

**ING Covered Bond Company B.V.**

**Report for the year 2020**

**Amsterdam, the Netherlands**

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

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## 1. Director's report

# **ING Covered Bond Company B.V.**

## **Report for the year 2020**

### **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 10 July 2020 is A+, the rating by Moody's as from 21 October 2020 is Aa3 and the rating by Fitch Ratings as from 15 October 2020 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 on 15 October 2020 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, 2020 amounts to EUR 21.3 billion (2019: EUR 25.3 billion) and the outstanding covered bonds amount to EUR 17.3 billion (2019: EUR 21.2 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 currently affected 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.

As per 31 December 2020 the liquidity deposit matured. The Issuer maintained the liquidity for the benefit of the Company and as per 4 January 2021 this was transferred to the Company.

#### **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 an 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 (2019: nil).

## **1.2 Future developments**

This section is largely based on data and expectations presented by De Nederlandse Bank (“DNB”), the Central Bureau of Statistics (“CBS”) and the Dutch association of real estate agents (“NVM”). The prediction of future trends and the quantification of developments is inherently a difficult task, full of uncertainties. With the effects of COVID-19 still very much unclear, this has become even more difficult. All economic data relevant to the Company, historic or prospective, is or will be significantly influenced by COVID-19 developments. DNB has published three possible scenarios for its expectations to illustrate the vast gap that the uncertainties surrounding COVID-19 has created.

The outlook presented below is based on the DNB’s ‘most likely scenario’ but occasionally the ‘best-case scenario’ and ‘worst-case scenario’ expectations are also quoted to underline the range of possibilities. In addition, developments surrounding COVID-19 are very dynamic and can change on an almost daily basis. The calculation of economic indicators and predictions will inevitably lag behind events and some of the information available may not be completely up to date with developments.

Moreover, the prospects of the Dutch economy are for a large part dependent on developments in the world economy. The effects of COVID-19 may well differ in the other major economies in the world and this would likely have an impact on the Dutch economy. Additionally, the most recent report issued by DNB has assumed a ‘no-deal Brexit’. Whilst it is clear now that a deal was ultimately reached on the conditions surrounding the Brexit, the effects of that deal will not be known with any great certainty until the coming months.

The year 2020 was economically influenced in almost every aspect by the worldwide COVID-19 pandemic. Whilst the Dutch economy was very well placed at the start of 2020 for positive development in just about all economic indicators, almost all major indicators showed downturns during 2020 as a result of COVID-19. The drastic effects of lockdown and social distancing measures caused record downturns in many indicators, especially in the second quarter and, to a lesser extent, the last quarter of the year. Another factor that has contributed to the downturn is a lack of confidence shown by both consumers and businesses as investments were postponed.

Against this, public sector spending was increased significantly in terms of infrastructure project spending as well as significant financial support packages designed to support the economy against COVID-19 effects. Some encouragement can also be taken from the spectacular bounce back during the third quarter of 2020 and that the Dutch economy appeared to be somewhat more resilient than most comparable economies. The pressure on the banking sector has also clearly increased but the sector appears to be able to cope with this.

GDP decreased by around 3.8% in 2020, as compared to an increase of 1.7% in 2019. The current expectations are that GDP will bounce back somewhat by 2.9% in 2021 and 2.9% in 2022. For 2021, the expectations are for increases of 4.9% in the best-case scenario and just 0.2% in the worst-case scenario. The impact of COVID-19 in 2020 was not evenly spread over the various sectors, with the tourism, recreation and entertainment sectors hardest hit, whilst some sectors experienced a positive impact. The recovery in the coming years will likely have its most positive impact on those sectors that suffered the most in 2020.

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In the projections, the economy is expected to have the benefit of somewhat restored confidence by consumers and businesses alike, as well as a continuation of a high-level government spending. This is likely to be tempered by increasing levels of unemployment. The 1.7% surplus that government spending recorded in 2019 was already transformed to a deficit of 6.3% in 2020 though the deficit is projected to improve to a deficit of 4.9% in 2021. Much of these projections will depend on the extent and timing of government support for the economy.

Away from COVID-19, the threat of global trade wars has continued to recede but is certainly not eliminated. Whilst the prospect of a 'no-deal' Brexit has now disappeared, the exact consequences of the Brexit are still unclear and will probably impact the current projections.

Unemployment levels climbed from 3.4% to 4.0% during 2020 which appears to be a relatively modest rise under the circumstances, but this is expected to increase to 6.5% by the end of 2021 and expected to decrease again to 6.0% in 2022. For 2022, the 'best-case scenario' and 'worst-case scenario' are 4.8% and 7.4%, respectively. The relatively low impact on the 2020 unemployment figures appears to be the result of government support, a reluctance by businesses to release staff after years of under capacity in the labour markets and the possibility of reducing the number of flexible workers (freelancers and agency staff).

Headline inflation decreased from 2.7% in 2019 to some 1.2% in 2020 mainly due to reduced energy prices. Particularly oil prices tumbled under reduced worldwide demand. The level of inflation is expected to remain relatively stable at around 1.5% in the coming years on the expectation that oil prices will continue at the relatively low levels and low wage inflation as a result of rising unemployment.

The domestic housing market appears to be relatively unaffected by COVID-19 thus far. The spectacular growth in domestic house prices has continued throughout 2020 and the last quarter of 2020 even showed an average increase of the price of a dwelling of more than 11% according to NVM although the CBS estimates the rise at 8.3%. Whilst the number of transactions for 2020 as a whole was up 3.7% as compared to the previous period, the market is currently under pressure from low levels of supply and the relatively short time the average dwelling spends on the market.

As always, regional variations and differences in the various price sectors continued in 2020. The overall shortage of housing, particularly for starters, is getting more severe as targets for the building of new dwellings are inadequate or not met. DNB expects house prices to increase by 1-2% in 2021-2022 in its 'most likely scenario'. The expectations are very much contingent on developments in unemployment levels, but low interest rates and housing shortages are expected to continue for some time.

Risk levels for existing homeowners and lenders alike have again generally decreased since last year though regional differences should not be ignored in the analysis. This trend is expected to level out in the coming years, but the market seems to be relatively sheltered from the major COVID-19 impacts. 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. However, new loans have shown a tendency to be agreed for relatively long interest periods, at relatively low rates. Furthermore, competitive pressures are increasing in the mortgage market due to new entrants to the market and continued low interest rates. Whilst these factors generally increase risks, lenders are experiencing improved debt ratios on existing portfolios as a result of rising prices.

It is important to reiterate that the Company was incorporated specifically for its role in a structured finance transaction and is governed by the terms and conditions of the Prospectus and other Transaction Documents. These are drawn up, inter alia, to foresee all possible future economic conditions, including those caused by COVID-19. At this stage, it seems likely that the outbreak will result in an increased level of losses of both interest and principal on the Company's assets. The limited recourse principle (see above) embedded in the Prospectus and Transaction Documents dictates that any such losses from the Company's assets are to be borne by the Company's creditors, in accordance with a pre-determined priority of payments waterfall.

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Consequently, any such losses are unlikely to be borne by the Company itself but rather by the Company's creditors and only ultimately the Company's shareholder. The Company intends to continue to act within the terms and conditions set out for it by the Transaction Documents, and to otherwise comply with all its other obligations. The Company has no employees and is dependent on third-party service providers. However, the level or quality of the service provided has remained unaffected.

In conclusion, the Company expects to remain a going concern. The Director believes that the Company's risks are adequately mitigated by the various credit enhancements, as described in the Financial statements and the Prospectus.

### **Subsequent events**

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

Amsterdam, 7 June 2021

Managing Director,  
Intertrust Management B.V.



## 2. FINANCIAL STATEMENTS

# ING Covered Bond Company B.V.

## Report for the year 2020

### 2.1 Balance sheet as at December 31, 2020

(Before result appropriation)

ASSETS	December 31, 2020		December 31, 2019	
	€	€	€	€
<b>Current assets</b>				
<i>Receivables</i>				
Receivable from the Shareholder [1]	20,000		20,000	
Issuer facility advance [2]	1,470		-	
Corporate income tax receivable	4		-	
Accounts receivable [2]	475,674,307		81	
		475,695,781		20,081
<b>Cash and cash equivalents [3]</b>				
Transaction account	22,711		27,963	
AIC account	862,730		2,889	
		885,441		30,852
		<u>476,581,222</u>		<u>50,933</u>
<b>SHAREHOLDER'S EQUITY AND LIABILITIES</b>				
<b>Shareholder's equity [4]</b>				
Share capital	20,000		20,000	
Retained earnings	(-) 12,525		(-) 12,000	
Result financial year	12,525		12,150	
		20,000		20,150
<b>Current liabilities [5]</b>				
Issuer facility advance	-		3,592	
Loan given AIC account payable	475,862,745		2,898	
Accrued expenses and other liabilities	698,477		24,286	
Corporate income tax payable	-		7	
		476,561,222		30,783
		<u>476,581,222</u>		<u>50,933</u>

# ING Covered Bond Company B.V.

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### 2.2 Statement of income for the year 2020

	2020		2019	
	€	€	€	€
<b>Income</b>				
Guarantee fee [6]	15,000		15,000	
Reimbursed expenses [7]	140,062		59,182	
Reimbursed negative interest [7]	<u>968,385</u>		<u>231</u>	
		1,123,447		74,413
<b>Operating expenses</b> [8]				
Audit fee	24,200		30,250	
Sundry expenses	115,862		28,891	
Negative interest bank accounts	<u>968,385</u>		<u>272</u>	
		1,108,447		59,413
<b>Income before taxation</b>		<u>15,000</u>		<u>15,000</u>
Corporate income tax [9]		(-) 2,475		(-) 2,850
<b>Net result</b>		<u><u>12,525</u></u>		<u><u>12,150</u></u>

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### 2.3 Statement of cash flows for the year 2020

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

	2020		2019	
	€	€	€	€
<b>Cash flow from operating activities</b>				
Net result		12,525		12,150
<i>Adjustments to statement of income:</i>				
Taxes [9]	2,475		2,850	
		2,475		2,850
Net change in current liabilities	476,530,446		(-) 103,545	
Net change in current assets	(-) 475,675,700		34,342	
Taxes paid	(-) 2,482		(-) 2,856	
		852,264		(-) 72,059
<b>Cash flow from financing activities</b>				
Dividends paid [4]		(-) 12,675		(-) 12,000
<b>Movements in cash</b>		<u>854,589</u>		<u>(-) 69,059</u>
Cash balance at the beginning of period		30,852		99,911
Movements in cash		<u>854,589</u>		<u>(-) 69,059</u>
Cash balance at the end of year		<u>885,441</u>		<u>30,852</u>

# **ING Covered Bond Company B.V.**

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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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## **Report for the year 2020**

### **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 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, the economic risk of the cover pool and the related funding will be transferred to the Company.

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 10 July 2020 is A+, the rating by Moody's as from 21 October 2020 is Aa3 and the rating by Fitch Ratings as from 15 October 2020 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 on 15 October 2020 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, 2020 amounts to EUR 21.3 billion (2019: EUR 25.3 billion) and the outstanding covered bonds amount to EUR 17.3 billion (2019: EUR 21.2 billion).

#### **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 currently affected 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.

As per 31 December 2020 the liquidity deposit matured. The Issuer maintained the liquidity for the benefit of the Company and as per 4 January 2021 this was transferred to the Company.

#### **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 an 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 (2019: 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 of the Company have been prepared on the basis of the going concern assumption.

#### **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 2020 there were no foreign currency transactions (2019: 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 16.5% 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 for the year 2020 amounted to EUR 12,525 (2019: EUR 12,150). Management proposed an interim dividend of EUR 12,525 and final dividend of EUR 150 which was declared as a dividend on 30 June 2020 and subsequently distributed on 30 June 2020. EUR 150 relates to the year 2019 whereas EUR 12,525 relates to 2020.

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.

# ING Covered Bond Company B.V.

## Report for the year 2020

### 2.5 Notes to the balance sheet

#### ASSETS

##### Current assets

	31/12/2020	31/12/2019
	€	€
<b>Receivable from the Shareholder [1]</b>		
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.

	31/12/2020	31/12/2019
	€	€
<b>Receivables [2]</b>		
Issuer facility advance	1,470	-
Accounts receivable	674,307	81
Collateral receivable from Issuer	475,000,000	-
	<u>475,675,777</u>	<u>81</u>

The accounts receivable relate to the negative interest for period from 1 October 2020 until 31 December 2020 charged on the AIC account.

As per 31 December 2020 the liquidity deposit matured. The Issuer maintained the liquidity for the benefit of the Company and as per 4 January 2021 this was transferred to the Company.

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

	31/12/2020	31/12/2019
	€	€
Issuer facility advance opening balance	(-) 3,592	-
Received from Issuer	(-) 150,000	-
Reimbursed operating expenses	140,062	-
Guarantee fee	15,000	-
<b>Issuer facility advance ending balance</b>	<u>1,470</u>	<u>-</u>

The 2019 figures with respect to the issuer facility advance are displayed under note 5.

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 advance payments during 2020 amounting to EUR 150,000 in line with the Administration Agreement.

# ING Covered Bond Company B.V.

## Report for the year 2020

### 2.5 Notes to the balance sheet

#### Cash and cash equivalents [3]

	<u>31/12/2020</u>	<u>31/12/2019</u>
	€	€
Transaction account	22,711	27,963
AIC account	<u>862,730</u>	<u>2,889</u>
	<u><u>885,441</u></u>	<u><u>30,852</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 2020 there were withdrawals as well as deposits made on the AIC account. Please refer to note 5 for a breakdown of the movements. 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.

# ING Covered Bond Company B.V.

## Report for the year 2020

### 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	12,150	20,150
Appropriation of result	-	12,150	(-) 12,150	-
Dividend	-	(-) 12,675	-	(-) 12,675
Result for the period	-	-	12,525	12,525
Ending balance	<u>20,000</u>	<u>(-) 12,525</u>	<u>12,525</u>	<u>20,000</u>

##### Proposed appropriation

The net result for the year 2020 amounted to EUR 12,525 (2019: EUR 12,150). Management proposed an interim dividend of EUR 12,525 and final dividend of EUR 150 which was declared as a dividend on 30 June 2020 and subsequently distributed on 30 June 2020. EUR 150 relates to the year 2019 whereas EUR 12,525 relates to 2020.

# ING Covered Bond Company B.V.

## Report for the year 2020

### 2.5 Notes to the balance sheet

#### Current liabilities [5]

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

	<u>31/12/2020</u>	<u>31/12/2019</u>
	€	€
Issuer facility advance opening balance	-	77,685
Reimbursed operating expenses	-	(-) 59,141
Guarantee fee	-	(-) 15,000
Receivable from the Issuer	-	-
Preliminary corporate income tax discount	-	48
<b>Issuer facility advance ending balance</b>	<u>-</u>	<u>3,592</u>

The 2020 figures with respect to the issuer facility advance are displayed under note 2.

#### Loan given AIC account payable:

	<u>31/12/2020</u>	<u>31/12/2019</u>
	€	€
Opening balance	2,898	2,898
Collateral amounts funded	2,380,000,000	-
Collateral amounts drawn	(-) 2,379,140,150	-
Withdrawn expenses and reimbursements	(-) 3	-
Collateral amount as per 31-12-2020	475,000,000	-
Closing balance	<u>475,862,745</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. As per 31 December 2020 the liquidity deposit matured. The Issuer maintained the liquidity for the benefit of the Company and as per 4 January 2021 this was transferred to the Company.

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

	<u>31/12/2020</u>	<u>31/12/2019</u>
	€	€
Negative Interest and bank charges payable	674,277	86
Audit fee payable	24,200	24,200
Administration fee payable	-	-
	<u>698,477</u>	<u>24,286</u>

#### Corporate income tax payable

	<u>31/12/2020</u>	<u>31/12/2019</u>
	€	€
Corporate income tax current year	-	7
	<u>-</u>	<u>7</u>

An amount of EUR 2,479 provisional tax claim excluding a reduction for the year 2020 was paid in 2020. It is expected that the final tax claim for the year 2020 will be EUR 2,475 in accordance with the ruling. For more information with respect to the ruling refer to note 8.

# ING Covered Bond Company B.V.

## Report for the year 2020

### 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]

	2020	2019
	€	€
Reimbursed expenses	140,062	59,182
Reimbursed negative interest	968,385	231
	<u>1,108,447</u>	<u>59,413</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]

	2020	2019
	€	€
Audit fee	24,200	30,250
Management fee	2,218	3,837
Audit related fee	112,966	24,200
Other general costs	678	854
Negative interest bank accounts	968,385	272
	<u>1,108,447</u>	<u>59,413</u>

#### Corporate income tax [9]

	2020	2019
	€	€
Corporate income tax	2,475	2,850
	<u>2,475</u>	<u>2,850</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 16.5% (2019: 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

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

Amsterdam, 7 June 2021  
ING Covered Bond Company B.V.

Managing Director  
Intertrust Management B.V.

# ***ING Covered Bond Company B.V.***

## ***Report for the year 2020***

### **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.

***ING Covered Bond Company B.V.***  
***Report for the year 2020***

**3.2 Independent auditors' report**

To: the Managing Director and the Shareholders of ING Covered Bond Company B.V.





## **Independent auditor's report**

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

### **Report on the audit of the accompanying financial statements**

#### ***Our opinion***

We have audited the financial statements 2020 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 2020, and of its result for the year 2020 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 2020;
- 2 the statement of income for the year 2020;
- 3 the statement of cash flows for the year 2020; 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:

- 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, including the director's report, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

## **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 among others:

- 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, 7 June 2021

KPMG Accountants N.V.

R. Huizingh RA