ING Covered Bond Company B.V.

Report for the year 2018

Amsterdam, the Netherlands

ING Covered Bond Company B.V.
Prins Bernhardplein 200
1097JB Amsterdam
The Netherlands
Chamber of Commerce Amsterdam 34283089

Table of contents

1. Director's report

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 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 programs (whether or not as a separate program or as part of other issue programs), which by the Issuer, with corporate seat in Amsterdam, are or will be raised.

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 June 22, 2018. This concerned the update and the decrease of and certain amendments to (including adding the option for the Issuer to issue covered bonds with an extendable maturity date (so called soft bullet covered bonds) under) the EUR 30,000,000,000 covered bonds 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 covered bonds ("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 ING Bank N.V. 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 14 April 2016 is A+. The short term debt rating of ING Bank N.V. by Futch as from 19 May 2015 is F1. The minimum required rating is set on A- (long term) by S&P, A (long term) and F1 (short term) by Fitch and A3 (long term) by Moody’s. The actual rating exceeds the minimun required rating.

Since the start of the Programme no notifications events, acceleration notice, notice to pay and breach of the ACT have occurred.

The aggregate outstanding notional amount under the covered bond programme on December 31, 2018 amounts to EUR 25.4 billion (2017: EUR 28.4 billion) and the outstanding covered bonds amount to EUR 20.3 billion (2017: EUR 22.7 billion).

RISK MANAGEMENT
In the event the Company will take over the servicing of the Covered Bonds, the Company will run the interest rate and credit risk 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 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. The information disclosed in the annual report should be read in conjunction with the full text and definitions of the Base Prospectus and the updated Base Prospectus. 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 transferrred 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.

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 Asset Cover Test, the Issuer Facility Advance and the AIC account. The Asset Cover Test, Issuer Facility Advance and the AIC account ensure that the Company has sufficient funds to meet its obligations. The Asset Cover Test makes sure that the Company will, at any period in time, have sufficient collateral in relation to the outstanding Guarantee. Furthermore there is an requirement to transfer sufficient liquidity in the CBC to cover for the following 6 month-period interest to the AIC account.

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.

Limited recourse
Although interest rate risk, credit risk and liquidity risk are recognised, the exposure of the Company to these risks is limited. The Covered Bonds are issued at limited recourse. If a CBC 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 (2017: nil).

1.2 Future developments

The year 2018 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, and 2017 in particular. The Gross Domestic Product ("GDP") increased by around 2.5% in 2018, as compared to 3.0% in 2017.The expected growth in 2017 was 3.3%. The growth was mostly fueled by consumer confidence, still stemming for a large part from the upswing in the domestic house prices. In addition, public sector spending is rising and confidence levels within commercial enterprises are still relatively high. The latter is the result of increased world trade and the continuing low levels of inflation and interest rates. It is expected that the economy will continue to show relatively high growth rates in the coming years with increases of GDP of 1.7% expected for both 2019 and 2020. These are expected to be driven by consumer confidence and increased public spending though this is showing signs of delays due to capacity and raw material problems. Much of these expectations are to a large degree dependent on developments in the rest of the world. The threat of a trade wars, developments in the emerging economies (China in particular) and the consequences of Brexit currently form the biggest dangers to these projections.

A relatively high level of confidence continues in the business and commerce sectors and investment levels are also expected to remain relatively high. 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.

Unemployment levels reduced from 4.9% to 3.8% during 2018 and this trend is also expected to slow down with an estimate of 3.6% at the end of both 2019 and 2020. The slowdown is the result of capacity limits being reached and difficulties being experienced in the recruitment of suitable staff is becoming a greater issue. Vacancy levels are high and are being filled increasingly by older, more experienced employees. The shift in labour markets seen in recent years from fixed to flexible contracts also appears to be coming to an end.

Inflation is expected to rise from some 1.7% in 2018 to 2.7% in 2019 but reducing to 1.8% in 2020. The anticipated rise in 2019 stems from increases in energy prices and the imposed increase in the low rate VAT. The VAT increase will only impact the 2019 inflation rate significantly. For each of the coming years, wage inflation is expected to rise from the 2018 level of around 2.1% as a result of annual wage increase settlements and the trend to employ more experienced personnel. Wage inflation, in combination with lower personal taxes is expected to lead to increases in real disposable income.

The Dutch residential housing market continues to show signs of overheating but the latter part of 2018 showed signs of normalization. There are indications that the price ceiling is being reached, particularly in the regions where the most spectacular price rises have been experienced in recent years. Significant increases in asking prices and bids above the asking price are less commonplace. Another effect is that the relationship between supply and demand seems to be returning to a more normal level. 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.

For the market as a whole, the number of dwellings changing ownership decreased by some 10% during 2018 as compared to the previous year and with it the average time that dwellings spend on the market. For new developments, recent months have seen a trend of delayed completion, mostly due to capacity issues. The scarcity of labour and some raw materials, as well as a high level of development in urban areas, have also resulted in significant price rises for new dwellings. The expectation is that these trends will continue in the coming years, albeit that they will be less pronounced than in recent years as some degree of normalization is reached. However, until these levels are reached, the NVM has expressed deep concerns for the market in each of its recent press releases on the subject.

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 continue. New home owners have been subjected to stricter lending conditions and existing home owners have seen debt ratios decrease as a result of rising prices. Additionally, borrowers are accelerating repayments in situations where they are locked into mortgage agreements at relatively high interest rates. The latter is one of the restrictions in the growth of mortgage debt levels and so the prospects of growth in the mortgage market will be tempered somewhat in the coming years and will probably not match increases in house prices. There are clear indications that borrowers are increasingly finding alternative sources for the funding of house purchases and this is leading to an easing of acceptance criteria used by mortgage lenders.

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 Noteholders 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.

Subsequent events
No events took place after the balance sheet date till the authorization date of the financial statements that could have a major effect on the financial position of the Company.

The long term debt rating of ING Bank N.V. by Fitch was upgraded on 27 February 2019 from A+ to AA-. The short term debt rating of ING Bank N.V. by Fitch was upgraded on 27 February 2019 from F1 to F1+. To add, this does not impact the financial statements 2018.

On 6 May 2019 the Base Prospectus was updated. The update concerns the usual annual update of the Base Prospectuses and relevant transaction documents, which mostly consists of changes further to new legislation.

Amsterdam, 28 June 2019

Managing Director,
Intertrust Management B.V.

2. FINANCIAL STATEMENTS

2.1 Balance sheet as at December 31, 2018
(Before result appropriation)

		December 31, 2018		December 31, 2017	
ASSETS		€	€	€	€
Current assets					
Receivables					
Receivable from the Shareholder	[1]	20,000		-	
Issue facility advance	[2]	-		16,033	
Accounts receivable	[2]	34,423		293,342	
			54,423		309,375
Cash and cash equivalents	[3]				
Transaction account		97,013		46,885	
AIC account		2,898		322,740,169	
			99,911		322,787,054
			154,334		323,096,429

		December 31, 2018		December 31, 2017	
SHAREHOLDER'S EQUITY AND LIABILITIES					
Shareholder's equity	[4]				
Share capital		20,000		20,000	
Retained earnings		(-) 12,000		(-) 12,000	
Result financial year		12,000		12,000	
			20,000		20,000
Current liabilities	[5]				
Issue facility advance		77,685		-	
Loan given AIC account payable		2,898		322,740,169	
Accrued expenses and other liabilities		53,738		336,145	
Corporate income tax payable		13		115	
			134,334		323,076,429
			154,334		323,096,429

2.2 Statement of income for the year 2018

		2018		2017	
		€	€	€	€
Income					
Guarantee fee	[6]	15,000		15,000	
Reimbursed expenses	[7]	91,282		45,306	
Reimbursed negative interest	[7]	917,932		479,466	
			1,024,214		539,772
Operating expenses	[8]				
Audit fee		24,006		18,130	
Sundry expenses		67,276		27,176	
Negative interest bank accounts		917,932		479,466	
			1,009,214		524,772
Income before taxation			15,000		15,000
Corporate income tax	[9]		(-) 3,000		(-) 3,000
Net result			12,000		12,000

2.3 Statement of cash flows for the year 2018

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

		2018		2017	
		€	€	€	€
Cash flow from operating activities					
Net result			12,000		12,000
Adjustments to statement of income:					
Taxes	[9]	3,000		3,000	
			3,000		3,000
Net change in current liabilities		(-) 322,941,993		283,639,100	
Net change in current assets		254,952		(-) 213,852	
Taxes paid		(-) 3,102		(-) 2,998	
			(-) 322,690,143		283,422,250
Cash flow from financing activities					
Dividends paid	[4]		(-) 12,000		(-) 12,000
Movements in cash			(-) 322,687,143		283,425,250
Cash balance at the beginning of period			322,787,054		39,361,804
Movements in cash			(-) 322,687,143		283,425,250
Cash balance at the end of year			99,911		322,787,054

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 lawas 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 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 programs (whether or not as a separate program or as part of other issue programs), 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.

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 Covered Bond 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), (Covered Bonds) 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 Originators remains unchanged. Unless the Issuer loses the minimum required rating being A-1 (short term) and A (long term) by S&P, F1 (short term) by Fitch and P1 (short term) by Moody's, 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 Covered Bond 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, being A- (long term) by S&P, A (long term) and F1 (short term) by Fitch and A3 (long term) by Moody's, the economic risk of the cover pool and the related funding will be transferred to the Company.

The aggregate outstanding notional amount under the covered bond programme on December 31, 2018 amounts to EUR 25.4 billion (2017: EUR 28.4 billion) and the outstanding covered bonds amount to EUR 20.3 billion (2017: EUR 22.7 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 14 April 2016 is A+. The short term debt rating of ING Bank N.V. by Fitch as from 19 May 2015 is F1. 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. The actual rating exceeds this minimun 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 and credit risk 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.

2.4 General notes to the financial statements

Financial risk management
The Company is exposed to a variety of financial risks, being credit 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. The information disclosed in the annual report should be read in conjunction with the full text and definitions of the Base Prospectus and the updated Base Prospectus. 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 transferrred 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.

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 Asset Cover Test and the Issuer Facility Advance. The Asset Cover Test and Issuer Facility Advance ensure that the Company has sufficient funds to meet its obligations. The Asset Cover Test makes sure that the Company will, at any period in time, have sufficient collateral in relation to the outstanding Guarantee.

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.

Limited recourse
Although interest rate risk, credit risk and liquidity risk are recognised, the exposure of the Company to these risks is limited. The Covered Bonds are issued at limited recourse. If a CBC 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 (2017: nil).

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.

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 translation 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 2018 there were no foreign currency transactions.

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 seller 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 20% of the taxable amount. The ruling with the Dutch Tax Authorities will have effect until the final maturity date of the Covered Bonds. The net result 2017 of EUR 12,000 has been distributed through an dividend on 26 April 2018.

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.

2.5 Notes to the balance sheet

ASSETS

Current assets

	31/12/2018	31/12/2017
	€	€
Receivable from the Shareholder		
Stichting Holding ING Covered Bond Company.	20,000	-
	20,000	-

The intercompany loan to foundation relate to a receivable from the Foundation.

	31/12/2018	31/12/2017
	€	€
Receivables [2]		
Issue facility advance	-	16,033
Accounts receivable	34,423	293,342
	34,423	309,375

ING Bank N.V. made an advance payment during 2018 amounting to EUR 200,000. For more information with respect to the Issue Facility Advance refer to note 5.

The accounts receivable relate to the negative interest for Q4 2018 charged on the AIC account. This amount has been repaid by ING in January 2019.

2.5 Notes to the balance sheet

Cash and cash equivalents [3]

	31/12/2018	31/12/2017
	€	€
Transaction account	97,013	46,885
AIC account	2,898	322,740,169
	99,911	322,787,054

Transaction Account
The bank accounts are held with ING Bank N.V. The cash balance of the transaction account is freely available to the Company.

AIC Account
Part of the Covered Bond 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 CBC to cover for the following 6 month-period interest and, solely in relation to the HB 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 is not freely available to the Company other than to meet the obligations referred to above.

In the beginning of 2014 the minimum required ratings of the “pre maturity test” were altered from P-1 (short term) by Moody's, A-1+ (short term) by S&P and F1+ (short term) by Fitch into P-1 (short term) by Moody's, A-1 (short term) and A (long term) by S&P and 'F1+' (short term) by Fitch. As a consequence, the minimum required rating of Fitch was no longer met. These ratings were still in place during the update of the prospectus in June 2018.

During 2018, a total of EUR 322.7 million was withdrawn and a total of EUR 101.4 was deposited 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. At year-end no outstanding covered bonds mature within 12 months. The recorded amount on the AIC account relates to a prepayment of ING Bank N.V. for bank charges on the AIC account.

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 2018	-	12,000	(-) 12,000	-
Interim dividend	-	(-) 12,000	-	(-) 12,000
Result for the period	-	-	12,000	12,000
Ending balance	20,000	(-) 12,000	12,000	20,000

Proposed appropriation
The net result for the year 2018 amounted to EUR 12,000 (2017: EUR 12,000). With respect to financial year 2017, management proposed a dividend of EUR 12,000 which was declared as a dividend on 16 April 2018 and subsequently distributed on 26 April 2018.

Current liabilities [5]
The movement in the Issue Facility advance during the year can be explained as follows:

	31/12/2018	31/12/2017
	€	€
Issue facility advance opening balance 01/01/2018	(-) 16,033	-
Reimbursed operating expenses	(-) 91,282	-
Guarantee fee	(-) 15,000	-
Receivable ING Bank N.V.	200,000	-
Issue facility advance ending balance 31/12/2018	77,685	-

The opening balance with respect to the Issue Facility advance is displayed under the current assets. For more information refer to note 1.

Loan given AIC account payable:

	31/12/2018	31/12/2017
	€	€
Opening balance	322,740,169	39,355,211
Collateral amounts funded	101	342,740,260
Collateral amounts drawn	(-) 322,740,361	(-) 59,355,248
Withdrawn expenses and reimbursements	2,989	(-) 54
Closing balance	2,898	322,740,169

The Loan Given AIC Payable account relates to the obligatory cash deposit made by ING Bank on the AIC Account. For more information please refer to note 3

2.5 Notes to the balance sheet

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

	31/12/2018	31/12/2017
	€	€
Negative Interest payable	34,423	293,432
Audit related fee payable	-	24,200
Audit fee payable	18,150	18,150
Administration fee payable	1,165	363
	53,738	336,145

Corporate income tax payable

	31/12/2018	31/12/2017
	€	€
Corporate income tax current year	7	6
Corporate income tax previous year	6	109
	13	115

An amount of EUR 2,993 provisional tax claim including a reduction for the year 2018 was paid in 2018. It is expected that the final tax claim for the year 2018 will be EUR 3,000 in accordance with the ruling.

2.6 Notes to the statement of income

Guarantee fee [6]

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

Reimbursed expenses [7]

	2018	2017
	€	€
Reimbursed expenses	91,282	45,306
Reimbursed negative interest	917,932	479,466
	1,009,214	524,772

According to the Administration Agreement with ING Bank N.V. the Company will be reimbursed for its expenses and receives a guarantee fee. The negative interest is reimbursed by ING Bank N.V. directly. To clarify, the reimbursed expenses are charged to ING Bank N.V. via the Issue Facility Advance.

Operating expenses [8]

	2018	2017
	€	€
Audit fee	24,006	18,130
Management fee	8,787	2,245
Audit related fee	58,080	24,200
Other general costs	409	731
Negative interest bank accounts	917,932	479,466
	1,009,214	524,772

2.6 Notes to the statement of income

Corporate income tax [9]

	2018	2017
	€	€
Corporate income tax	3,000	3,000
	3,000	3,000

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 20% 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
No events took place after the balance sheet date till the authorization date of the financial statements that could have a major effect on the financial position of the Company.

The long term debt rating of ING Bank N.V. by Fitch was upgraded on 27 February 2019 from A+ to AA-. The short term debt rating of ING Bank N.V. by Fitch was upgraded on 27 February 2019 from F1 to F1+. To add, this does not impact the financial statements 2018.

On 6 May 2019 the Base Prospectus was updated. The update concerns the usual annual update of the Base Prospectuses and relevant transaction documents, which mostly consists of changes further to new legislation.

Amsterdam, 28 June 2019
ING Covered Bond Company B.V.

Managing Director
Intertrust Management B.V.

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.

KPMG

Independent auditor's report

To: The Director of ING Covered Bond Company B.V.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2018 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 2018, and of its result for 2018 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 2018;

2 the statement of income for the year 2018;

3 the statement of cash flows for the year 2018; 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 '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 annual report

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

— the Director's report; and

— 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.

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 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 assignment 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 represents 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, 28 June 2019

KPMG Accountants N.V.

B.M. Herngreen RA