency other than the euro amounted to EUR 4,544,046,227 at 31 December 2018 (2017: EUR 4,988,774,892).

## Note 26 - Contingent liabilities

Contingent liabilities consist of the following items:

Contingent liabilities		
expressed in EUR	2018	2017
Guarantees and other direct credit substitutes	4,123,627	3,316,071
Counter-guarantees	498,051,253	535,983,736
	502,174,880	539,299,807

At 31 December 2018, contingent liabilities to affiliated companies amounted to EUR 31,584,496 (2017: EUR 29,019,400).

## Note 27 - Commitments

Les engagements se composent des postes suivants :

Commitments		
expressed in EUR	2018	2017
Unused confirmed credit lines (None for affiliated companies in 2018, EUR 3,000,000 in 2017)	1,941,689,239	1,632,074,090
Settlement of spot transactions	-	10,800,000
	1,941,689,239	1,642,874,090

## Note 28 - Association for the Guarantee of Deposits in Luxembourg (AGDL)

The law on resolution, recovery, and liquidation measures of credit institutions and certain investment firms, on deposit guarantee and investor compensation schemes (the “Law”), transposing 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 up 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 should reach at least 1% of the guaranteed deposits, as defined in article 1 number 36 of the Law, of all approved credit institutions 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. Starting in 2019, Luxembourg credit institutions will continue to contribute for eight additional years so as 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 successive tranches 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 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 2018, the AGDL provision not yet reversed amounted to EUR 29,199,331 (2017: EUR 37,586,608).

In 2018, the Bank paid the 2018 FGDL contribution of EUR 5,031,796 (2017: EUR 4,162,986) as well as the 2018 SRF contribution of EUR 3,947,624 (2017: EUR 2,683,149). For the SRF contribution, the Bank opted for the Irrevocable Payment Commitment for EUR 592,144 (2017: EUR 402,472). As a result, the expense for 2018 is EUR 8,387,277, recorded in other operating expenses (2017: EUR 6,443,663) (Note 34).

The Bank thus reversed a portion of its AGDL provision in operating income for EUR 8,387,277 (2017: EUR 6,443,663) (Note 33).

In 2018 and 2017, the Bank did not receive repayments (recorded in Other operating income – Note 33) from AGDL.

## Note 29 - Information on financial instruments

### Risk management objectives and strategies

A modern bank wishing to ensure consistent results needs to use and master a range of both primary and derivatives.

The Bank's risk management strategy is in accordance with the strategy of the ING group. The annual 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 financial instruments and derivatives.

Financial instrument means any contract giving rise at the same time to a financial asset on the one hand and a financial liability or equity instrument on the other hand.

## 29 1 Information on primary financial instruments

Primary financial instruments consist solely of instruments belonging to the non-trading book category. Their carrying value is classed based on residual term.

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

Non-trading book primary financial instruments					
Instrument category	<= 3 months	> 3 months <= 1 year	>1 year <= 5 years	> 5 years	Total
expressed in EUR					
<b>Financial assets</b>					
Cash, credit balances with central banks, and post office cheque accounts	2,620,141,127	-	-	-	2,620,141,127
Due from banks	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
	<b>6,902,073,638</b>	<b>1,315,563,877</b>	<b>5,470,489,820</b>	<b>4,488,947,849</b>	<b>18,177,075,283</b>
<b>Financial liabilities</b>					
Due to banks	218,550,875	441,757,276	128,313,472	12,000,000	800,621,623
Deposits by customers	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	1,941,689,239	-	-	-	1,941,689,239
	<b>18,403,325,219</b>	<b>656,946,782</b>	<b>165,329,733</b>	<b>19,573,009</b>	<b>19,245,174,743</b>

At 31 December 2017, non-trading book primary financial instruments are analysed as follows (in EUR):

Non-trading book primary financial instruments					
Instrument category	<= 3 months	> 3 months <= 1 year	>1 year <= 5 years	> 5 years	Total
expressed in EUR					
<b>Financial assets</b>					
Cash, credit balances with central banks, and post office cheque accounts	4,185,927,906	-	-	-	4,185,927,906
Due from banks	2,395,434,942	200,000,000	692,535,776	12,000,000	3,299,970,718
Customer loans and advances	432,501,377	1,799,355,631	2,847,977,257	2,975,614,232	8,055,448,497
Bonds and other fixed-income securities	75,195,300	364,677,330	1,127,309,334	690,737,575	2,257,919,539
Shares and other variable-income securities	2,575,507	-	-	-	2,575,507
	<b>7,091,635,032</b>	<b>2,364,032,961</b>	<b>4,667,822,367</b>	<b>3,678,351,807</b>	<b>17,801,842,167</b>
<b>Financial liabilities</b>					
Due to banks	99,886,581	2,502,293	551,169,563	12,000,000	665,558,437
Deposits by customers	15,384,574,767	150,847,753	36,504,637	2,969,682	15,574,896,839
Debt securities	457,334	-	-	-	457,334
Contingent liabilities	13,827,597	86,536,342	25,960,604	412,975,264	539,299,807
Commitments	305,838,949	82,886,695	948,837,496	305,310,950	1,642,874,090
	<b>15,804,585,228</b>	<b>322,773,083</b>	<b>1,562,472,300</b>	<b>733,255,896</b>	<b>18,423,086,507</b>

At 31 December 2018 and 2017, there are no more primary financial instruments in the trading book.

## 29 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 term. 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 classed in the same way as non-trading book derivatives and assigned their 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.

The operations undertaken by the Bank are partly designed to hedge against the effects of fluctuations in interest rates, exchange rates, or market prices and partly for the Bank's trading activities. Transactions involving 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 2018, non-trading book derivatives are analysed as follows (in EUR):

Over-the-counter (at notional value)

Non-trading book derivatives					
Instrument category	<= 3 months	> 3 months <= 1 year	>1 year <= 5 years	> 5 years	Total notional value
expressed in EUR					
<b>Financial assets</b>					
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
	<b>428,081,078</b>	<b>850,473,434</b>	<b>3,121,336,552</b>	<b>703,840,806</b>	<b>5,103,731,870</b>
<b>Financial liabilities</b>					
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
	<b>1,142,455,100</b>	<b>64,673,434</b>	<b>1,208,086,552</b>	<b>1,129,840,806</b>	<b>3,545,055,892</b>

At 31 December 2017, non-trading book derivatives are analysed as follows (in EUR):

Over-the-counter (at notional value)

Non-trading book derivatives					
Instrument category	<= 3 months	> 3 months <= 1 year	>1 year <= 5 years	> 5 years	Total notional value
expressed in EUR					
<b>Financial assets</b>					
Interest rate instruments					
* Swaps	-	1,060,390,221	1,934,404,174	571,891,642	3,566,686,037
Foreign exchange instruments					
* Swaps	381,101,509	-	22,275,000	-	403,376,509
	<b>381,101,509</b>	<b>1,060,390,221</b>	<b>1,956,679,174</b>	<b>571,891,642</b>	<b>3,970,062,546</b>
<b>Financial liabilities</b>					
Interest rate instruments					
* Swaps	195,000,000	49,390,221	1,658,854,174	1,054,891,642	2,958,136,037
* Options	352,461,484	-	-	-	352,461,484
Foreign exchange instruments					
* Swaps	-	-	-	-	-
Instruments linked to property					
* Options	330,938,578	-	-	-	330,938,578
	<b>878,400,062</b>	<b>49,390,221</b>	<b>1,658,854,174</b>	<b>1,054,891,642</b>	<b>3,641,536,099</b>

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

As at 31 December 2018 and 2017, there are no derivatives classed in the non-trading book exchange-traded category.



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

Trading book derivatives								
Instrument category	<= 3 months		> 3 months <= 1 year		> 1 year <= 5 years		Total	
expressed in EUR	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)
	81,993,576	(582,994)	6,951,857	(63,577)	-	-	88,945,433	(646,571)

At 31 December 2017, trading book derivatives are analysed as follows (in EUR):

Trading book derivatives								
Instrument category	<= 3 months		> 3 months <= 1 year		> 1 year <= 5 years		Total	
expressed in EUR	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
<b>Financial assets</b>								
Foreign exchange instruments								
* Futures	3,601,418,972	709,286	29,063,000	10,257	-	-	3,630,481,972	719,543
	<b>3,601,418,972</b>	<b>709,286</b>	<b>29,063,000</b>	<b>10,257</b>	-	-	<b>3,630,481,972</b>	<b>719,543</b>
<b>Financial liabilities</b>								
Foreign exchange instruments								
* Futures	54,697,076	(652,841)	446,190	(17,682)	-	-	55,143,266	(670,523)
* Options	80,783,682	(186)	-	-	-	-	80,783,682	(186)
	<b>135,480,758</b>	<b>(653,027)</b>	<b>446,190</b>	<b>(17,682)</b>	-	-	<b>135,926,948</b>	<b>(670,709)</b>

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

At 31 December 2018 and 2017, there were no derivatives classed in the trading book – stock market.

## Note 30 - Credit risk management

The Bank is obliged 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 and record and monitor it in the optimum 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 breakdown of debts, bonds and shares		
in thousands of EUR	2018	2017
Eurozone	13,781,799	11,636,153
United States	731,202	1,060,762
Canada	335,674	335,064
United Kingdom	219,579	232,619
Sweden	119,892	106,953
Norway	127,515	132,036
Other	241,273	112,327
	<b>15,556,934</b>	<b>13,615,914</b>

  

Breakdown by type of counterparty for claims, bonds, and equities		
in thousands of EUR	2018	2017
Banks	6,434,453	4,322,796
Public sector	940,494	1,012,379
Legal entities	3,795,179	4,141,864
Private individuals	2,969,226	2,667,259
Financial institutions	1,417,582	1,471,616
	<b>15,556,934</b>	<b>13,615,914</b>

The equity requirement to hedge the credit risk is as follows:

Equity requirement to hedge the credit risk			
	Balance sheet totals *	Weighted totals	Capital adequacy requirement
31 December 2018 (in EUR)			
<b>Balance sheet items</b>			
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%	5,156,947,250	5,156,947,250	412,555,780
	<b>18,397,375,045</b>	<b>7,941,216,310</b>	<b>635,297,305</b>
	Off-balance-sheet totals	Weighted totals	Capital adequacy requirement
<b>Off-balance-sheet elements other than derivatives</b>			
	<b>2,443,864,119</b>	<b>223,747,197</b>	<b>17,899,776</b>

  

Equity requirement to hedge the credit risk			
	Balance sheet totals *	Weighted totals	Capital adequacy requirement
31 December 2017 (in EUR)			
<b>Balance sheet items</b>			
Of which assets weighted at 0%	5,401,272,295	-	-
Of which assets weighted at 20%	4,626,947,164	925,389,433	74,031,155
Of which assets weighted at 50%	2,623,414,306	1,311,707,153	104,936,572
Of which assets weighted at 100%	5,362,357,165	5,362,357,165	428,988,573
	<b>18,013,990,930</b>	<b>7,599,453,751</b>	<b>607,956,300</b>
	Off-balance-sheet totals	Weighted totals	Capital adequacy requirement
<b>Off-balance-sheet elements other than derivatives</b>			
	<b>2,182,173,897</b>	<b>250,020,393</b>	<b>20,001,631</b>

\* Before allocation of the fixed provision



Credit risk for over-the-counter derivatives (using the method of valuation at market price)  
(non-trading book)

Credit risk for non-trading book over-the-counter derivatives					
	Notional principal amounts	Current replacement costs	Potential future replacement costs	Total replacement costs = Net risk exposure	Capital adequacy requirement
31 december 2018 (in EUR)					
<b>Banking counterparties (Weighting assigned to the counterparty or guarantor = 20%)</b>					
Interest rate agreements	4,753,500,000	35,749,126	25,872,500	61,621,626	4,929,730
Foreign exchange and gold contracts	210,690,824	-	2,106,908	2,106,908	168,553
<b>Non-banking counterparties (Weighting assigned to the counterparty or guarantor = 50%)</b>					
Interest rate agreements	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 (using the method of valuation at market price)  
(non-trading book)

Credit risk for non-trading book over-the-counter derivatives					
	Notional principal amounts	Current replacement costs	Potential future replacement costs	Total replacement costs = Net risk exposure	Capital adequacy requirement
31 december 2017 (in EUR)					
<b>Banking counterparties (Weighting assigned to the counterparty or guarantor = 20%)</b>					
Interest rate agreements	3,465,500,000	29,299,073	17,672,500	46,971,573	3,757,726
Foreign exchange and gold contracts	274,988,518	-	2,749,885	2,749,885	219,991
<b>Non-banking counterparties (Weighting assigned to the counterparty or guarantor = 50%)</b>					
Interest rate agreements	101,186,037	3,396,033	577,895	3,973,928	317,914
Foreign exchange and gold contracts	128,387,991	22,251,413	2,174,880	24,426,293	1,954,103

Credit risk for over-the-counter derivatives (using the method of valuation at market price)  
(trading book)

Credit risk for trading book over-the-counter derivatives					
	Notional principal amounts	Current replacement costs	Potential future replacement costs	Total replacement costs = Net risk exposure	Capital adequacy requirement
31 december 2018 (in EUR)					
Banking counterparties (Weighting assigned to the counterparty or guarantor = 20%)					
Foreign exchange and gold contracts	4,296,115,374	1,424,398	42,961,154	44,385,552	3,550,844
Non-banking counterparties (Weighting assigned to the counterparty or guarantor = 50%)					
Foreign exchange and gold contracts	-	-	-	-	-

Credit risk for over-the-counter derivatives (using the method of valuation at market price)  
(trading book)

Credit risk for trading book over-the-counter derivatives					
	Notional principal amounts	Current replacement costs	Potential future replacement costs	Total replacement costs = Net risk exposure	Capital adequacy requirement
31 december 2017 (in EUR)					
Banking counterparties (Weighting assigned to the counterparty or guarantor = 20%)					
Foreign exchange and gold contracts	3,630,481,972	719,543	36,304,820	37,024,363	2,961,949
Non-banking counterparties (Weighting assigned to the counterparty or guarantor = 50%)					
Foreign exchange and gold contracts	-	-	-	-	-

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 major risk 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 2018, the Bank's exempt exposures with regard to the ING group's entities are broken down as follows:

Exempt exposures with regard to the ING group's entities	
Names of related parties	Exempt exposures
expressed in EUR	
ING Bank N.V.	1,917,857,509
ING Belgique	3,150,821,590
ING Lease Luxembourg S.A.	287,831,633
Other	50,266,408
	<b>5,406,777,140</b>

## Note 31 - Income from securities

At 31 December 2018, income from securities mainly consisted of the dividend from the Luxembourg stock exchange (EUR 26,724) and FS-B (EUR 24,155). No dividends were paid by VISA Lux in 2018 (2017: EUR 601,989).

## Note 32 - Profit (loss) from financial operations

At 31 December, this is analysed as follows:

Profit (loss) from financial operations		
expressed in EUR	2018	2017
Exchange profit (loss)	18,160,285	18,481,581
Option premiums	(3,458,074)	(5,435,093)
Profit (loss) on structured products	3,377,839	5,351,512
Profit (loss) on securities	2,373,372	2,702,724
Miscellaneous	893,269	206,699
	<b>21,346,691</b>	<b>21,307,423</b>

## Note 33 - Other operating income

At 31 December, this is analysed as follows:

Other operating income		
expressed in EUR	2018	2017
Profit on stock market operations	17,203	831
AGDL provision reversal (Note 28)	8,387,277	6,443,663
Client provision reversal	42,564,199	2,032,823
Gains realised on disposals of equity interests (Visa Inc.)	78,341	223,682
Gains realised on tangible fixed assets	-	575,980
Miscellaneous	265,839	314,646
	<b>51,312,859</b>	<b>9,591,625</b>

## Note 34 - Other operating expenses

At 31 December, these are analysed as follows:

Other operating expenses		
expressed in EUR	2018	2017
Provision for client disputes	-	76,365,871
Contribution FRL/FGDL (note 28)	8,387,277	6,443,663
Losses on stock market transactions	42,320	80,135
Rebates	368,101	497,821
Miscellaneous	1,944,880	1,149,424
	<b>10,742,578</b>	<b>84,536,914</b>

## Note 35 - 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 SICAVs.

## Note 36 - Breakdown of revenue by geographical zone

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

## Note 37 - Staff

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

Average number of staff employed		
	2018	2017
Executive Committee and Senior Management	30	27
Middle Management	236	240
Office staff	566	558
	<b>832</b>	<b>825</b>

At 31 December 2018, the number of people employed by the Bank was 850 (31 December 2017: 832).

## Note 38 – Remuneration of administration and management bodies

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

Remunerations allocated to the various bodies of the Bank		
expressed in EUR	2018	2017
Administrative bodies (8 persons in 2018 and 2017)	183,631	178,513
Bodies of the Executive Committee and Senior Management (30 persons in 2018, 27 in 2017)	6,691,958	5,944,808
	<b>6,875,589</b>	<b>6,123,321</b>

## Note 39 - 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:

Statutory Auditor's fees		
amount in EUR (excl. VAT)	2018	2017
Legal audit of annual accounts	212,817	197,540
Other insurance services	85,500	9,960
	<b>298,317</b>	<b>207,500</b>

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



## Note 40 – Event after 31 December 2018

There are no significant events to report.

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