ING

ING Bank

Condensed consolidated interim financial information for the six month period ended 30 June 2021

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Interim report

Introduction

ING is a global financial institution with a strong European base, offering banking services through its operating company ING Bank. ING Bank's more than 57,000 employees offer retail and wholesale banking services to customers in over 40 countries. The group consists of ING Groep N.V., ING Bank N.V. and other group entities.

Covid-19

While the roll-out of the vaccine programmes has gained momentum in the second quarter of 2021, accompanied by gradual reopening of economies, the end of the second quarter of 2021 was however again marked by an increasing number of Covid-19 infections, mainly due to the spread of the Delta variant. ING continues to closely monitor the developments around and effects of the ongoing Covid-19 pandemic.

Based on the potential economic and social implications for the countries and sectors where ING is active, mitigating actions have been implemented and will be adapted as necessary as we continue to support our customers during these challenging times.

Our staff is still largely working from home, supported with the appropriate tools. A central ING team provides guidance on health and safety measures, travel advice and business continuity. As the situation differs from country to country, ING is following local government guidelines in its response to the Covid-19 pandemic. More information on the impact of Covid-19 on ING as well on the related risk measures taken to address the impact can be found in the section "Risk Management". For the impact of Covid-19 on the financial statements we refer to Note 1.3 of the financial statements.

ING Bank consolidated results

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

The breakdown of net result by segment is included in Note 16 'Segments'.

ING Bank's net result in the first half of 2021 increased to €2,467 million, or 141.6%, compared with €1,021 million in the same period of 2020. The increase was primarily due to lower risk costs due to releases from collective provisions following an update of the macroeconomic indicators and limited individual Stage 3 provisioning, whereas the first half of 2020 included elevated risk costs. The effective tax rate was 28.5% compared with 32.9% in the first half of 2020.

The result before tax rose 124.1% to €3,530 million from €1,575 million in the first half of 2020, predominantly due to €1,866 million lower risk costs, but also due to higher income and lower expenses. Income increased 0.2%, mainly due to strong growth in fee income especially in daily banking and investment products and the recognition of the conditional ECB funding rate benefit from the TLTRO III programme, which more than offset the impact of lower interest margins on customer deposits. Operating expenses declined by €72 million, or -1.3%, on the first six months of 2020, mainly due to lower impairments, which more than offset the impact of higher regulatory costs and some redundancy and restructuring costs.

Net interest income decreased by €79 million, or 1.1%, to €6,852 million in the first six months of 2021, of which almost €100 million was caused by negative currency impacts and despite the recognition of a €316 million conditional TLTRO III benefit (of which approximately half was related to a retroactive adjustment of the ECB funding rate in 2020). The interest result on customer deposits declined due to lower interest margins on both savings and current accounts caused by lower reinvestment yields,

while average volumes increased. The interest result on customer lending was slightly higher compared to last year, due to higher margins while average lending volumes declined due to reduced loan demand. Furthermore, interest results increased in Treasury and Financial Markets (which can be volatile). ING's overall net interest margin, which is defined as net interest income divided by the average balance sheet total, decreased by 7 basis points to 1.41%, from 1.48% in the first half of 2020.

Net fee and commission income increased 13.5% to €1,710 million from €1,507 million one year ago. In Retail Banking, net fee and commission income rose by €179 million, or 18.9%. This increase was mainly driven by higher fee income on daily banking products supported by higher fees for payment packages and an increasing number of (domestic) payment transactions. Also fee income on investment products increased, mainly in Germany and Belgium. Total fee income in Wholesale Banking rose by €19 million, predominantly in Daily Banking & Trade Finance.

Total investment and other income declined by €107 million, or 14.1%, to €653 million from €760 million in the first half of 2020. This was mainly due to lower Treasury-related revenues and lower income in Financial Markets, partly offset by the recognition of a €72 million receivable due to a better than expected recovery of the insolvency of a financial institution in the Netherlands (recorded in Corporate Line).

Operating expenses decreased by €72 million, or 1.3%, to €5,553 million. This included €759 million of regulatory costs, which were €96 million up on the first half of 2020, due to higher contributions to the (European) single resolution fund and deposit guarantee schemes, including a catch-up in Germany following the Greensill insolvency. Expenses excluding regulatory costs declined by €168 million, or 3.4%, to €4,794 million. The decrease was mainly caused by €310 million of goodwill impairments recorded in 2020, while the first half of 2021 included €123 million of incidental items. These items consisted of €90 million of redundancy and restructuring costs in Retail Netherlands, mainly related to the announced restructuring of the branch network and the retail advice organisation, €11 million of restructuring costs related to the announcement to leave the retail banking market in the Czech Republic, as well as a €22 million IT-related impairment recorded at Corporate Line. Excluding regulatory costs and the aforementioned incidental items, expenses rose by 0.4%, mainly due to higher IT costs and the impact of annual salary increases as well as some litigation provisions, partly offset by lower expenses for third-party staff, professional services and marketing. The cost/income ratio decreased to 60.3% from 61.2% in the first half of 2020.

Net additions to loan loss provisions were €131 million compared with €1,997 million in the first half of 2020. The update of the macroeconomic indicators, including a lower management overlay to reflect a lower expected impact from a delay in credit losses compared with year-end 2020, resulted in a €206 million net release from collective provisions in the first six months of 2021, recorded predominantly in Stage 1 and Stage 2. Total net additions to Stage 3 provisions were €363 million (down from €1,193 million in the first half of 2020) and were largely related to Stage 3 collective provisions, including a €79 million addition (out of a total €109 million) reflecting the adjustment of some model assumptions in Retail Belgium. Risk costs were annualised 4 basis points of average customer lending compared with 64 basis points in the first half of 2020.

Retail Netherlands

Retail Netherlands posted a result before tax of €1,022 million, compared with €1,043 million in the first six months of 2020. This decline is mainly attributable to lower income and higher expenses, which were largely offset by lower risk costs.

Total income decreased by €131 million, or 5.8%, to €2,138 million, compared with €2,269 million in the first half of 2020. Net interest income declined 6.4%, mainly due to continued margin pressure on customer deposits and lower interest results from lending products (due to lower margins and lower average lending volumes) and despite the recognition of a €31 million TLTRO III benefit. Net core lending growth in the first half of 2021 (which excludes Treasury products and a €0.5 billion decline in the WUB run-off portfolio) was €0.7 billion, of which €0.9 billion was in residential mortgages and €-0.2 billion in other lending. Net core deposits growth (excluding Treasury) was €9.3 billion, driven by holiday allowances and lower customer spending due to the lockdown measures. Net fee and commission income increased by €36 million, or 10.8%, primarily in daily banking and investment products. Investment and other income was €56 million lower, mainly due to lower Treasury-related revenues.

Operating expenses increased by €93 million, or 8.5%, to €1,181 million from €1,088 million in the first six months of 2020. The increase included €90 million of redundancy and restructuring costs in the first half of 2021 mainly related to the announced restructuring of the branch network and the retail advice organisation, as well as €39 million higher regulatory costs. Expenses excluding regulatory costs and the aforementioned items declined by €36 million, or 3.7%, mainly due to lower third party staff costs.

The addition to loan loss provisions resulted in a net release of €65 million, or -8 basis points of average customer lending, compared with €139 million, or 17 basis points, in the first half of 2020. The net release in the first half of 2021 reflects releases in the mortgage and business lending portfolios due to improved macroeconomic indicators, which more than offset a net addition in the consumer lending portfolio.

Retail Belgium

Retail Belgium, which includes Luxembourg, posted a result before tax of €134 million in the first half of 2021, compared with €-36 million in the same period of 2020. The improvement was the result of lower risk costs and lower expenses, combined with an increase in income.

Total income increased by €26 million, or 2.1%, to €1,241 million. Net interest income decreased by €43 million, or 4.6%, mainly reflecting continued margin pressure on customer deposits and lower interest results on lending due to lower average lending volumes at a slightly higher lending margin, partly offset by a €48 million benefit from TLTRO III. Net core lending growth (excluding Treasury) was €0.2 billion in the first half of 2021, due to growth in residential mortgages, while other lending declined by €0.4 billion. Net core deposits growth (excluding Treasury) was €1.9 billion. Net fee and commission income rose by €41 million, or 19.8%, primarily driven by higher fee income in investment products and daily banking products. Investment and other income increased by €28 million, mainly due to higher Treasury-related revenues, supported by positive fair value adjustments.

Operating expenses declined by €57 million, or 5.9%, to €912 million in the first half of 2021, mainly due to a goodwill impairment of €43 million recorded in the first half of 2020 and despite a €16 million increase in regulatory costs. Expenses excluding regulatory costs and the aforementioned goodwill impairment declined by €30 million, or 4.1%, mainly due to lower staff costs and lower allocated group overhead expenses.

The net addition to the provision for loan losses declined to €194 million, or annualised 43 basis points of average customer lending, from €282 million in the first half of 2020. The decrease in risk costs was mainly in business banking. Risk costs in the first half of 2021 included a €109 million addition (of which €79 million was in Stage 3) reflecting the adjustment of some model assumptions. Excluding this model update, risk costs were €85 million in the first half of 2021.

Retail Germany

Retail Germany, which includes Austria, recorded a first-half of 2021 result before tax of €413 million, down 16.4% from €494 million in the same period of 2020. The decline was mainly due to lower income and higher expenses.

Total income decreased to €1,036 million, down 3.6% from €1,075 million in the first six months of 2020. Net interest income declined 8.4% to €734 million. Net interest income was supported by strong growth in mortgage volumes and a €8 million TLTRO III benefit, which could only partly offset continued liability margin pressure. Net core lending growth in the first half of 2021 (which excludes Treasury products and the run-off portfolio in Austria) was €3.4 billion, of which €3.1 billion was in residential mortgages and €0.3 billion in consumer lending. Net core deposits growth (excluding Treasury, and the run-off portfolio in Austria) was €5.5 billion, almost equally divided over current accounts and savings. Fee income rose 19.5% to €257 million, primarily on investment products reflecting higher assets under management, new account openings and a higher number of brokerage trades in volatile markets. Fee income was furthermore supported by higher daily banking fees due to the introduction of account maintenance fees in 2020. Investment and other income declined by €14 million.

Operating expenses increased by €37 million, or 6.5%, to €604 million in the first half of 2021, of which €24 million was in regulatory costs, including a €30 million catch-up in the deposit guarantee scheme following the Greensill insolvency. Expenses excluding regulatory costs rose by €14 million, or 2.8%, mainly due to higher staff-related expenses, primarily driven by business growth in Interhyp.

The net addition to the provision for loan losses in the first half of 2021 was €19 million, or annualised 4 basis points of average customer lending, compared with an addition of €14 million in the same period of last year.

Retail Other Challengers & Growth Markets

Retail Other Challengers & Growth Markets' result before tax rose by to €454 million from €295 million in the first six months of 2020, reflecting lower risk costs and higher income, partly offset by increased expenses.

Total income rose by €9 million, or 0.5%, to €1,729 million in the first six months of 2021, driven by €60 million higher net fee and commission income, mainly reflecting growth in daily banking fees and investment products in most of the countries. This increase was partly offset by €38 million lower net interest income due to continued margin pressure on customer deposits, partly offset by higher volumes and margins in mortgages and higher Treasury-related revenues, including a €4 million TLTRO III benefit. Net core lending growth (adjusted for currency effects and Treasury) was €3.7 billion in the first half of 2021, of which €2.6 billion was in residential mortgages; the growth was visible in most countries. Net core deposits growth (excluding Treasury and the Czech run-off portfolio) was € 0.8 billion, with the largest declines in Australia, Spain and Italy, whereas in Poland, Romania and Turkey core deposits increased. Investment and other income decreased by €12 million, mainly due to lower revenues from Treasury-related products.

Operating expenses increased by €54 million, or 4.8%, to €1,174 million in the first half of 2021, of which €12 million was caused by higher regulatory costs. The increase furthermore included €11 million of restructuring costs following the announcement to discontinue retail activities in the Czech Republic, as well as a €11 million legal provision in Spain. The remaining increase was mainly due to higher staff-related expenses.

The net addition to loan loss provisions decreased to €102 million, or annualised 20 basis points of average customer lending, from €304 million in the first half of 2020 The decrease versus last year was visible in all countries, with the largest declines in Poland, Australia, Turkey and Spain.

Wholesale Banking

In the first six months of 2021, the result before tax was €1,558 million compared with a loss of €204 million in the same period last year. The improvement was predominantly due to a net release in risk costs, while the first half of 2020 included elevated risk costs triggered by the Covid-19 pandemic. The result before tax was furthermore supported by lower expenses (as last year included a €260 million goodwill impairment) and higher income.

Total income increased by €111 million, or 4.0%, to €2,891 million in the first half of 2021, mainly due to higher income in Lending and Daily Banking & Trade Finance. The increase in Lending was mainly driven by improved lending margins (supported by a €56 million TLTRO III benefit) at lower average lending volumes, and lower negative valuation adjustments on loans. Daily Banking & Trade Finance income rose supported by higher income from Trade & Commodity Finance (higher average oil prices) and Payments & Cash Management. Income in Financial Markets was slightly higher as a €41 million TLTRO benefit was largely offset by lower income from FM Trading. These increases were partly offset by lower income in Treasury & Other.

Net interest income increased by €180 million, or 9.7%, on the first six months om 2020, and was supported by the recognition of a €113 million TLTRO benefit. The increase was furthermore driven by improved lending margins and higher net interest income from Treasury-products. This more than compensated for lower average lending volumes and lower margins on customer deposits as well as negative currency impacts. Net core lending growth in the first half of 2021 (excluding currency impacts, Treasury and the Lease run-off portfolio) was €6.1 billion. Net core deposits growth (excluding currency impacts and Treasury) was €0.9 billion.

Net fee and commission income increased by €19 million, or 3.4%, on last year, predominantly in Daily Banking & Trade Finance, mainly due to various fee and pricing initiatives in Payments & Cash Management, as well as higher fees in Trade & Commodity Finance on the back of higher average oil prices. Investment and other income declined to €267 million from €354 million in the first half of 2020, primarily due to lower revenues in Treasury & Other and Financial Markets. This decline was partly offset by Lending, which had included negative marked-to-market adjustments on loans in the first half 2020.

Operating expenses were €1,452 million, or 16.0% lower than in the first six months of 2020. Excluding regulatory costs (€157 million in the first half of 2021 versus €151 million one year ago) and the €260 million goodwill impairment recorded in the first half of 2020, expenses decreased by €22 million, or 1.7%. This decline was mainly due to continued cost-efficiency measures and currency impacts, which more than offset higher IT costs and litigation provisions as well as the impact of annual salary increases.

The addition to loan loss provisions was a net release of €119 million, or annualised -13 basis points of average customer lending, compared with a net addition of €1,256 million, or 133 basis points, in the first half of 2020. The release in risk costs in the first six months of 2021 was driven by releases from collective provisions caused by improved macroeconomic indicators, partly offset by limited additions to individual Stage 3 provisions.

Corporate Line

The Corporate Line reported a result before tax of €-51 million compared with €-17 million in the first half of 2020. Total income rose to €180 million from €139 million a year ago. This increase was primarily due to higher investment and other income, which included the recognition of a €72 million receivable due to a better than expected recovery of the insolvency of a financial institution in the Netherlands. Net interest income in the first six months of 2021 included an initial €111 million funding rate benefit related to TLTRO III, offset by lower interest results from foreign currency ratio hedging and negative unwinding results. Operating expenses rose to €230 million from €156 million in the first half of 2020, mainly due to a €22 million IT-related impairment, a lower value-added tax (VAT) refund and higher shareholder expenses mainly following a change in the allocation of group overhead expenses in the fourth quarter of 2020 (offset by a lower allocation to the business lines).

ING Bank statement of financial position (‘balance sheet’)

ING Bank’s total balance sheet increased by €41 billion to €978 billion at 30 June 2021 from €937 billion at 31 December 2020.

Cash and balances with central banks

Cash and balances with central banks increased by €10 billion to €121 billion. The increase was partly driven by liquidity management.

Loans and advances to banks and deposits from banks

Loans and advances to banks increased by €1 billion to €26 billion. Deposits from banks increased by €11 billion to €89 billion, including an additional TLTRO III participation of €6 billion in March 2021, bringing ING Bank’s total TLTRO III participation to €66 billion at the end of June 2021.

Financial assets/liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss increased by €18 billion to €121 billion. The increase was predominantly caused by reverse repos mandatorily at fair value through profit or loss at Global Securities Finance (GSF), after the relatively low year-end 2020 position. Financial liabilities at fair value through profit or loss increased by €4 billion to €87 billion, with €10 billion of higher liabilities designated at fair value at profit or loss (repo activity at GSF), partly offset by €6 billion lower trading liabilities (decreased trading derivatives). Financial assets and liabilities at fair value through profit or loss predominantly consist of derivatives, securities and (reverse) repos, and are mainly used to facilitate client needs.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (OCI) decreased by €3 billion to €33 billion, due to €3 billion lower debt securities, which mainly reflect lower investments in government bonds (mainly due to the sale of US government paper and matured and sold Italian government bonds).

Securities at amortised costs

Securities at amortised cost decreased by €1 billion to €49 billion. The decrease included the sale of a government bond portfolio of the Czech Republic (carrying amount €0.5 billion), related to the decision to discontinue the Czech retail banking activities.

Loans and advances to customers

Loans and advances to customers increased by €13 billion to €611 billion from €598 billion at 31 December 2020. This was due to €12 billion of higher customer lending, while provisions for loan losses declined by €0.4 billion. Following the decision to discontinue the Austrian retail banking activities, a loan portfolio of €1 billion was transferred from customer lending to assets held for sale. When adjusted for €2 billion of positive currency impacts, customer lending increased by €10 billion. After also excluding a €1 billion decrease in short-term Treasury lending, the €1 billion transfer to assets held for sale of the Austrian retail loan portfolio, a €1 billion decline in the WUB and Lease run-off portfolios and €1 billion of negative valuation adjustments in hedged mortgages, net core lending growth was €14 billion in the first half of 2021. Of this amount, €7 billion was in non-mortgage lending (partly due to additional TLTRO III eligible lending) and €7 billion in residential mortgages.

Other assets/liabilities

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

Assets/liabilities held for sale

Assets held for sale were €1 billion at the end of June 2021 and consisted of a loan portfolio from Retail Austria, previously recorded as customer lending. Liabilities held for sale were €2 billion and concerned a deposits portfolio from Retail Austria, previously recorded as customer deposits. Both movements followed the decision to discontinue the Austrian retail banking activities. The lending and deposits portfolios will be sold to bank99 over the coming months, a process which is expected to be finalised by the end of this year.

Customer deposits

Customer deposits increased by €16 billion to €659 billion, despite a €7 billion outflow from Retail Austria (including a €2 billion transfer of a deposit portfolio from Retail Austria to liabilities held for sale, like the assets held for sale, to be sold to bank99) and a €3 billion outflow from Retail Czech Republic (largely transfers to Raiffeisenbank). The outflows are in line with ING's intention to withdraw its retail activities from these countries before the end of this year. Adjusted for the net outflows in Retail Austria and Retail Czech Republic, the growth in Treasury deposits and currency impacts (negligible), net customer deposits grew by €14 billion in the first half of 2021. This increase was predominantly in Retail Banking.

Debt securities in issue

Debt securities in issue increased by €6 billion to €61 billion due to €13 billion of higher certificates of deposit/ commercial paper (CD/CPs, driven by liquidity management), while other, mainly long-term debt securities, decreased by €7 billion (mainly maturities).

Subordinated loans

Subordinated loans declined by €1 billion to €15 billion, due to the call of a Tier 2 instrument in February 2021, partly offset by the issuance of a green Tier 2 bond in June 2021 of €500 million.

Shareholders' equity

Shareholders' equity increased by €0.3 billion to €48.0 billion from €47.7 billion at 31 December 2020. The increase mainly reflects the €2,467 million net result for the first half of 2021 and a €151 million increase of the currency translation reserve, partly offset by a €1,709 million dividend upstream and a €577 million negative change in the cashflow hedge reserve.

Conformity statement

The Management Board Banking is required to prepare the condensed consolidated interim financial information of ING Bank N.V. for each financial period in accordance with applicable Dutch law and with International Accounting Standard 34 'Interim Financial Reporting'.

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

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

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

- the ING Bank N.V. condensed consolidated interim financial statements for the six month period ended 30 June 2021 give a true and fair view of the assets, liabilities, financial position and profit or loss of ING Bank N.V. and the entities included in the consolidation taken as a whole; and
- the ING Bank N.V. interim report for the six month period ended 30 June 2021 includes a fair review of the information required pursuant to article 5:25d, paragraphs 8 and 9 of the Dutch Financial Supervision Act regarding ING Bank N.V. and the entities included in the consolidation taken as a whole.

Amsterdam, 5 August 2021

The Management Board Banking

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

T. (Tanate) Phutrakul
CFO

L. (Ljiljana) Čortan
CRO

P. (Pinar) Abay
Head of Market Leaders

A.J.M. (Andrew) Bester
Head of Wholesale Banking

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

R.H.E. (Ron) van Kemenade
Chief Technology Officer

Risk management

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

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

Basis of disclosures

This risk management section contains an update of information relating to the nature and the extent of the risks arising from financial instruments as disclosed in the 2020 ING Bank consolidated financial statements as included in the 2020 Annual Report. These disclosures are an integral part of the ING Bank condensed consolidated interim financial statements and are indicated by the symbol (*). Chapters, paragraphs, graphs or tables within this risk management section that are indicated with this symbol in the respective headings or table header are considered to be an integral part of the condensed consolidated interim financial statements.

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

Business environment

The economic outlook continues to be dominated by developments in the Covid-19 pandemic.

The roll-out of vaccines that started at the beginning of the year 2021 is progressing, but cases are rising sharply in some countries mainly caused by the spread of the delta variant of the Covid-19 virus.

Large differences persist between countries in the pace of recovery, given differences in vaccination rates. In the US, a large majority of adults have already been fully vaccinated, while in Asia widespread vaccination is not likely until 2022. In the eurozone, vaccine roll-out has gained momentum through the second quarter, accompanied by gradual reopening of economies.

Indicators of economic sentiment suggest consumers and firms are poised to take advantage of reopening when and where it occurs. Input prices have been rising on higher commodity prices and shipping costs, and the further reopening of economies is expected to push inflation higher for a period of time. But with furlough schemes still in place, there is less immediate pressure on wages in the eurozone than in the US, and higher eurozone inflation is expected to fall back again in 2022.

The rapid progress of the vaccination programme, along with large fiscal and monetary stimulus, has enabled a broad reopening of the US economy. Output is likely to have recovered to its pre-pandemic levels during the second quarter, and employment is on track to recover by the end of 2021. Supply chain disruption and older workers exiting the labour market are contributing to inflationary pressure, which has brought forward expectations of a tightening in US monetary policy, beginning with tapering of QE asset purchases before the end of 2021 and the first rises in interest rates in 2022.

Credit risk management practices (*)

Globally, in the first half of 2021 the roll-out of the vaccine programmes has gained momentum. However, in the last months an increasing number of Covid-19 infections, mainly due to the spread of the Delta variant was observed. In many countries, governments have continued their economic support programs (such as tax advantages, unemployment regulations or guarantees) that we believe will assist ING clients in potential financial difficulty to manage through these extraordinary times.

Governments in almost all Retail Banking countries have adopted measures providing for payment holidays. As of end of June 2021, approximately 159,000 customers were granted payment holidays. The total exposure of loans for which a payment holiday is granted amounts to €17.5 billion, of which

over 56% were for customers located in the Netherlands and Belgium. At the end of June 2021, 96% of granted payment holidays had expired.

In 2020, various measures were introduced by governments and ING to alleviate the impact of Covid-19, including European Banking Authority (EBA) guidelines. Based on the EBA guidelines, the granting of these payment holidays did not lead to forbearance classifications. Therefore, it did not automatically trigger recognition of lifetime Expected Credit Loss (ECL) either. Until 30 September 2020, ING followed these guidelines and when a payment holiday was provided to a customer as part of a “general payment moratorium”, ING did not classify the exposure as forborne.

The EBA further extended these guidelines from 1 October 2020 until 31 March 2021, with certain extra conditions. ING decided not to make use of the extension of these guidelines and has taken a prudent decision to treat all payment holiday requests under new or extended schemes (after September 2020) as stage 2 or stage 3 exposures.

Portfolio quality and concentration

Lending to businesses is diversified over various sectors and countries. The total gross carrying amounts is composed of approximately 65% business lending and 35% consumer lending. For a detailed breakdown of ING’s credit risk portfolio by Sector and Geographical area, refer to the section “Credit Risk portfolio” reported in the ‘Risk management’ section of the 2020 Annual Report.

ING’s total gross carrying amounts increased compared to year-end 2020 partly as a result of the TLTRO III participation through deposits to central banks. This is visible in the next table as investment grade with AAA rating.

Covid-19 sensitive sectors (*)

The following sectors are most impacted (directly or indirectly) by the Covid-19 pandemic and the related lockdown measures and restrictions.

Aviation (Transportation & Logistics): credit outstandings declined to €4.3 billion outstanding (0.47% of total portfolio) from €4.6 billion outstanding (0.52% of total portfolio) in 2020. In terms of rating, the distribution of outstanding improved compared to 2020, with outstanding remaining stable in Investment grade, whereas the Speculative grade outstanding decreased. Both, the Substandard grade and Non-performing grade improved to 0.0% and 1.8% from 1.3% and 4.5% respectively in 2020.

Hospitality & Leisure (Services and Food, Beverages & Personal Care): credit outstandings decreased to €5.4 billion outstanding (0.59% of total portfolio) from €5.9 billion outstanding (0.67% of total portfolio). Rating distribution worsened compared to 2020, with outstanding reduction in BBB and BB ratings, whereas an increase is noticeable in CCC rating classes. Substandard grade slightly increased to 9.9% from 9.7% in 2020, and the NPL grade deteriorated to 7.2% from 6.2% in 2020.

Non-food retail (Retail): credit outstandings slightly increased and amounted to €11.0 billion (1.21% of total portfolio) from €10.8 billion (1.22% of total portfolio) in 2020. Rating distribution improved with concentrations increasing in Investment grade and reducing in Speculative grade. The NPL grade improved to 3.0% from 3.3% in 2020, while Substandard grade increased to 1.2% from 0.7%.

Real estate: credit outstandings slightly decreased and amounted to €53.1 billion (5.81% of total portfolio) from €54.4 billion (6.13% of total portfolio) in 2020. Rating distribution improved with concentrations increasing in Investment grade and slightly reducing in Speculative grade. The NPL grade increased to 1.5% from 1.2% in 2020, while Substandard grade improved to 0.8% from 1.2%.

Loan Loss Provisioning (*)

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

The table below describes the portfolio composition over the different IFRS 9 stages and rating classes. The Stage 1 portfolio represents 92.7% (31 December 2020: 91.8%) of the total gross carrying amounts, mainly composed of investment grade, while Stage 2 makes up 6.0% (31 December 2020: 6.8%) and Stage 3 makes up 1.4% (31 December 2020: 1.5%) of the total gross carrying amounts, respectively.

Gross carrying amount per IFRS 9 stage and rating class[1]

in EUR million

30 June 2021

Rating class		12-month ECL (Stage 1)		Lifetime ECL not credit impaired (Stage 2)		Lifetime ECL credit impaired (Stage 3)		Total	
		Gross Carrying Amount	Provisions	Gross Carrying Amount	Provisions	Gross Carrying Amount	Provisions	Gross Carrying Amount	Provisions
Investment grade	1 (AAA)	118,799	3	47	0			118,846	3
	2-4 (AA)	109,118	4	301	0			109,419	4
	5-7 (A)	151,056	17	935	1			151,992	17
	8-10 (BBB)	307,685	69	9,591	15			317,277	84
Non-Investment grade	11-13 (BB)	160,025	211	15,436	106			175,461	317
	14-16 (B)	28,468	192	19,930	475			48,397	667
	17 (CCC)	4,277	9	5,334	291			9,611	301
Substandard grade	18 (CC)			2,888	189			2,888	189
	19 (C)			2,293	229			2,293	229
NPL grade	20-22 (D)					12,827	3,616	12,827	3,616
Total		**879,428**	**505**	**56,755**	**1,306**	**12,827**	**3,616**	**949,011**	**5,427**

[1]IAS 37 provisions are established for non-credit replacement guarantees not in the scope of IFRS 9. Total IAS 37 provisions of €85 million are excluded from the above chart.

Gross carrying amount per IFRS 9 stage and rating class[1]

in EUR million

31 December 2020

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

[1]IAS 37 provisions are established for non-credit replacement guarantees not in the scope of IFRS 9. Total IAS 37 provisions of €75 million are excluded from the above chart.

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

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

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

Please note the following comments with respect to the movements observed in the table below for the first half-year 2021:

- Stage 2 gross carrying amount decreased by €5.2 billion from €62 billion as per 31 December 2020. This is mainly caused by the significant lifetime PD trigger (€-5.4 billion) and a decrease of Watchlist files (€-3.3 billion), partly offset by an increase in other triggers of which Forbearance is the most significant one (€2.0 billion).
- Transportation & Logistics, Real Estate, Services and Food, Beverages & Personal Care are still the sectors with the highest Stage 2 gross carrying amounts, which represent 11%, 10%, 9% and 8%, respectively of the total, however apart from Transportation & Logistics that stayed flat, the other sectors showed a decrease of Stage 2 amounts of €0.8 billion, €1.3 billion and €0.8 billion, respectively.
- Stage 3 gross carrying amount decreased by €0.6 billion from €13.4 billion as per 31 December 2020 largely related to repayments and write-offs for certain large individual files. Consequently, in the first 6 months of 2021 relatively low stage 3 individual risk costs were recognized.
- The net remeasurement of loan loss provisions in Stage 1 and Stage 2 of €-114 million and €-62 million respectively were significantly impacted by the improved macroeconomic outlook resulting in lower management adjustments to address for the delay in observed defaults .

Additional information on macroeconomic scenarios is included in the section “Macroeconomic scenarios and sensitivity analysis of key sources of estimation uncertainty”.

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

in EUR million	12-month ECL (Stage 1)		Lifetime ECL not credit impaired (Stage 2)		Lifetime ECL credit impaired (Stage 3)		Total	
	Gross carrying amount	Provisions	Gross carrying amount	Provisions	Gross carrying amount	Provisions	Gross carrying amount	Provisions
Opening balance at 1 January 2021	**841,352**	**581**	**61,981**	**1,476**	**13,398**	**3,797**	**916,732**	**5,854**
Transfer into 12-month ECL (Stage 1)	13,305	16	-12,830	-202	-475	-19		-204
Transfer into lifetime ECL not credit impaired (Stage 2)	-15,575	-23	16,345	185	-771	-79		83
Transfer into lifetime ECL credit impaired (Stage 3)	-1,228	-3	-1,208	-64	2,436	426		359
Net remeasurement of loan loss provisions		-114		-62		89		-87
New financial assets originated or purchased	77,861	80					77,861	80
Financial assets that have been derecognised	-33,762	-31	-5,765	-46	-1,539	-87	-41,066	-163
Net drawdowns and repayments	-2,525		-1,768		-222		-4,516	
Changes in models/risk parameters		4		16		33		53
Decrease/Increase in loan loss provisions		**-70**		**-171**		**362**		**121**
Write-offs						-472		-472
Recoveries of amounts previously written off						21		21
Foreign exchange and other movements		-6		1		-92		-97
Closing balance at 30 June 2021	**879,428**	**505**	**56,755**	**1,306**	**12,827**	**3,616**	**949,011**	**5,427**

1 At the end of June 2021, the gross carrying amounts included loans and advances to central banks (€119.6 billion), loans and advances to banks (€26.2 billion), financial assets at FVOCI (€30.6 billion), securities at amortised cost (€49.5 billion), loans and advances to customers (€616.4 billion), assets held for sale (€1.3 billion) and contingent liabilities (credit replacements) in scope of IFRS 9 (€126.6 billion) and excludes receivables related to securities in reverse repurchase transaction (€-6.5 billion), cash collateral in respect of derivatives (€-6.1 billion), the value adjustment hedged items (€-4.0 billion), a receivable that is offset by a liquidity facility (€-2.2 billion), on-demand bank balances (€-2.5 billion) and other differences amounting to €0.1 billion.
2 Stage 3 Lifetime credit impaired includes €3 million Purchased or Originated Credit Impaired.
3 At the end of June 2021, the stock of provisions included provisions for loans and advances to central banks (€4 million), loans and advances to banks (€20 million), financial assets at FVOCI (€12 million), securities at amortised cost (€22 million), provisions for loans and advances to customers (€5,347 million) and provisions for contingent liabilities (credit replacements) recorded under Provisions (€23 million).

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

in EUR million	12-month ECL (Stage 1)		Lifetime ECL not credit impaired (Stage 2)		Lifetime ECL credit impaired (Stage 3)		Total	
	Gross carrying amount	Provisions	Gross carrying amount	Provisions	Gross carrying amount	Provisions	Gross carrying amount	Provisions
Opening balance at 1 January 2020	**816,928**	**490**	**41,082**	**881**	**10,955**	**3,275**	**868,965**	**4,646**
Transfer into 12-month ECL (Stage 1)	9,139	24	-8,899	-200	-240	-18	0	-194
Transfer into lifetime ECL not credit impaired (Stage 2)	-39,093	-76	39,601	651	-509	-57	0	518
Transfer into lifetime ECL credit impaired (Stage 3)	-3,592	-30	-1,879	-163	5,471	1,518	0	1,325
Net remeasurement of loan loss provisions	0	109	0	450	0	700		1,259
New financial assets originated or purchased	161,333	178	0		0		161,333	178
Financial assets that have been derecognised	-116,035	-85	-6,987	-107	-897	-236	-123,919	-428
Net drawdowns and repayments	12,672		-938		-181		11,444	
Changes in models/risk parameters				7				7
Increase in loan loss provisions		**119**		**638**		**1,908**		**2,666**
Write-offs					-1,200	-1,200	-1,200	-1,200
Recoveries of amounts previously written off						39		39
Foreign exchange and other movements		-28		-42		-226		-297
Closing balance at 31 December 2020	**841,352**	**581**	**61,981**	**1,476**	**13,398**	**3,797**	**916,732**	**5,854**

1 At the end of December 2020, the gross carrying amounts included loans and advances to central banks (€109.2 billion), loans and advances to banks (€25.4 billion), financial assets at FVOCI (€34.0 billion), securities at amortised cost (€50.6 billion), loans and advances to customers (€604.1 billion) and contingent liabilities (credit replacements) in scope of IFRS 9 (€118.4 billion) and excludes receivables related to securities in reverse repurchase transaction (€-6.4 billion), cash collateral in respect of derivatives (€-8.3 billion), the value adjustment hedged items (€-5.2 billion), a receivable that is offset by a liquidity facility (€-2.2 billion), on-demand bank balances (€-2.2 billion) and other differences amounting to €-0.7 billion.
2 Stage 3 Lifetime credit impaired includes €3 million Purchased or Originated Credit Impaired.
3 At the end of December 2020, the stock of provisions included provisions for loans and advances to central banks (€3 million), loans and advances to banks (€23 million), financial assets at FVOCI (€14 million), securities at amortised cost (€17 million), provisions for loans and advances to customers (€5,779 million) and provisions for contingent liabilities (credit replacements) recorded under Provisions (€17 million).

Macroeconomic scenarios and sensitivity analysis of key sources of estimation uncertainty (*)

Methodology (*)

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

Under IFRS 9, ING's reportable ECL numbers are most sensitive to the forward-looking macroeconomic forecasts used as model inputs, the probability-weights applied to each of the three scenarios, and the criteria for identifying a significant increase in credit risk. As such, these crucial components require consultation and management judgement, and are subject to extensive governance.

Management adjustments can be applied where the impact of the updated macroeconomic scenarios is over- or under-estimated by the IFRS 9 models. As a result of the economic effects related to Covid-19, estimation uncertainty and level of management judgement increased resulting in the need for additional management adjustments.

Baseline scenario (*)

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

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

Alternative scenarios and probability weights (*)

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

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

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

Macroeconomic scenarios applied (*)

The provisions are based on the June 2021 consensus forecasts.

Baseline assumptions (*)

The June 2021 consensus anticipates global output (based on average GDP growth in the 25 for ING most relevant economies), after declining sharply in 2020 by 3.2%, to bounce back to 6.0% expected growth in 2021 and 4.3% in 2022. For the years thereafter a levelling off to a below 3% growth rate is being expected. The consensus reflects that vaccination has picked up strongly in most developed economies allowing most governments to (further) re-open their economies. For Europe in particular

the assumption is that it will turn a corner in Q2 2021 as the speed of vaccination has picked up decisively and social distancing measures removed or lessened, thus broadening the global economic recovery. The recovery of economies in Asia-Pacific, in which countries like China, Japan and Australia were already back at pre-crisis levels in 2020, is expected to continue. In the US, a stimulus-fuelled economic boom, that already brought back the economy to pre-crisis levels in Q2 2021, is expected to continue with growth rates of 6.6% in 2021 and 4.3% in 2022. The eurozone may reach pre-crisis levels only by Q2 2022.

For most countries unemployment is expected to peak in 2020/21 and to gradually decline in the years thereafter. With the economic recovery expected to continue, unemployment to decrease and interest rates to remain low (albeit increasing), house prices can be assumed to (continue to) increase.

When compared to the December 2020 consensus forecast, used for the 2020 Annual Report, this quarter's forecast assumes a stronger economic recovery. Global GDP is expected to increase by 6.0% in 2021 (compared to 5.0% assumed before) and 4.3% in 2022 (3.8% assumed before). This upward adjustment follows on from a more effective than expected roll-out of vaccination programs and generally better than expected realizations.

Alternative scenarios and risks (*)

Although vaccination against Covid-19 progresses swiftly in many countries, uncertainty surrounding the forecasts remain larger than usual, reflecting continued uncertainty around the development and impact of the pandemic. In 2020, the dispersion of the alternative scenarios has been widened to reflect the general increase of uncertainty.

Specifically, the forecast bandwidths projected for the end of the forecast horizon has been applied to the near term as well. As the forecast-error distributions widen over time, this means that the distributions became wider in the near-term and thus allowed for a wider range of possible outcomes. Meanwhile, at the end of the scenario horizon they remained unchanged and hence comparable to scenarios generated prior to the pandemic.

However, experience from 2020 shows that the economic harm from lockdowns has diminished over time. Economies have become better at operating with lockdown restrictions in place (measures became more tailored and businesses more prepared). Oxford Economics' research shows that the harm from lockdowns has halved from what it was in the first half of 2020. Following on from this, in the current scenarios the above mentioned overlay to the near-term dispersion has been halved while the downward skew following on from the outcomes of Oxford Economics' Global Risk Survey has been maintained. As a result from this adjustment, the near-term dispersion of the forward-looking distributions (from which the alternative scenarios are being derived) remains larger than in normal times, but it now also reflects the adaptability of economies to the pandemic.

The upside scenario – though technical in nature – for most countries implies a quick return of output to its pre-coronavirus baseline forecast and more positive medium-term prospects than envisaged in the baseline scenario. In this scenario unemployment rates quickly fall back from their peaks.

The downside scenario, while being equally technical in nature, results in a renewed global downturn in the near-term. The downside scenario reflects the risk of the coronavirus pandemic not only continuing to pose significant risks to the near-term outlook but also of leaving longer-lasting scars on the supply side of economies (faster private sector de-leveraging, austerity measures from governments to reduce overall debt, weaker productivity growth).

Management adjustments applied (*)

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

An overlay of €296 million was taken in June 2021 (31 December 2020: €394 million) because of time lags in defaults occurring in this crisis, as a result of support programmes, while GDP growth forecasts were improving as more favourable 2021 GDP growth forecasts (and subsequent years) are now being taken into account in the models. As it is expected that additional defaults as a result of the crisis will still come in, the €296 million overlay was calculated using a scenario with a time lag between GDP growth forecasts deteriorating and defaults occurring.

Looking forward, it is expected that the phasing out of the Covid-19 related government support measures, such as Payment Holidays, tax deferrals or subsidies, in the course of 2021 could lead to more business insolvencies and unemployment. This could lead to more clients that have currently taken payment holidays or benefited from other support measures getting into financial difficulties and to higher levels of defaults.

To the extent ING believes that the elevated risk related to government support measures is not yet covered in the IFRS 9 models, a management adjustment has been recognised. This management adjustment has been recognised for SME and mid-corporate portfolios as these portfolios are considered to be most at risk as having the highest percentage of customers that requested for payment holidays or include the sectors most dependent on the government support measures compared to other portfolios. As at 30 June 2021 ING has recognised a management adjustment of €99 million in the Netherlands (31 December 2020: €85 million) and €146 million in Belgium (31 December 2020: €131 million) as they are the largest SME portfolios and not significantly impacted by macroeconomic forecasts updates. Furthermore, a management adjustment of €17 million (31 December 2020: €28 million) has been recognised in Australia for the mortgage portfolio which is also a portfolio where relative many payment holidays are granted and which is considered at risk.

Given positive developments among which the increase in oil price, the management adjustment for the upstream oil book of €25 million as at 31 December 2020 has been released in the first 6 months of 2021, however a new €39 million management adjustment for the Acquisition Finance book has been recognised, given higher risk in the book due to the leveraged nature of the book.

Analysis on sensitivity (*)

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

The purpose of the sensitivity analysis is to enable the reader to understand the extent of the impact on model based reportable ECL from the upside and downside scenario. The table does not include any management adjustments, except for the overlay for time lag in defaults of €296 million as at 30 June 2021.

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

While the table does give a high-level indication of the sensitivity of the outputs to the different scenarios, it does not provide insight into the interdependencies and correlations between different macroeconomic variable inputs. On total ING level, the unweighted ECL for all collective provisioned clients in the upside scenario was €2,757 million, in the baseline scenario €2,933 million and in the downside scenario €3,307 million compared to €2,973 reportable collective provisions currently accounted for (including time lag overlay, excluding other management adjustments).

When compared to the sensitivity analysis of 2020 the macroeconomic inputs are different, as macroeconomic forecasts have improved since December 2020. Furthermore the dispersion of the up- and downside scenario around the baseline scenario has been reduced, reflecting the decreased uncertainty related to the impact of Covid-19.

The following table shows the sensitivity of the ECL figures to a change in macroeconomic forecasts, as it shows also the unweighted ECL as calculated before applying the scenario probabilities.

Sensitivity analysis as at 30 June 2021 (*)

		2021	2022	2023	Un-weighted ECL (Eur mln)	Probability-weighting	Reportable ECL (Eur mln)[1]
Netherlands	Real GDP	3.3	4.5	3.2			
	Unemployment	4.0	4.0	3.2	341	20%	
Upside scenario	HPI	11.0	16.3	4.6			
	Real GDP	2.6	3.2	1.9			
Baseline Scenario	Unemployment	4.8	4.8	4.7	374	60%	382
	HPI	7.9	2.6	2.5			
	Real GDP	0.1	0.6	1.0			
Downside scenario	Unemployment	6.1	7.1	7.7	448	20%	
	HPI	4.6	-12.6	-0.4			
	Real GDP	4.9	4.8	2.6			
Belgium	Unemployment	6.4	6.0	5.5	486	20%	
	HPI	2.7	2.6	3.5			
	Real GDP	4.2	3.5	2.2			
Baseline Scenario	Unemployment	7.0	6.4	6.2	507	60%	511
	HPI	1.9	1.6	2.6			
	Real GDP	2.6	1.4	1.7			
Downside scenario	Unemployment	8.2	8.5	8.5	550	20%	
	HPI	1.1	-0.1	1.7			
Germany	Real GDP	4.5	5.9	1.9			
	Unemployment	3.3	2.7	2.0	517	20%	
Upside scenario	HPI	10.6	6.8	4.0			
	Real GDP	3.3	4.1	1.5			
Baseline Scenario	Unemployment	4.2	3.8	3.6	540	60%	543
	HPI	9.4	3.1	0.7			
	Real GDP	1.3	1.0	0.2			
Downside scenario	Unemployment	5.3	5.4	5.5	580	20%	
	HPI	7.9	-1.5	-2.9			
United States	Real GDP	8.2	5.3	3.0			
	Unemployment	4.3	2.8	2.0	86	20%	
Upside scenario	HPI	11.6	8.7	9.9			
	Real GDP	6.6	4.3	2.3			
Baseline Scenario	Unemployment	4.7	3.8	3.6	107	60%	115
	HPI	11.1	4.9	4.1			
	Real GDP	4.4	1.2	0.7			
Downside scenario	Unemployment	6.7	6.7	7.5	167	20%	
	HPI	10.2	-0.1	-2.3			

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

Sensitivity analysis as at 31 December 2020 (*)

		2021	2022	2023	Un-weighted ECL (Eur mln)	Probability-weighting	Reportable ECL (Eur mln)[1]
Netherlands	Real GDP	5.3	3.3	2.8			
	Unemployment	5.1	3.9	3.0	383	20%	
Upside scenario	HPI	8.1	6.3	4.7			
	Real GDP	2.8	2.9	1.9			
Baseline Scenario	Unemployment	5.8	5.2	4.7	441	60%	468
	HPI	-1.9	-1.6	4.5			
	Real GDP	-4.9	4.8	1.4			
Downside scenario	Unemployment	7.7	7.8	7.9	636	20%	
	HPI	-12.3	-11.0	4.3			
	Real GDP	6.9	3.3	2.4			
Belgium	Unemployment	7.3	6.2	5.8	494	20%	
	HPI	-0.2	4.2	4.8			
	Real GDP	4.5	3.3	2.3			
Baseline Scenario	Unemployment	7.5	6.3	6.3	540	60%	559
	HPI	-1.7	3.5	3.8			
	Real GDP	-0.4	4.0	2.2			
Downside scenario	Unemployment	9.4	9.1	8.8	681	20%	
	HPI	-3.6	2.5	2.9			
Germany	Real GDP	7.6	3.3	1.5			
	Unemployment	3.0	2.2	1.8	504	20%	
Upside scenario	HPI	3.5	8.3	6.6			
	Real GDP	3.9	3.4	1.6			
Baseline Scenario	Unemployment	4.1	3.5	3.5	541	60%	558
	HPI	0.4	4.8	3.1			
	Real GDP	-2.4	3.5	1.3			
Downside scenario	Unemployment	5.6	5.3	5.6	662	20%	
	HPI	-3.5	0.8	-0.9			
United States	Real GDP	5.6	4.1	3.8			
	Unemployment	5.0	3.0	1.9	93	20%	
Upside scenario	HPI	6.2	9.4	9.3			
	Real GDP	4.0	3.2	2.5			
Baseline Scenario	Unemployment	6.0	4.7	4.1	134	60%	189
	HPI	4.3	4.1	4.0			
	Real GDP	-6.3	6.8	1.9			
Downside scenario	Unemployment	8.5	7.9	7.6	448	20%	
	HPI	1.2	-1.9	-2.3			

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

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

All assets and off-balance sheet items that are in scope of IFRS 9 impairment and which are subject to collective ECL assessment are allocated a 12-month ECL if deemed to belong in stage 1, or a lifetime ECL if deemed to belong in stages 2 and 3. An asset belongs in stage 2 if it is considered to have experienced a significant increase in credit risk since initial origination or purchase. The stage allocation process involves an asset's derived scenario weighted average PD being assessed against a set of PD threshold bandings, which determines the appropriate staging and ECL. Stage 2 is triggered when either a threshold for absolute change in lifetime PD or relative change in lifetime PD is hit. The thresholds for the absolute change in lifetime PD vary between 75bps for Retail portfolios, 100bps for Wholesale and 250bps for SMEs, based on the characteristics of the specific portfolio. We are however in a transition phase to determine this on a portfolio level, which has been implemented for a few Turkish and Polish models which already have deviating lifetime PD thresholds. The threshold for the relative change in lifetime PD is inversely correlated with the PD at origination; the higher the PD at origination, the lower the threshold. Despite this, the relative threshold is sensitive for investment grade assets while the absolute threshold primarily affects speculative grade assets. On ING Bank level, the total ECL collective-assessment for performing assets is €1,418 million (2020: €1,678 million) (without taking management adjustments other than time lag overlay into account).

The setting of PD threshold bandings requires management judgement, and is a key source of estimation uncertainty. To demonstrate the sensitivity of the ECL to these PD thresholds bandings, analysis was run on all collectively-assessed assets, which assumed all assets (stage 1 and 2) were below the threshold, and apportioned a 12-month ECL. On the same asset base, analysis was run which assumed all performing assets were above the threshold, and apportioned a lifetime ECL. This gave rise to hypothetical collective-assessment ECLs of €989 million (2020: €1,242 million) and €2,665 million (2020: €3,552 million) respectively. Please note that in this analysis all other ECL risk parameters (except for the stage) were kept equal.

It should be noted that the lifetime PD thresholds are not the only drivers of stage allocation. An asset can change stages as a result of being in arrears, being on a Watch List or being forborne, among other triggers. Refer to section 1.7.8 of Note 1 'Basis of preparation and accounting policies' in the Annual Report ING Bank for the year ended December 31, 2020 for an exhaustive list. Furthermore, this analysis is rudimentary in that other parameters would change when an asset changes stages.

Market risk in banking books (*)

IBOR transition (*)

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

The reform of EURIBOR was completed in 2019 and consisted of a change to the underlying calculation methodology. The Belgian Financial Services and Markets Authority has granted authorisation with respect to EURIBOR under the EU Benchmarks Regulation. This allows market participants to continue to use EURIBOR for both existing and new contracts. In addition, the Working Group on Euro Risk-Free Rates has recently completed its work on developing recommended fallbacks for EURIBOR contracts based on €STR. It is expected that these recommendations will be used by the industry to improve fallback language for both new and existing EURIBOR contracts.

EONIA will cease to be published on 3 January 2022 and cannot be used in any contracts that may be outstanding at that time. The transition of existing contracts and products that rely on EONIA is ongoing. EONIA and €STR are both overnight rates and the spread between them was established and fixed in 2019 so this transition is considered less complex than that for LIBOR. ING has transitioned a large number of EONIA dependent current accounts in the course of 2021. Clearing houses transitioned EUR cleared derivatives to €STR discounting in July 2020, leaving the task of processing similar changes to our bilateral arrangements. A key challenge to complete this transition is obtaining active engagement from our clients, which is also noted by other financial institutions and hence subject to discussion, to identify possible actions, in the Working Group on Euro RFRs.

The administrator of LIBOR confirmed on 5 March 2021 its plans for the cessation of most LIBOR rates at the end of 2021, with an 18 month extended period of publication for the most commonly used USD LIBOR tenors. The extended timeline for USD LIBOR is only intended to support existing USD products, as the expectation from U.S. and other key non-U.S. Regulatory Agencies is that USD LIBOR should not be used after the end of 2021 for new contracts. This extension is seen as a welcome step, and allows the industry time to shift some focus onto the other LIBOR rates in 2021. Hence in 2021 ING will focus on conducting new business using the recommended alternative rates and transitioning existing GBP/CHF/JPY LIBOR referenced cash instruments (e.g. loans, bonds) and derivatives. This aligns with our increasing ability to offer RFR products and for example we have already started participating/arranging SONIA based loans.

The financial sector has issued a number of interim targets, guidance papers and other initiatives to help phase in key components of this transition. For example significant progress has been made to address deficiencies in derivative fallback clauses. ISDA has issued an IBOR fallback supplement to help ensure clear fallback rates will apply on the discontinuation of certain key IBORs. From the effective date of 25 January 2021, all new derivatives that reference these ISDA definitions automatically include these updated fallbacks. The Group and many other parties have also adhered to a protocol to implement these fallbacks into derivative contracts that were entered into before the effective date. If both counterparties adhere to the protocol, these updated fallbacks are automatically incorporated into existing derivative contracts. For loans, various recommendations have been made to help drive consistent inclusion of robust fallbacks and/or rate switch mechanisms for new contracts. These industry recommendations are incorporated into our contract templates used for new lending.

Public authorities have also recognised that certain LIBOR contracts do not contain provisions for any alternatives, contain inappropriate alternatives, or cannot be renegotiated or amended prior to the expected cessation of LIBOR. In response, the European Commission has implemented legislation that gives the Commission the power to replace critical benchmarks if their termination would significantly disrupt or otherwise affect the functioning of the financial markets in the EU. In addition, the UK government has granted additional powers to the FCA to enable the temporary publication of a ''synthetic'' LIBOR using a different methodology and inputs, that could be used to reduce the disruption to any holders of tough legacy contracts. However, there is no certainty as to the conditions the FCA will apply when exercising these powers and the FCA has consequently encouraged users of LIBOR to renegotiate or amend as many contracts as possible before cessation of the relevant LIBOR.

ING Bank has significant exposures to IBORs on its financial instruments that will be reformed as part of this market-wide initiative. The potential discontinuation of interest rate benchmarks, or changes in the methodology or manner of administration of any benchmark, could result in a number of risks for ING Bank, its customers, and the financial services industry more widely. These risks include legal risks in relation to any required changes to documentation for new and existing transactions. Financial risks (predominantly limited to interest rate risk) may also arise from any changes in the valuation of financial instruments linked to such benchmarks and declining liquidity may impact a contract directly or the ability to hedge the risks in that contract. Changes in valuation, interest calculation methodology or documentation may also result in complaints or litigation. The Group is also exposed to operational risks or may incur additional costs due to the requirement to adapt IT systems, trade reporting infrastructure and operational processes. Conduct risk is also relevant in relation to communications and transition activities with clients or other parties during the transition period. For example, the renegotiation of loan contracts requires active engagement from both parties or multiple parties in the case of syndicated loans, which is seen as one of the key challenges and may lead to negotiations and the required contractual updates occurring later than planned and concentrated in a period close to actual cessation. ING continues to reach out to impacted clients in order to best support the relevant industry timelines and regulatory guidelines, many of which are reliant on customer preferences and readiness.

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

As at 30 June 2021 approximately EUR 41 billion (31 December 2020: EUR 39 billion) of non-derivative financial assets and approximately EUR 2 billion (31 December 2020: EUR 5 billion) of non-derivative liabilities have yet to transition to alternative benchmark rates. This represents approximately 15

thousand contracts. In addition, ING had as at 30 June 2021 approximately EUR 20 billion of committed undrawn credit facilities linked to benchmark rates that have yet to transition.

The tables below summarize these approximate exposures by significant benchmark rate and excludes exposures that will expire before transition is required. For all rates except USD LIBOR this has been taken as 31 December 2021. For USD LIBOR 30 June 2023 has been taken as the benchmark will be available to support existing contracts until that time. Comparatives for USD LIBOR have been updated to reflect this as well.

Non derivative Financial instruments to transition to alternative benchmarks (*)

			30 June 2021
in EUR million	Financial Assets non-derivative	Financial Liabilities non-derivative	Off balance sheet commitments
	Carrying value (in EUR mln)	Carrying value (in EUR mln)	Nominal value (in EUR mln)
By benchmark rate			
GBP LIBOR	6,825	424	3,798
USD LIBOR	33,703	1,459	12,445
CHF LIBOR	243	50	404
JPY LIBOR	225	33	136
EUR LIBOR	200		2,808
EONIA		344	39
Total	**41,196**	**2,310**	**19,630**

Non derivative Financial instruments to transition to alternative benchmarks (*)

			31 December 2020
in EUR million	Financial Assets non-derivative	Financial Liabilities non-derivative	Off balance sheet commitments
	Carrying value (in EUR mln)	Carrying value (in EUR mln)	Nominal value (in EUR mln)
By benchmark rate			
GBP LIBOR	6,912	259	3,732
USD LIBOR	30,959	3,796	9,376
CHF LIBOR	345	42	321
JPY LIBOR	225	41	79
EUR LIBOR	422	8	2,564
EONIA	100	728	39
Total	**38,963**	**4,873**	**16,111**

As at 30 June 2021 approximately EUR 538 billion derivatives notional exposures linked to benchmark rates have yet to transition. The majority of derivatives are transacted with clearing houses which will transition through a standardized exercise in December 2021 (except USD LIBOR). For not centrally cleared derivatives the main transition will occur via ISDA IBOR fallback protocol at the relevant IBOR cessation date. Comparatives have been updated to improve consistency and comparability with the current period disclosure.

Derivative Financial instruments to transition to alternative benchmarks (*)

	30 June 2021	31 December 2020
in EUR million	Nominal value (in EUR mln)	Nominal value (in EUR mln)
By benchmark rate[1]		
GBP LIBOR	31,045	27,031
USD LIBOR	369,056	355,066
CHF LIBOR	12,308	9,710
JPY LIBOR	92,874	87,057
EONIA	32,730	29,593
Total	**538,013**	**508,457**

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

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

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

Given that IBOR reform may have various accounting implications, the International Accounting Standards Board (IASB) has undertaken a two phase project:

- Phase 1 addresses those issues that affect financial reporting before the replacement of an existing benchmark. Phase 1 amendments to IFRS were issued by the IASB in 2019 and were early adopted by ING Group in the same year. This allowed and still continues to allow ING to apply a set of temporary exceptions to continue hedge accounting even when there is uncertainty about contractual cash flows arising from the reform. Under these temporary exceptions, interbank offered rates are assumed to continue unaltered for the purposes of hedge accounting until such time as the uncertainty is resolved.
- Phase 2 focuses on issues that may affect financial reporting when the existing benchmark rate is reformed or replaced. Phase 2 amendments to IFRS were issued by the IASB in 2020 and became effective in 2021. Phase 2 amendments to IFRS relate mainly to accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities due to the IBOR reform and impact on hedge accounting when an existing benchmark rate is reformed or replaced with an alternative risk free rate. Refer to section 1.4.1 of Note 1 'Basis of preparation and accounting policies' of the financial statements.

As explained above, Phase 1 and Phase 2 IBOR amendments to IFRS, amongst other changes, provide specific hedge accounting reliefs that allow hedge accounting relationships to continue when IBOR Reform is ongoing. Phase 1 reliefs cease when uncertainty arising from IBOR Reform is no longer present with respect to the timing and amount of the IBOR-based cash flows of the relevant instruments. Although the administrator of LIBOR confirmed on 5 March 2021 its plans for the cessation of most LIBOR rates, there is still uncertainty with respect to the timing of the IBOR transition as well as the transition strategy for individual hedged items and/or hedging instruments. It is ING Group's policy to cease to apply Phase 1 reliefs when the applicable contract (either hedging instrument or hedged item) are actually modified. As a result, the applicable Phase 1 reliefs will continue to apply until the relevant contract is modified. At that point in time, Phase 2 reliefs will become applicable.

Other risks and uncertainties

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

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

Additional risks of which ING is not presently aware, or that are currently viewed as less material than the risks described above, could also affect the business operations of ING and have a material adverse effect on ING's business activities, financial condition, results of operations and prospects. For more information on risks, please refer to "Other information and appendices - Risk Factors" in the Annual Report ING Group for the year ended December 31, 2020."

Developments on KYC

In the first half year of 2021, the Risk Committee and the Supervisory Board continued to focus on the progress in the bank-wide Know Your Customer Enhancement Programme and in the ongoing day-to-day KYC operations.

The KYC Enhancement Programme encompasses all client segments in all ING business units. The programme consisted of three parts: (a) look-back analysis on past deficiencies in post-transaction monitoring, which is completed. The look-back analysis consisted of screening of transactions executed in the past and following reporting processes where applicable; (b) enhancement of customer due diligence files with the aim to document sufficiently the knowledge the bank has about its clients in line with past and new requirements; (c) structural solutions that should support getting sustainably better in addressing Financial Economic Crime (FEC)/Anti Money Laundering (AML) risks in our portfolio and complying with laws and regulations. The structural solutions are structured in various workstreams and range from Policy and Behavioural deliverables to Globally standardized Technology solutions.

In the first half-year 2021, ING continued to make progress in executing the Global KYC Enhancement Program. Key achievements in the past months include among others:

- The completion of the global roll out of the new solution for continuous Adverse Media Screening to enable ING to better identify customers involved in criminal activity;
- The Global KYC Innovation Committee was established to centrally steer and prioritise all Innovation initiatives in the KYC area in ING;
- The Retail KYC Committee was established [replacing earlier C&G and Market Leaders committees] covering all Retail and Business Banking customers to better address existing inefficiencies in processes, approaches, tooling and decision making across the business lines;
- The adoption of ING's 2021 Global KYC RAS, which includes an increased number of inclusions now covering all functional KYC areas; and
- Behavioural Risk Management continued with Behavioural Risk follow-up measurements and targeted interventions, further strengthening the awareness on behavioural risk in the organization.

ING also completed the re-planning of the workstream related to the roll out of the Global bank-wide KYC case management system, resulting in prolonged timelines. ING continues the process of executing its Global KYC Enhancement Program, while balancing with the increasing ongoing day-to-day KYC operations.

Condensed consolidated statement of financial position

in EUR million	30 June 2021	31 December 2020
Assets		
Cash and balances with central banks	121,331	111,087
Loans and advances to banks	26,197	25,363
Financial assets at fair value through profit or loss 2	121,409	103,374
Financial assets at fair value through other comprehensive income 3	33,016	35,895
Securities at amortised cost	49,467	50,587
Loans and advances to customers 4	611,067	598,306
Investments in associates and joint ventures 5	1,461	1,475
Property and equipment	2,631	2,841
Intangible assets	1,315	1,394
Current tax assets	660	403
Deferred tax assets	787	773
Other assets	7,727	5,879
Assets held for sale 6	1,278	
Total assets	**978,347**	**937,379**

in EUR million	30 June 2021	31 December 2020
Liabilities		
Deposits from banks 7	89,134	78,098
Customer deposits	659,418	643,138
Financial liabilities at fair value through profit or loss 8	87,141	82,782
Current tax liabilities	290	341
Deferred tax liabilities	596	584
Provisions	726	666
Other liabilities	13,644	11,605
Liabilities held for sale 6	2,243	
Debt securities in issue 9	61,262	55,573
Subordinated loans 10	14,883	15,897
Total liabilities	**929,336**	**888,683**
Equity 11		
Share capital and share premium	17,067	17,067
Other reserves	1,870	2,334
Retained earnings	29,086	28,273
Shareholders' equity (parent)	**48,024**	**47,675**
Non-controlling interests	987	1,022
Total equity	**49,011**	**48,697**
Total liabilities and equity	**978,347**	**937,379**

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

Condensed consolidated statement of profit or loss

for the periods ended 30 June

6 month period in EUR million	1 January to 30 June 2021	 2020
Continuing operations		
Interest income using effective interest rate method	9,363	11,038
Other interest income	1,368	1,027
Total interest income	**10,730**	**12,065**
Interest expense using effective interest rate method	-2,754	-4,211
Other interest expense	-1,124	-923
Total interest expense	**-3,878**	**-5,134**
Net interest income 12	**6,852**	**6,931**
Net fee and commission income 13	1,710	1,507
Valuation results and net trading income	424	456
Investment income	49	40
Other income 14	180	264
Total income	**9,215**	**9,198**

	1 January to 30 June 2021	 2020
Addition to loan loss provisions 4	131	1,997
Staff expenses	2,936	2,927
Other operating expenses 15	2,617	2,698
Total expenses	**5,685**	**7,623**
Result before tax from continuing operations	**3,530**	**1,575**
Taxation	1,005	519
Net result from continuing operations	**2,525**	**1,056**
Net result (before non-controlling interests)	**2,525**	**1,056**
Net result attributable to Non-controlling interests	59	36
Net result attributable to shareholders of the parent	**2,467**	**1,021**

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

Condensed consolidated statement of comprehensive income

6 month period	1 January to 30 June	
in EUR million	2021	2020
Net result (before non-controlling interests)	2,525	1,056
Other comprehensive income		
Items that will not be reclassified to the statement of profit or loss:		
Realised and unrealised revaluations property in own use	-3	11
Remeasurement of the net defined benefit asset/liability	29	84
Net change in fair value of equity instruments at FVOCI	90	-311
Change in fair value of own credit risk of financial liabilities at FVPL	17	11
Items that may subsequently be reclassified to the statement of profit or loss:		
Net change in fair value of debt instruments at FVOCI	-103	-77
Realised gains/losses on debt instruments at FVOCI reclassified to the statement of profit or loss	-30	-27
Changes in cash flow hedge reserve	-673	644
Exchange rate differences	158	-691
Share of other comprehensive income of associates and joint ventures and other income	-2	3
Total comprehensive income	**2,009**	**703**
Comprehensive income attributable to:		
Non-controlling interests	-31	134
Equity holders of the parent	2,041	570
	2,009	**703**

Condensed consolidated statement of changes in equity

in EUR million	Share capital and share premium	Other reserves	Retained earnings	Shareholders' equity (parent)	Non-controlling interests	Total equity
Balance as at 31 December 2020	17,067	2,334	28,273	47,675	1,022	48,697
Net change in fair value of equity instruments at fair value through other comprehensive income		89	0	89	1	90
Net change in fair value of debt instruments at fair value through other comprehensive income		-101		-101	-1	-103
Realised gains/losses on debt instruments at fair value through other comprehensive income reclassified to the statement of profit or loss		-30		-30	-0	-30
Changes in cash flow hedge reserve		-577		-577	-96	-673
Realised and unrealised revaluations property in own use		-6	3	-3	-0	-3
Remeasurement of the net defined benefit asset/liability		29		29		29
Exchange rate differences and other		151		151	6	158
Share of other comprehensive income of associates and joint ventures and other income		-37	35	-2		-2
Change in fair value of own credit risk of financial liabilities at fair value through profit or loss		17		17		17
Total amount recognised directly in other comprehensive income net of tax		**-464**	**38**	**-426**	**-90**	**-516**
Net result			2,467	2,467	59	2,525
Total comprehensive income net of tax		**-464**	**2,504**	**2,041**	**-31**	**2,009**
Dividends			-1,709	-1,709	-4	-1,713
Employee stock option and share plans			17	17	0	18
Balance as at 30 June 2021	**17,067**	**1,870**	**29,086**	**48,024**	**987**	**49,011**

Changes in individual Reserve components are presented in Note 11 ‘Equity’.

Condensed consolidated statement of changes in equity - continued

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

Condensed consolidated statement of cash flows

in EUR million		1 January to 30 June 2021	1 January to 30 June 2020
Cash flows from operating activities			
Result before tax		3,530	1,575
Adjusted for:	– Depreciation and amortisation	418	402
	– Addition to loan loss provisions	131	1,997
	– Other non-cash items in Result before tax	332	790
Taxation paid		-1,103	-1,149
Changes in:	– Net change in Loans and advances to/from banks, not available/payable on demand	7,944	51,910
	– Net change in Trading assets and Trading liabilities	-5,163	3,215
	– Loans and advances to customers	-13,378	-9,860
	– Customer deposits	18,950	34,189
	– Other	-9,368	-5,748
Net cash flow from/(used in) operating activities		**2,293**	**77,322**
Cash flows from investing activities			
Investments and advances:	- Associates and joint ventures	-31	-10
	- Financial assets at fair value through other comprehensive income	-9,381	-13,095
	- Securities at amortised cost	-25,190	-16,306
	- Property and equipment	-84	-144
	- Other investments	-94	-165
Disposals and redemptions:	– Associates and joint ventures	37	12
	- Financial assets at fair value through other comprehensive income	11,802	8,523
	- Securities at amortised cost	26,185	11,547
	- Property and equipment	9	4
	- Other investments	0	8
Net cash flow from/(used in) investing activities		**3,253**	**-9,627**
Cash flows from financing activities			
Proceeds from debt securities		37,962	48,565
Repayments of debt securities		-32,233	-46,335
Proceeds from issuance of subordinated loans		491	2,138
Repayments of subordinated loans		-1,455	-2,431
Repayments of principal portion of lease liabilities		-144	-132
Dividends paid		-1,713	-46
Net cash flow from/(used in) financing activities		**2,909**	**1,759**
Net cash flow		**8,455**	**69,453**
Cash and cash equivalents at beginning of year		111,565	54,029
Effect of exchange rate changes on cash and cash equivalents		-357	-192
Cash and cash equivalents at end of the reporting period		**119,662**	**123,290**

Condensed consolidated statement of cash flows - continued

Cash and cash equivalents

in EUR million	30 June 2021	30 June 2020
Treasury bills and other eligible bills	39	170
Deposits from banks/Loans and advances to banks	-1,707	4,149
Cash and balances with central banks	121,331	118,971
Cash and cash equivalents at end of the reporting period	**119,662**	**123,290**

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

in EUR million	30 June 2021	30 June 2020
Interest received	10,776	12,295
Interest paid	-4,686	-5,510
	6,090	**6,784**
Dividend received [1]	63	23
Dividend paid	-1,713	-46

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

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

Notes to the Condensed consolidated interim financial statements

1 Basis of preparation and accounting policies

1.1 Reporting entity and authorisation of the Condensed consolidated interim financial statements

ING Bank N.V. is a company domiciled in Amsterdam, the Netherlands. Commercial Register of Amsterdam, number 33031431. These Condensed consolidated interim financial statements, as at and for the six month period ended 30 June 2021, comprise ING Bank N.V. (the Parent company) and its subsidiaries, together referred to as ING Bank. ING Bank is a global financial institution with a strong European base, offering a wide range of retail and wholesale banking services to customers in over 40 countries.

The ING Bank Condensed consolidated interim financial statements, as at and for the six month period ended 30 June 2021, were authorised for issue in accordance with a resolution of the Management Board Banking on 5 August 2021.

1.2 Basis of preparation of the Condensed consolidated interim financial statements

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

ING Bank applies International Reporting Standards (IFRS) as adopted by the European Union (EU), which are IFRS Standards and IFRS Interpretations as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) with some limited modifications such as the temporary 'carve-out' from IAS 39 'Financial Instruments: Recognition and Measurement' (herein, referred to as IFRS). Under the EU carve-out, ING Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging). For further information, reference is made to paragraph 1.7.4 'Derivatives and hedge accounting' of Note 1 and Note 39 'Derivatives and hedge accounting' of the 2020 ING Bank Consolidated financial statements as included in the 2020 Annual Report.

The Condensed consolidated interim financial statements should be read in conjunction with the 2020 ING Bank Consolidated financial statements as included in the 2020 Annual Report. The accounting policies used to prepare the Condensed consolidated interim financial statements are consistent with those set out in the notes to the 2020 ING Bank Consolidated financial statements as included in the 2020 Annual Report except for the adoption of a number of amendments effective in 2021 as set out in Note 1.4 'Changes to accounting policies and presentation'.

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

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

1.2.1 Presentation of Risk management disclosures

Certain disclosures of the nature and extent of risks related to financial instruments as disclosed in the 2020 ING Bank Consolidated financial statements as included in the 2020 Annual Report are updated and take into account Covid-19 developments in the first six months of 2021.

Although these disclosures are included in the 'Risk management' section, they are an integral part of the ING Bank Condensed consolidated interim financial statements. The disclosures are indicated by the symbol (*). Chapters, paragraphs, graphs or tables within the risk management section that are indicated with this symbol in the respective headings or table header are considered to be an integral part of the Condensed consolidated interim financial statements.

1.3 Impact of Covid-19

After the outbreak of the Covid-19 pandemic in 2020, various governments issued programs offering guarantee schemes for borrowers impacted by Covid-19. As at 30 June 2021 ING Bank had approximately EUR 2.0 billion of loans outstanding under these programs (31 December 2020: EUR 1.5 billion).

In Wholesale Banking the main schemes are being offered in the Netherlands (Corporate Finance Guarantee Scheme ("GO-C")), in France (state-guarantee scheme Bpifrance) and Germany (guaranteed by KfW).

In Retail Banking these facilities include in the Netherlands the SME Credit Guarantee Scheme ("BMKB-C") and the small credit facility ("Klein Krediet Corona" or KKC) for self-employed individuals. In 2020 ING Bank started an initiative with European Investment Bank to lend nearly EUR 800 million on favorable terms to Dutch small and medium-sized enterprises that are affected by the economic impact of Covid-19 and loans under this program have been recognized on the balance sheet of ING as from 2021.

Similar facilities are also offered by ING Bank in other countries, mainly in Belgium and Poland. ING Belgium provided in 2020 loans under the state guarantee scheme GS1 which establishes risk sharing between banks and the government. It applies to new loans to non-financial companies, SME and self-employed persons under certain conditions. ING Bank Poland signed an agreement with BGK (Polish State Development Bank) to support clients with individual guarantee schemes, provided by BGK as a collateral (equivalent to a state guarantee).

Loans that have been originated under the above programs have been recognized on the consolidated statement of financial position of ING Bank. Depending on the scheme, the guarantees received are either integral or non-integral to the origination of these loans. Following this, the guarantees are either reflected in the expected credit losses (ECL) associated with these loans or as separate reimbursement asset, respectively. In either case, such guarantees have a similar impact on the statement of profit or loss and both reduce the amount presented as 'addition to loan loss provisions'.

In 2020 governments in almost all countries where ING Retail bank is active adopted measures providing for payment holidays to private individuals and small business loans. In the six month period ended 30 June 2021 most of these payment holiday programs expired. As at 30 June 2021, approximately 159 thousand customers were granted payment holidays in the context of the Covid-19 pandemic (down from 196 thousand as at 31 December 2020, due to reimbursements and prepayments). The total exposure of loans for which a payment holiday is granted amounts to EUR 17.5 billion as at 30 June 2021 (EUR 19.4 billion as at 31 December 2020) of which 96% has expired.

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

As a result of the economic effects of Covid-19 estimation uncertainty and level of management judgement increased compared to before the Covid-19 pandemic in certain areas, such as the impairment assessment of loan loss provisions (including the need for management adjustments). Please refer to paragraph 1.5 'Significant judgements and critical accounting estimates and assumptions'.

1.4 Changes to accounting policies and presentation

ING Bank has consistently applied its accounting policies to all periods presented in these Condensed consolidated interim financial statements, except for amendments that became effective in 2021.

1.4.1 Changes in IFRS effective in 2021

The following amended standards became effective in the current reporting period:

- Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 16 'Leases', IFRS 4 'Insurance Contracts' and IFRS 7 'Financial Instruments: Disclosures': 'IBOR Reform and its Effects on Financial Reporting – Phase 2' (issued in August 2020);
- Amendments to IFRS 16 'Leases': 'Covid-19-Related Rent Concessions' (issued in May 2020).

The IBOR Reform – Phase 2 amendments relate mainly to accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities due to the IBOR reform and impact on hedge accounting when an existing benchmark rate is reformed or replaced with an alternative risk free rate. Specifically, Phase 2 amendments require that the effective interest rate on debt financial instruments will be adjusted, and hedge accounting will continue on transition to risk free rates, but only to the extent that the modifications made to financial instruments are those necessary to implement the IBOR Reform and that the new basis for calculating cash flows is 'economically equivalent' to the previous basis. By applying these mandatory amendments, ING Bank avoids recognising modification gains and losses on debt instruments that would otherwise be required in the absence of Phase 2 amendments. In addition, ING Bank avoids hedge accounting discontinuations when modifying both hedged items and hedging instruments as a consequence of IBOR reform that would otherwise be required in the absence of Phase 2 amendments. Refer to 'Risk Management' section – 'Market Risk' for more details.

The amendments to IFRS 16 'Leases' provide lessees with an exemption from assessing whether a Covid-19-related rent concession is a lease modification. As ING Bank did not receive rent concessions as a lessee, these amendments had no impact on the accounting policies of ING Bank.

ING Bank has not early adopted any standard, interpretation or amendment which has been issued, but is not yet effective.

For further information, reference is made to Note 1 'Basis of preparation and accounting policies', paragraph 1.4.2 'Upcoming changes in IFRS after 2020' in the 2020 ING Bank Consolidated financial statements.

1.5 Significant judgements and critical accounting estimates and assumptions

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

Consistent with Note 1.5 'Significant judgements and critical accounting estimates and assumptions' of the 2020 ING Bank Consolidated financial statements, the following areas continue to require management to make significant judgements and use critical accounting estimates and assumptions based on the information and financial data that may change in future periods:

- Loan loss provisions (financial assets);
- The determination of the fair values of financial assets and liabilities;
- Impairment assessment of non-financial assets;
- Impairment assessment of an investment in associate;
- Provisions; and
- Accounting for Targeted Longer-Term Refinancing Operations (TLTRO).

Of particular note to the six month period ended 30 June 2021 are the developments and judgements in the areas of Loan loss provisions and TLTRO.

For Loan loss provisions this resulted in Covid-19 related management adjustment to the model-based Expected Credit Losses. The Covid-19 management adjustment amounts to EUR 595 million in total as at 30 June 2021 and relates to Payment Holidays and other government support measures (EUR 260 million), the time lag in defaults materialising (EUR 296 million) and Structured Acquisition Finance portfolio (EUR 39 million). This is a decrease of EUR 68 million in comparison to 31 December 2020.

Under the TLTRO III program, it is ING Bank's policy to recognise the conditional interest receivable only when ING has a reasonable expectation that the lending growth targets will be met. ING Bank interprets reasonable expectations as highly probable, i.e. the probability of meeting the lending targets is substantially greater than the probability that it will not. As a result, if interest income is recognised during the period based on the expectation of meeting the targets, there should be only a limited possibility that the interest may need to be reversed in future periods. For details on the conditions of the TLTRO III programme and amount of interest income recognised in the reporting period, refer to note 7 Deposits from banks and note 12 Net interest income respectively.

2 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

in EUR million	30 June 2021	31 December 2020
Trading assets	50,660	51,361
Non-trading derivatives	2,112	3,583
Designated at fair value through profit or loss	5,421	4,126
Mandatorily measured at fair value through profit or loss	63,217	44,305
	121,409	**103,374**

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

(Reverse) repurchase transactions

Financial assets at fair value through profit or loss include securities lending and sales and repurchase transactions which were not derecognised, because ING Bank continues to be exposed to substantially all risks and rewards of the transferred financial asset. For repurchase agreements the gross amount of trading assets must be considered together with the gross amount of related trading liabilities, which are presented separately on the statement of financial position since IFRS does not always allow netting of these positions in the statement of financial position.

ING Bank's exposure to (reverse) repurchase transactions is included in the following lines in the statement of financial position:

Exposure to (reverse) repurchase agreements

in EUR million	30 June 2021	31 December 2020
Reverse repurchase transactions		
Loans and advances to banks	4,463	4,869
Loans and advances to customers	1	624
Trading assets, loans and receivables	9,939	10,947
Loans and receivables measured at mandatorily fair value through profit or loss	60,124	41,735
	74,526	**58,175**
Repurchase transactions		
Deposits from banks	4,666	1,971
Trading liabilities, funds on deposit	6,658	5,787
Funds entrusted measured at designated at fair value through profit or loss	51,457	41,177
	62,781	**48,935**

3 Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income by type

in EUR million	30 June 2021	31 December 2020
Equity securities	2,434	1,862
Debt securities[1]	29,693	32,977
Loans and advances[1]	889	1,056
	33,016	**35,895**

1 Debt securities include an amount of EUR -12 million (31 December 2020: EUR -12 million) and the Loans and advances includes EUR -1 million (31 December 2020: EUR -2 million) of Loan loss provisions.

Exposure to equity securities

Equity securities designated as at fair value through other comprehensive income

in EUR million	Carrying value 30 June 2021	Carrying value 31 December 2020	Dividend income 1 January to 30 June 2021	Dividend income 1 January to 30 June 2020
Investment in Bank of Beijing	1,748	1,662		
Other Investments	686	200	15	2
	2,434	**1,862**	**15**	**2**

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

As at 30 June 2021 ING holds approximately 13% (31 December 2020: 13%) of the shares of Bank of Beijing, a bank listed on the stock exchange of Shanghai. As per regulatory requirements set by China Banking and Insurance Regulatory Commission, ING, as a shareholder holding more than 5% or more of the shares, is required to supply additional capital when necessary. No request for additional capital was received in the first six months of 2021 (2020: nil).

Changes in fair value through other comprehensive income

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

Changes in fair value through other comprehensive income financial assets

in EUR million	FVOCI equity securities 30 June 2021	FVOCI equity securities 31 December 2020	FVOCI debt instruments [1] 30 June 2021	FVOCI debt instruments [1] 31 December 2020	Total 30 June 2021	Total 31 December 2020
Opening balance as at 1 January	1,862	2,306	34,033	32,163	35,895	34,468
Additions	504	13	8,877	16,936	9,381	16,949
Amortisation			-7	-9	-7	-9
Transfers and reclassifications	-16	-107		0	-16	-107
Changes in unrealised revaluations [2]	9	-283	-694	520	-685	237
Impairments			-1	-2	-1	-2
Reversals of impairments			1	-4	1	-4
Disposals and redemptions	-1	-13	-11,800	-14,557	-11,802	-14,571
Exchange rate differences	76	-53	171	-1,017	247	-1,070
Changes in the composition of the group and other changes	0	-0	2	2	2	2
Closing balance	**2,434**	**1,862**	**30,582**	**34,033**	**33,016**	**35,895**

1 Fair value through other comprehensive income debt instruments includes both debt securities and loans and advances.
2 Changes in unrealised revaluations of FVOCI debt instruments include changes on hedged items which are recognised in the statement of profit or loss. Reference is made to Note 11 'Equity' for details on the changes in revaluation reserve.

In the first six months of 2021, changes in unrealised revaluations of debt securities decreased by EUR –694 million as a result of increased interest rates (2020: EUR 520 million).

In 2020, changes in unrealised revaluations of equity securities decreased mainly related to negative revaluation of the stake in Bank of Bejing following a decline in share price (EUR -339 million).

4 Loans and advances to customers

Loans and advances to customers by type

in EUR million	30 June 2021	31 December 2020
Loans to, or guaranteed by, public authorities	41,936	41,502
Loans secured by mortgages	359,947	356,337
Loans guaranteed by credit institutions	5,810	5,201
Personal lending	27,138	27,794
Corporate loans	181,582	173,251
	616,413	**604,086**
Loan loss provisions	-5,347	-5,779
	611,067	**598,306**

For details on credit quality and loan loss provisioning, refer to ‘Risk management – Loan loss provisioning’ paragraph.

5 Investment in associates and joint ventures

Investments in associates and joint ventures

in EUR million 30 June 2021	Interest held (%)	Fair value of listed invest-ments	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMBThanachart Bank Public Company Limited	23	652	1,166	47,077	41,631	442	352
Other investments in associates and joint ventures			295				
			1,461				

Investments in associates and joint ventures

in EUR million 31 December 2020	Interest held (%)	Fair value of listed invest-ments	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMBThanachart Bank Public Company Limited	23	653	1,202	50,123	44,597	1,388	1,093
Other investments in associates and joint ventures			273				
			1,475				

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

TMBThanachart Bank Public Company Limited

ING Bank has a 23% investment in TMBThanachart Bank Public Company Limited (hereafter: TTB), a bank listed on the Stock Exchange of Thailand. TTB is providing products and services to Wholesale, Small and Medium Enterprise (SME), and Retail customers.

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

Impairment testing

In the first half of 2021, the fair value of ING’s investment in TTB shows a significant and prolonged decline below purchase cost. This indicator triggered ING to perform an impairment test on the recoverability of the investment of TTB. The impairment test performed at 30 June 2021 did not result in an impairment.

Methodology

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

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

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

Key assumptions used in the VIU calculation as at 30 June 2021

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

- Expected future earnings of TTB: based on forecasts derived from broker consensus over the short to medium term and TTB observable targets for steady state earnings into perpetuity. A capital maintenance charge is applied, which is management's forecast of the earnings that need to be withheld in order for TTB to meet target regulatory requirements over the forecast period;
- Terminal growth rate: 2.15% (2020: 1.6%), consistent with current long term government bond yield in Thailand as a proxy for a risk-free rate;
- Discount rate (cost of equity): 9.36% (2020: 8.49%), based on the capital asset pricing model (CAPM) calculated for TTB, using current market data.

At 30 June 2021 the model was tested for reasonably possible changes to key assumptions in the model. This reflects the sensitivity of the VIU to each key assumption on its own and it is possible that more than one favourable and/or unfavourable change may occur at the same time. Holding the other key assumptions constant, a reduction in all of the forecasted annual cash flows, including terminal value, of 15.4% would reduce the recoverable amount to the carrying amount. A 525bps decrease in long term growth rate or a 143bps increase in the discount rate would cause the VIU to equal the carrying amount.

Other investments in associates and joint ventures

Included in Other investments in associates and joint ventures are mainly financial services and financial technology funds or vehicles operating predominantly in Europe.

Other investments in associates and joint ventures represents a number of associates and joint ventures that are individually not significant to ING Bank.

Changes in Investments in associates and joint ventures

in EUR million	30 June 2021	31 December 2020
Opening balance as at 1 January	1,475	1,790
Additions	31	24
Revaluations	4	-3
Share of results	23	66
Dividends received	-31	-12
Disposals	-6	-12
Impairments	-3	-235
Exchange rate differences	-45	-144
Other	13	0
Closing balance	**1,461**	**1,475**

Share of results from associates and joint ventures of EUR 23 million (2020: EUR 66 million) as included in the table above is mainly attributable to results of TTB of EUR 32 million (2020: EUR 70 million).

6 Assets and liabilities held for sale

Assets and liabilities held for sale includes disposal groups whose carrying amount will be recovered principally through a sale transaction rather than through continuing operations. This relates to businesses for which a sale is agreed upon but for which the transaction has not yet closed or a sale is highly probable at the balance sheet date but for which no sale has yet been agreed.

As at 30 June 2021 the assets and liabilities held for sale relate to the Retail Banking Operations in Austria (the Wholesale Banking activities in Austria will be continued by ING). The Retail Banking Operations in Austria are part of the business line Retail Germany (Challengers and Growth Markets). At 12 July 2021, ING announced that it has reached an agreement to transfer ING's Retail Banking operations in Austria to bank99, which is expected to be completed in 2021. The agreement is subject to approval by relevant regulators. ING intends to sell Customer lending portfolios (EUR 1,273 million), of which mortgages (EUR 877 million), other personal lending (EUR 396 million) and non-financial assets (EUR 5 million), presented as Assets held for Sale and Customer deposits (EUR 2,243 million) presented as Liabilities held for Sale.

On 18 February 2021 ING announced the intention to withdraw from the retail banking market in the Czech Republic. The decision to discontinue CZ Retail entails the closure of retail customer accounts /mutual funds and the sale of assets comprising the related government bond portfolio. ING's retail customers in the Czech Republic have received a welcome offer from Raiffeisenbank Czech Republic. ING's departure from the Czech retail banking market is proceeding well with EUR 2.1 billion saving accounts already transferred to Raiffeisenbank and the government bond portfolio with a carrying amount of EUR 0.5 billion being sold in the second quarter of 2021. The remaining retail assets and liabilities are not presented as held for sale assets/ liabilities.

7 Deposits from banks

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

Deposits from banks by type

in EUR million	30 June 2021	31 December 2020
Non-interest bearing	784	792
Interest bearing	88,350	77,306
	89,134	**78,098**

Deposits from banks includes ING's participation in the Targeted Longer-Term Refinancing Operations of EUR 65.5 billion (31 December 2020: EUR 59.5 billion). ING participated in a new series of Targeted Longer-Term Refinancing Operations (TLTRO III) for EUR 6.0 billion in March 2021.

The TLTRO III funding is granted for a period of three years with an early repayment option after one year with the earliest date of September 2021. The three new participation windows introduced by the ECB press release in December 2020, can be repaid quarterly from June 2022. Interest under TLTRO III will be settled on maturity of each TLTRO III operation or on early repayment. The interest rate on TLTRO III depends on the lending volumes granted to corporates (excluding financial institutions) and households (excluding mortgages).

Under the conditions of the program, interest rates can be as favorable as 50 basis points below the average interest rate on the Deposit Facility rate, but in any case not lower than -1%. Such a rate would apply to all TLTRO III operations outstanding over the discrete periods between 24 June 2020 and 23 June 2021 (special interest period 1), and between 24 June 2021 and 23 June 2022 (special interest period 2), for banks that show growth in lending volumes equal to or above 0% between 1 March 2020 and 31 March 2021 (observation period 1) and 1 October 2020 and 31 December 2021 (observation period 2), respectively. In case lending growth targets are not met, the interest rate during the special interest periods can in a worst case scenario be at 50 basis points below the average Main Refinancing Operations rate over the same period. In the period preceding and following the special interest periods the interest will be in a corridor between the Deposit Facility and Main Refinancing Operations rates, depending on to what extent ING meets the lending growth conditions of the TLTRO III program. Special interest period 2 was announced by the ECB in its press release in December 2020 and confirmed in February 2021. For details on the accounting policy of the TLTRO III programme refer to Note 1 'Basis of preparation and accounting policies' of the 2020 Annual Report and for the amount of interest income recognised in the reporting period, refer to Note 12 'Net interest income'.

8 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss

in EUR million	30 June 2021	31 December 2020
Trading liabilities	26,845	32,709
Non-trading derivatives	1,925	1,629
Designated at fair value through profit or loss	58,370	48,445
	87,141	**82,782**

Reference is made to Note 2 ‘Financial assets at fair value through profit or loss’ for information on repurchase transactions.

9 Debt securities in issue

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

Changes in debt securities in issue

in EUR million	30 June 2021	31 December 2020
Opening balance as at 1 January	55,573	93,721
Additions	37,962	63,269
Redemptions / Disposals	-32,233	-99,212
Exchange rate differences	640	-2,357
Other movements	-681	152
Closing balance	**61,262**	**55,573**

In the first six months of 2021, Debt securities in issue increased by EUR 5.7 billion because of liquidity and funding needs as well as favourable market conditions. This is mainly explained by net increases of commercial paper of EUR 9.4 billion and certificates of deposits of EUR 3.1 billion, where new issuances exceeded matured trades. This increase is partly offset by matured long term bonds of EUR 5.1 billion, matured covered bonds of EUR 1.0 billion and reduction in other debt securities of EUR 0.7 billion.

10 Subordinated loans

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

Subordinated loans include loans that qualify as Tier 1 and Tier 2 (CRD IV eligible) capital. Subordinated loans of EUR 13.8 billion (2020 : EUR 13.1 billion) have been placed with ING Bank N.V. by ING Groep N.V.

Changes in subordinated loans

in EUR million	30 June 2021	31 December 2020
Opening balance as at 1 January	15,897	16,515
New issuances	491	2,138
Repayments	-1,455	-2,608
Exchange rate differences and other	-50	-147
Closing balance	**14,883**	**15,897**

ING Groep N.V. issued in June 2021 EUR 500 million 0.875 % Fixed Rate Subordinated Tier 2 Green Notes.

These issuances were subsequently placed by ING Groep N.V. with ING Bank N.V. against the same conditions.

ING Bank N.V. redeemed in February 2021 EUR 1.5 billion 3.625% Fixed Rate Subordinated Tier 2 notes on the first call date.

11 Equity

Total equity

in EUR million	30 June 2021	31 December 2020
Share capital and share premium		
- Share capital	525	525
- Share premium	16,542	16,542
	17,067	**17,067**
Other reserves		
- Revaluation reserve: Equity securities at FVOCI	1,270	1,181
- Revaluation reserve: Debt instruments at FVOCI	165	296
- Revaluation reserve: Cash flow hedge	873	1,450
- Revaluation reserve: Credit liability	-100	-117
- Revaluation reserve: Property in own use	215	221
- Net defined benefit asset/liability remeasurement reserve	-278	-307
- Currency translation reserve	-3,485	-3,636
- Share of associates and joint ventures and other reserves	3,210	3,246
	1,870	**2,334**
Retained earnings	29,086	28,273
Shareholders' equity (parent)	48,024	47,675
Non-controlling interests	987	1,022
Total equity	**49,011**	**48,697**

Cash flow hedge

ING mainly hedges floating rate lending with interest rate swaps. Due to an increase in interest rate yield curves in 2021 (decrease in 2020) the interest rate swaps had a negative revaluation of EUR 577 million (2020: EUR 242 million positive) in the 6 month period ended 30 June 2021, which is recognised in the cash flow hedge reserve.

Currency translation reserve

The increase of Currency translation reserve of EUR 151 million in the 6 month period ended 30 June 2021 is related to several currencies including USD (EUR 208 million), TRY (EUR -136 million) and GBP (EUR 63 million).

Retained earnings

ING paid in March 2021 and in May 2021 an interim dividend of respectively EUR 1,207 million (related to 2020 profit) and EUR 502 million to its shareholder.

12 Net interest income

Net interest income

in EUR million	1 January to 30 June 2021	2020
Interest income on loans	7,042	8,432
Interest income on financial assets at fair value through OCI	189	283
Interest income on debt securities at amortised cost	223	263
Interest income on non-trading derivatives (hedge accounting)	1,131	1,769
Negative interest on liabilities	777	292
Total interest income using effective interest rate method	**9,363**	**11,038**
Interest income on financial assets at fair value through profit or loss	220	450
Interest income on non-trading derivatives (no hedge accounting)	1,140	556
Interest income other	8	21
Total other interest income	**1,368**	**1,027**
Total interest income	**10,730**	**12,065**

in EUR million	1 January to 30 June 2021	2020
Interest expense on deposits from banks	71	113
Interest expense on customer deposits	996	1,175
Interest expense on debt securities in issue	321	704
Interest expense on subordinated loans	273	322
Negative interest on assets	276	117
Interest expense on non-trading derivatives (hedge accounting)	817	1,779
Total interest expense using effective interest rate method	**2,754**	**4,211**
Interest expense on financial liabilities at fair value through profit or loss	158	348
Interest expense on non-trading derivatives (no hedge accounting)	934	540
Interest expense on lease liabilities	7	11
Interest expense other	25	24
Total other interest expense	**1,124**	**923**
Total interest expense	**3,878**	**5,134**
Net interest income	**6,852**	**6,931**

Total net interest income amounts to EUR 6,852 million (30 June 2020: EUR 6,931 million). Negative interest on liabilities, amounting to EUR 777 million (30 June 2020: EUR 292 million) includes ECB funding rate benefit from the first special reference period of the TLTRO III programme. As at 31 December 2020, ING did not have a reasonable expectation of meeting the lending growth targets and did not accrue for the conditional benefit. In the first quarter of 2021, ING Bank met the lending growth targets for the special reference period (1 March 2020 to 31 March 2021) and therefore the interest rate applicable under TLTRO III during the period of 24 June 2020 to 23 June 2021 changed from -50bps to -100bps. Given that the rate is negative, it represents income for ING. The effect of the revised interest rate has been recognised in the statement of profit or loss (interest income) of EUR 309 million within the six month period ended 30 June 2021, of which EUR 158 million related to the year 2020. In addition, the unconditional interest of EUR 158 million was recognised within the 6 month period ended 30 June 2021. For details on the accounting policy and conditions of the TLTRO III programme, refer to Note 1 'Basis of preparation and accounting policies' and Note 7 'Deposits from banks' respectively.

Excluding the TLTRO III benefit, net interest income decreased, mainly driven by lower margins on liabilities, while average liability volumes increased as the Covid-19 pandemic reduced customer spending.

13 Net fee and commission income

Fee and commission income

	1 January to 30 June	
in EUR million	2021	2020
Funds transfer	727	686
Securities business	487	439
Insurance broking	117	101
Asset management fees	146	115
Brokerage and advisory fees	374	321
Other	588	644
	2,439	**2,307**

Other fee and commission income mainly consists of commission fees in respect of bank guarantees of EUR 90 million (first six months of 2020: EUR 98 million), in respect of underwriting syndication loans of EUR 11 million (first six months of 2020: EUR 10 million), in respect of structured finance fees of EUR 37 million (first six months of 2020: EUR 42 million), and in respect of collective instruments distributed but not managed by ING of EUR 92 million (first six months of 2020: EUR 112 million).

Fee and commission expenses

	1 January to 30 June	
in EUR million	2021	2020
Funds transfer	259	301
Securities business	84	80
Insurance broking	1	0
Asset management fees	5	3
Brokerage and advisory fees	185	157
Other	195	259
	729	**800**

Reference is made to Note 16 'Segments' which includes net fee and commission income, as reported to the Management Board Banking, disaggregated by line of business and by geographical segment.

14 Other income

Other income

	1 January to 30 June	
in EUR million	2021	2020
Share of result associates and joint ventures	20	34
Net result derecognition of financial assets measured at amortised cost	-3	187
Other	162	43
	180	**264**

In 2021, Other income other includes the recognition of EUR 72 million relating to a better than expected recovery of the insolvency of a financial institution in the Netherlands, proceeds of the agreement with Raiffeisenbank due to the withdraw from the retail banking market in the Czech Republic and the positive recovery of defaulted receivables of EUR 16 million (2020: EUR 18 million). In 2020, Net result on derecognition of financial assets measured at amortised cost included a result of EUR 186 million following a one-off sale of certain securities at amortised cost driven by exceptional market conditions due to Covid-19, which was considered to be infrequent, but more than insignificant in value.

15 Other operating expenses

Other operating expenses

	1 January to 30 June	
in EUR million	2021	2020
Regulatory costs	759	663
Audit and non-audit services	16	14
IT related expenses	387	388
Advertising and public relations	149	166
External advisory fees	144	185
Office expenses	141	163
Travel and accommodation expenses	24	43
Contributions and subscriptions	59	56
Postal charges	20	21
Depreciation of property and equipment	285	281
Amortisation of intangible assets	133	121
Impairments and reversals of impairments of tangible and intangible assets	23	333
Addition to / (unused amounts reversed of) provision for reorganisations	88	-2
Addition to / (unused amounts reversed of) other provisions	49	-14
Other	340	280
	2,617	**2,698**

Regulatory costs

Regulatory costs represent contributions to the Deposit Guarantee Schemes (DGS), The Single Resolution Fund (SRF), local bank taxes and local resolution funds. Included in Regulatory costs for 2021, are contributions to DGS of EUR 260 million (first six months of 2020: EUR 203 million) mainly related to the Netherlands, Germany, Belgium, Poland, and Spain and contributions to the SRF and local resolution funds of EUR 308 million (first six months of 2020: EUR 277 million). The increase in contributions of DGS and SRF relates to increased deposits.
In 2021 local bank taxes increased by EUR 8 million from EUR 183 million in the first six months of 2020 to EUR 191 million.

Impairments and reversals of impairments on tangible and intangible assets

Impairments on tangible and intangible assets in the first six months of 2021 mainly relate to impairments on capitalised software.

Impairments on tangible and intangible assets in the first six months of 2020 included EUR 310 million goodwill impairment in the cash generating units Retail Belgium and Wholesale Banking.

Additional notes to the Condensed consolidated interim financial statements

16 Segments

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

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

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

The following table specifies the segments by line of business and main sources of income of each of the segments:

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

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

Specification of geographical split of the segments

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

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

ING Bank reconciles the total segment results to the total result using Corporate Line. The Corporate Line is a reflection of capital management activities and certain income and expenses that are not allocated to the banking businesses, including the recognition of value-added tax (VAT) refunds in the Netherlands (recorded under expenses). Furthermore, the Corporate Line includes the isolated legacy costs (mainly negative interest results) caused by the replacement of short-term funding with long-term funding during 2013 and 2014. ING Group applies a system of capital charging for its banking operations in order to create a comparable basis for the results of business units globally, irrespective of the business units' book equity and the currency they operate in.

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

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

Segments by line of business

in EUR million 6 month period 1 January to 30 June	2021 Retail Netherlands	Retail Belgium	Retail Germany	Retail Other	Wholesale Banking	Corporate Line	Total	2020 Retail Netherlands	Retail Belgium	Retail Germany	Retail Other	Wholesale Banking	Corporate Line	Total
Income														
– Net interest income	1,651	894	734	1,354	2,044	174	6,852	1,763	937	801	1,392	1,864	173	6,931
– Net fee and commission income	368	248	257	253	580	4	1,710	332	207	215	193	561	-2	1,507
– Total investment and other income	119	99	45	122	267	1	653	175	71	59	134	354	-32	760
Total income	**2,138**	**1,241**	**1,036**	**1,729**	**2,891**	**180**	**9,215**	**2,269**	**1,215**	**1,075**	**1,720**	**2,780**	**139**	**9,198**
Expenditure														
– Operating expenses	1,181	912	604	1,174	1,452	230	5,553	1,088	969	567	1,120	1,728	153	5,625
– Addition to loan loss provisions	-65	194	19	102	-119		131	139	282	14	304	1,256	3	1,997
Total expenses	**1,116**	**1,107**	**623**	**1,276**	**1,333**	**230**	**5,685**	**1,227**	**1,251**	**581**	**1,424**	**2,984**	**156**	**7,623**
Result before taxation	**1,022**	**134**	**413**	**454**	**1,558**	**-51**	**3,530**	**1,043**	**-36**	**494**	**295**	**-204**	**-17**	**1,575**
Taxation	267	41	135	117	355	89	1,005	262	9	188	85	23	-49	519
Non-controlling interests			2	46	10		59	-1		2	27	8		36
Net result IFRS	**754**	**94**	**275**	**291**	**1,192**	**-139**	**2,467**	**781**	**-44**	**304**	**183**	**-235**	**32**	**1,021**

Geographical split of the segments

in EUR million 6 month period 1 January to 30 June	2021 Netherlands	Belgium	Germany	Other Challengers	Growth markets	Wholesale Banking Rest of World	Other	Total	2020 Netherlands	Belgium	Germany	Other Challengers	Growth markets	Wholesale Banking Rest of World	Other	Total
Income																
– Net interest income	2,023	1,072	1,010	974	749	850	175	6,852	2,097	1,090	1,059	893	799	823	169	6,931
– Net fee and commission income	518	356	263	161	163	246	4	1,710	494	302	228	136	131	217	-2	1,507
– Total investment and other income	148	127	78	45	154	101	1	653	197	98	80	14	203	197	-28	760
Total income	**2,688**	**1,554**	**1,350**	**1,179**	**1,066**	**1,197**	**180**	**9,215**	**2,788**	**1,491**	**1,367**	**1,043**	**1,133**	**1,237**	**139**	**9,198**
Expenditure																
– Operating expenses	1,577	1,065	691	724	636	629	230	5,553	1,736	1,126	652	669	644	644	155	5,625
– Addition to loan loss provisions	-51	139	43	55	45	-101		131	320	338	241	212	205	678	3	1,997
Total expenses	**1,526**	**1,205**	**734**	**779**	**681**	**529**	**230**	**5,685**	**2,056**	**1,465**	**893**	**882**	**849**	**1,322**	**157**	**7,623**
Result before taxation	**1,162**	**349**	**616**	**400**	**384**	**669**	**-51**	**3,530**	**732**	**26**	**474**	**162**	**284**	**-85**	**-18**	**1,575**
Retail Banking	1,022	134	413	160	294			2,023	1,043	-36	494	74	222			1,796
Wholesale Banking	140	215	203	240	91	669		1,558	-310	62	-20	88	62	-85	-2	-204
Corporate Line							-51	-51							-17	-17
Result before taxation	**1,162**	**349**	**616**	**400**	**384**	**669**	**-51**	**3,530**	**732**	**26**	**474**	**162**	**284**	**-85**	**-18**	**1,575**
Taxation	298	92	186	121	83	137	87	1,005	252	25	170	56	71	-10	-45	519
Non-controlling interests			2		57			59	-1		2		35			36
Net result IFRS	**864**	**257**	**428**	**279**	**245**	**531**	**-137**	**2,467**	**481**	**2**	**302**	**106**	**178**	**-74**	**27**	**1,021**

17 Fair value of assets and liabilities

Valuation Methods

The estimated fair values represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a market-based measurement, which is based on assumptions that market participants would use and takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability.

Fair values of financial assets and liabilities are based on quoted prices in active market where available. When such quoted prices are not available, the fair value is determined by using valuation techniques. The fair value hierarchy consists of three levels, depending upon whether fair values were determined based on (unadjusted) quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument (Level 3).

A comprehensive description of ING's valuation methods and framework is reported in Note 38 'Fair value of assets and liabilities' of the 2020 ING Bank Annual Report. This chapter of the Interim financial report should be read in conjunction with the 2020 ING Bank Annual Report.

Valuation Adjustments

Valuation adjustments are an integral part of the fair value. They are included as part of the fair value to provide better estimation of market exit value on measurement date. ING considers various valuation adjustments to arrive at the fair value including Bid-Offer adjustments, Model Risk adjustments, Credit Valuation Adjustments (CVA), Debt valuation Adjustments (DVA), including DVA on derivatives and own issued liabilities and Collateral Valuation Adjustment (CollVA) and Funding Valuation Adjustment (FVA).

The following table presents the models reserves for financial assets and liabilities:

Valuation adjustment on financial assets and liabilities

in EUR million	30 June 2021	31 December 2020
Bid/Offer	-111	-121
Model Risk	-17	-25
CVA	-180	-238
DVA	-92	-124
CollVA	-14	-16
FVA	-91	-111
Total Valuation Adjustments	**-505**	**-634**

All financial assets and liabilities are recognised initially at fair value. The fair value of a financial instrument on initial recognition is generally its transaction price. If there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a valuation technique using unobservable inputs, the entire day one difference is deferred. ING defers the Day One profit or loss relating to financial instruments reported with significant unobservable valuation parameters, including positions classified as Level 3 and trades related to CVA with material unobservable input but not necessarily classified as Level 3. The deferred Day One profit or loss is recognised in the statement of profit or loss over the life of the transaction until the transaction matures or until the observability changes. The impact on the statement of profit and loss in the first six months of 2021 is deemed to be immaterial.

Financial instruments at fair value

The fair values of the financial instruments were determined as follows:

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

in EUR million	Level 1		Level 2		Level 3		Total	
	30 June 2021	31 December 2020	30 June 2021	31 December 2020	30 June 2021	31 December 2020	30 June 2021	31 December 2020
Financial Assets								
Financial assets at fair value through profit or loss								
- Equity securities	13,984	7,902	2	2	144	138	14,130	8,041
- Debt securities	3,755	3,379	6,556	4,867	1,250	1,269	11,561	9,514
- Derivatives	9	2	22,761	30,623	129	197	22,898	30,821
- Loans and receivables		1	70,971	53,733	1,849	1,265	72,820	54,998
	17,748	**11,284**	**100,290**	**89,225**	**3,372**	**2,870**	**121,409**	**103,374**
Financial assets at fair value through other comprehensive income								
- Equity securities	2,266	1,688			168	176	2,434	1,862
- Debt securities	28,522	31,593	1,171	1,385			29,693	32,977
- Loans and receivables		1			889	1,056	889	1,056
	30,788	**33,282**	**1,171**	**1,385**	**1,057**	**1,231**	**33,016**	**35,895**
Financial liabilities								
Financial liabilities at fair value through profit or loss								
– Debt securities	374	697	5,028	5,211	168	180	5,569	6,087
– Deposits		2	59,827	48,558	4	2	59,831	48,561
– Trading securities	735	700	69	70			804	768
– Derivatives	62	56	20,715	27,094	160	217	20,937	27,365
	1,171	**1,455**	**85,639**	**80,933**	**331**	**398**	**87,141**	**82,782**

The following methods and assumptions were used by ING Bank to estimate the fair value of the financial instruments:

Equity securities

Instrument description: Equity securities include stocks and shares, corporate investments and private equity investments.

Valuation: If available, the fair values of publicly traded equity securities and private equity securities are based on quoted market prices. In absence of active markets, fair values are estimated by analysing the investee's financial position, result, risk profile, prospect, price, earnings comparisons and revenue multiples. Additionally, reference is made to valuations of peer entities where quoted prices in active markets are available. For equity securities best market practice will be applied using the most relevant valuation method. All non-listed equity investments, including investments in private equity funds, are subject to a standard review framework which ensures that valuations reflect the fair values.

Fair value hierarchy: The majority of equity securities are publicly traded and quoted prices are readily and regularly available. Hence, these securities are classified as Level 1. Equity securities which are not traded in active markets mainly include corporate investments, fund investments and other equity securities and are classified as Level 3.

Debt securities

Instrument description: Debt securities include government bonds, financial institutions bonds and Asset-backed securities (ABS).

Valuation: Where available, fair values for debt securities are generally based on quoted market prices. Quoted market prices are obtained from an exchange market, dealer, broker, industry group, pricing service, or regulatory service. The quoted prices from non-exchange sources are reviewed on their tradability of market prices. If quoted prices in an active market are not available, fair value is based on an analysis of available market inputs, which includes consensus prices obtained from one or more pricing services. Furthermore, fair values are determined by valuation techniques discounting expected future cash flows using a market interest rate curves, referenced credit spreads, maturity of the investment, and estimated prepayment rates where applicable.

Fair value hierarchy: Government bonds and financial institutions bonds are generally traded in active markets, where quoted prices are readily and regularly available and are hence, classified as Level 1. The remaining positions are classified as Level 2 or Level 3. Asset backed securities for which no active market is available and a wide discrepancy in quoted prices exists, are classified as Level 3.

Derivatives

Instrument description: Derivatives contracts can either be exchange-traded or over the counter (OTC). Derivatives include interest rate derivatives, FX derivatives, Credit derivatives, Equity derivatives and commodity derivatives.

Valuation: The fair value of exchange-traded derivatives is determined using quoted market prices in an active market and are classified as Level 1 of the fair value hierarchy. For instruments that are not actively traded, fair values are estimated based on valuation techniques. OTC derivatives and derivatives trading in an inactive market are valued using valuation techniques. The valuation techniques and inputs depend on the type of derivatives and the nature of the underlying instruments. The principal techniques used to value these instruments are based on (amongst others) discounted cash flows option pricing models and Monte Carlo simulations. These valuation models calculate the present value of expected future cash flows, based on 'no-arbitrage' principles. The models are commonly used in the financial industry and inputs to the validation models are determined from observable market data where possible. Certain inputs may not be observable in the market, but can be determined from observable prices via valuation model calibration procedures. These inputs include prices available from exchanges, dealers, brokers or providers of pricing, yield curves, credit spreads, default rates, recovery rates, dividend rates, volatility of underlying interest rates, equity prices, and foreign currency exchange rates and reference is made to quoted prices, recently executed trades, independent market quotes and consensus data, where available.
For uncollateralised OTC derivatives, ING applies Credit Valuation Adjustment to correctly reflect the counterparty credit risk in the valuation. See section DVA/BVA in section b) Valuation Adjustments for more details regarding the calculation.
Fair value hierarchy: The majority of the derivatives are classified as Level 2. Derivatives for which the input cannot be implied from observable market data are classified as Level 3.

Loans and receivables

Instrument description: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables carried at fair value includes trading loans, being securities lending and similar agreement comparable to collateralised lending, syndicated loans, loans expected to be sold and receivables with regards to reverse repurchase transactions.
Valuation: The fair value of loans and receivables are generally based on quoted market prices. The fair value of other loans is estimated by discounting expected future cash flows using a discount rate that reflects credit risk, liquidity, and other current market conditions. The fair value of mortgage loans is estimated by taking into account prepayment behaviour.

Fair value hierarchy: Loans and receivables are predominantly classified as Level 2. Loans and receivables for which current market information about similar assets to use as observable, corroborated data for all significant inputs into a valuation model is not available are classified as Level 3 and are expected to be sold as Level 3.

Financial liabilities at fair value through profit and loss

Instrument description: Financial liabilities at fair value through profit and loss include debt securities, debt instruments, primarily comprised of structured notes, which are held at fair value under the fair value option. Besides that, it includes derivative contracts and repurchase agreements.
Valuation: The fair values of securities in the trading portfolio and other liabilities at fair value through profit or loss are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated based on internal discounted cash flow valuation techniques using interest rates and credit spreads that apply to similar instruments.
Fair value hierarchy: The majority of the derivatives are classified as Level 2. Derivatives for which the input cannot be derived from observable market data are classified as Level 3.

Transfers between Level 1 and 2

No significant transfers between Level 1 and 2 and no significant changes in the valuation techniques were recorded in the reporting period 2021.

Level 3: Valuation techniques and inputs used

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

Of the total amount of financial assets classified as Level 3 as at 30 June 2021 of EUR 4.4 billion (31 December 2020: EUR 4.1 billion), an amount of EUR 1.5 billion (34.6%) (31 December 2020: EUR 2.1 billion, being 52.3%) is based on unadjusted quoted prices in inactive markets. As ING does not generally adjust quoted prices using its own inputs, there is no significant sensitivity to ING's own unobservable inputs.

Furthermore, Level 3 financial assets includes approximately EUR 1.6 billion (31 December 2020: EUR 0.9 billion) which relates to financial assets that are part of structures that are designed to be fully neutral in terms of market risk. Such structures include various financial assets and liabilities for which the overall sensitivity to market risk is insignificant. Whereas the fair value of individual components of these structures may be determined using different techniques and the fair value of each of the components of these structures may be sensitive to unobservable inputs, the overall sensitivity is by design not significant.

The remaining EUR 1.3 billion (31 December 2020: EUR 1.1 billion) of the fair value classified in Level 3 financial assets is established using valuation techniques that incorporates certain inputs that are unobservable.

Of the total amount of financial liabilities classified as Level 3 as at 30 June 2021 of EUR 0.3 billion (31 December 2020: EUR 0.4 billion), an amount of EUR 0.2 billion (52.4%) (31 December 2020: EUR 0.1 billion, being 34.6%) is based on unadjusted quoted prices in inactive markets. As ING does not generally adjust quoted prices using its own inputs, there is no significant sensitivity to ING's own unobservable inputs.

Furthermore, Level 3 financial liabilities includes approximately EUR 0.1 billion (31 December 2020: EUR 0.1 billion) which relates to financial liabilities that are part of structures that are designed to be fully neutral in terms of market risk. As explained above, the fair value of each of the components of these structures may be sensitive to unobservable inputs, but the overall sensitivity is by design not significant.

The remaining EUR 0.1 billion (31 December 2020: EUR 0.2 billion) of the fair value classified in Level 3 financial liabilities is established using valuation techniques that incorporates certain inputs that are unobservable.
The table below provides a summary of the valuation techniques, key unobservable inputs and the lower and upper range of such unobservable inputs, by type of Level 3 asset/liability. The lower and upper range mentioned in the overview represent the lowest and highest variance of the respective valuation input as actually used in the valuation of the different financial instruments. Amounts and percentages stated are unweighted. The range can vary from period to period subject to market movements and change in Level 3 position. Lower and upper bounds reflect the variability of Level 3 positions and their underlying valuation inputs in the portfolio, but do not adequately reflect their level of valuation uncertainty. For valuation uncertainty assessment, reference is made to section Sensitivity analysis of unobservable inputs (Level 3).

Valuation techniques and range of unobservable inputs (Level 3)

	Assets		Liabilities		Valuation techniques	Significant unobservable inputs	Lower range		Upper range	
in EUR million	30 June 2021	31 December 2020	30 June 2021	31 December 2020			30 June 2021	31 December 2020	30 June 2021	31 December 2020
At fair value through profit or loss										
Debt securities	1,250	1,269			Price based	Price (%)	0%	0%	104%	107%
Equity securities	144	137		1	Price based	Price (EUR)	0	0	5475	5475
Loans and advances	1,363	1,090	4	2	Price based	Price (%)	0%	0%	101%	101%
					Present value techniques	Credit spread (bps)	0	0	250	250
(Reverse) repo's	486	176			Present value techniques	Interest rate (%)	3%	3%	4%	4%
Structured notes			168	180	Price based	Price (%)	84%	74%	118%	109%
					Option pricing model	Equity volatility (%)	14%	14%	25%	25%
						Equity/Equity correlation	n.a.	0.6	n.a.	0.9
						Equity/FX correlation	-0.3	-0.7	-0.3	0.3
						Dividend yield (%)	2%	0%	5%	5%
Derivatives										
– Rates	4	2	35	38	Option pricing model	Interest rate volatility (bps)	15	12	74	70
					Present value techniques	Reset spread (%)	2%	2%	2%	2%
– FX	1				Option pricing model	FX volatility (bps)	n.a.	6	n.a.	10
– Credit	93	168	96	154	Present value techniques	Credit spread (bps)	2	2	599	1,403
					Price based	Price (%)	99%	99%	100%	107%
– Equity	30	24	26	20	Option pricing model	Equity volatility (%)	5%	5%	83%	64%
						Equity/Equity correlation	0.5	0.5	0.8	0.9
						Equity/FX correlation	-0.5	-0.6	0.1	0.1
						Dividend yield (%)	0%	0%	20%	34%
					Price based	Price (%)	3%	3%	3%	3%
– Other	1	3	2	3	Option pricing model	Commodity volatility (%)	15%	18%	79%	55%
						Com/FX correlation	n.a.	-0.5	n.a.	-0.3
At fair value through other comprehensive income										
– Loans and advances	889	1,056			Present value techniques	Prepayment rate (%)	9%	9%	9%	9%
					Price based	Price (%)	99%	99%	100%	99%
– Equity	168	176			Present value techniques	Credit spread (bps)	1	2	1	2
						Interest rate (%)	3%	3%	3%	3%
					Price based	Price	n.a.	n.a.	n.a.	n.a.
						Other	-	63	80	80
Total	**4,429**	**4,101**	**331**	**398**						

Price

For securities, where market prices are not available, fair value is measured by comparing the value of these securities with observable pricing data of similar instruments. Prices of 0% are distressed to the point that no recovery is expected, while prices significantly in excess of 100% or par are expected to pay a yield above current market rates.

Credit spreads

Credit spread is the premium above a benchmark interest rate, typically LIBOR or relevant treasury instrument, required by the market participant to accept a lower credit quality. Higher credit spreads indicate lower credit quality and a lower value of an asset.

Volatility

Volatility is a measure for variation of the price of a financial instrument or other valuation input over time. Volatility is one of the key inputs in option pricing models. Typically, the higher the volatility, the higher the value of the option. Volatility varies by the underlying reference (equity, commodity, foreign currency and interest rates), by strike, and maturity of the option. The minimum level of volatility is 0% and there is no theoretical maximum.

Correlation

Correlation is a measure of dependence between two underlying references which is relevant for valuing derivatives and other instruments having more than one underlying reference. High positive correlation (close to 1) indicates strong positive (statistical) relationship, where underliers move, everything else equal, into the same direction. The opposite holds for a high negative correlation.

Reset spread

Reset spreads are key inputs to mortgage linked prepayment swaps valuation. Reset spread is the future spread at which mortgages will re-price at interest rate reset dates.

Inflation rate

Inflation rate is a key input to inflation linked instruments. Inflation linked instruments protect against price inflation and are denominated and indexed to investment units. Interest payments would be based on the inflation index and nominal rate in order to receive/pay the real rate of return. A rise in nominal coupon payments is a result of an increase in inflation expectations, real rates, or both. As markets for these inflation linked derivatives are illiquid, the valuation parameters become unobservable.

Dividend yield

Dividend yield is an important input for equity option pricing models showing how much dividends a company is expected to pay out each year relative to its share price. Dividend yields are generally expressed as an annualised percentage of share price.

Jump rate

Jump rates simulate abrupt changes in valuation models. The rate is an added component to the discount rate in the model to include default risks.

Prepayment rate

Prepayment rate is a key input to mortgage and loan valuation. Prepayment rate is the estimated rate at which mortgage borrowers will repay their mortgages early, e.g. 5% per year. Prepayment rate and reset spread are key inputs to mortgage linked prepayment swaps valuation

Level 3: Changes during the period

Changes in Level 3 Financial assets

	Trading assets		Non-trading derivatives		Financial assets mandatorily at FVPL		Financial assets designated at FVPL		Financial assets at FVOCI		Total	
in EUR million	**30 June 2021**	**31 December 2020**	**30 June 2021**	**31 December 2020**	**30 June 2021**	**31 December 2020**	**30 June 2021**	**31 December 2020**	**30 June 2021**	**31 December 2020**	**30 June 2021**	**31 December 2020**
Opening balance	882	174	1	8	1,191	1,381	796	1,244	1,231	1,961	4,101	4,768
Realised gain/loss recognised in the statement of profit or loss during the period [1]	5	-61	0	-1	12	-104	-0	-198	-8	-19	10	-383
Revaluation recognised in other comprehensive income during the period [2]									-8	-46	-8	-46
Purchase of assets	14	453	3	3	834	1,180	489	212	54	39	1,393	1,887
Sale of assets	-32	-73	-3	-8	-265	-973	-25	-270	-147	-419	-472	-1,743
Maturity/settlement	-8	-39		-1	-21	-83	-12	-57	-53	-175	-94	-354
Reclassifications					-16	330			-13	-105	-29	224
Transfers into Level 3	14	517				6		1	-3	-1	11	523
Transfers out of Level 3	-496	-90		0		-528		-138			-496	-755
Exchange rate differences	0	0			7	-24			3	-4	10	-27
Changes in the composition of the group and other changes					1	5			0	1	1	6
Closing balance	**379**	**882**	**2**	**1**	**1,743**	**1,191**	**1,248**	**796**	**1,057**	**1,231**	**4,429**	**4,101**

1 Net gains/losses were recorded as 'Valuation results and net trading income' in the statement of profit or loss. The total amounts includes EUR 35 million (31 December 2020: EUR 312 million) of unrealised gains and losses recognised in the statement of profit or loss.
2 Revaluation recognised in other comprehensive income is included on the line 'Net change in fair value of debt instruments at fair value through other comprehensive income'.

Financial assets transfers into and transfers out of fair value hierarchy levels are made on a quarterly basis at the end of the reporting period.

In the first six months of 2021, financial assets transfers out of Level 3 is mainly related to debt securities due to the valuation no longer being significantly impacted by unobservable inputs and the short term nature of the instruments.

Changes in Level 3 Financial liabilities

in EUR million	Trading liabilities 30 June 2021	Trading liabilities 31 December 2020	Non-trading derivatives 30 June 2021	Non-trading derivatives 31 December 2020	Financial liabilities designated as at fair value through profit or loss 30 June 2021	Financial liabilities designated as at fair value through profit or loss 31 December 2020	Total 30 June 2021	Total 31 December 2020
Opening balance	180	195	39	110	180	184	398	490
Realised gain/loss recognised in the statement of profit or loss during the period[1]	57	-2	-2	20	22	-22	77	-4
Additions	16	55	3	19	62	662	81	736
Redemptions	-2	-116	-3	-45	-159	-90	-164	-250
Maturity/settlement	-39	-11	-0	-52	-0	-83	-40	-146
Transfers into Level 3	14	170		8	228	267	242	445
Transfers out of Level 3	-96	-111	-3	-23	-165	-738	-264	-873
Closing balance	**130**	**180**	**33**	**39**	**168**	**180**	**331**	**398**

1 Net gains/losses were recorded as 'Valuation results and net trading income' in the statement of profit or loss. The total amount includes EUR 77 million (2020: EUR -4 million) of unrealised gains and losses recognised in the statement of profit or loss.

Financial liabilities transfers into and transfers out of fair value hierarchy levels are made on a quarterly basis at the end of the reporting period.

In the first six months of 2021, financial liabilities transfers into and out of level 3 mainly consisted of structured notes, measured as designated at fair value through profit or loss. The structured notes were transferred out of Level 3 due to the valuation being significantly respectively no longer significantly impacted by unobservable inputs, while the reverse holds for structured notes that were transferred into Level 3.

Recognition of unrealised gains and losses in Level 3

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

In 2020 and the first half of 2021, unrealised gains and losses that relate to 'Financial assets at fair value through other comprehensive income' are included in the Revaluation reserve – Equity securities at fair value through other comprehensive income or Debt Instruments at fair value through other comprehensive income.

Level 3: Sensitivity analysis of unobservable inputs

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

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

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

The valuation uncertainty in the table below is broken down by related risk class rather than by product. The possible impact of a change of unobservable inputs in the fair value o of financial instruments where unobservable inputs are significant to the valuation is as follows:

Sensitivity analysis of Level 3 instruments

	Positive fair value movements from using reasonable possible alternatives		Negative fair value movements from using reasonable possible alternatives	
in EUR million	30 June 2021	31 December 2020	30 June 2021	31 December 2020
Equity (equity derivatives, structured notes)	3	33	-21	-14
Interest rates (Rates derivatives, FX derivatives)	15	20	-1	-1
Credit (Debt securities, Loans, structured notes, credit derivatives)	68	43	-27	-27
	86	**96**	**-49**	**–42**

i) Financial instruments not measured at fair value

The following table presents the estimated fair values of the financial instruments not measured at fair value in the statement of financial position. The aggregation of the fair values presented below does not represent, and should not be construed as representing, the underlying value of ING Bank.

Methods applied in determining fair values of financial assets and liabilities (carried at amortised cost)

	Carrying Amount		Carrying amount approximates fair value		Level 1		Level 2		Level 3		Total fair value	
in EUR million	30 June 2021	31 December 2020	30 June 2021	31 December 2020	30 June 2021	31 December 2020	30 June 2021	31 December 2020	30 June 2021	31 December 2020	30 June 2021	31 December 2020
Financial Assets												
Loans and advances to banks	26,197	25,363	2,547	2,164	0	0	7,714	7,763	15,990	15,611	26,251	25,538
Loans and advances to customers	611,067	598,306	19,099	17,491	0	0	17,828	14,679	583,268	576,659	620,195	608,830
Securities at amortised cost	49,467	50,587	-0	-0	47,443	49,109	2,433	2,550	586	622	50,462	52,281
	686,731	**674,257**	**21,646**	**19,655**	**47,444**	**49,109**	**27,975**	**24,992**	**599,844**	**592,892**	**696,908**	**686,648**
Financial liabilities												
Deposits from banks	89,134	78,098	6,306	3,918	0		77,571	68,473	5,870	6,014	89,748	78,405
Customer deposits	659,418	643,138	591,172	580,525	0		56,547	48,206	12,730	15,704	660,449	644,435
Debt securities in issue	61,262	55,573			24,486	28,213	18,025	20,382	18,283	6,449	60,795	55,044
Subordinated loans	14,883	15,897	-0	-0	-0	1,508	15,448	14,742			15,448	16,250
	824,697	**792,705**	**597,479**	**584,443**	**24,487**	**29,721**	**167,591**	**151,802**	**36,883**	**28,167**	**826,439**	**794,134**

18 Legal proceedings

ING Bank and its consolidated subsidiaries are involved in governmental, regulatory, arbitration and legal proceedings and investigations in the Netherlands and in a number of foreign jurisdictions, including the U.S., involving claims by and against them which arise in the ordinary course of their businesses, including in connection with their activities as lenders, broker-dealers, underwriters, issuers of securities and investors and their position as employers and taxpayers. In certain of such proceedings, very large or indeterminate amounts are sought, including punitive and other damages. This note should be read in conjunction with Note 43 of the 2020 consolidated financial statements of ING Bank, which included further details on legal proceedings.
While it is not feasible to predict or determine the ultimate outcome of all pending or threatened governmental, regulatory, arbitration and legal proceedings and investigations, ING is of the opinion that some of the proceedings and investigations set out below may have or have in the recent past had a significant effect on the financial position, profitability or reputation of ING and/or ING and its consolidated subsidiaries.

Settlement agreement: On 4 September 2018, ING announced that it had entered into a settlement agreement with the Dutch Public Prosecution Service relating to previously disclosed investigations regarding various requirements for client on-boarding and the prevention of money laundering and corrupt practices. Following the entry into the settlement agreement, ING has experienced heightened scrutiny from authorities in various countries. ING is also aware, including as a result of media reports, that other parties may, among other things, seek to commence legal proceedings against ING in connection with the subject matter of the settlement, have filed or may file requests for disciplinary proceedings against ING employees based on the Dutch “Banker’s oath”. Certain parties filed requests with the Court of Appeal in The Netherlands to reconsider the prosecutor’s decision to enter into the settlement agreement with ING and not to prosecute ING or (former) ING employees. In December 2020, the Court of Appeal issued its final ruling. In this ruling the prosecutors' decision to enter into the settlement agreement with ING was upheld, making the settlement final. However, in a separate ruling, the Court ordered the prosecution of ING’s former CEO.

Findings regarding AML processes: As previously disclosed, after its September 2018 settlement with Dutch authorities concerning anti-money laundering matters, and in the context of significantly increased attention on the prevention of financial economic crime, ING has experienced heightened scrutiny by authorities in various countries. The interactions with such regulatory and judicial authorities have included, and can be expected to continue to include, onsite visits, information requests, investigations and other enquiries. Such interactions, as well as ING’s internal assessments in connection with its global enhancement programme, have in some cases resulted in satisfactory outcomes, and also have resulted in, and may continue to result in, findings, or other conclusions which may require appropriate remedial actions by ING, or may have other consequences. ING intends to continue to work in close cooperation with authorities as it seeks to improve its management of non-financial risks in terms of policies, tooling, monitoring, governance, knowledge and behaviour.
ING continues to take steps to enhance its management of compliance risks and embed stronger awareness across the whole organisation. These steps are part of the global KYC programme and set of initiatives, which includes enhancing KYC files and working on various structural improvements in compliance policies, tooling, monitoring, governance, knowledge and behaviour.

SIBOR – SOR litigation: In July 2016, investors in derivatives tied to the Singapore Interbank Offer Rate (“SIBOR”) filed a U.S. class action complaint in the New York District Court alleging that several banks, including ING, conspired to rig the prices of derivatives tied to SIBOR and the Singapore Swap Offer Rate (“SOR”). The lawsuit refers to investigations by the Monetary Authority of Singapore (“MAS”) and other regulators, including the U.S. Commodity Futures Trading Commission (“CFTC”), in relation to rigging prices of SIBOR- and SOR based derivatives. In October 2018, the New York District Court issued a decision dismissing all claims against ING Group and ING Capital Markets LLC, but leaving ING Bank, together with several other banks, in the case, and directing plaintiffs to file an amended complaint consistent with the Court's rulings. In October 2018, plaintiffs filed such amended complaint, which asserts claims against a number of defendants but none against ING Bank (or any other ING entity), effectively dismissing ING Bank from the case. In December 2018, plaintiffs sought permission from the Court to file a further amended complaint that names ING Bank as a defendant. In July 2019, the New York District Court granted the defendants’ motion to dismiss and denied leave to further amend the complaint, effectively dismissing all remaining claims against ING Bank. In March 2021, the Second Circuit court vacated the District Court’s ruling. The case was remanded to the District Court to reconsider the amended complaint that would add ING Bank N.V. back to the case. In May 2021, the Second Circuit court denied the defendants’ petition for rehearing with the Second Circuit court.

Interest rate derivatives claims: ING is involved in several legal proceedings in the Netherlands with respect to interest rate derivatives that were sold to clients in connection with floating interest rate loans in order to hedge the interest rate risk of the loans. These proceedings are based on several legal grounds, depending on the facts and circumstances of each specific case, inter alia alleged breach of duty of care, insufficient information provided to the clients on the product and its risks and other elements related to the interest rate derivatives that were sold to clients. In some cases, the court has ruled in favour of the claimants and awarded damages, annulled the interest rate derivative or ordered repayment of certain amounts to the claimants. The total amounts that need to be repaid or compensated in some cases still need to be determined. ING may decide to appeal against adverse rulings. Although the outcome of the pending litigation and similar cases that may be brought in the future is uncertain, it is possible that the courts may ultimately rule in favour of the claimants in some or all of such cases. Where appropriate a provision has been taken. The aggregate financial impact of the current and future litigation could become material.

Mortgage expenses claims: ING Spain has received claims and is involved in procedures with customers regarding reimbursement of expenses associated with the formalisation of mortgages. In most court proceedings in first instance the expense clause of the relevant mortgage contract has been declared null and ING Spain has been ordered to reimburse all or part of the applicable expenses. Since 2018, the Spanish Supreme Court and the European Court of Justice have issued rulings setting out which party should bear notary, registration, agency, and stamp duty costs. In January 2021, the Spanish Supreme Court ruled that valuation costs of mortgages, signed prior to 16 June 2019, the date the new mortgage law entered into force, should be borne by the bank. Media attention for the statute of limitations applicable to the right to claim reimbursement of costs resulted in an increased number of claims at the beginning of 2021. In June 2021, the Supreme Court has published a press release informing of its decision to ask ECJ for a preliminary ruling regarding the criteria that should be applied to determine the date from which the action for claiming the reimbursement of mortgage expenses is considered to be expired. ING Spain has also been included, together with other Spanish banks, in three class actions filed by customer associations. In one of the class actions an agreement was reached with the association. In another class action ING filed an appeal asking the Spanish Court of Appeal to determine that the ruling of the court of first instance is only applicable to the consumers that were part of the case. A provision has been established in the past and has been adjusted where appropriate.

Claims regarding mortgage loans in Swiss franc in Poland: ING Poland is a defendant in several lawsuits with retail customers who took out mortgage loans indexed to the Swiss franc. Such customers have alleged that the mortgage loan contract contains abusive clauses. One element that the court is expected to consider in determining whether such contracts contain abusive clauses is whether the rules to determine the exchange rate used for the conversion of the loan from Polish zloty to Swiss franc are unambiguous and verifiable. In December 2020, the Polish Financial Supervision Authority (PFSA) proposed that lenders offer borrowers voluntary out-of-court settlements on foreign-currency mortgage disputes, with mortgages indexed to Swiss franc serving as a reference point. In February 2021, ING Poland announced its support for this initiative. ING has recorded a portfolio provision with respect to the claims and the PFSA proposal. The Polish Supreme Court is expected to provide further clarity on this topic in a ruling scheduled for September 2021.

19 Related parties

In the normal course of business, ING Bank enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of ING Group include, among others, its subsidiaries, associates, joint ventures, key management personnel, and various defined benefit and contribution plans. Transactions between related parties include rendering or receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral.

Related party transactions in the six month period ended 30 June 2021 were similar in nature to those disclosed in the 2020 consolidated financial statements of ING Bank. No related party transactions that have taken place in the six month period ended 30 June 2021 have materially affected the financial position or the performance of ING during this period.

20 Capital management

ING Bank's Common Equity Tier 1 capital (CET1) ratio increased to 14.4% as at 30 June 2021 (31 December 2020: 14.0%), mainly due to capital generation.

ING is committed to maintaining a CET1 ratio above the prevailing fully loaded requirement plus a comfortable management buffer.

Ratings

The ratings and outlook from S&P, Moody's and Fitch remained unchanged in the first half of the year.

Main credit ratings of ING at 30 June 2021

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

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

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

21 Subsequent events

There are no subsequent events to report other than disclosed in Note 6 'Assets and liabilities held for sale'.

INDEPENDENT AUDITOR'S REVIEW REPORT

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

Our conclusion

We have reviewed the accompanying condensed consolidated interim financial statements as at 30 June 2021 on pages 25 up to and including 60 of ING Bank N.V.(or hereafter: the “Company”) based in Amsterdam. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements as at 30 June 2021 are not prepared, in all material respects, in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted by the European Union.

The condensed consolidated interim financial statements as at 30 June 2021 comprise:

1. the consolidated statement of financial position as at 30 June 2021;
2. the following statements for the six- months period ended 30 June 2021: the consolidated statement of profit or loss, the consolidated statements of comprehensive income, changes in equity and cash flows; and
3. the notes comprising of a summary of the accounting policies and other explanatory information.

Basis for our conclusion

We conducted our review in accordance with Dutch law, including the Dutch Standard 2410, 'Het beoordelen van tussentijdse financiële informatie door de accountant van de entiteit' (Review of interim financial information performed by the independent auditor of the entity). A review of interim financial information in accordance with the Dutch Standard 2410 is a limited assurance engagement. Our responsibilities under this standard are further described in the 'Our responsibilities for the review of the condensed consolidated interim financial statements as at 30 June 2021' section of our report.

We are independent of ING Bank N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Responsibilities of the Management Board Banking for the condensed consolidated interim financial statements as at 30 June 2021

The Management Board Banking is responsible for the preparation and presentation of the condensed consolidated interim financial statements as at 30 June 2021 in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted by the European Union.

Furthermore, the Management Board Banking is responsible for such internal control as it determines is necessary to enable the preparation of the condensed consolidated interim financial statements as at 30 June 2021 that is free from material misstatement, whether due to fraud or error.

Our responsibilities for the review of the condensed consolidated interim financial statements as at 30 June 2021

Our responsibility is to plan and perform the review in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

The level of assurance obtained in a limited assurance engagement is substantially less than the level of assurance obtained in an audit conducted in accordance with the Dutch Standards on Auditing. Accordingly, we do not express an audit opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with Dutch Standard 2410.

Our review included among others:

- Updating our understanding of the entity and its environment, including its internal control, and the applicable financial reporting framework, in order to identify areas in the condensed consolidated interim financial statements as at 30 June 2021 where material misstatements are likely to arise due to fraud or error, designing and performing procedures to address those areas, and obtaining assurance evidence that is sufficient and appropriate to provide a basis for our conclusion;
- Obtaining an understanding of internal control, as it relates to the preparation of the condensed consolidated interim financial statements as at 30 June 2021;
- Making inquiries of management and others within the entity;
- Applying analytical procedures with respect to information included in the condensed consolidated interim financial statements as at 30 June 2021;

- Obtaining assurance evidence that the condensed consolidated interim financial statements as at 30 June 2021 agree with, or reconcile to the entity’s underlying accounting records;
- Evaluating the assurance evidence obtained;
- Considering whether there have been any changes in accounting principles or in the methods of applying them and whether any new transactions have necessitated the application of a new accounting principle;
- Considering whether management has identified all events that may require adjustment to or disclosure in the condensed consolidated interim financial statements as at 30 June 2021; and
- Considering whether the condensed consolidated interim financial statements as at 30 June 2021 and the related disclosures have been prepared in accordance with the applicable financial reporting framework and represents the underlying transactions free from material misstatement.

Amstelveen, 5 August 2021

KPMG Accountants N.V.

P.A.M. de Wit RA

Disclaimer

Certain of the statements contained herein are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to a number of factors, including, without limitation: (1) changes in general economic conditions, in particular economic conditions in ING's core markets, including changes affecting currency exchange rates (2) the effects of the Covid-19 pandemic and related response measures, including lockdowns and travel restrictions, on economic conditions in countries in which ING operates, on ING's business and operations and on ING's employees, customers and counterparties (3) changes affecting interest rate levels (4) any default of a major market participant and related market disruption (5) changes in performance of financial markets, including in Europe and developing markets (6) political instability and fiscal uncertainty in Europe and the United States (7) discontinuation of or changes in 'benchmark' indices (8) inflation and deflation in our principal markets (9) changes in conditions in the credit and capital markets generally, including changes in borrower and counterparty creditworthiness (10) failures of banks falling under the scope of state compensation schemes (11) non-compliance with or changes in laws and regulations, including those financial services and tax laws, and the interpretation and application thereof (12) geopolitical risks, political instabilities and policies and actions of governmental and regulatory authorities (13) legal and regulatory risks in certain countries with less developed legal and regulatory frameworks (14) prudential supervision and regulations, including in relation to stress tests and regulatory restrictions on dividends and distributions, (also among members of the group) (15) regulatory consequences of the United Kingdom's withdrawal from the European Union, including authorizations and equivalence decisions (16) ING's ability to meet minimum capital and other prudential regulatory requirements (17) changes in regulation of US commodities and derivatives businesses of ING and its customers (18) application of bank recovery and resolution regimes, including write-down and conversion powers in relation to our securities (19) outcome of current and future litigation, enforcement proceedings, investigations or other regulatory actions, including claims by customers who feel mislead and other conduct issues (20) changes in tax laws and regulations and risks of non-compliance or investigation in connection with tax laws, including FATCA (21) operational risks, such as system disruptions or failures, breaches of security, cyber-attacks, human error, changes in operational practices or inadequate controls including in respect of third parties with which we do business (22) risks and challenges related to cybercrime including the effects of cyber-attacks and changes in legislation and regulation related to cybersecurity and data privacy (23) changes in general competitive factors, including ability to increase or maintain market share (24) the inability to protect our intellectual property and infringement claims by third parties (25) inability of counterparties to meet financial obligations or ability to enforce rights against such counterparties (26) changes in credit ratings (27) business, operational, regulatory, reputation and other risks and challenges in connection with climate change (28) inability to attract and retain key personnel (29) future liabilities under defined benefit retirement plans (30) failure to manage business risks, including in connection with use of models, use of derivatives, or maintaining appropriate policies and guidelines (31) changes in capital and credit markets, including interbank funding, as well as customer deposits, which provide the liquidity and capital required to fund our operations, and (32) the other risks and uncertainties detailed in the most recent annual report of ING Groep N.V. (including the Risk Factors contained therein) and ING's more recent disclosures, including press releases, which are available on www.ING.com. This report contains inactive textual addresses to internet websites operated by us and third parties. Reference to such websites is made for information purposes only, and information found at such websites is not incorporated by reference into this report. ING does not make any representation or warranty with respect to the accuracy or completeness of, or take any responsibility for, any information found at any websites operated by third parties. ING specifically disclaims any liability with respect to any information found at websites operated by third parties. ING cannot guarantee that websites operated by third parties remain available following the filing of this report or that any information found at such websites will not change following the filing of this report. Many of those factors are beyond ING's control.

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

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