ING GROEP NV Form 6-K August 02, 2018 Table of Contents

# **UNITED STATES**

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

under the Securities Exchange Act of 1934

For the period ended 30 June 2018

Commission File Number 1-14642

ING Groep N.V.

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The Netherlands

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F. Form 20-F Form 40-F.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

This Report on Form 6-K is hereby incorporated by reference into Registration Statements on Form S-8 (Files Nos. 333-215535, 333-172921, 333-172920, 333-172919, 333-168020, 333-165591, 333-158155, 333-158154, 333-149631, 333-137354, 333-125075, 333-108833, 333-81564 and 333-92220) of ING Groep N.V. and shall be a part thereof from the date on which this Report is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

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ING Group Report on Form 6-K for the period ended 30 June 2018 - Unaudited

Interim report

### Introduction

ING is a global financial institution with a strong European base, offering banking services through its operating company ING Bank. ING Bank s more than 52,000 employees offer retail and wholesale banking services to customers in over 40 countries. The Group consists of ING Groep N.V., ING Bank N.V. and other group entities.

ING Group evaluates the results of its Banking segments using a financial performance measure called underlying result. Underlying result is used to monitor the performance of ING Group at a consolidated level and by segment. The Executive Board and Management Board of ING Bank consider this measure to be relevant to an understanding of the Group s financial performance because it gives better insight into the commercial developments of the company.

Underlying result is a non-GAAP financial measure which is defined as result under IFRS-IASB, excluding the impact of adjustment of the EU IAS 39 carve-out , divestments, special items and Insurance Other. Adjustment of EU IAS 39 Carve out relates to asset-liability management activities for the mortgage and savings portfolios in the Benelux, Germany and Czech Republic. These fair value changes are mainly caused by changes in markets interest rates. As explained on page 16, no hedge accounting is applied to these derivatives under IFRS-IASB. Special Items include items of income and expense that are significant and arise from events or transactions that are clearly distinct from the ordinary operating activities. Insurance Other reflects (former) insurance related activities that are not part of the discontinued operations. In calculating underlying result for its Banking segments, ING Group also uses the measures underlying net profit, underlying expenses, underlying cost/income ratio and underlying result before tax, each of which are also non-GAAP financial measures. The executive Board of ING Group and Management Board of ING Bank consider these measures to be meaningful as it helps investors to compare its segment performance by highlighting result before tax attributable to ongoing operations and the underlying profitability of the segment businesses.

The breakdown of underlying net result by segment and the reconciliation between IFRS-IASB and the underlying net result is included in Note 20 Segments .

### **ING Group consolidated results**

# ING Group: Consolidated profit or loss account

	of which: Adjustrateled Divestments which:				of which:			
	Total INC	G Gridnæpl	EU IAS	39 car <b>sp</b> e	<b>nia</b> l ite <b>ln</b> suran	ce Other	nderlying	g Banking
6 month period (1 January to 30 June)	2018	2017	2018	2017 201	8 2017 2018	2017	2018	2017
Net interest income	6,860	6,711	15				6,845	6,711
Net fee and commission income	1,377	1,395			(2)	(1)	1,378	1,396
Total investment and other income	646	1,428	(91)	670	20	(62)	717	820
<b>Total income</b>	8,883	9,534	(75)	670	18	(64)	8,940	8,928
Expenses excl. regulatory costs	4,441	4,379					4,441	4,379
Regulatory costs	591	543					591	543

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Operating expenses	5,032	4,922					5,032	4,922
Gross result	3,851	4,612	(75)	670	18	(64)	3,908	4,005
Addition to loan loss provisions	200	362					200	362
Result before tax	3,651	4,250	(75)	670	18	(64)	3,708	3,644
Result before tax  Taxation	<b>3,651</b> 995	<b>4,250</b> 1,226	(75) (26)	<b>670</b> 204	18	(64)	<b>3,708</b> 1,021	<b>3,644</b> 1,022
	,	,	. ,		18	(64)	,	ĺ

# ING Group: reconciliation from IFRS-IASB to underlying result

6 month period (1 January to 30 June) Net result ING Group	2018 2,605	2017 2,980
-/- Adjustment of the EU IAS 39 carve-out -/- Insurance Other	(50) 19	466 (64)
Net result Banking/Underlying net result Banking	2,636	2,578

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Interim report - continued

ING recorded a net result of EUR 2,605 million in the first half of 2018, compared with EUR 2,980 million in the same period of 2017. This decrease in result was negatively affected by EUR 516 million lower fair value changes on derivatives (including a positive impact under net interest income of ending some hedge relationships) related to asset-liability-management activities for the mortgage and savings portfolios in the Benelux, Germany and Czech Republic. These fair value changes are mainly caused by changes in markets interest rates. As explained on page 16, no hedge accounting is applied to these derivatives under IFRS-IASB. Excluding these fair value changes, the net result rose 5.6% to EUR 2,654 million compared with EUR 2,514 million in the same period of 2017, driven by continued business growth and lower risk costs. The result in the first six months of 2018 included a EUR 19 million net result from Insurance Other, reflecting the result on the warrants on the shares of Voya and NN Group, whereas the same period of last year included a EUR -64 million net result on warrants. At the end of June 2018, ING has only warrants on NN Group shares as the last warrants on Voya shares were sold in March 2018.

There were no divestments or special items in the first six months of both 2018 and 2017.

ING s underlying net result banking, which is the net result excluding Insurance Other, increased 2.2% to EUR 2,636 million from EUR 2,578 million in the first six months of 2017.

### **Banking operations**

### Consolidated results of operations

ING s banking operations posted a strong set of results in the first half of 2018. Net result rose to EUR 2,636 million from EUR 2,578 million in the same period of 2017. As there were no divestments or special items in both comparable periods, the net result is equal to the underlying net result. The effective tax rate was 27.5%, down from 28.0% in the first half of 2017, mainly caused by the corporate tax reforms in the US and Belgium.

The underlying result before tax increased 1.8% to EUR 3,708 million from EUR 3,644 million in the first half of 2017, supported by continued business growth and lower risk costs. Income was only marginally higher as the impact of strong loan growth was almost fully offset by adverse currency impacts, weaker Financial Markets performance and a EUR 97 million one-off gain on the sale of an equity stake in the real estate run-off portfolio recorded in the first half of 2017. Underlying operating expenses rose 2.2% on the first six months of 2017, while risk costs declined by EUR 162 million, or 44.8%.

Total underlying income rose 0.1% to EUR 8,940 million from EUR 8,928 million in the first six months of 2017. Excluding the aforementioned EUR 97 million one-off gain, income was 1.2% higher, despite the adverse currency impacts and weaker Financial Markets performance.

Net interest income rose by EUR 134 million, or 2.0%, mainly driven by continued volume growth in both customer lending and customer deposits. The interest result on customer lending increased due to higher volumes in mainly non-mortgage lending, partly offset by a slightly lower overall lending margin. The interest result on customer deposits slightly declined as the impact of volume growth in current accounts was more than offset by margin pressure due to lower reinvestment yields. The margin on savings remained stable compared with a year ago, supported by the further lowering of the client savings rates in several countries during the last twelve months. Net interest income was furthermore supported by higher interest results in Financial Markets (which was more than offset by lower other

income) and Corporate Line. ING s overall net interest margin remained stable at 1.51% compared with the first half of 2017.

Net fee and commission income decreased by EUR 18 million, 1.3%, to EUR 1,378 million from EUR 1,396 million in the first six months of 2017. In Retail Banking, net fee and commission income increased in the Netherlands and most of the Challengers & Growth Markets countries, partly offset by declines in mainly Belgium and Turkey. Total fee income in Wholesale Banking decreased despite the inclusion of Payvision as from the second quarter of 2018, and was mainly caused by lower Financial Markets fees. Total investment and other income fell to EUR 717 million from EUR 820 million in the first half of 2017, which included the one-off gain on the sale of the equity stake. Excluding this one-off gain, investment and other income declined by EUR 6 million, or 0.8%. Lower revenues in Wholesale Banking, mainly due to weaker performance in Financial Markets and negative revaluation results in Industry Lending, were largely offset by increases in mainly Retail Netherlands and the Corporate Line.

Underlying operating expenses increased by EUR 110 million, or 2.2%, to EUR 5,032 million. Expenses in the first six months of 2018 included EUR 591 million of regulatory costs, while the same period of 2017 included EUR 543 million of regulatory costs. Expenses excluding regulatory costs rose by EUR 62 million, or 1.4%, to EUR 4,441 million. The increase was mainly visible in the Retail Challengers & Growth Markets, mainly related to strategic projects and to support the continued growth in primary clients, and in Retail Belgium due to temporarily higher external staff expenses. In Retail Netherlands, expenses excluding regulatory costs declined reflecting ongoing cost savings. Within Wholesale Banking, expenses excluding regulatory costs were slightly lower. This decline was mainly caused by the legal provision recorded in Luxembourg in the second quarter of 2017 (which was partially released in the first quarter of 2018), partly offset by higher staff expenses and the inclusion of Payvision as from the second quarter of 2018. The underlying cost/income ratio increased to 56.3% from 55.1% in the first half of 2017.

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Interim report - continued

Net additions to loan loss provisions declined to EUR 200 million from EUR 362 million in the first half of 2017, reflecting the continued positive macroeconomic outlook, combined with a benign credit environment in most regions where ING is active. The decline was mainly visible in Retail Netherlands and Wholesale Banking. Risk costs were annualised 13 basis points of average risk-weighted assets (RWA) compared with 23 basis points in the first half of 2017, which is well below ING s through-the-cycle guidance range for risk costs of 40-45 basis points of average RWA.

#### **Retail Netherlands**

Underlying result before tax of Retail Netherlands rose to EUR 1,239 million from EUR 1,043 million in the first six months of 2017, due to higher income, combined with lower operating expenses and risk costs.

Total underlying income increased by EUR 74 million, or 3.4%, to EUR 2,267 million, compared with EUR 2,193 million in the first half of 2017. Net interest income declined 1.3%, mainly reflecting lower lending volumes and margin pressure on current accounts due to the low interest rate environment, partly offset by higher margins on mortgages and increased volumes in current accounts. Customer lending declined by EUR 1.4 billion in the first half of 2018, of which EUR -0.6 billion was in the WUB run-off portfolio and EUR -1.4 billion in Bank Treasury. Excluding these items, net core lending grew by EUR 0.6 billion, predominantly in business lending, partly offset by a EUR 0.2 billion decline in residential mortgages. Net customer deposits (excluding Bank Treasury) grew by EUR 3.4 billion in the first half of 2018. Net fee and commission income increased by EUR 19 million, or 6.3%, due to higher funds transfer fees. Investment and other income rose by EUR 78 million, mainly due to higher allocated Bank Treasury revenues.

Operating expenses declined by EUR 43 million, or 3.8%, to EUR 1,078 million compared with the first six months of 2017. This decline was mainly due to non-recurring items booked in the second quarter of 2017, ongoing cost savings realised through the transformation programmes, and lower IT expenses, partly offset by increased regulatory costs.

The net addition to loan loss provisions turned to a net release of EUR 51 million, or -21 basis points of average risk-weighted assets, in the first half of 2018, compared with EUR 29 million, or 12 basis points, in the same period of last year. The net release in the first half of 2018 reflects the continued positive economic conditions in the Netherlands as well as operational improvements in the risk-measuring process.

### **Retail Belgium**

Retail Belgium s underlying result before tax decreased to EUR 231 million from EUR 377 million in the first six months of 2017, due to lower income, higher expenses and an increase in risk costs.

The underlying income fell by EUR 85 million, or 6.5%, to EUR 1,213 million. Net interest income declined by EUR 47 million, or 5.0%, mainly due to continued margin pressure on savings and current accounts as a result of the continued low interest rate environment, and lower interest results from Bank Treasury. This was partly offset by volume growth in the lending portfolio and in current accounts. Customer lending increased by EUR 5.7 billion in the first half of 2018. Net core lending (excluding Bank Treasury and the sale of a mortgage portfolio) grew by EUR 5.5 billion, of which EUR 1.2 billion was in residential mortgages and EUR 4.4 billion in other lending. Net customer deposits (excluding Bank Treasury) grew by EUR 2.7 billion, entirely in current accounts, while savings

recorded a net outflow. Net fee and commission income declined by EUR 28 million, or 12.2%, mainly due to lower fee income on investment products.

Operating expenses increased by EUR 31 million, or 3.6%, to EUR 903 million compared with the first six months of 2017. This increase was mainly due to temporarily higher external staff expenses related to the transformation programmes and the successful integration of Record Bank into ING Belgium.

The net addition to the provision for loan losses increased to EUR 78 million from EUR 49 million in the first half of 2017, and was mainly related to several specific files in the mid-corporates segment.

### **Retail Germany**

Retail Germany s underlying result before tax increased by EUR 25 million to EUR 423 million from EUR 398 million in the first half of 2017, due to higher income, partly offset by increased expenses and higher, but still relatively low risk costs.

The underlying income increased to EUR 960 million in the first six months of 2018, compared with EUR 918 million a year ago. Net interest income increased 4.4% to EUR 857 million, mainly due to increased lending volumes and the impact of client savings rate adjustments, partly offset by lower interest results from Bank Treasury. Net core lending, which excludes Bank Treasury products, increased by EUR 2.2 billion, of which EUR 1.6 billion was attributable to residential mortgages and EUR 0.6 billion to consumer lending. Net customer deposits (excluding Bank Treasury) decreased by EUR 0.4 billion. Net fee and commission income decreased by EUR 6 million to EUR 93 million, due to higher commissions paid for the origination of mortgages. Investment and other income increased by EUR 12 million, mainly due to improved hedge ineffectiveness results.

Operating expenses increased by EUR 10 million, or 1.9%, to EUR 524 million compared with the first half of 2017. The increase was mainly due to higher costs to support further business growth, partly offset by lower marketing expenses.

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Interim report - continued

The net addition to the provision for loan losses increased to EUR 13 million, or 10 basis points of average risk-weighted assets, from EUR 6 million in the first half of 2017.

### **Retail Other Challengers & Growth Markets**

Retail Other Challengers & Growth Markets underlying result before tax decreased to EUR 460 million from EUR 481 million in the first six months of last year, mainly reflecting higher expenses to support further commercial growth and higher costs for strategic projects, partly offset by revenue growth in most of the countries.

The underlying income increased by EUR 106 million, or 7.2%, to EUR 1,583 million from EUR 1,477 million in the first six months of last year. This increase was driven by strong revenue growth in most businesses, despite the impact from the low interest rate environment in most of the Other Challengers markets. Net interest income increased by EUR 111 million, or 9.3%, to EUR 1,310 million from EUR 1,199 million in the first half year of 2017, mainly due to higher volumes in most countries and increased interest income from Bank Treasury. The net production in customer lending (adjusted for currency effects and Bank Treasury) was EUR 4.9 billion in the first half of 2018, with growth mainly in Poland, Spain and Australia. The net inflow in customer deposits, also adjusted for currency impacts and Bank Treasury, was EUR 3.9 billion, with largest increases in Spain and Poland.

Operating expenses increased by EUR 111 million, or 12.5%, to EUR 1,001 million compared with the first half of 2017, mainly due to higher staff expenses in most countries to support further commercial growth and higher costs for strategic projects as well as higher regulatory expenses.

The net addition to loan loss provisions increased by EUR 14 million to EUR 121 million, or 49 basis points of average risk-weighted assets, compared with EUR 107 million in the first half of 2017, which included a release in Italy reflecting a model update for mortgages.

### **Wholesale Banking**

In the first six months of 2018, the underlying result before tax dropped 9.6% to EUR 1,439 million from EUR 1,591 million in the same period last year. The decline was mainly caused by adverse currency impacts, weaker Financial Markets performance and the EUR 97 million one-time gain on the sale of an equity stake in the real estate run-off portfolio recorded in the first half of 2017. These negative impacts were partly offset by strong core lending growth in Industry Lending and General Lending & Transaction Services and a sharp decline in risk costs.

Underlying income declined by EUR 270 million, or 8.6%, to EUR 2,864 million in the first half of 2018. Excluding the EUR 97 million one-time gain on the sale of an equity stake, total underlying income decreased 5.7% mainly caused by adverse currency impacts and weaker Financial Markets performance. At comparable exchange rates, income in Industry Lending and General Lending & Transaction Services increased due to volume growth and the inclusion of Payvision as from the second quarter of 2018.

Net interest income increased by EUR 26 million, or 1.4%, on the first six months of 2017, mainly driven by continued volume growth in Industry Lending and General Lending & Transaction Services at resilient margins as well as higher interest results in Financial Markets (which was more than offset by lower other income). This was partly offset by adverse currency impacts and lower interest results in Bank Treasury. Net core lending (excluding

currency impacts, Bank Treasury and the Lease run-off portfolio) grew by EUR 13.2 billion in the first half of 2018. Net customer deposits (excluding currency impacts and Bank Treasury) declined by EUR 1.4 billion.

Net fee and commission income decreased by EUR 24 million, or 4.2%, on last year, mainly due to lower fee income in Financial Markets and Industry Lending, partly offset by the inclusion of Payvision. Investment and other income fell to EUR 389 million from EUR 661 million in the first half of 2017. Excluding the aforementioned EUR 97 million one-time gain, total investment and other income decreased by EUR 175 million, mainly due to lower revenues in Financial Markets (as market conditions in the first half of 2017 were more favourable) and negative revaluation results in Industry lending.

Operating expenses were EUR 1,386 million, or 0.9% higher than in the first half of 2017. Excluding the impact from regulatory costs (EUR 125 million in the first half of 2018 versus EUR 98 million a year ago), operating expenses decreased by EUR 14 million, or 1.1%, on the first half of 2017. The decrease was mainly explained by the partial release of a provision which was taken in the first half of 2017 for a litigation linked to a business that was discontinued in Luxembourg around the year 2000. Excluding this provision, costs grew in line with higher headcount to support business growth and wage inflation. The underlying cost/income ratio in the first half of 2018 was 48.4%, compared with 43.8% a year ago.

Net addition to loan loss provisions declined to EUR 39 million, or 5 basis points of average risk-weighted assets, from EUR 170 million, or 22 basis points, in the first half of 2017. The decline reflects lower risk costs in all product groups driven by the benign credit environment in most regions where ING is active and included several larger releases on individual files.

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Interim report - continued

### **Corporate Line**

The Corporate Line reported an underlying result before tax of EUR -85 million compared with EUR 246 million in the first half of 2017. Total income improved to EUR 54 million from EUR 93 million a year ago. This was primarily due to lower costs on net investment hedging and lower interest paid following the maturity of some high-cost legacy bonds, while the first half of 2017 also included EUR -9 million of DVA impacts (which directly impacts equity under IFRS 9). Operating expenses declined to EUR 139 million from EUR 152 million in the first half of 2017, due to a release of a specific provision, and despite higher shareholders expenses.

# ING Group statement of financial position ( balance sheet )

IFRS 9 Financial Instruments became effective as per 1 January 2018. ING has applied the classification, measurement, and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity as at 1 January 2018, and decided not to restate comparative periods. The net impact on shareholders equity of adopting IFRS 9 on 1 January 2018 was EUR -1.0 billion. For a reconciliation between the reported balance sheet at year-end 2017 and the opening balance sheet as at 1 January 2018, see note 1 Accounting policies .

To provide comparable balance sheet information to its users, below a condensed overview of ING s balance sheet as at 30 June 2018 compared with the IFRS 9 opening balance sheet as at 1 January 2018.

#### Consolidated balance sheet

in EUR million	30 June 18	1 Jan. 18
Assets		
Cash and balances with central banks	38,276	21,992
Loans and advances to banks	31,627	28,690
Financial assets at fair value through profit or loss	151,503	128,248
Financial assets at fair value through OCI	31,500	37,601
Securities at amortised cost	48,966	48,480
Loans and advances to customers	584,714	562,776
- customer lending	589,691	568,045
- provision for loan losses	(4,977)	(5,269)
Investments in associates and joint ventures	1,082	1,060
Property and equipment	1,775	1,801
Intangible assets	1,785	1,469
Other assets	12,269	10,626
Total assets	903,499	842,744
	30 June 18	1 Jan. 18
Liabilities		
Deposits from banks	38,776	36,929

Customer deposits	556,711	539,882
Financial liabilities at fair value through profit or loss	110,874	89,369
Other liabilities	16,124	15,444
Debt securities in issue	116,099	96,826