

ING Covered Bond Company B.V.

Report for the year 2019

Amsterdam, the Netherlands

ING Covered Bond Company B.V.
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1. Director's report

ING Covered Bond Company B.V.

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1.1 Activities and results

General

ING Covered Bond Company B.V. ("the Company") was incorporated on September 19, 2007 as a private company with limited liability under the laws of the Netherlands. The Company's registered address is at Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands.

The main objects of the Company are:

(a) to obtain, to hold in possession, to dispose of, to encumber and to otherwise manage goods, including claims on private persons, enterprises and authorities, whether or not embodied in value papers, as well as to exercise the rights attached to such claims;

(b) to raise funds through, inter alia, borrowing under loan agreements, the use of financial derivatives or otherwise and to invest and put out funds obtained by the company in, inter alia, (interests in) loans, bonds, debt instruments and other evidences of indebtedness, shares, warrants and other similar securities and also financial derivatives;

(c) to grant guarantees and security for the obligations and debts of the company and of third parties, including the public company with limited liability: ING Bank N.V. ("the Issuer"), with corporate seat in Amsterdam;

(d) to enter into agreements, including, but not limited to, financial derivatives such as interest and/or currency exchange agreements, in connection with the objects mentioned under (a), (b) and (c) of this article;

(e) to enter into agreements, including, but not limited to, bank, securities and cash administration agreements, asset management agreements and agreements creating security in connection with the objects mentioned under (a), (b), (c) and (d) above, everything in conformity with covered bonds programmes (whether or not as a separate programme or as part of other issue programmes), which by the Issuer, with corporate seat in Amsterdam, are or will be raised.

The covered bonds ("the Covered Bonds") issued by the Issuer are secured by a portfolio of mortgage loans and other eligible assets. In the event that the Issuer cannot meet its payment obligations towards the Covered Bonds, the interest and principal payments of the cover pool will be used by the Company to service the Covered Bonds.

For a complete description of the transaction please refer to the Base Prospectus dated September 15, 2008 issued by the Issuer as amended and updated from time to time. The last updated Base Prospectus is dated May 6, 2019. This concerned the usual annual update of the Base Prospectus and relevant transaction documents, which mostly consists of changes further to new legislation to the EUR 30,000,000,000 covered bonds programme ("the Programme") established on 10 March 2008 (as amended and/or updated from time to time) under which the Issuer may from time to time issue the Covered Bonds through syndicated issues, private placements or otherwise, and the Company guarantees the obligations of the issuer as Issuer under the Covered Bonds.

As described in the Base Prospectus the Issuer has to maintain certain ratings with regards to their involvement in the Programme. The long term debt rating by Standard & Poors as from 2 March 2018 is A+, the rating by Moody's as from 6 October 2017 is Aa3 and the rating by Fitch Ratings as from 27 February 2019 is AA-. The short term debt rating of the Issuer by Standard and Poors is A-1 the rating by Moody's is P-1 and the Fitch rating as from 27 February 2019 is F1+. The minimum required rating is set on A (long term) and A-1 (short term) by S&P, A (long term) and F1+ (short term) by Fitch, A3 (long term) and P-1 (short term) by Moody's. The actual ratings meet or exceeds the minimum required rating.

Since the start of the Programme no notifications events, acceleration notice, notice to pay and breach of the Asset Cover Test ("the ACT") have occurred.

The aggregate outstanding notional amount under the Programme on December 31, 2019 amounts to EUR 25.3 billion (2018: EUR 25.4 billion) and the outstanding covered bonds amount to EUR 21.2 billion (2018: EUR 20.3 billion).

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RISK MANAGEMENT

In the event the Company will take over the servicing of the Covered Bonds, the Company will run the interest rate, credit and concentration risk, liquidity risk and foreign currency risks on the Covered Bonds and the mortgage portfolio. In order to limit these potential risks, the Company mitigated these risks via various instruments which are described in further detail below.

The risk appetite of the Company is low and matches the risk-profile of the Company. As said, various measurements have been taken to mitigate the risks of the Company. The main risks are various financial risks, which will be dealt with separately.

Financial risk management

The Company is exposed to a variety of financial risks, being credit and concentration risk, interest rate risk, liquidity risk and foreign currency risk. The Company's risk management processes remain unchanged compared to last year.

We refer to the Base Prospectus for a description of the financial risks. However, these documents do not form part of the annual report.

Credit and concentration risk

The Company has no exposure to credit risk, which is the risk that borrowers will be unable to pay amounts in full when due, unless the guarantee is invoked. When the guarantee is invoked all risks associated with the mortgage portfolio are transferred to the Company. Until that moment, all risks and rewards associated with the assets are retained by the Issuer and the transferred mortgage loans are not recognised at the balance sheet of the Company. However, given the minimum required collateralisation of at least 5% a buffer is available to cover losses which may arise.

As detailed in the future developments the Dutch economy is affected currently by the COVID-19 crisis. It is unsure whether this circumstance will have a negative effect on the housing market.

Interest rate risk

In order to limit the potential interest rate risk the Company may, if deemed necessary, enter into swap agreements. In relation to the series issued and the portfolio transferred to the Company no swap agreement has been entered into by the Company.

Liquidity risk

The Company's exposure to liquidity risk is mitigated through the mechanics of the ACT, the issuer facility advance and the AIC account. The ACT, issuer facility advance and the AIC account ensure that the Company has sufficient funds to meet its obligations. The ACT makes sure that the Company will, at any period in time, have sufficient collateral in relation to the outstanding guarantee. Furthermore the Issuer will be required to ensure that, amongst other things, at all times sufficient liquidity is maintained or generated by the CBC to cover for the following 6 month-period interest.

Foreign currency risk

In case of an issue in a currency other than euros, the Company's exposure to foreign currency risk is mitigated through a structured swap.

In the unlikely situation that all risk measures as described above fail, the limited recourse clause of the transaction will take effect (see below).

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Limited recourse

Although interest rate risk, credit and concentration risk, liquidity risk and foreign currency risk are recognised, the exposure of the Company to these risks is limited. The Covered Bonds are issued at limited recourse. If a Issuer Event of Default occurs and the security is enforced, the proceeds may not be sufficient to meet the claims of all the secured creditors, including the covered bondholders. If following enforcement of the security, the secured creditors have not received the full amount due to them pursuant to the terms of the transaction documents, the secured creditors will no longer have a claim against the Company after enforcement of the security. The secured creditors may still have an unsecured claim against the Issuer for the shortfall.

Personnel related information

The Company employed no personnel during the year under review (2018: nil).

1.2 Future developments

The year 2019 has seen a continuation of the positive developments for the Dutch economy for just about all economic indicators, although in most areas, the level of growth was lower than in recent years. The Gross Domestic Product (“GDP”) increased by around 1.7% in 2019, as compared to 2.5% in 2018. The expectations are that the GDP growth rate will level out around the 2% in the coming years. The reduced growth rate can also be seen as a reflection of declining levels of confidence expressed by consumers and in business and commerce. The spectacular growth in domestic house prices is coming to an end and the growth levels in the rest of the world and international trading also appear to be levelling off. Domestically, public spending and tax reductions are expected to provide positive impulses in the coming years but there continues to be capacity restrictions in the domestic economy, particularly in terms of skilled labor and some raw material shortages. A new capacity restriction was imposed in 2019 in the form of judgments from the Dutch High Court and European court concerning Nitrogen output levels (the ‘Greenhouse effect’). This is already having the effect of delaying construction projects. Much of the expectations for the coming years are to a large degree dependent on developments in the rest of the world. The threat of a trade wars has receded somewhat in recent months, but rising tension in the Middle East, developments in the emerging economies and the timing and consequences of Brexit currently form the biggest dangers to these projections. All could materially impact the growth expectations.

The confidence levels in the business and commerce sectors and investment levels are also expected to level off for reasons outlined above. On the a more positive side, there appears to be ample funding available, both from the banking and private sectors, as well as from increased liquidity arising from higher profit levels. A warning signal is that banks appear to be tightening their acceptance criteria recently.

Unemployment levels continued to reduce from 3.8% to 3.4% during 2019 but this trend is expected to reverse slowly with an estimate of 3.6% by the end of 2021. Whilst the growth in labor demand is expected to keep growing, the expectation is that it will be slightly outstripped by the increased supply of labor. The growth in employment positions in recent years has attracted a great number of particularly older and more experienced entrants to the labor markets. Nevertheless, an historically high level of employers is experiencing problems through a lack of staff. The shift in labor markets seen in recent years from fixed to flexible contracts has reversed as employers seek the added security of labor that fixed contracts bring. The number of freelancers also continues to grow steadily.

Headline Inflation rose from some 1.6% in 2018 to 2.7% in 2019 as a result of one-off increases in energy prices and the imposed increase in the low rate VAT. The expected inflation for 2018 was 1.7%. For each of the coming years, and without those effects, inflation is expected to settle at a level of around 2.0%. The major determinant of headline inflation is wage inflation which is expected to rise to 2.6% and 2.8% in 2020 and 2021, respectively. Pressure in the labor market outlined above is seen as the main cause. Wage inflation, in combination with lower personal taxes is expected to lead to increases in real disposable income.

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The Dutch residential housing market is showing some signs of stabilization. The number of transactions in 2019 was comparable to 2018 at around 210,000 and price increases reduced significantly to around 6-8%. Indications at the end of 2019 are that a shortage of supply of dwellings in the market will ensure that it remains to be a sellers' market. In addition, the continued low level of interest rates, high employment rates and the expected rise in the level of disposable income contribute to the demand levels. These factors lead to a continuation of rising prices, albeit that they are likely to stabilize as compared to recent years at a level of around 2-3%. As always, there are significant regional differences. Such variations occur foremost between the Randstad, particularly Amsterdam and surrounding areas, and the rest of the country. Some regions are also affected by local economic and social issues and developments.

The above prognosis for future price increases is also supported by the average time that dwellings spend on the market. At the end of 2019 that statistic stood at around just 38 days. In addition, the trend of delayed completion for new developments continues. The scarcity of labor and some raw materials, has now been joined by the issue of the judgment concerning Nitrogen output levels.

Risk levels for homeowners and lenders alike have again decreased since last year and this is expected to continue in the coming years, though regional differences should not be ignored in the analysis. New homeowners have for years been subjected to stricter lending conditions and existing homeowners have seen debt ratios decrease as a result of rising prices. Borrowers continue to early repay their loans in situations where they are locked into mortgage agreements at relatively high interest rates. New loans have shown a tendency to be agreed for relatively long interest periods, at relatively low rates. The expectations for growth in the mortgage finance sector exceed those for price increases for dwellings for the first time in several years. Mortgage lenders are experiencing market pressures from alternative finance sources and have responded by easing acceptance criteria.

In the light of the risk factors facing the Company, as described above, the economic developments over the past year or so and outlook are generally considered positive for the Company. Management believes that the Company's risks are adequately mitigated by the various credit enhancements, as described in the Financial statements and the Prospectus. Moreover, the Company's obligations to bondholders are of limited recourse (see above). Consequently, no noticeable changes in the current position of the Company are expected for the next 12 months.

The historical information and prospective trends in this report were primarily derived from public reports issued by DNB and the NVM.

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Subsequent events

The global spreading of the COVID-19 subsequent to the year-end is currently casting uncertainty over worldwide economies and industries. From the Company's perspective, the uncertainty for the housing market in the Netherlands and the ability of the borrowers to meet obligations under the receivables of the Issuer as they fall due, could initially impact the Issuer. However, the possibility of a significant curtailment in the Issuer's income stream was envisioned in the Base Prospectus and contingent measures to be taken by the Company in those circumstances were clearly set out. The Company has always acted in accordance with the instructions mandated by the Base Prospectus and will continue to do so in the future. As such, the Company believes that it will continue to operate as a going concern until the transaction is completed, under the terms and conditions set out in the Base Prospectus.

Amsterdam, 18 June 2020

Managing Director,
Intertrust Management B.V.

2. FINANCIAL STATEMENTS

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2.1 Balance sheet as at December 31, 2019

(Before result appropriation)

ASSETS	December 31, 2019		December 31, 2018	
	€	€	€	€
Current assets				
<i>Receivables</i>				
Receivable from the Shareholder [1]	20,000		20,000	
Accounts receivable [2]	<u>81</u>		<u>34,423</u>	
		20,081		54,423
Cash and cash equivalents [3]				
Transaction account	27,963		97,013	
AIC account	<u>2,889</u>		<u>2,898</u>	
		30,852		99,911
		<u>50,933</u>		<u>154,334</u>
SHAREHOLDER'S EQUITY AND LIABILITIES				
Shareholder's equity [4]				
Share capital	20,000		20,000	
Retained earnings	(-) 12,000		(-) 12,000	
Result financial year	<u>12,150</u>		<u>12,000</u>	
		20,150		20,000
Current liabilities [5]				
Issuer facility advance	3,592		77,685	
Loan given AIC account payable	2,898		2,898	
Accrued expenses and other liabilities	24,286		53,738	
Corporate income tax payable	<u>7</u>		<u>13</u>	
		30,783		134,334
		<u>50,933</u>		<u>154,334</u>

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2.2 Statement of income for the year 2019

		2019		2018	
		€	€	€	€
Income					
Guarantee fee	[6]	15,000		15,000	
Reimbursed expenses	[7]	59,182		91,282	
Reimbursed negative interest	[7]	<u>231</u>		<u>917,932</u>	
			74,413		1,024,214
Operating expenses	[8]				
Audit fee		30,250		24,006	
Sundry expenses		28,891		67,276	
Negative interest bank accounts		<u>272</u>		<u>917,932</u>	
			59,413		1,009,214
Income before taxation			<u>15,000</u>		<u>15,000</u>
Corporate income tax	[9]		(-) 2,850		(-) 3,000
Net result			<u><u>12,150</u></u>		<u><u>12,000</u></u>

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2.3 Statement of cash flows for the year 2019

The cash flow statement has been prepared according to the indirect method.

	2019		2018	
	€	€	€	€
Cash flow from operating activities				
Net result		12,150		12,000
<i>Adjustments to statement of income:</i>				
Taxes [9]	<u>2,850</u>		<u>3,000</u>	
		2,850		3,000
Net change in current liabilities	(-) 103,545		(-) 322,941,993	
Net change in current assets	34,342		254,952	
Taxes paid	<u>(-) 2,856</u>		<u>(-) 3,102</u>	
		(-) 72,059		(-) 322,690,143
Cash flow from financing activities				
Dividends paid [4]		(-) 12,000		(-) 12,000
Movements in cash		<u><u>(-) 69,059</u></u>		<u><u>(-) 322,687,143</u></u>
Cash balance at the beginning of period		99,911		322,787,054
Movements in cash		<u>(-) 69,059</u>		<u>(-) 322,687,143</u>
Cash balance at the end of year		<u><u>30,852</u></u>		<u><u>99,911</u></u>

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2.4 General notes to the financial statements

GENERAL INFORMATION

ING Covered Bond Company B.V. ("the Company") was incorporated as a private company with limited liability under the laws of the Netherlands on September 19, 2007. The statutory seat of the Company is Amsterdam, the Netherlands and the sole managing director of the Company is Intertrust Management B.V. The Company is registered under number 34283089 with the trade register of the Dutch Chamber of Commerce.

The main objects of the Company are:

(a) to obtain, to hold in possession, to dispose of, to encumber and to otherwise manage goods, including claims on private persons, enterprises and authorities, whether or not embodied in value papers, as well as to exercise the rights attached to such claims;

(b) to raise funds through, inter alia, borrowing under loan agreements, the use of financial derivatives or otherwise and to invest and put out funds obtained by the company in, inter alia, (interests in) loans, bonds, debt instruments and other evidences of indebtedness, shares, warrants and other similar securities and also financial derivatives;

(c) to grant guarantees and security for the obligations and debts of the company and of third parties, including the public company with limited liability: ING Bank N.V. (the Issuer), with corporate seat in Amsterdam;

(d) to enter into agreements, including, but not limited to, financial derivatives such as interest and/or currency exchange agreements, in connection with the objects mentioned under (a), (b) and (c) of this article;

(e) to enter into agreements, including, but not limited to, bank, securities and cash administration agreements, asset management agreements and agreements creating security in connection with the objects mentioned under (a), (b), (c) and (d) above, everything in conformity with covered bonds programme (whether or not as a separate program or as part of other issue programmes), which by the Issuer, with corporate seat in Amsterdam, are or will be raised.

The Company has an authorized share capital of EUR 20,000 consisting of 20 shares with a par value of EUR 1,000 each, of which all shares have been issued and fully paid-up. All shares are held by the Stichting Holding ING Covered Bond Company ("the Foundation"). The Foundation was incorporated under the laws of the Netherlands on August 28, 2007. The registered address of the Foundation is in Amsterdam, the Netherlands. The objectives of the Foundation are to incorporate, acquire and to hold shares in the share capital of the Company and to exercise all rights attached to such shares and to dispose and encumber such shares. The sole director of the Foundation is Intertrust Management B.V.

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2.4 General notes to the financial statements

TRANSACTION STRUCTURE, MANAGEMENT AND RELATED PARTIES

The objective of the transaction structure is to have a new funding source attracting funding at an AAA-level rate. The Covered Bonds issued by the Issuer, are secured by a portfolio of mortgage loans and other eligible assets. In the event that the Issuer cannot meet its obligations on the Covered Bonds, the interest and principal payments of the portfolio will be exercised by the Company.

The structure of the Programme can be described as follows:

- The Company guarantees the Covered Bonds issued by the Issuer. The Issuer will swap the fixed rate liabilities (if any) to floating through an interest rate swap ("IRS"), on behalf of the Company.
- The Company will swap fixed interest rate coupon payments (if any) on the portfolio assets to floating rate payments through a total return swap ("TRS") with the Issuer. This TRS is an interest rate swap (not transferring any credit risk, etc.). It swaps the cash flows of the fixed coupons (minus a margin) for floating. Through the waterfall, all amounts remaining in the Company will flow back periodically to the the Issuer. As a consequence, the overall interest rate position of the Issuer remains unchanged. Unless the Issuer loses the minimum required ratings as described below, there will be no cash flows (also not under the TRS) and the Company, will not have the right to any of the proceeds.
- The Guarantee Support Agreement provides that the transfer of the eligible receivables will be effected through a silent assignment (stille cessie) by the Issuer to the Company. This means that legal ownership of the eligible receivables will be transferred to the Company by registration of a duly executed deed of assignment with the Dutch Tax Authority (Belastingdienst), without notifying the debtors of such transfer.
- The Company has granted a first ranking right of pledge over receivables and related beneficiary rights to Stichting Trustee ING Covered Bond Company ("the Trustee"). The latter acts as Agent and Trustee for the Covered Bonds issued by the Issuer, in view of the Programme.

The exercise of the pledge is subject to certain terms and conditions. Not meeting the Company's obligations to certain secured parties, including the covered bondholders, can lead to exercising the right of pledge by the Trustee.

If the Issuer loses its minimum required rating as described below, the economic risk of the cover pool and the related funding will be transferred to the Company.

The aggregate outstanding notional amount under the Programme on December 31, 2019 amounts to EUR 25.3 billion (2018: EUR 25.4 billion) and the outstanding covered bonds amount to EUR 21.2 billion (2018: EUR 20.3 billion). The long term debt rating by Standard & Poors as from 2 March 2018 is A+, the rating by Moody's as from 6 October 2017 is Aa3 and the rating by Fitch Ratings as from 27 February 2019 is AA-. The short term debt rating of the Issuer by Standard and Poors is A-1 the rating by Moody's is P-1 and the Fitch rating as from 27 February 2019 is F1+. The minimum required rating is set on A (long term) and A-1 (short term) by S&P, A (long term) and F1+ (short term) by Fitch, A3 (long term) and P-1 (short term) by Moody's. The actual ratings meet or exceeds the minimum required rating.

RISK MANAGEMENT

In the event the Company will take over the servicing of the Covered Bonds, the Company will run the interest rate, credit and concentration risk, liquidity risk and foreign currency risks on the Covered Bonds and the mortgage portfolio. In order to limit these potential risks, the Company mitigated these risks via various instruments which are described in further detail below.

The risk appetite of the Company is low and matches the risk-profile of the Company. As said, various measurements have been taken to mitigate the risks of the Company. The main risks are various financial risks, which will be dealt with separately.

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2.4 General notes to the financial statements

Financial risk management

The Company is exposed to a variety of financial risks, being credit and concentration risk, interest rate risk, liquidity risk and foreign currency risk. The Company's risk management processes remain unchanged compared to last year.

We refer to the Base Prospectus for a description of the financial risks. However, these documents do not form part of the annual report.

Credit and concentration risk

The Company has no exposure to credit risk, which is the risk that borrowers will be unable to pay amounts in full when due, unless the guarantee is invoked. When the guarantee is invoked all risks associated with the mortgage portfolio are transferred to the Company. Until that moment, all risks and rewards associated with the assets are retained by the Issuer and the transferred mortgage loans are not recognised at the balance sheet of the Company. However, given the minimum required collateralisation of at least 5% a buffer is available to cover losses which may arise.

The Dutch economy is affected currently by the COVID-19 crisis. It is unsure whether this circumstance will have a negative effect on the housing market.

Interest rate risk

The Company solely has exposure to interest rate risk, if a downgrade of the Issuer occurs that is below the minimum required rating, being A- (long term) by S&P, A (long term) and F1 (short term) by Fitch and A3 (long term) by Moody's. From the moment a rating event occurs, the Company's exposure to interest rate risk is mitigated through a TRS with the Issuer.

Liquidity risk

The Company's exposure to liquidity risk is mitigated through the mechanics of the ACT, the issuer facility advance and the AIC account. The ACT, issuer facility advance and the AIC account ensure that the Company has sufficient funds to meet its obligations. The ACT makes sure that the Company will, at any period in time, have sufficient collateral in relation to the outstanding guarantee. Furthermore the Issuer will be required to ensure that, amongst other things, at all times sufficient liquidity is maintained or generated by the CBC to cover for the following 6 month-period interest.

Foreign currency risk

In case of an issue in a currency other than euros, the Company's exposure to foreign currency risk is mitigated through a structured swap.

In the unlikely situation that all risk measures as described above fail, the limited recourse clause of the transaction will take effect (see below).

Limited recourse

Although interest rate risk, credit and concentration risk, liquidity risk and foreign currency risk are recognised, the exposure of the Company to these risks is limited. The Covered Bonds are issued at limited recourse. If a Issuer Event of Default occurs and the security is enforced, the proceeds may not be sufficient to meet the claims of all the secured creditors, including the covered bondholders. If following enforcement of the security, the secured creditors have not received the full amount due to them pursuant to the terms of the transaction documents, the secured creditors will no longer have a claim against the Company after enforcement of the security. The secured creditors may still have an unsecured claim against the Issuer for the shortfall.

Personnel related information

The Company employed no personnel during the year under review (2018: nil).

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2.4 General notes to the financial statements

PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis of presentation

The Financial Statements are prepared in accordance with accounting principles generally accepted in the Netherlands and comply with the requirements of Part 9, Book 2 of the Dutch Civil Code. The Financial Statements are prepared under the historical cost convention and presented in euro ("EUR"). Assets and liabilities are stated at nominal value, unless otherwise stated. If deemed necessary, a provision is deducted from the nominal amount of accounts receivable.

The Company is considered a micro entity for Dutch statutory reporting purposes and therefore, in accordance with the provisions of Article 396, Title 9 of Book 2 of the Dutch Civil Code, certain exemptions apply to the Company's financial statements and the notes thereto.

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources and activities to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements are prepared on the going concern basis.

Derivatives

The Company entered into derivative contracts to mitigate cash flow and interest rate risks. Only when the Issuer is downgraded below the contractual minimum and the assets are transferred to the Company, the derivatives are in effect. As there are currently no cash flows under the derivatives, no reliable fair value can be measured.

Current assets

Current assets are recognized initially at fair value and subsequently measured at costs less any provision for impairment if deemed necessary.

Cash and cash equivalents

Cash and cash equivalents are valued at nominal value and, insofar as not stated otherwise, are at the free disposal of the Company. Cash and cash equivalents relate to immediately due and payable withdrawal claims against credit institutions and cash resources.

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2.4 General notes to the financial statements

Foreign currencies

Foreign currency transactions, if any, are accounted for at the exchange rates prevailing at the date of the transactions: gains and losses resulting from the settlement of such transactions and from the conversion of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Such balances are translated at year-end exchange rates. During the year 2019 there were no foreign currency transactions (2018: nil).

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Revenue recognition

Income and expenses are recognized in the income statement on an accruals basis. Operating expenses are accounted for in the period in which these are incurred. Losses are accounted for in the year in which they are identified.

Fair value

Due to the short-term nature of the cash and cash equivalents, the balance with the Issuer and other liabilities included in these Financial statements, the estimated fair value for these financial instruments approximates the book value, as disclosed in the aforementioned accounting policies.

Corporate income tax

The Company and the Dutch Tax Authorities agreed by way of a ruling dated 28 August 2007 that the taxable amount is EUR 15,000. The applicable tax rate for the period under review is 19% of the taxable amount. The ruling with the Dutch Tax Authorities will have effect until the final maturity date of the Covered Bonds. Management proposed an interim dividend 2019 of EUR 12,000 which was declared as a dividend on 25 June 2019 and subsequently distributed on June 27, 2019.

Corporate income tax comprises the current and deferred corporate income tax payable and deductible for the reporting period. Corporate income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity, or to business combinations.

Current tax comprises the expected tax payable or recoverable on the taxable profit or loss for the financial year, calculated using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Contingent liabilities and commitments

The Company has granted a first ranking right of pledge over the receivables and related beneficiary rights to the Trustee.

The exercise of the pledge is subject to certain terms and conditions. Not meeting the Company's obligations to certain secured parties, including the covered bondholders, can lead to exercising the right of pledge by the Trustee.

Statement of cash flows

The cash items disclosed in the statement of cash flows are comprised of cash and cash equivalents. Income taxes are included in cash from operating activities. Dividends paid are recognised as cash used in financing activities. Transactions not resulting in inflow or outflow of cash are not recognised in the statement of cash flows.

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2.5 Notes to the balance sheet

ASSETS

Current assets

	<u>31/12/2019</u>	<u>31/12/2018</u>
	€	€
Receivable from the Shareholder [1]		
Stichting Holding ING Covered Bond Company.	20,000	20,000
	<u>20,000</u>	<u>20,000</u>

The receivable relates to the share capital prepayment to the Foundation.

	<u>31/12/2019</u>	<u>31/12/2018</u>
	€	€
Accounts receivable [2]		
Accounts receivable	81	34,423
	<u>81</u>	<u>34,423</u>

The accounts receivable relate to the negative interest for Q4 2019 charged on the AIC account.

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2.5 Notes to the balance sheet

Cash and cash equivalents [3]

	<u>31/12/2019</u>	<u>31/12/2018</u>
	€	€
Transaction account	27,963	97,013
AIC account	<u>2,889</u>	<u>2,898</u>
	<u><u>30,852</u></u>	<u><u>99,911</u></u>

Transaction account

The bank accounts are held with the Issuer. The cash balance of the transaction account is freely available to the Company.

AIC Account

Part of the Programme includes a "pre maturity test", which amongst others includes the pre-maturity minimum ratings by the rating agencies of the Issuer. Furthermore, there is an requirement to transfer sufficient liquidity in the Company to cover for the following 6 month-period interest and, solely in relation to the Covered Bonds, principal payments on the Covered Bonds and certain higher and pari passu ranking payments. For further details of the test described above reference is made to the "Amended Asset Monitor Agreement".

Under the Guarantee Support Agreement ("GSA") with the Issuer, the Company has issued a guarantee in relation to the Covered Bonds to pay the guaranteed amounts constituting scheduled interest on Covered Bonds payable. In order to enable the Company to meet this guarantee, sufficient eligible assets must be transferred to the Company. In order to comply with the "pre maturity test" the Issuer is required to transfer amounts into the AIC account of the Company if the minimum required ratings are not met. The amount is placed on the Company's AIC account and is not freely available to the Company other than to meet the obligations referred to above.

During 2019 there were no withdrawals and no deposits on the AIC account. The cash flows during the year depend on the maturity dates of the outstanding Covered Bonds. When a Covered Bond matures within this 12 month period, the total outstanding balance of the bond should be placed on the AIC account. Note that this is only mandatory when the pre maturity test described above has failed. The recorded amount on the AIC account relates to a prepayment of the Issuer for bank charges on the AIC account.

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2.5 Notes to the balance sheet

LIABILITIES

Shareholder's equity [4]

Share capital

The authorized share capital amounts to EUR 20,000, consisting of 20 ordinary shares of EUR 1,000 each, of which all shares are issued and fully paid-up. All shares are held by the Foundation.

The movements in shareholder's equity can be detailed as follows:

	Share capital	Retained earnings	Result for the period	Total
	€	€	€	€
Opening balance	20,000	(-) 12,000	12,000	20,000
Appropriation of result	-	12,000	(-) 12,000	-
Dividend	-	(-) 12,000	-	(-) 12,000
Result for the period	-	-	12,150	12,150
Ending balance	<u>20,000</u>	<u>(-) 12,000</u>	<u>12,150</u>	<u>20,150</u>

Proposed appropriation

The net result for the year 2019 amounted to EUR 12,150 (2018: EUR 12,000). Management proposed an interim dividend of EUR 12,000 which was declared as a dividend on 25 June 2019 and subsequently distributed on June 27, 2019.

Current liabilities [5]

The movement in the Issuer facility advance during the year can be explained as follows:

	31/12/2019	31/12/2018
	€	€
Issuer facility advance opening balance	77,685	(-) 16,033
Reimbursed operating expenses	(-) 59,141	(-) 91,282
Guarantee fee	(-) 15,000	(-) 15,000
Receivable from the Issuer	-	200,000
Preliminary corporate income tax discount	48	-
Issuer facility advance ending balance	<u>3,592</u>	<u>77,685</u>

The issuer facility advance relate to the Administration Agreement with the Issuer. The Company will be reimbursed for its expenses and receives a guarantee fee. The Issuer made no advance payments during 2019.

Loan given AIC account payable:

	31/12/2019	31/12/2018
	€	€
Opening balance	2,898	322,740,169
Collateral amounts funded	-	101
Collateral amounts drawn	-	(-) 322,740,361
Withdrawn expenses and reimbursements	-	2,989
Closing balance	<u>2,898</u>	<u>2,898</u>

The loan given AIC Payable account relates to the obligatory cash deposit made by the Issuer on the AIC Account. For more information please refer to note 3

ING Covered Bond Company B.V.
Report for the year 2019

2.5 Notes to the balance sheet

The accrued expenses and other liabilities can be detailed as follows:

	<u>31/12/2019</u>	<u>31/12/2018</u>
	€	€
Negative Interest and bank charges payable	86	34,423
Audit fee payable	24,200	18,150
Administration fee payable	-	1,165
	<u>24,286</u>	<u>53,738</u>

Corporate income tax payable

	<u>31/12/2019</u>	<u>31/12/2018</u>
	€	€
Corporate income tax current year	7	7
Corporate income tax previous year	-	6
	<u>7</u>	<u>13</u>

An amount of EUR 2,843 provisional tax claim excluding a reduction for the year 2019 was paid in 2019. It is expected that the final tax claim for the year 2019 will be EUR 2,850 in accordance with the ruling.

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Report for the year 2019

2.6 Notes to the statement of income

Guarantee fee [6]

The Guarantee fee amounting to EUR 15,000 relates to the minimum taxable profit which at the same time will be the remuneration for management.

Reimbursed expenses [7]

	2019	2018
	€	€
Reimbursed expenses	59,182	91,282
Reimbursed negative interest	231	917,932
	<u>59,413</u>	<u>1,009,214</u>

According to the Administration Agreement with the Issuer the Company will be reimbursed for its expenses and receives a guarantee fee. The negative interest is reimbursed by the Issuer directly. To clarify, the reimbursed expenses are charged to the Issuer via the issuer facility advance.

Operating expenses [8]

	2019	2018
	€	€
Audit fee	30,250	24,006
Management fee	3,837	8,787
Audit related fee	24,200	58,080
Other general costs	854	409
Negative interest bank accounts	272	917,932
	<u>59,413</u>	<u>1,009,214</u>

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Report for the year 2019

2.6 Notes to the statement of income

Corporate income tax [9]

	<u>2019</u>	<u>2018</u>
	€	€
Corporate income tax	<u>2,850</u>	<u>3,000</u>
	<u><u>2,850</u></u>	<u><u>3,000</u></u>

The Company and the Dutch Tax Authorities agreed by way of a ruling that the taxable amount is EUR 15,000. The applicable tax rate for the period under review is 19% of the taxable amount. The ruling with the Dutch Tax Authorities will have effect until the final maturity date of the Covered Bonds.

Subsequent events

The global spreading of the COVID-19 subsequent to the year-end is currently casting uncertainty over worldwide economies and industries. From the Company's perspective, the uncertainty for the housing market in the Netherlands and the ability of the borrowers to meet obligations under the receivables of the Issuer as they fall due, could initially impact the Issuer. However, the possibility of a significant curtailment in the Issuer's income stream was envisioned in the Base Prospectus and contingent measures to be taken by the Company in those circumstances were clearly set out. The Company has always acted in accordance with the instructions mandated by the Base Prospectus and will continue to do so in the future. As such, the Company believes that it will continue to operate as a going concern until the transaction is completed, under the terms and conditions set out in the Base Prospectus.

Amsterdam, 18 June 2020
ING Covered Bond Company B.V.

Managing Director
Intertrust Management B.V.

ING Covered Bond Company B.V.

Report for the year 2019

3. Other information

3.1 Statutory provisions

In accordance with Article 14 of the Articles of Association, the result for the year is at the disposal of the General Meeting.

3.2 Independent Auditor's Report

The Independent Auditor's Report is included on the following pages.



Independent auditor's report

To: the General Meeting of ING Covered Bond Company B.V.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2019 of ING Covered Bond Company B.V., based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of ING Covered Bond Company B.V. as at 31 December 2019, and of its result for the year 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- 1 the balance sheet as at 31 December 2019;
- 2 the statement of income for the year 2019;
- 3 the statement of cash flows for the year 2019; and
- 4 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of ING Covered Bond Company B.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

Report on the other information included in the Report

In addition to the financial statements and our auditor's report thereon, the Report contains other information that consists of:

- director's report;
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.



We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The director is responsible for the preparation of the other information.

Description of the responsibilities for the financial statements

Responsibilities of the director for the financial statements

The director is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the director is responsible for such internal control as the director determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the director is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the director should prepare the financial statements using the going concern basis of accounting unless the director either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The director should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;



- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the director;
- concluding on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amstelveen, 18 June 2020

KPMG Accountants N.V.

R. Huizingh RA