ING Group Annual Report 2016

Accelerate

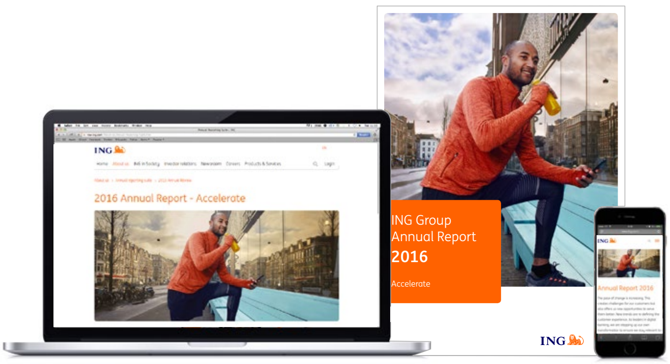
ING

We’re all busier than ever before. The pace of change is increasing. This creates challenges for people but also offers new opportunities to serve them better. New trends are re-defining the customer experience. As leaders in digital banking, we are stepping up our own transformation to ensure we stay relevant to customers in this changing environment. Now is the time to accelerate.

Empowering people to stay a step ahead in life and in business

Welcome to ING's Annual Report

This report aims to inform stakeholders about our financial and non-financial performance in 2016. This includes a look at how we create value over time and how the Think Forward strategy addresses the challenges, risks and opportunities ING faces in a fast-changing world.



The elements of the report include:

- the Report of the Executive Board, with topics including trends, market developments and what stakeholders expect from us; our strategy and how we create value; as well information on our businesses and various key areas and how they developed in 2016.
- the Corporate Governance section detailing the activities of ING's Supervisory Board and various corporate governance issues.
- ING's 2016 Annual Accounts.
- the Non-Financial Appendix, featuring detailed information on a number of non-financial areas.
- a glossary of financial, ING-specific and other terms to help readers.

The 2016 ING Annual Report is available digitally and as print-on-demand, reflecting an increased focus on online presentation and our experience with how readers prefer to access the report.

Icons used in the report

Read more

Find out more online

Awards

Deals

ING Group annual reports

These reports can be read on desktop, tablet and mobile devices at www.ing.com

For any questions on these reports: communication@ing.com

Contents

Facts and key figures

Who we are

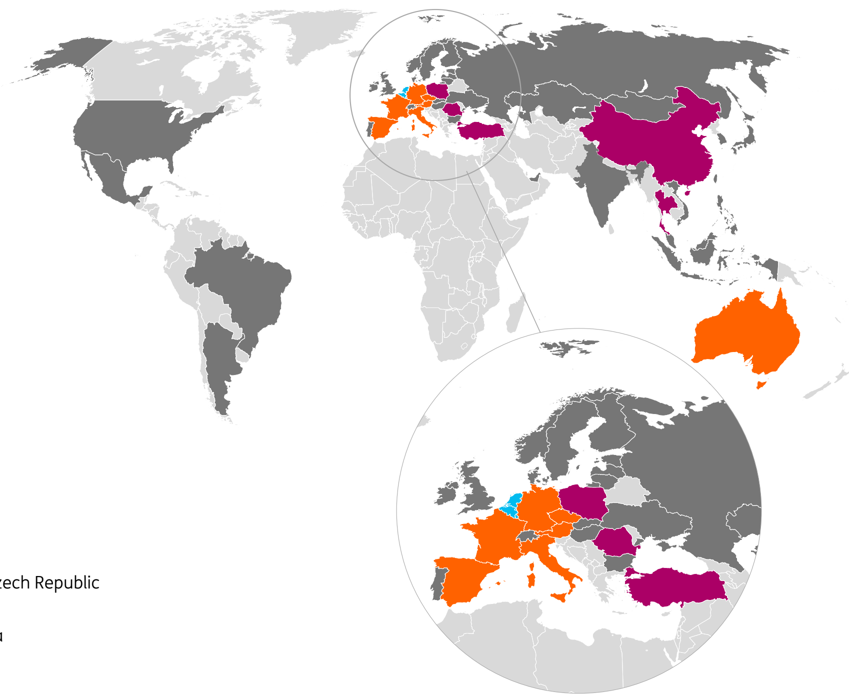
We are a global financial institution with a strong European base offering banking services. Our customers are at the heart of what we do.

2016 highlights

- Attracted almost 1.4 million new retail customers; primary relationships grew by 8% to 9.7 million.
- Net core lending to customers grew by almost EUR 35 billion and savings entrusted rose by over EUR 28 billion, both increasing by around 6% compared to 2015.
- Capital base strengthened, with ING Group's CET1 ratio rising to a robust 14.2% at year-end 2016; underlying return on equity rose to 10.1%.
- ING again performed strongly in the area of sustainability in 2016. Sustainalytics ranked ING number 1 out of its 395 financial peers. The Dow Jones Sustainability Indices also named ING among world leaders in the category "Banks".
- ING is working to increase the pace of innovation, developing new services and business models. As of the end of 2016, we were partnering and in some cases also investing in more than 65 fintechs in various areas, like instant lending, factoring and customer loyalty.
- The sale of our remaining stake in NN Group in April 2016 was the final step in ING´s programme to divest all of its insurance and investment management businesses as part of the restructuring agreement with the European Commission.
- FY 2016 dividend of EUR 0.66 per ordinary share.

Where we operate

We operate in more than 40 countries in Europe, North America, South America, the Middle East, Asia and Australia



Market leaders
The Netherlands, Belgium, Luxembourg

Challengers
Germany, Austria, Spain, Italy, France, Australia, Czech Republic

Growth markets
Poland, Turkey, Romania and business units in Asia

Wholesale Banking activities only

Our customers

35.8 million
(year-end 2016)

Top NPS ranking

Our customer-centric focus has resulted in seven countries achieving first place in NPS compared with two or more selected local peers. NPS surveys were held in 13 countries with retail banking activities.

Our employees

(by head count)

54,000+
(year-end 2016)

Our brand value

Number 27 most valuable bank brand in the world ((EUR 7.7 billion, 1 January 2017). [1]

1 Source: Brand Finance plc, February 2017. The valuation date is each year on the 1st of January.

Performance highlights

Our financial goals	Ambition 2020	2016	2015	2014
Common equity Tier 1 ratio fully loaded ING Group	> Prevailing fully-loaded requirements	14.2%	12.7%	10.5%
Common equity Tier 1 ratio fully loaded ING Bank		12.6%	11.6%	11.4%
Leverage ratio ING Group [1]	>4%	4.8%	4.4%	
Leverage ratio ING Bank [1]		4.2%	4.1%	3.6%
Underlying cost/income ratio	50-52%	54.2%	55.9%	58.7%
Underlying return on equity ING Group	awaiting regulatory clarity	10.1%	8.6%	7.2%
Underlying return on equity ING Bank		11.6%	10.8%	9.9%
Dividend per share (in euros)	progressive dividend over time	0.66	0.65	0.12

Consolidated result [2] in EUR million	2016	2015	2014
Net result attributable to ING Group's shareholders	4,651	4,010	1,251
Underlying net result Banking	4,976	4,219	3,424
Underlying result before taxation Banking	7,028	5,959	4,724
of which underlying income	17,458	16,552	15,296
of which underlying operating expenses	9,456	9,246	8,979
of which underlying addition to loan loss provision	974	1,347	1,594

Balance sheet in EUR billion, year-end	2016	2015	2014
Total assets ING Groep N.V. [3]	845	1,005	1,179
Total assets ING Groep N.V. [5]	845	842	993
Shareholders' equity ING Groep N.V.	50	48	51
Customer lending ING Bank N.V. [4,5]	561	533	514
Customer deposits ING Bank N.V. [5]	531	509	489

Other indicators	2016	2015	2014
Effective underlying tax rate (in %) Banking	28.1	28.0	25.8
Risk-weighted assets ING Bank (EUR billion, year-end)	312	318	296
Underlying risk costs in bps of average RWA	31	44	55

Share information	2016	2015	2014
Net result per share (in euros)	1.20	1.04	0.32
Shareholders' equity per share (end of period in euros)	12.84	12.36	13.08
Dividend per share (in euros)	0.66	0.65	0.12
Price/earnings ratio [5]	11.1	12.0	33.8
Price/book ratio (end of period)	1.04	1.01	0.83

Non-financial key figures	2016	2015	2014
Net Promoter Score Retail Banking (number of countries with number one ranking, rolling average)	7	7	9
Total number of Retail Banking primary relationships (in million, as of year-end)	9.7	9.0	8.4
Sustainable transitions financed (in EUR billion, as of year-end) [7]	34.3	23.8	19.5
Sustainable assets under management (in EUR million, as of year-end)	3,306	2,573	1,538
Number of customers that felt financially empowered (in million, as of year-end)	23.9	20.5	-
Total extrapolated CO_2e emissions (in kilotonne)	74	94	101
Human Capital Return on Investment indicator	2.59	2.48	2.30
System availability in the Netherlands and Belgium (in percentage)	99.75	99.6	99.3

1 The leverage ratio of ING Bank/ING Group according to the Delegated Act (including grandfathered securities) takes into account the impact of grossing up the notional cash pool activities.
2 For further explanation of non-GAAP measures, see "Additional Information" section of the Annual Accounts, page 345.
3 ING changed its accounting policy for the netting of cash pooling arrangements in 2Q 2016. In accordance with IFRS, the comparable amounts were adjusted.
4 Customer lending is defined as: loans & advances to customers -/- securities at amortised costs -/- provision for loan losses.
5 The comparable cash pool balances in Customer lending and Customer deposits are still presented on a net basis in order to provide consistent information.
6 Based on the share price at year-end and the earnings per ordinary share for the financial year.
7 Sustainable transitions financed describes the business that we do with clients who are environmental outperformers in their sectors as well as projects that provide sustainable solutions. For a more detailed definition see the glossary on page 445.

Financial review

Net result ING Group

+ 16%

The strong increase was driven by the higher underlying net result from Banking, as the negative impact of special items in 2016 (due to the restructuring charges taken in the fourth quarter) were largely offset by higher results from the discontinued Insurance operations in 2016 compared with 2015. ING sold its final stake in NN Group in April 2016.

Underlying net result Banking [2]

+ 18%

The increase reflects higher net interest results and lower risk costs, despite a sharp increase in regulatory costs in 2016. Commercial performance was robust with 6.5% net growth in the core lending book.

ING Group's underlying return on equity [2]

10.1%

ING Group's ROE improved from 8.6% in 2015, reflecting a higher underlying net result. Given the regulatory uncertainty, we believe it is prudent to wait for further clarity before we announce a Group ROE target. ING Bank's ROE rose to 11.6% from 10.8% in 2015 and is within the earlier announced Ambition 2017 target range of 10-13%.

Addition to the loan loss provision

-28%

Risk costs declined to 31 bps of average RWA (which is below ING's through-the-cycle guidance range of 40-45 bps), as macroeconomic conditions improved, especially in the Netherlands.

Fully loaded CET 1 ratio ING Group

14.2%

The CET1 ratio improved strongly from 12.7% in 2015, due to an increase in CET1 capital combined with lower RWA supported by positive risk migration. CET1 capital mainly increased due to strong capital generation from net profit (partly offset by the proposed dividend payment) and the completion of the NN Group divestment in 2016.

Underlying cost/income ratio ING Bank [2]

54.2%

This includes CVA/DVA impacts and EUR 120 million of redundancy costs in 4Q2015. Excluding these items, the cost/income ratio improved to 53.9% in 2016 from 55.9% in 2015, in spite of higher regulatory costs.

Non-financial review

Net Promoter Score Retail Banking

Top Ranking
7 out of 13 countries

Our customer centric focus helped us achieve a first place ranking in seven countries, compared with two or more selected local peers. NPS surveys were held in 13 countries with retail banking activities.

Sustainable transitions financed and sustainable assets under management

34.3 bln
Sustainable transitions financed

3.3 bln
Sustainable assets under management (SAuM)

Our focus on sustainability driven business resulted in EUR 34.3 billion sustainable transitions financed at year-end 2016. SAuM increased to EUR 3.3 billion, which underlines our client's appetite for products and services that apply sustainability criteria.

CO_2e emissions

74 kilotonnes

The environmental performance of our own organisation improved as a result of an increase in renewable electricity consumption. The total extrapolated amount of carbon emissions decreased from 94 to 74 kilotonnes CO_2e.

Financial empowerment

23.9 mln
customers felt financially empowered

Since 2015 we measure our performance in this area to be sure our efforts are really driving sustained improvements in the financial behaviour of our customers and society. In 2016, 23.9 million people felt financially empowered as a result of interactions with our financial empowerment initiatives.

Effective employer Human Capital ROI

2.59

We measure and report on our human capital investments to ensure we do the right things to support our employees' performance. The Human Capital Return on Investment indicator helps us identify the influence of HR inputs on the organisation's productivity. This ratio of profitability divided by employee costs was 2.59 in 2016, up from 2.48 in 2015.

System availability

99.75%
in the Netherlands and Belgium

In early 2015, an initiative was launched to find a permanent solution for system reliability issues we experienced in the Netherlands and Belgium with our online payments channels. At the end of 2016, systems reliability improved to 99.75 percent, up from 99.6 percent in 2015.

CEO statement "Accelerating Think Forward"

2016 was a successful year for ING. We made good progress implementing our strategy and achieved strong growth in customer numbers, savings and lending. But the competitive landscape for banks is changing. The pace of digitalisation is increasing, and this is changing customer expectations. We will accelerate our transformation, creating an integrated digital platform to cater to all our customers' financial needs and provide new and relevant offers to enhance the customer experience.

The Think Forward strategy with its purpose to empower people to stay a step ahead in life and in business continued to guide our direction in 2016.

At the core of that strategy is our Customer Promise: to be clear and easy, available anytime and anywhere, to empower our customers and to keep getting better. These pledges underpin ING's ambition to provide a differentiating experience for our increasingly digital and self-directed customers. We took important steps in 2016 to fulfil this promise, and the growing number of customers and the high ratings we receive from them confirm the success of those efforts.

These included the development of more tools that make financial planning and decision-making easier. My Money Coach, launched last year by ING in Spain, is a free digital adviser that helps customers create a personalised plan to achieve their savings, investment and retirement goals. Similar tools are part of our offering or are being developed in Belgium, France, the Netherlands and Poland.

We also introduced new tools to improve the customer experience on mobile devices, which are fast becoming the main interface between us and our customers. One of these was Kijk Vooruit ("Look Ahead"), a mobile app feature in the Netherlands. It helps improve customers' grip on their daily finances by giving them insights into future planned and predicted transactions.
And we continued to develop instant lending platforms for both consumer and SME lending, two priority areas to diversify lending.

In Wholesale Banking, we expanded the reach of InsideBusiness, our digital, cross-border banking platform. It gives clients real-time insights and a single point of access to manage financial transactions from any device. The platform is now available to clients in 17 countries. We plan to complete its global roll-out by the end of 2017. We aim for Inside Business to become an all-in-one business banking platform for clients' needs.

These and other initiatives reinforcing our brand and our track record as leaders in digital banking were recognised by customers. The number of customers choosing us for their banking needs again increased and has grown by around 3 million to 35.8 million since we launched the Think Forward strategy. The number of primary relationships - customers with a current account with recurring income and at least one other product - grew eight percent to 9.7 million, close to our 2017 ambition of 10 million customers. We have now updated the ambition to 14 million primary customers by 2020. We also enjoyed number one Net Promoter Scores (NPS) in 7 of our 13 retail markets, a key indicator of customer satisfaction.

It is a compliment to our staff that their hard work and focus on helping our customers has received important external recognition. This included ING being cited by *The Banker* as 2016's Best Global Bank, Best Bank in Western Europe, Best Bank Netherlands and Best Bank Belgium.

Robust growth

These strong relationships with customers helped to drive ING's robust commercial and financial growth in 2016. ING Group recorded a full-year 2016 net profit of EUR 4,651 million, an increase of 16% year-on-year. Our net core lending to customers grew by almost EUR 35 billion and savings entrusted to us rose by over EUR 28 billion, both increasing by around 6% compared to 2015. Lending growth came from all regions and was particularly strong from Industry Lending and Working Capital Solutions within Wholesale Banking and from mortgages in retail Challengers & Growth Markets.
Against the backdrop of this growth, operating expenses remained stable and risk costs declined further from an already low level. Our capital base strengthened, with ING Group's CET1 ratio rising to a robust 14.2% at year-end 2016. ING Group's IFRS-EU underlying return on equity rose to 10.1%. We are on track to meet all of our Ambition 2020 targets.

Reflecting these strong results, the Board proposes to pay a total 2016 dividend of EUR 0.66 per ordinary share, subject to shareholder approval at the AGM in May 2017. This is in line with our goal of paying a progressive dividend over time, while maintaining healthy capital levels.

Accelerating Think Forward

With our Think Forward strategy we have been able to successfully respond to changing customer needs. This has been helped by our focus on innovation and its role in our business as a driver for improving the customer experience.

But we also see the pace of change rapidly increasing. Digitalisation is speeding up and it is shaping customer expectations across borders. Banking products are now commodities where customer experience is the key differentiator. New entrants to the market, like fintechs, are making it more challenging to compete. And this is happening against the backdrop of persistent low interest rates that are putting pressure on bank margins, as well as rapidly increasing regulatory costs.

I feel strongly that the bank of the future will not look like banking as we know it today. I see this in particular in the development of digital ecosystems that connect people and businesses. They include features like shopping and paying for goods and services to become the one stop for all of their users' needs. This trend makes it important for us to also develop an open platform where customers can go not only for their financial needs but also for relevant offers and services from third parties, and even for an overview of their accounts with other financial services providers. We believe this will provide them with an enhanced customer experience and us with opportunities to generate fee and other revenue from services beyond traditional banking. ING's digital systems also must be capable of integrating seamlessly into other ecosystems so that we are present where our customers spend their time online – available anytime and anywhere.

On the Wholesale Banking side, an open platform approach is also needed to tap into important developments like blockchain. This distributed ledger technology has the potential to develop into a digital standard between banks, enabling them to offer faster, safer and cheaper services to their clients.

To succeed in this we must move faster as an organisation. In October 2016 we announced that we will accelerate the implementation of our strategy. We aim to converge over time to a single digital and scalable banking platform across borders. In our Wholesale Banking business we have already made significant progress toward this goal.

Converging our various banking models in one go, however, would be impractical and runs the risk of being burdensome for customers and for our organisation. So we will first move to an intermediate state where we converge businesses with similar value propositions.

Though we will still be operating several platforms, all new elements of these platforms will be built to meet the requirements of the future single platform. This will give us efficiencies of scale and speed up our pace of innovation by allowing us to rapidly share new products and services. These steps will make it possible to deliver a superior customer experience, enhanced digital financial management tools and better data management so we can provide customers with more tailored offerings that meet their needs.

This convergence will also be reflected in our brand. Since the start of the Think Forward strategy we have pursued a shared brand direction and strengthened our brand positioning across our markets. In the coming years we will increasingly move towards a single brand experience across our markets.

This transformation will benefit our customers and put our business on a solid footing for the future. But we also realise that change does not come only with benefits. We anticipate that the creation of an integrated banking platform in the Netherlands and Belgium, together with the other initiatives announced, will impact around 7,000 jobs in various countries over the next five years. This will result in job losses, changed functions or functions moving to new locations. We are well aware that the change we need to make to be successful in the future will have a major impact on many employees who have worked hard to get ING to where it is today. We are committed to building on our track record as a responsible employer, to treating all those affected with respect and care and to helping employees who face job losses to find suitable new job opportunities.

Sustainability embedded in our business

At ING we believe that our role as a financial institution is to support and encourage economic, social and environmental progress that leads to a better quality of life. Sustainability forms an integral part of our strategy and is embedded in our business.

Sustainability is inherent in our purpose to empower people to stay a step ahead in life and in business. We empower people by striving to make banking clear and easy, available anytime and anywhere and by making financial empowerment tools available to them so they better understand their financial needs and can make well informed financial decisions. Our success in that is reflected by the 23.9 million ING customers in 2016 who said they felt empowered by ING.

Our commitment to sustainable progress is also reflected in our support for the UN Sustainable Development Goals, particularly the goals of sustainable and inclusive economic progress and of sustainable consumption and production.

In the area of sustainability and inclusion, ING is a founding member of the Think Forward Initiative that brings together experts and consumer advocates to research how people make financial decisions. Many consumers struggle with money matters. The initiative aims to contribute to awareness, policies and tools to help consumers manage their finances better.

I am proud that ING is also playing an important role in creating a fairer and greener economy. We do that by financing projects that accelerate corporate clients' transitions to becoming more sustainable and by supporting clients who develop solutions to environmental and social challenges. The value of these sustainable transitions financed (STF) in 2016 came to more than EUR 34 billion, close to our 2020 target of EUR 35 billion, which we will now revisit. It is also our ambition to promote sustainable transitions among our retail customers in the future.

A particular focus for our sustainable financing is the circular economy, which seeks to create a zero-waste world by making new products out of waste. We served as advisor and underwriter in a notable merger of Shanks Plc of the UK with Dutch waste processor Van Gansewinkel Groep. When finalised it will create one of Europe's leading players in recycling.

I believe strongly in the positive role banks can play in promoting a better and fairer world through their financing. In 2016, ING joined other Dutch banks, labour unions, NGOs and the Dutch government in a covenant to ensure that global corporate and project finance done by Netherlands-based banks protects and improves human rights in areas like labour practices, the freedom to form labour unions, child labour and land rights. Our longstanding commitment to human rights is also reflected in our involvement in the OECD Advisory Group, our role on the steering committee for the Equator Principles and through the human rights policy in the Environmental and Social Risk Framework that we apply in the more than 40 countries where we operate.

ING's achievements in the area of sustainability continue to be recognised and we are ranked among leaders in this area. In 2016, ING was ranked number one out of 395 publicly listed banks, up from third last year, by global sustainability research leader Sustainalytics. ING also scored 90 out of 100 in the Dow Jones Sustainability Index (DJSI), up from 86 last year and compared to an average industry score of 61. ING was also "A-listed" by CDP, the UK-based not-for-profit that discloses corporations' environmental impact. This places us among 193 global leaders out of the thousands of companies rated.

Regulation

The competitive landscape is changing, and so too is the regulatory context. We welcomed the further progress during 2016 in implementing a harmonised approach to regulation of Europe's banks by the ECB. At the same time, banks were again faced with an increasing amount of new regulations and rising regulatory costs. I am also concerned about the lack of coordination among regulators leading to a sustained unlevel playing field, as for instance in the case of bank taxes, where banks operating across borders often face double taxation. We are also disappointed by the continuing lack of clarity around reforms to capital rules to be set by the Basel Committee. This uncertainty makes it increasingly difficult for banks to actively support the economies where they operate, particularly in financing areas such as mortgages, SMEs and areas that structurally support economic recovery, including utilities, renewables and infrastructure. I feel it is important that regulators recognise this and support banks in their important role as facilitators of the economy. Regulation should also take into account the changing competitive landscape. It should support financial services providers who embrace innovation and new ways of doing business.

Foundation for success

Banking is undergoing disruption as never before. Together with the pace of change in the world around us, this creates uncertainty regarding the way forward. But I believe ING's strong brand, our position as a digital leader, our innovative strength and our social and environmental engagement put us on a solid foundation. We have the ability to adapt and succeed in this new environment so we can continue to meet the needs and expectations of customers and society and play an important role in building a sustainable and prosperous future for all.

The past year was one in which we made much progress and took important steps to ensure future success. I would like to express my gratitude to our customers and shareholders, without whose confidence these achievements would not have been possible. And I want to thank our employees for their hard work and commitment to ING and our customers.

Ralph Hamers

Ralph Hamers
Chief Executive Officer ING Group

13 March 2017

The world around us

The world around us is constantly changing. This chapter highlights several trends that have a major impact on both our operating environment and that of our competitors. This includes the economy and current low interest rate environment, increasing regulatory scrutiny and costs, digitalisation and changing customer behaviour, and what our stakeholders expect of us.

Global economic developments

Similar to 2015, 2016 was not a strong year for the global economy. Growth in the US regained momentum, but the recovery in the eurozone was not able to shift into higher gear and the Chinese economy continued to slow. Uncertainty about the global economic outlook and (geo)political uncertainty led to flares of financial market volatility, but the global economy held up relatively well.

Concerns about the global economy started in the first quarter, with disappointing data on the Chinese economy and a decline in oil prices. The world's main stock market indices fell 10 to 15 percent below 2015 year-end levels and corporate credit risk rose to levels not seen during the previous two-and-a-half years. Currencies of a number of important emerging economies came under downward pressure.

Worries eventually faded, and stock markets and oil prices recovered, as the US Federal Reserve signalled it would be cautious and take the state of the global economy into account when raising interest rates and the Chinese authorities implemented measures to support the economy.

Brexit

In late June, financial market volatility increased as Britain surprised markets by deciding to leave the European Union ("Brexit"). While the British pound depreciated to record lows against the US dollar and the Bank of England loosened monetary policy as a precaution, the immediate economic impact appears relatively limited. Still, there is long-term uncertainty, as the actual Brexit probably won't take place until 2019 at the earliest. It is still unclear what the relationship between the UK and the EU will be after Brexit.

Eurozone developments

Persistent low growth and declining inflation led the European Central Bank (ECB) to further loosen monetary policy in 2016. This triggered spectacular falls in market interest rates. Also because of Brexit fears, yields on German government bonds with a remaining maturity of 10 years became negative. While similar bonds issued by other eurozone governments still carried positive yields, they were at historic low levels as well and often negative for shorter maturities. However, in the second half of the year, expectations about a more expansionary fiscal policy in the US following the presidential election victory of Donald Trump, an interest rate increase by the Federal Reserve, and an increase in oil prices pushed up capital market interest rates again.

ECB policies also resulted in a further decline in the cost of borrowing for eurozone households and businesses and contributed to a modest increase in credit demand. Marked differences between countries remain, with credit growth generally more positive in northern European countries, while low or negative in southern ones.

Low interest rate environment

Persistent low interest rates will, over time, put banks' net interest income under pressure. On mortgages for instance, ING could be confronted with higher than expected prepayment rates as the difference between rates on existing mortgages and the prevailing market rate lead customers to refinance.

On savings, net interest income may decrease as savings rates approach zero and options to further reduce client rates on savings deposits diminish. ING actively manages its interest rate risk exposure and successfully maintained the net interest margin on its core lending in 2016. To address the challenge of interest-income erosion, containing costs remains an important goal. We are also putting more emphasis on generating fee-based income and are reassessing our product characteristics.

Read more in the "Risk and capital management" chapter.

Progress on relevant regulatory initiatives

The Single Supervisory Mechanism (SSM), the system of banking supervision for Europe, was in effect for the second full year in 2016. In this second year, the daily interactions on supervision between the European Central Bank (ECB), national competent authorities like the Dutch Central Bank in the Netherlands and banks were streamlined further.

The ECB in particular took important steps to communicate its expectations to the banking sector and public at large. For example, the ECB provided detailed information about its annual Supervisory Review and Evaluation Process (SREP) and its findings based on its sector-wide thematic review on risk governance and appetite. Such transparency helps support the banking union in coming together, as well as the efficiency and effectiveness of the ECB's supervision.

ING remains a supporter of the SSM. With our strong European footprint, we have a clear interest in the proper functioning of European financial markets and in a harmonised approach to European banking supervision. We believe that this will contribute to a more efficient use of capital across Europe. As banks' customers are more able to realise their ambitions, the European economy's growth prospects will benefit. Harmonisation will also help us accelerate our Think Forward strategy to create one digital banking platform across borders.

ING expects benefits from harmonised supervision to materialise over the coming years with converging supervisory practices, stress testing, streamlined reporting, and the cross-border flow of capital and liquidity.

Alongside the SSM, the Single Resolution Mechanism (SRM) came into force on 1 January 2016. It aims to ensure an orderly resolution process for failing banks. With SSM and SRM, two of the three pillars of the Banking Union have been established. More on this can be found below.

The last remaining pillar, mutualisation of deposit guarantee schemes, is progressing at a much slower pace than the first two pillars. Lack of a common European deposit guarantee scheme leaves the eurozone potentially vulnerable to interdependence between banks and governments, despite the existence of the SSM and SRM.

The second EU Directive on Payment Services (PSD2) was adopted in October 2015 and will be implemented in the coming years. It will create an EU-wide single market for payment initiation services and account information services. Its main objective is to promote innovation and competition in the EU payments market. ING welcomes this development and sees the PSD2 as an opportunity to develop new and innovative ways of serving our customers. At the same time, we find it important regulators take into account the changing competitive landscape and support financial services providers who embrace innovation and new ways of doing business and should ensure they can compete on a level playing field with newcomers.

In November 2016 the EC launched the review of the existing Capital Requirements Regulation (CRR) and Directive (CRD), and Bank Recovery and Resolution Directive (BRRD) regulation. These draft EC proposals are subject to approval by the European Parliament and Council. They consist of important new regulatory requirements for banks, including the Net Stable Funding Ratio (NSFR), the leverage ratio, review of the trading book and counterparty credit risk. The proposal also includes changes to transpose the FSB TLAC term sheet into EU law and introduces a harmonised approach for creditor hierarchy in Europe.

Regulatory costs and uncertainty

ING's regulatory costs increased 36.3% in 2016. One main reason were costs for the new Dutch deposit guarantee scheme (EUR 129 million in 2016 compared with zero in 2015). A new European rule says that banks must pay into these deposit guarantee schemes on a regular basis and not just after a bank failure.

Bank taxes were also a major reason for higher costs in 2016; specifically a Polish bank tax of EUR 64 million compared with zero in 2015. This taxes a part of ING's balance sheet on which we already pay tax in the Netherlands. There is no European regulation on bank taxes and little coordination between countries addressing the fact that banks pay the same taxes in more than one country. We hope that, as is already the case in Germany and foreseen in France, bank taxes will be abolished in the Netherlands and in other countries that still require them.

Other new regulation also contributed to the rise in costs for 2016, such as the European Single Resolution Mechanism (SRM) mentioned above. This required banks to begin paying contributions to the Single Resolution Fund as of January 2016.

A prominent source of regulatory uncertainty in 2016 was the Basel Committee on Banking Supervision (BCBS) proposals regarding risk-weighted assets. The proposals are intended to make risk-weight calculation simpler and more comparable across banks, limiting the use of banks' own internal models. ING believes that the Basel proposals could allocate too high a risk weight to various lending activities, in particular mortgages, corporates and specialised lending. This would not be in line with historical loss rates and distorts sound economic incentives. ING does support increased comparability of internal models and therefore supports initiatives to address undue risk variability. It is involved in ECB and European Banking Authority (EBA) work underway to address this, such as the Targeted Review of Internal Models (TRIM) by the ECB. Apart from the proposals in the area of credit risk, the BCBS is also considering changes in the areas of operational and market risk. The continuing uncertainty is detrimental for banks and the economy at large.

Other uncertainties concern loss-absorption requirements, which haven't yet been finalised in the EU. The Financial Stability Board's total loss-absorbing capacity term sheet still has to be transposed into EU law before it is clear how to calculate the minimum requirement for own funds and eligible liabilities (MREL).

Read more in the "Risk and capital management" chapter.

The range and complexity of non-prudential regulation is increasing. Regulation is becoming more stringent in areas like customer due diligence (CDD) and transaction monitoring to prevent and report money laundering (AML), terrorist financing, and fraud. Regulations such as the Common Reporting Standard (CRS) and FATCA, which require financial institutions to report detailed client-related information to competent authorities, are also adding to banks' regulatory burden. There are a number of risks in areas where applicable regulations are unclear, subject to multiple interpretations or under development, are in conflict with each other, or where regulators revise their guidance or courts overturn previous rulings. Meeting all these requirements within the strict timelines that have been set poses a significant operational challenge for banks. Regulations also need to strike a proper balance between consumer protection and innovation to allow banks to compete in the new competitive environment.

Competitive landscape

Technology is removing a number of the barriers to entry that once insulated our business. We face competition from many different directions, with relatively new players providing more segmented offers to our customers and clients. Technology giants, payment specialists, retailers, telecommunication companies, crowd-funding initiatives and aggregators are all encroaching on the market for traditional banking services. Our customers, in turn, are willing to consider these offers.

Banks strive to act in the interests of their customers. Safe banking requires specific knowledge of financial services, in-depth knowledge of customers, and rigorous risk-management systems. As competition from outside the banking sector continues to increase, we have to become faster, more agile and more innovative.

Read more in the "Our strategy and how we create value" chapter.

Our long track record and strong brand place us well to seize these opportunities and become a better company for all of our stakeholders. We are a leader in digital banking, and we have scale combined with local market expertise. We are investing in building profitable, mutually beneficial relationships with our customers based on the quality of our service and the differentiating experience we offer them. We intend to continue working hard to win their hearts and minds, demonstrating our concern for them and all our stakeholders. We intend to be even clearer about the strategic choices we make. The diagram below shows what we perceive to be our strengths, weaknesses, opportunities and threats based on assessments by management.

Our perceived strengths, weaknesses, opportunities and threats [1]

Strengths

- Well-known, strong brand with positive recognition from customers in many countries
- Leader in digital banking
- Sustainability leader
- Strong capital and liquidity position; solid financial and operating performance
- Global network provides competitive advantage
- Presence in growth markets with moderate to strong economic growth
- Omnichannel distribution strategy

Weaknesses

- High interest-income dependency
- Some legacy IT/operational systems
- Need for more agility
- Efficiency could be improved
- Diversity challenges

Opportunities

- Maintain trust by demonstrating care, especially towards customers, and being more transparent about our strategic choices
- Further improve the customer experience by accelerating innovation and improving efficiency
- Cultural change. Tap more into employees' talents
- Grow faster than the market by offering a differentiating customer experience
- Further use competitive advantage of Wholesale Banking global network

Threats

- Low interest rate environment
- Basel 3.5 capital requirements remain unresolved and could negatively impact our role as facilitator of the economy
- Regulatory environment increasingly complex, with heightening execution risk
- Lack of an international level playing field
- Potential competition from new entrants to the market
- Financial sector has an unfavourable public image in many countries
- Cybercrime

1 This information constitutes forward-looking statements as referenced in the "Disclaimer" and is not intended to be a complete list of such matters. For more information on what can impact ING Group's results of operations and financial position, please see "Additional Information, Risk factors" on page 345 of the Annual Accounts.

Overview material topics and how we manage these

Customer centricity
- A Innovative business developments
- B Customer privacy and data security
- C Enhancing customer financial capabilities
- D Stability of IT systems and platforms
- E Usability and accessibility of our products and services
- F Fair communication about our products and services
- G Responsible lending and debt prevention

Economic contribution
- H Financial performance
- I Pricing of products and services
- J Managing risks

Fair operating practices
- K Regulatory developments
- L Anti-competitive behaviour prevention
- M Corruption prevention
- N Sustainable finance and investment policies

Stakeholder engagement
- O Transparency and openness
- P Trust

Human capital
- Q Diversity and equal opportunities, preventing discrimination
- R Being a good employer

■ Material topics linked to the elements of our Strategy

■ Material topics primarily covered by our policies, governance framework and/or laws

What matters most to our stakeholders

From customers to business partners, shareholders, employees, non-governmental organisations (NGOs), regulators, governments and society at large – different stakeholders expect different things from us. We strive to respond to their views and concerns.

To improve as an organisation, we need to continuously identify and understand the most important topics for our stakeholders and how these relate to the actions and decisions we take. This helps us balance competing expectations and address topics in an informed way.

We conduct a materiality assessment every year, where we gather input from stakeholders and ING's management to assess what matters the most to them and our business. We identify the issues with the highest priority for stakeholders and the biggest potential impact on our business. This guides us in our strategic decision-making, stakeholder engagement agenda and reporting framework.

In 2015 we conducted a quantitative survey with input from more than 1,500 respondents across five countries, covering six stakeholder groups. In 2016 we built on these results, adding a qualitative element to delve deeper.

A media, trend and peer analysis was performed to capture new emerging topics and to ensure the topics reported in 2015 were still relevant. Results were used as input in detailed discussions with stakeholders including customers, NGOs, academics, shareholders, employees and regulators. They were asked to rate the material topic on importance and to choose one or two recommendations for ING to focus on, including emerging topics. This qualitative approach increases our understanding of our stakeholders' priorities and confirms that we are truly aligned with them.

Read more in the "Non-financial appendix" for a detailed process description on the 2016 materiality assessment and the matrix.

We learned, for example, that both stakeholders and ING regard innovative business developments as one of the most important topics, considering factors such as disruptive technologies across industries, the threat from both small fintechs and giants such as Facebook and Google and the opportunities that advanced data analytics provide in serving our customers. Innovation is a strategic priority for ING.

Read more in the "Our strategy and how we create value" chapter about innovation.

Sustainable finance and investment policies gained awareness across all stakeholder groups – from NGOs and governments to investors and customers. All expect ING to have a long-term vision and to set measurable environmental and social targets. We strive to use our position as a global bank to spur environmental and social progress.

We see our purpose – to empower people to stay a step ahead in life and in business – as inherently sustainable. We promote good financial decision-making and empowerment. Next to that, our focus is on what we call sustainable transitions – our own transition, with our environmental programme helping us meet our targets for water, waste and energy reduction; our customers' transitions, by helping them become more sustainable; and society's transition, by funding sustainable projects and clients.

Read more in the "Retail Banking" and "Wholesale Banking" chapters.

Also gaining importance as a topic across stakeholder groups is managing risks, both financial and non-financial, such as environmental and social risk. Stakeholders expect ING to move beyond improving our risk-management capabilities to also engage with clients to help them improve their own environmental and social performance.

Read more in the "Risk and capital management" chapter.

The pricing of products and services assumed greater importance. This is strongly influenced by external factors such as the current low interest rate environment, reduced margins, increasing regulatory costs, and a shift towards a fee-based model.

Read more in the "Our strategy and how we create value" chapter.

A more detailed overview of the opportunities and risks related to the material topics and our approach and performance is summarised in the table on pages 15 to 18. The table serves as a summary to the content within different chapters, covering future outlook, objectives, indicators and results.

Balancing our responsibilities

Different stakeholders may have competing concerns. Sometimes these are even contradictory. Here, we outline some of the dilemmas we face in balancing these different interests.

Stimulating sector change vs anti-competitive behaviour

Banks are scrutinised on whether they have robust policies when dealing with sensitive sectors such as animal husbandry and manufacturing, as well as important topics such as climate change and human rights. ING has policies that uphold our values. Our comprehensive and detailed Environmental and Social Risk (ESR) framework sets out a clear checklist when deciding which companies or activities to finance and under which conditions.

We also believe it is important to discuss these challenges with other banks to learn from each other and reach common ground to really create sustainable change across the sector. We try to do this through working groups with our regulators and other stakeholder organisations.

We recognise that collaborating on a good cause, even with the best of intentions, could trigger questions about anti-competitive behaviour. This might lead to a situation where parties would be inclined to choose the safe side and not work together rather than pursue a joint sustainable approach between banks that might have more impact. We would find such a situation unfortunate, but would still continue to strive for sustainable progress.

Customer centricity vs negative interest rates vs profitability

In traditional banking, banks attract customers' savings and then either invest them or loan that money to others. They do this while managing accompanying risks (like payment default) and earning income on the loans and investments. The idea has always been that customers who save money with a bank earn a certain interest. This is deducted from the bank's investment and loan revenue to get net interest margin. But what happens when negative interest rates come into play? And how does that impact a bank's ability to make a profit?

Like it or not, negative interest rates are a reality. The monetary policy behind them aims to encourage households to spend, rather than save. However it is not yet clear that this works, and ING is working hard to avoid being forced to implement negative rates on retail deposits.

However, if banks don't lower their retail savings rates below zero in a negative interest rate environment, net interest margins would be impacted, worsening profitability. Other solutions would have to be found, such as increasing margins on lending or implementing other fees, which could reduce market transparency. From our point of view, none of these are desirable because they would conflict with customers' expectations about fair pricing.

Innovative financial technology companies: threat or opportunity?

Innovative financial technology companies (fintechs) are growing as competitors in financial services, providing a customer experience that is superior to what banks offer. Banks must adapt and evolve to survive.

ING believes that we should rely on our strengths and perceive these developments as an opportunity rather than a threat. We have the advantages of scale, capital, a large customer base, marketing and distribution know-how and experience. When it comes to fintechs, ING's strategy is to pursue partnerships with those that can really add value for our customers, leveraging each other's strengths.

We are currently partnering with more than 65 fintechs. In Germany, for example, we are cooperating with several young financial tech companies on video identification (Web-ID), photo transfers (Gini Pay) and verifying payments by fingerprint (SmartSecure App by kobil).

Read more in the "Improving the customer experience" chapter.

Innovation vs data protection

Capturing and analysing data helps us understand our customers' needs and preferences, allowing us to offer them more tailored products and improved service.

As a bank we collect and store vast amounts of data, such as customer profiles, payment transactions, complaints and more. Besides giving us meaningful insights to better understand our customers, it improves the accuracy of our internal and external reporting, for example to regulators. On its own, raw data has little value, that is why we are working to standardise global data management. At the same time, we see an increasing focus on data security across all industries. For banks, this especially relates to people's personal financial information.

Customers trust us to store their data with care and safety. This trust is also at the core of our relationship with our customers. We abide by our legal obligations to protect customer data, which can differ country to country. The wishes of our customers and clients are critical whenever data is processed for services and offers. In cases where we rely on consent, the customer can withdraw their consent at any time.

Read more in the "Improving the customer experience" chapter.

Being a responsible employer vs adapting to a changing environment

With over 54,000 employees, we aim to be a responsible employer that provides staff with good working conditions and opportunities for growth. In the digital world, human touch remains important. Therefore we strive to create an entrepreneurial, open, collaborative, innovative and energetic culture that attracts and motivates employees and helps to deliver on our Customer Promise.

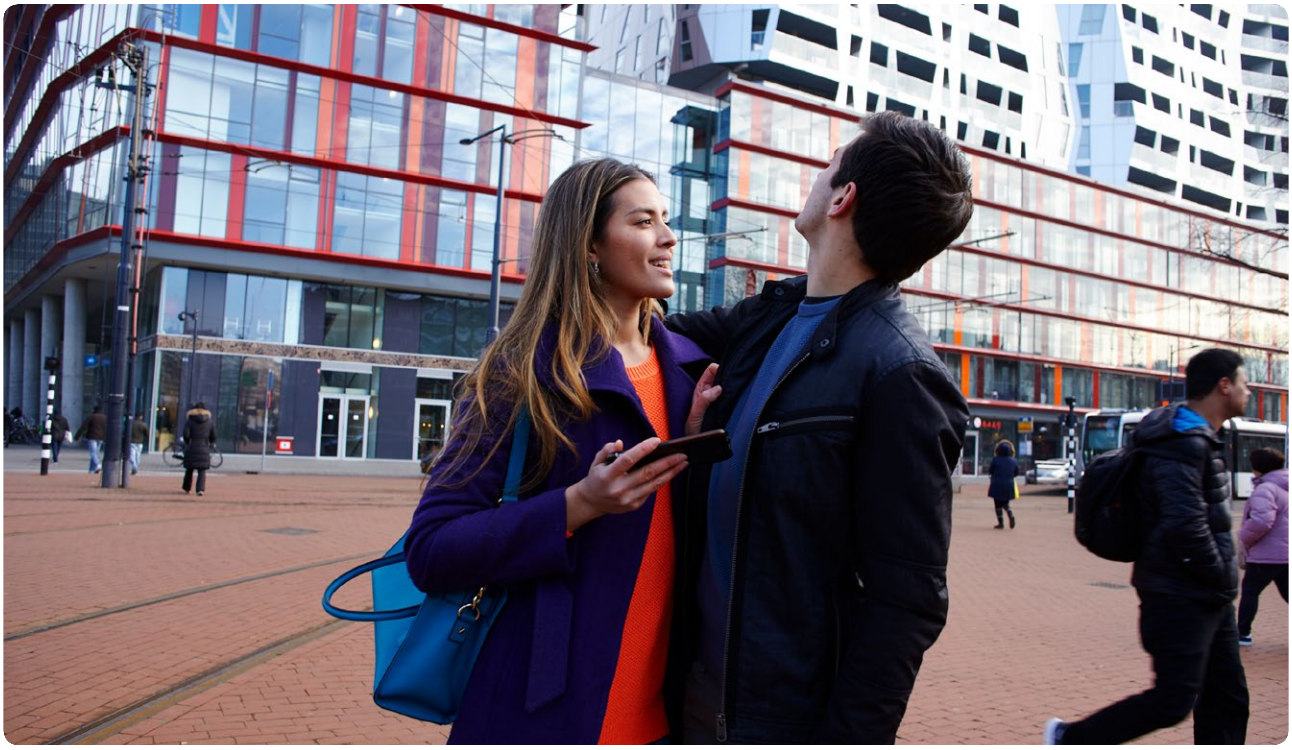
We offer training and opportunities for staff to develop professionally, improving people's general employability, whether with ING or for future positions outside the company. We see this as part of our responsibility as an employer.

However, change is a constant and we – like all companies – must periodically adapt to evolving business requirements. This can lead to job losses. ING is committed to helping employees to find new roles and/or supporting them in learning new skills to better equip them for their next role.

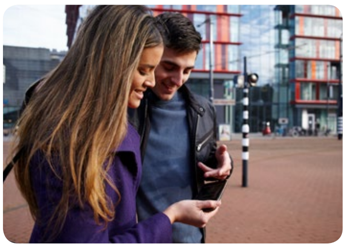
Read more in the "People" chapter.

Read more in the issue table in the "Non-financial appendix".

Better financial decisions: the Think Forward Initiative



Buying a new house is exciting, but emotions can get in the way of smart financial decisions. In the Think Forward Initiative, ING teams up with businesses and experts in a public platform to research how consumers make decisions about money. The aim is to promote awareness and the development of policies and tools to help consumers manage their finances better.



Opportunities & Risks	Material topic	Our approach and performance	More information
Customer centricity			
Opportunities: Driven by changing customer needs, banks have an opportunity to make their products and services available anytime, anywhere. Advanced data analytics will help banks to understand customers' needs and preferences, and allow banks to offer more personalised products and services. Banks are strictly regulated and are therefore less flexible when it comes to developing new ways to improve the customer experience. However, partnerships with external financial technology companies – usually start-ups – who can move faster will strengthen the bank's transition towards digitalisation. **Risks:** Customer expectations are changing, enabled by technology, forcing banks to go digital. Inherent in that are risks related to privacy and data security. Banks must adhere to legal obligations and ensure customer data is handled with the utmost care in a world where cyber-attacks are on the rise, both in frequency and intensity. Fintechs are very focused in their product and services offerings and cater to specific customer needs, targeting segments underserved by traditional banks.	A **Innovative business developments** Fintechs are developing rapidly and our customers' expectations are evolving every day. It is up to us to adapt and innovate to remain relevant. At the same time, the transition to a circular economy will change the business models of our clients and, related to that, their financial needs.	ING believes that innovative businesses are built on a culture of innovation. The third edition of our annual Innovation Bootcamp attracted 1,194 ideas. The Innovation Fund is currently supporting four initiatives. And by the end of 2016, ING had more than 65 fintech partners, of which we invested in 11. In 2016, more than 2,000 employees were trained in the PACE methodology, a structured process to accelerate innovation at ING.	*Creating a culture of innovation section in the "Improving the customer experience" chapter.* *Providing a differentiating customer experience section in the "Retail Banking" chapter.*
	B **Customer privacy and data security** It is our duty to handle our customers' data with the utmost care. We strive to be transparent about what we do with the personal data of customers, suppliers and business partners, and only to process personal data for specific business purposes.	All business units have adopted Global Data Protection Policies (GDPPs) that qualify as Binding Corporate Rules. In each business unit and at bank level, a data protection executive is responsible for maintaining GDPP compliance. The GDPP is currently being revised to comply with new EU General Data Protection Regulation 2016/679 which must be adhered to by May 2018.	*Data privacy and security section in the "Improving the customer experience" chapter.* *Balancing our responsibilities: Innovation vs data protection in "The world around us" chapter.*
	C **Enhancing customer financial capabilities** Helping people make smarter financial decisions through transparent tools, tailored offers and expert advice.	In 2016, more than 23.9 million people felt financially empowered by ING, a 16.6% increase compared to 2015. We introduced products and services such as "Kijk Vooruit" and My Money Coach to help people make better financial decisions.	*Financial empowerment section in the "Retail Banking" chapter.*
	D **Stability of IT systems and platforms** Securing the stability of ING's IT systems and platforms, such as payment services, internet banking and apps.	The Focused Reliability Initiative was launched in 2015 to find permanent solutions for system reliability issues in the Netherlands and Belgium. Continuing the programme in 2016, ING's channel availability improved to 99.75% on average in the Netherlands, Belgium and Wholesale Banking.	*Reliability and stability section in the "Improving the customer experience" chapter.*
	E **Usability and accessibility of our products and services** We want to stand out by making banking available to our customers anytime, anywhere through our digital-first approach, complemented by advice when needed, with omnichannel contact and distribution possibilities.	ING's customers are already digital and increasingly mobile. Digital channels now account for 98% of contact with retail customers and mobile interactions increased by more than 50% during 2016. ING's promise to deliver services anytime, anywhere implies a commitment to make these products and services accessible and inclusive to all sections of society. ING in Poland, for instance, makes use of technology to help deaf customers who have previously had to bring an interpreter with them to do their banking. And in 2016, there was a strategic shift from traditional microfinance portfolios in India and Turkey to a more diversified portfolio, both in location and the mix of financial services offered.	*Introduction section in the "Improving the customer experience" chapter.* *Providing a differentiating customer experience section in the "Retail Banking" chapter.* *Financial empowerment and Financial inclusion sections in the "Retail Banking" chapter.*

The world around us – continued

Opportunities & Risks	Material topic	Our approach and performance	More information
Customer centricity (continued)			
	F Fair communications about products and services We communicate clearly and easily to customers on products and services.	We believe banking should be about clear products, plain language, fair prices and simple processes. To ensure fair pricing and communication on our products and services, we have a Product Approval and Review Process (PARP). Customers are able to provide feedback on products and services through ratings and online communities via ING websites. In Wholesale Banking, we continued with our transformation programme, Wholesale Target Operating Model (Wholesale TOM), further driving simplification, business growth and innovation across the network	*Providing a differentiating customer experience section in the "Retail Banking" chapter.* *Delivering a differentiating customer experience section in the "Wholesale Banking" chapter.*
	G Responsible lending and debt prevention We have responsible lending activities and prevent customers from going into financial distress.	ING believes financially empowered people contribute to a healthy economy and this helps drive social progress. We offer all kinds of activities to prevent customers from going into financial distress and to ensure responsible lending.	*Financial empowerment section in the "Retail Banking" chapter.* *Environmental and Social Risk management section in the "Risk and capital management" chapter.*
Economic contribution			
Opportunities: Simplifying business and operating models will help banks enhance the customer experience while reducing costs and risk. Customers prefer a trusted institution acting as a store of value, as a source of finance and as a facilitator of transactions, providing traditional (well-established) banks with an advantage over the new entrants and fintechs. As distribution and communication channels become more direct and available 24/7, customers expect instant and continuous access to their funds and our services. The organisation must evolve accordingly. Banks should embrace regulatory intent to create sound, secure, unbiased businesses, where regulatory compliance is embedded in the processes and values of day-to-day operations. **Risks:** Low interest rates, including negative rates in some countries, are putting banks' net interest income and net interest margin under pressure. Increased regulatory requirements have an impact on the way banks do business. For instance, enhanced regulation on capital and liquidity will continue to increase regulatory costs. And uncertainty around European regulation on bank taxes, risk-weight calculation and loss-absorption requirement is hampering the new ways of doing business. New EU regulations, such as PSD2, are opening up financial services to competitors outside the sector thereby reducing the barriers for entry.	**H Financial performance*** Being a financially healthy and stable company is important to us and our stakeholders.	ING Group recorded a robust commercial and financial growth in 2016, with a full-year 2016 net profit of EUR 4,651 million, an increase of 16% year-on-year. We have already met several of our Ambition 2020 targets, including those for capital, leverage ratio and dividend.	*"Facts and key figures", "Our strategy and how we create value" and "The world around us" chapters.*
	I Pricing of products and services A fair price for our products and services increases accessibility for our customers and is important for our competitiveness in the marketplace.	With deposits at the ECB already earning negative interest rates, we have to continuously balance customer expectations with the prices we offer to remain profitable. To address this trade-off, we actively manage our interest rate risk exposure and successfully maintained the net interest margin on our core lending in 2016. To manage this challenge moving forward we are proactively containing costs, developing new offerings at fair pricing that help empower our customers and generate fee-based income. By end-2016 our total number of customers stood at 35.8 million, an increase of around 3 million compared to 2014 when we launched the Think Forward strategy.	*"Our strategy and how we create value" chapter.*
	J Managing risks (financial risks* and non-financial risks) Managing risks is at the heart of what we do and can have a material impact on our business and society. Safe banking requires strong risk management, both financial and non-financial.	We experienced healthy lending growth and declining risk costs resulting from active management of non-performing loans. ING Bank's nonperforming loans (NPLs) expressed as a percentage of lending credit outstandings further improved. The NPL ratio decreased at the end of 2016 to 2.1% from 2.5% at the end of 2015. ING Bank's loan-to-deposit ratio rose to 1.05 compared to 1.04 at the end of 2015, mostly due to growth of the loan book.	*More information on both our financial and non-financial risks (including ESR) in the "Risk and capital management" chapter.*

* The material topics with asterix (*) are not part of the KPMG assurance engagement in relation to the non-financial information. Financial risks are an integral part of the audited consolidated annual accounts.

Opportunities & Risks	Material topic	Our approach and performance	More information
Fair operating practices			
Opportunities: With regulatory initiatives such as Single Supervisory Mechanism (SSM) - the new system of banking supervision for Europe - banks could benefit from harmonised supervision that can enhance the creation of one digital platform across borders. Financing and investing in the transition to a fair and green economy will help create corporate and societal value in mid- to long term. **Risks:** Increased involvement of (local) governments in financial systems through policy making and the lack of coordination among regulators may hinder the emergence of a level playing field among the traditional banks and newcomers. Besides government involvement, stakeholders are pushing banks to include environmental and social issues such as climate-change risk and human rights in financing and investing decisions. Anti-competitive behaviour and corruption can damage our reputation and have a direct impact on our license to operate.	K **Regulatory developments** Monitoring regulatory developments and aiming to act in accordance with the expectations of society.	ING monitors external developements to ensure we can assess the impact of and respond to relevant initiatives. In order to identify, discuss and align our response to important regulatory developments, ING has set up two internal steering committees, one dealing with Supervision and Prudential Regulation and the other dealing with Business Conduct Regulation.	*Progress on regulatory initiatives that are most relevant to us in "The world around us" chapter.*
	L **Anti-competitive behaviour prevention*** ING's role and activities in preventing anti-competitive behaviour, anti-trust and monopoly practices.	Anti-competitive behaviour undermines ING's values and vision to see customers empowered as it limits choices and restricts the market. It is ING's policy to fully comply with all competition laws applicable to its entire range of activities. Further, for non-financial risks topics, global education and awareness in the form of e-learning modules, awareness sessions and material is provided.	*"Corporate governance" chapter.*
	M **Corruption prevention*** ING's role and activities in preventing corruption practices.	Bribery and corruption are criminal offences and are clear violations of the ING Values. ING has a zero tolerance policy on bribery and corruption. We expect all our employees to always do business in accordance with the highest standards of ethical behaviour and honesty. Further, for non-financial risks topics, global education and awareness in the form of e-learning modules, awareness sessions and material is provided.	*Statement on anti-bribery principles in the "Risk and capital management" chapter and "Non-financial appendix".* *Key developments section in the "Risk and capital management" chapter.*
	N **Sustainable finance and investment policies** Having clear policies guiding our finance and investment decisions; supporting clients in improving their environmental and social practices; identifying customers and projects that provide sustainable solutions and outperform their sector on environmental or social performance.	We promote activities that have a positive impact on society through financing sustainable transitions and increasing sustainable assets under management (SAuM). In 2016, our sustainable transitions financed (STF) was 34.3 billion and our SAuM was 3.3 billion. Furthermore, our strengthened Environmental and Social Risk (ESR) framework guides our decisions for client engagement and assessing finance proposals.	*Accelerating the financing of sustainable transitions section in the "Wholesale Banking" chapter.* *Socially Responsible Investment section in the "Retail Banking" chapter.* *Environmental and Social Risk management section in the "Risk and capital management" chapter.*

* The material topics with asterix (*) are not part of the KPMG assurance engagement in relation to the non-financial information. Financial risks are an integral part of the audited consolidated annual accounts.

The world around us – continued

Opportunities & Risks	Material topic	Our approach and performance	More information
Stakeholder engagement			
Opportunities: Customers tend to trust banks over new entrants and fintechs. Being transparent about what's in our portfolio, shows the diversity of investments and loans covering all sectors. Furthermore it shows banks have nothing to hide and are open to discussions. **Risks:** A lack of openness and transparency between banks and their stakeholders may lead to a mismatch between expectations and banks' services. Trust is another important element for both customer and society. A lack of all these elements could lead to an unfavourable public image from both customers and society, possibly leading to a decrease in customers and increased regulation.	O **Transparency and openness** Being transparent and open about our investments, products and services, and other topics to help the business move forward and earn the trust of our stakeholders.	Being transparent and open about our investments, products and services, and other topics is helping the business move forward and earning the trust of our stakeholders. We aim to find the right balance between providing the transparency and openness that society and NGOs ask of us, while respecting our customers' privacy.	*Balancing our responsibilities section in "The world around us" chapter.* *Simplified balance sheet in the "Non-financial Appendix" chapter.*
	P **Trust** Maintaining the confidence of our stakeholders by acting with professionalism and integrity and placing the customer at the heart of everything we do via our Customer Promise.	The ING Orange Code - a set of values and behaviours that sets out our way of working - provides a framework for a shared culture uniting all our employees around the world. We put "integrity above all". In a survey in 2016, 79% of employees said they were aware of the code. In 2016, the number of retail primary relationships grew by more than 8% to 9.7 million, indicating customers' trust in us.	*"People" chapter (Orange Code).* *"Our strategy and how we create value" chapter.*
Human capital			
Opportunities: More diverse companies are more successful in attracting and retaining talent, relate to customers better, have higher employee engagement and are better at decision-making. Also, motivated, enabled and energised employees, being the primary resource and ambassadors of a bank, enhance the business performance of banks. **Risks:** Employees are the primary resource and ambassadors of the company. Losing our employees, or not having a diverse group of employees, could lead to sub-optimal performance/results (financial risks) as well as a reputational risk.	Q **Diversity and equal opportunities, preventing discrimination** Ensuring ING's employees are diverse and have equal career opportunities. Also, striving to create an inclusive corporate culture that welcomes, acknowledges, respects and benefits from each other's differences.	We introduced a diversity manifesto, "Success through difference", in January 2016 that applies to all employees worldwide. This policy sets out what diversity means at ING, why it is important, and what employees can do. Discrimination is against the law, which is reflected in ING's policies. The Bloomberg Financial Services Gender-Equality Index was published for the first time in May 2016. ING was ranked as one of the most transparent financial sector companies for diversity and social equality.	*Who we are section in the "People" chapter.*
	R **Being a good employer** Creating an entrepreneurial, open, collaborative, innovative and energetic culture within an organisation to ensure we attract and motivate our employees and deliver on our Customer Promise.	ING's Winning Performance Culture (WPC) survey looks at how engaged, enabled and energised employees are. A WPC survey was conducted in September 2016. Around 70% of employees responded. ING achieved an overall engagement score of 77%, exceeding the 70% target it had set.	*Employee engagement section in the "People" chapter.*

Our strategy and how we create value

ING's purpose is to empower people to stay a step ahead in life and in business. This is founded on our belief that the role of a financial institution is to support and promote economic, social and environmental progress at the same time as it generates healthy returns for shareholders. In this chapter we explain how our Think Forward strategy helps us fulfil that purpose, achieve financial and commercial success and create value for all our stakeholders.

Our strategy and progress

ING continued in 2016 to successfully implement the Think Forward strategy based on our purpose to empower people to stay a step ahead in life and in business. We further improved the value proposition for customers that aims to provide them with a differentiating customer experience. And we accelerated our transformation to address the increasing pace of digitalisation and disruption in the financial services industry.

The approach to the customer experience we offer is based on our Customer Promise. This is our pledge to customers to be clear and easy, available anytime and anywhere, to empower and to keep getting better. We do that by striving to be leaders in the digital customer experience based on easy access, simplified products and services, and tools to help customers make smart financial decisions.

The success of our strategy is reflected in the growing number of customers who want to bank with us, the high level of customer satisfaction and the growth of our lending franchise. By end-2016 our total number of customers stood at almost 36 million, an increase of more than a million year-on-year. Primary customers also increased to 9.7 million, on track to achieve our target of 10 million primary customers by 2017; and we have now increased that ambition to 14 million primary customers by 2020. We enjoyed high customer satisfaction scores in many of our markets, achieving number one Net Promoter Scores (NPS) in 7 of our 13 retail markets. And our net core lending grew during 2016 by more than six percent, supporting the economies of the countries where we are active.

One of the ways ING is fulfilling its purpose to empower customers is by offering products, services and tools that make it easier for customers to manage their money and make better financial decisions. In 2016, ING in Spain introduced My Money Coach, a free digital service that uses answers customers provide on their personal situation, risk appetite and financial knowledge to design a personalised plan to help them achieve their savings, investment and retirement goals. Last year we also expanded the range of the successful online Financially Fit planning tools in the Netherlands. Similar digital advisers are part of our offering or are being developed In Belgium, France, Poland and Spain.

Last year, we launched Moje ING in Poland, an omnichannel customer interface offering an easy overview of a customer's finances and financial planning tools and based on our successful Genoma platform in Spain. In the Netherlands we also introduced the "Kijk Vooruit" (or "Look Ahead") tool, which enables users to gain more control over their finances through an overview of future planned and predicted transactions.

ING believes that banking can play a significant role in creating a fairer and greener economy. This includes helping our clients to develop more sustainable business models, supporting clients who develop solutions to environmental and social challenges and also clients who are environmental outperformers in their sectors. ING's sustainable transitions financed (STF) came to more than EUR 34 billion in 2016. One notable deal we were involved in was UK waste operator Shanks Plc's merger with the leading Dutch waste processor Van Gansewinkel Groep. ING served as advisor and underwriter for this deal that will create one of Europe's leading players in recycling and illustrates ING's commitment to the circular economy.

Accelerating Think Forward

While we are achieving successes with our strategy, rapid developments in technology, customer behaviour and the competitive landscape mean we need to speed up our pace of transformation in order to offer customers a differentiating experience in the future. These trends are evident in a number of ways. We see the continuing digitalisation of banking - especially the rapid growth of mobile devices as the main customer interface. We also see that technology is reducing barriers to enter the financial services markets, resulting in a wave of newcomers targeting segments underserved by traditional banks. In addition, new regulations are opening up Europe's payment market to non-banks and we are seeing the development of digital ecosystems that allow users to access social media, online purchases, services and payments all in one app.

Low interest rates are also decreasing returns for customers and depressing banks' interest margins. And regulatory changes are increasing the cost of capital, limiting banks' capacity to continue to provide certain types of services at a reasonable price. This means we need to look to new offerings that can provide consumers an alternative, for example to low yielding savings accounts, and generate fee income for the bank. We also need to reduce our operating costs without compromising on the customer experience that we deliver.

To keep up with these developments and remain among the leaders in digital banking, we need to offer a customer experience that's instant, personal, frictionless and relevant - one that meets the expectations customers have from their interactions with other leaders in the online digital experience.

The future of banks is not banking as we know it today. This is challenging us as a bank to re-think who we are. We believe we should be providing our customers, both retail and wholesale, with one platform that extends beyond banking. It should provide customers with their complete financial picture across all institutions, with actionable insights so that they are empowered to make smart financial decisions. We also envisage connecting our customers to solutions offered by third parties. And we will connect our ecosystem to selected digital ecosystems, to be visible and present in the places where customers go when they are online.

To help us achieve this, we announced In October 2016 an investment of EUR 800 million in continued digital transformation to further improve the customer experience and accelerate growth in primary customers and lending. This effort will be overseen by a newly created chief transformation officer role at Management Board Banking level that will be filled by Roel Louwhoff, who will combine the new role with his current one as chief operating officer.

Our goal is to ultimately converge our different banking models into one globally scalable platform. As a first step, we will move to an intermediate state (2016-2021) where we will converge businesses with similar customer propositions that can benefit from a more standardised approach and economies of scale.

In the Netherlands and Belgium, we intend to improve our customer experience by moving to an integrated banking platform, leveraging the combined strengths of the omnichannel capabilities of the Netherlands with the relationship model and advice capabilities of Belgium. In our Challenger markets, we will work towards a Model Bank, with one retail strategy and harmonised retail proposition focused on increasing customer interaction, and supported by a shared services organisation. Germany's Welcome banking platform will further digitalise our business there and enable us to pilot key elements of the future integrated platform, which we plan over time to open to non-customers and for selected third parties. In Wholesale Banking we will continue our Target Operating Model (TOM) programme, further driving simplification, business growth and innovation.

In this intermediate state we are also laying the bank-wide, shared foundation that will allow us to develop into a single, integrated platform in the future. This comprises global process management, global data management, modular architecture, bank-wide shared services and cloud-based services.

We will fund this journey and respond to headwinds on the economic growth and regulatory fronts through additional cost management and income diversification.

Elements of our strategy

Our Think Forward strategy was launched in March 2014 and guides everything we do. In this section we give you an overview of the strategy with references to where you can look in the Annual Report for examples and additional information and how our strategy links to the material topics identified by our stakeholders.

Strategic priorities

To deliver on our Customer Promise and create a differentiating customer experience, we have identified four strategic priorities:

1. Earn the primary relationship

The better we know our customers, the better we will be able to empower them to make smart financial decisions and continue to be relevant for them. We can do this best when they do a range of banking with us and when we are the bank our customers go to for their daily transactions. We call that the primary relationship.

In Retail Banking, we define the primary relationship as a customer with a payment account with recurrent income and at least one other product with ING. In Wholesale Banking, we aim to increase primary relationships by increasing our so-called “flow” relationships (e.g. transaction services, working capital solutions) and the percentage of relationships where we are the client's lead finance provider.

In 2016, the number of retail primary relationships grew by more than eight percent to 9.7 million, putting us well on track to reach our ambition of 10 million primary retail customers in 2017. We have now increased our ambition to 14 million primary customers by 2020.

Material topics: financial performance, pricing of products and services, fair communication about products and services, enhancing customers' financial capabilities, responsible lending and debt prevention, trust, transparency and openness.

2. Develop data analytics

The relationship between banks and their customers, as in other industries, is increasingly a digital one. Digitalisation challenges banks to maintain intimacy with a customer who they rarely meet face to face. But the digital interface also provides a wealth of data on customers' preferences and needs that gives banks important insights they can use to provide the kind of experience customers now expect from businesses they interact with online. Developing analytic skills is essential to serving customers in a digital world. This is not only important for improving customer services, but also for preventing fraud, improving operational processes, reducing risks and generating services that go beyond traditional banking so we can stay relevant for customers.

Our strategy on a page

With the launch of our Think Forward strategy in March 2014, a one-page overview was created to show our new strategy in a clear and visual way to all our stakeholders.

Purpose

Empowering people to stay a step ahead in life and in business

Customer Promise

Clear and Easy

Anytime, Anywhere

Empower

Keep Getting Better

Strategic Priorities

Creating a differentiating customer experience

1 Earn the primary relationship

2 Develop analytics skills to understand our customers better

3 Increase the pace of innovation to serve changing customer needs

4 Think beyond traditional banking to develop new services and business models

Enablers

Simplify & Streamline | Operational Excellence | Performance Culture | Lending Capabilities

To make this happen, an international Advanced Analytics team based in Frankfurt and Amsterdam acts as a centre of excellence and supports all business units. At the same time, local advanced analytics teams have been established in Belgium, the Netherlands, Poland, Spain, Turkey and in Wholesale Banking.

Our Chief Data Management Officer oversees the implementation of global data management together with local data officers.

Material topics: customer privacy and data security, managing risks

3. Increase the pace of innovation to serve changing customer needs

Customer expectations, new technologies and new competitors are transforming banking. Through innovation, we can increase efficiency, improve the customer experience and gain competitive advantage. Our PACE methodology is designed to encourage fast experimentation and turn ideas quickly into new products and services for customers. We also promote an internal culture of innovation through our employee-driven Innovation Bootcamps. To speed up the pace of innovation we also partner with outside parties, including fintechs. As of the end of 2016, we were partnering and in some cases also investing in more than 65 fintechs in various areas, like instant lending, factoring and customer loyalty.

Read more in the "Improving the customer experience" chapter.

Material topics: innovative business developments, usability and accessibility of our products and services

4.Think beyond traditional banking to develop new services and business models

Thinking beyond traditional banking is crucial given that disruption in the banking industry puts a significant portion of revenues at risk. Our payments value chain is already under threat from many bank and non-bank players. To be successful, banks need to expand the concept of what a bank is and what it means to customers. We envisage doing this by creating an open digital platform that also includes relevant offers from third parties, providing a complete financial view for customers in one place - including of their holdings at other institutions - so they are empowered to make better financial decisions, and also by finding ways to be relevant to customers earlier in their purchasing decision process. In 2016, ING developed the Yolt aggregation platform, which offers users a view of their complete financial holdings across institutions. Yolt is currently being user tested in the UK.

Read more in the "Improving the customer experience" chapter.

Material topics: innovative business developments, sustainable finance and investment policies

Enablers

Four strategic enablers support the implementation of our strategy: simplifying and streamlining our organisation, further striving for operational excellence, enhancing the performance culture within our company and diversifying our lending capabilities.

1. Simplify & streamline

Simplify and streamline refers to ING's aim to become a more effective, cost-efficient and agile organisation with the flexibility to respond to fast-changing customer needs and low-cost competitors. In the Netherlands we have introduced agile working based on end-to-end, multidisciplinary teams. These teams are focused on delivering customer improvements from design to product delivery at lower cost and with shorter time to market than previously required. We have also introduced targeted operating models (TOMs) to streamline our Finance, HR, Procurement and Risk functions.

Material topics: usability and accessibility of our products and services, fair communication about products and services

Read more in the "Improving the customer experience" chapter.

2. Operational excellence

Operational excellence requires continuous focus to ensure that ING's operations deliver a seamless and flawless customer experience. Our operational excellence vision concentrates on delivering the Customer Promise. To meet changing customer expectations arising from increasing digitalisation, we aim to converge to a single platform for financial services that will deliver a uniform customer experience across borders. This will be based on simplified and standardised products and systems supported by modular architecture, integrated and scalable IT systems, and shared services. While pursuing this ambition we are also investing to provide stable IT systems and platforms to ensure we are there for our customers when they need us and to provide them with the highest standards of data security.

Material topics: stability of IT systems and platfoms, usability and accessibility of our products and services

Read more in the "Improving the customer experience" chapter.

3. Performance culture

A strong performance culture is key to achieving the bank's ambitions and deliver on our Customer Promise. Following the introduction in 2015 of the Orange Code – a new set of values and behaviours that sets out our way of working – we are taking a number of steps to strengthen performance culture. These include a Think Forward leadership programme designed to develop the leadership behaviours we need to achieve the strategy. It is currently being rolled out to top managers and will later be offered to over 6800 managers. We are working to improve performance management for all employees through the Step Up Performance

Management framework. This replaces a backward looking performance assessment with a real-time review process that seeks to empower employees and make them more accountable for their own performance and development. The process has been rolled out to all employees in Spain, managers in Belgium and around 200 senior leaders globally. Step Up will be introduced to all employees from 2017 onwards. We are also committed to accelerating the development of diversity, including in areas such as gender, age, background, sexual orientation, physical ability and religious beliefs. That is why we introduced a diversity manifesto, "Success through difference", in January 2016 and have a range of initiatives in place designed to improve diversity and foster an inclusive culture.

Material topics: diversity and equal opportunities, preventing discrimination, being a good employer

Read more in the "People" chapter.

4. Lending capabilities

Broadening and diversifying our lending capabilities to continue to grow our client franchises is our fourth strategic enabler. To do so, we are seeking opportunities in retail, SME and consumer lending, as well as focusing on Wholesale Banking lending growth in our Challengers & Growth Markets businesses and in our specialised Industry Lending franchise. In 2016, a number of innovative products and services that support ING's Customer Promise were launched. Customers in Poland, Romania, Spain and Turkey can now get personal loans instantly online based on advanced analytics that enables ING to use data it already has rather than asking the customer to provide it.

Material topics: financial performance, sustainable finance and investment policies, enhancing customer financial capabilities

Read more in the "Retail Banking" and "Wholesale Banking" chapters.

Geographical presence and strategic approach

ING has a presence in over 40 countries. Though our local businesses vary in terms of their market positions all are guided by our purpose of empowerment and strategy to provide customers with a differentiating customer experience.

Market Leaders

These are our businesses in mature markets in the Benelux where we have strong positions in retail and wholesale banking. Our strategy is to grow in selected segments, continue to invest in digital leadership with a digital-first model, deliver on operational excellence programmes and create greater cost efficiency in order to fund business expansion in growth markets.

Challengers

These are businesses in markets where we offer both retail and wholesale banking services. Our retail activities are mainly direct-banking offered online with a significant cost advantage over traditional banks. Our strategy is to leverage our strong savings franchises in these markets to expand into payments accounts and increase the number of primary customer relationships. We are also using our direct banking experience to grow the lending business at low cost in areas like consumer and SME lending. And we are using our strong savings businesses to fund expansion of Wholesale Banking, particularly to support clients in Industry Lending and working capital solutions.

Growth Markets

These are businesses with a full range of retail and wholesale banking services in markets with expanding economies and strong growth potential. We are investing to achieve sustainable franchises and will focus on digital leadership by converging to the direct-first model and by prioritising innovation.

Wholesale Banking

We are a network bank for our clients across Europe with global reach and strong positions in a number of global franchises, including Industry Lending, Financial Markets and Transaction Services. We are investing in our business transformation programme Target Operating Model and are targeting growth in our corporate client base, Industry Lending and Transaction Services. In Challenger countries we are expanding our lending activities to build locally optimised balance sheets and sustainable franchises.

Our performance

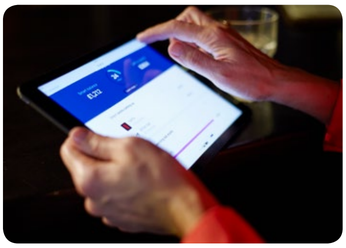
The good progress we made in 2016 implementing the Think Forward strategy and providing a differentiating banking experience for customers resulted in strong commercial and financial performance. ING Group net result of EUR 4.7 billion and underlying net result Banking of just under EUR 5 billion were driven by robust commercial growth at resilient margins and declining risk costs and achieved despite increasing regulatory costs.

Our focus on primary customer relationships helped us to achieve healthy and balanced growth in our lending to customers and in customer deposits. Net core lending grew by nearly EUR 35 billion and customer deposits increased by EUR 28.5 billion in 2016, both rising around six percent. Lending is well diversified across regions and categories, with particularly strong growth in the Challengers & Growth Markets and Industry Lending in Wholesale Banking. We also saw substantial progress in fee and commission income, particularly in Challengers & Growth Markets where we are increasingly becoming the primary bank for customers.

We believe that this strong profitability and growth and the important steps we are taking to accelerate the strategy position us well to continue to be successful in the future and provide a superior experience for customers.

All your finances at your fingertips with Yolt

The future of banking will not be banking as we know it. The Yolt app, being tested by ING in the UK, allows consumers to manage their finances across multiple institutions in one mobile dashboard. We believe open platforms and digital ecosystems will define the customer experience of the future, also for financial services.



Ambition 2020 financial targets

We have published financial targets for 2020 reflecting our ambitions. These include a common equity Tier 1 ratio for ING Group above the prevailing fully-loaded requirement, currently estimated to be 11.75%, plus a comfortable management buffer, a leverage ratio above 4 percent, a 50-52 percent underlying cost/income ratio and an underlying return on equity to be determined when outstanding regulatory issues are clarified.

As of year-end 2016, we were on track to meet all of our Ambition 2020 targets. Our CET1 ratio of 14.2% was well ahead of regulatory requirements and the leverage ratio rose to 4.8%. The Board proposes to pay a total 2016 dividend of EUR 2,560 million, or EUR 0.66 per ordinary share, subject to the approval of shareholders at the Annual General Meeting in May 2017. This comprises the previously announced interim dividend of EUR 0.24 paid in August 2016 and a final dividend of EUR 0.42 per ordinary share. We aim to pay a progressive dividend over time.

How we create value

The role of a financial institution is to support and promote economic, social and environmental progress leading to a better quality of life for people in society, while generating adequate returns for shareholders. This is what the value we create for and with our stakeholders, such as customers and shareholders, should be about. This naturally fits with our purpose: "empowering people to stay a step ahead in life and in business".

The value creation model on pages 26 and 27 illustrates what we do and how we create value with our stakeholders through our unique Customer Promise to be clear and easy, to make financial services available anytime and anywhere, to empower and to keep getting better for customers. The framework of the International Integrated Reporting Council serves as a basis for this model.

Our services and products

We add value by delivering products and services that aim to empower people and fuel economic growth. Examples of that are payments services, which help companies run smoothly, and mortgages, which help people buy homes.

Our people

We believe that in addition to assisting customers a bank should also provide employees the means to be the best they can be. ING employees are encouraged to develop their talents and take charge of their own careers. We believe that investing in people not only generates more engaged and higher performing employees, but results in more satisfied customers and improved business performance.

Financial

As a bank, our value chain involves the inflow and outflow of money. We facilitate payments and transactions. We also take in savings and transform them by making them available in the form of loans, at the same time managing the associated risks. Our 2016 profitability was strong, enabling us to support economic development by paying wages, taxes and dividends.

Innovation The rapid pace of global technological developments is undeniable. We place a high priority on innovation within ING to keep pace with the change around us and meet changing customer needs. We are experimenting with agile working to increase the pace of innovation. We also create intellectual capital through the expertise we are developing in areas like environmental and social risk management, sustainable finance and data analytics. We aim to share knowledge via different networks and, for example, our ING Economics Department publications.

Social and network

We add value for our customers by making banking more accessible guided by our Customer Promise: clear and easy, anytime and anywhere, empower, keep getting better. Many consumers feel challenged when making financial decisions. We see an important role we can play in empowering customers with products, services and tools that make it easier for them to handle their money matters and make sounder financial decisions. We also contribute our expertise in public forums to raise awareness of consumer behaviour, to contribute to improved products and services for consumers and to promote sounder public policy.

Environmental capital

Our activities impact the environment. This includes the direct impact we have from the operations of our buildings, from IT systems and from business travel. However, our indirect impact on the environment is much greater through our financing portfolio and our procurement supply chain. We are committed to reducing our own footprint by 20 percent in 2020 and to working closely with both customers and suppliers to help them adapt and take advantage of opportunities in the low-carbon economy of the future. This is demonstrated by our increased number of sustainable transitions financed and sustainable assets under management in 2016.

Our value creation model

As a global bank we bring more to society than just our financial value. Our value creation model shows in a simplified way how we create value for and with our stakeholders, as well as major external trends that have an influence on that. As a financial institution, our input is in the areas of finance, our people, innovation and environmental capital. We impact society across all the capital outputs defined in the International Integrated Reporting Council (IIRC) value creation framework. More information and context to the numbers below can be found throughout this report.

How we create value

Trends impacting the banking landscape

Digitalisation of banking is continuing.

Technology reduced barriers to enter the financial services markets which has resulted in a wave of newcomers targeting segments underserved by traditional banks.

Europe's payments market is opening to non-banks.

Low interest rates are decreasing returns for customers and depressing banks' interest margins.

Ecosystems are developing, allowing users to access social media, online purchases, services and payments all in one app.

Regulatory changes are increasing the cost of capital.

A need to reduce operating costs.

The transition to a low carbon economy continues.

The political landscape is changing.

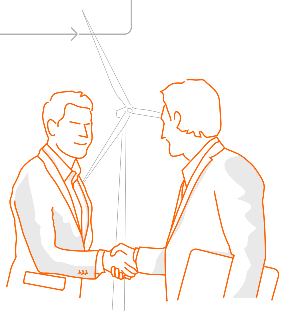
Value in

Our people
- The expertise, capacity and energy of over 54,000 employees
- Strong belief in diversity
- Focus on performance culture

Financial
- Large customer base
- Solid financial position
- Healthy cost-income ratio

Innovation
- Innovation to enhance customer experience and/or move beyond banking
- Innovation to improve operational excellence
- Developing thought leadership

Environmental
- Environmental programme
- Sustainable procurement
- ING supports UN Sustainable Development Goals, particularly SDG 8 and 12
- Developing thought leadership



Value out

Products & services
- Making banking easier
- Customers value our products and services
- Supporting economies of countries where we are present

Our people
- Being a good employer
- Strong employee engagement scores
- Impact of changing banking landscape and technology on people

Financial
- Strong financial results
- Ensuring stability
- Shareholder value
- Paid taxes and regulatory costs

Innovation
- Move fast and fail fast innovations
- External collaborations

Social & network
- Customers empowered to make better financial decisions
- Better awareness of how consumers make financial decisions leading to improved products and services

Environmental
- Support progress
- Responsible lending
- Own environmental footprint

Impact on society

Sustainable and inclusive economic growth consistent with UN's Sustainable Development Goal 8.

Financially empowered people who contribute to a healthy economy.

Enhanced skills set and employability of adolescents through volunteering and donation programmes.

Economic development and job creation in emerging countries through impact finance.

Responsible consumption and production consistent with UN's Sustainable Development Goal 12.

Direct environmental and social impact through our reduced operational footprint, respectively human rights focus.

Indirect impact by supporting clients in addressing environmental and social challenges impacting their business.

Knowledge creation on pioneering themes (e.g. Circular Economy) through thought leadership.

How we create value (deep dive)

Value in

Our people

The expertise, capacity and energy of over 54,000 employees
- EUR 70 million spent on training and development.
- Employees submitted 1,194 ideas through Innovation Bootcamp.
- More than 2,000 employees trained in PACE methodology.
- Introduction of a new global Employee Value Proposition (EVP).
- Wholesale Banking expertise in a variety of sectors.
- Advanced analytics teams in five countries and in Wholesale Banking operations.

Strong belief in diversity
- Diversity manifesto introduced in all ING countries.
- More than 1,000 employees across eight countries have gone through unconscious bias workshops.

Focus on performance culture
- Distinctive culture through Orange Code.
- 99% of employees took part in a formal performance management process.
- Launch of kudos, ING's online compliment tool.
- Almost 300 Performance management workshops with around 1,000 managers in 15 countries.

Financial

Large and growing customer base
- Well-known, strong brand with positive recognition from customers in many countries.
- Over 35 million customers entrust us with payments and their deposits.

Solid financial position
- EUR 49.8 billion shareholders' equity and EUR 152.4 billion debt securities, bank deposits and subordinated loans.

Increased profitability and healthy development of costs
- Increased focus on fee income to compensate for low interest rates.
- Focus on cost control; decreasing cost/income ratio

Innovation

Innovation to enhance customer experience and/or move beyond traditional banking
- Digital channels account for 98% of contact with retail customers; mobile interactions increased by more than 50% during 2016.
- Innovation Fund to finance initiatives.
- Data analytics to identify customer needs and tailor services and products accordingly.

Innovation to improve operational excellence
- Target Operating Models (TOMs) to streamline Finance, HR, Procurement and Risk functions.
- PACE methodology to experiment and quickly turn ideas into new products and services.
- Cybercrime programme to mitigate any security threat.

Developing thought leadership
- Developed thought leadership on blockchain.

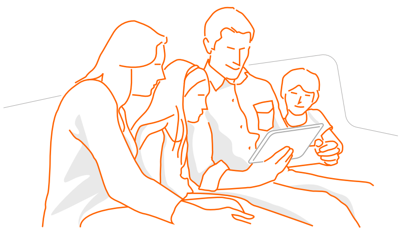
Environmental

Environmental programme
- Global Environmental Management System (EMS) in place.
- ISO14001 EMS certification for head office and operations in the Netherlands.

Sustainable procurement
- Global supplier qualification (SQ) process.

ING supports UN Sustainable Development Goals
- ING focuses in particular on SDG 8 and 12.

Developing thought leadership
- Creating thought leadership on Circular Economy e.g. by joining the Ellen MacArthur Foundation as a CE100 member.
- Adherence to Dutch Sector Agreement on Human Rights.



Value out

Products & services

Customers value our products and services
- Our number of primary customers increased by more than 8%.
- Customers in 7 out of 13 countries rank ING as #1 bank.

Making banking easier
- Retail customers now can get a mortgage twice as fast as before in the Netherlands.
- Inside Business in 17 countries providing real-time insights and single point of access to manage financial transactions.
- In Wholesale Banking, simplified requirements for accounts and payments services, reducing paperwork for applications from 836 to 47 pages.
- Channel availability improved to 99.8%.

Supporting economies of countries where we are present
- Lending grew by EUR 35 billion
- EUR 282 billion outstanding in mortgages
- Instant lending platforms developed.

Our people

Being a good employer
- Human Capital Return on Investment 2.59.
- Improved employability and helping employees to find new opportunities.
- ING ranked as one of the most transparent financial sector companies in the Netherlands when it comes to diversity and social equality in Bloomberg Financial Services Gender-Equality Index.
- The Top Employer Institute gave several ING operations in Europe the highest classification.
- Of our managers of managers, 29.3% were women.

Performance culture
- 79% of employees globally indicated they were aware of the Orange Code.
- Almost 33,000 employees signed up as kudos users and more than 143,000 compliments were sent amongst employees.

Strong employee engagement scores
- Employee engagement score of 77%.

Impact of changing banking landscape and technology on people
- We anticipate 7,000 jobs will be impacted by the acceleration of the Think Forward strategy.

Financial

Strong financial results
- Fees and interest results: EUR 15.7 billion.

Ensuring stability
- 14.2% Common Equity Tier 1 ratio.
- Low credit risk due to diversified nature of lending portfolio Wholesale Banking.

Shareholders value
- EUR 2,560 million dividend.

Paid taxes and regulatory costs
- Responsible tax principles: global effective tax rate for continuing activities of 27.4%.

Innovation

Move fast and fail fast innovations
- Innovation Fund financed 20 initiatives in 2016.

External collaborations
- More than 65 fintech partners.
- 11 investments.

Social & network

- 23.9 million customers feel financially empowered by ING initiatives.
- 95,227 adolescents reached through PFY UNICEF programme.
- ING is a founding member of the Think Forward Initiative.
- 10% of Groenbank's balance sheet for impact activities, including education and research.
- ING funds research, makes donations and shares its knowledge, with employees volunteering as guest lecturers.

Environmental

Support progress
- EUR 34.3 billion sustainable transitions financed.
- EUR 3.31 billion sustainable assets under management.

Responsible lending
- ESR is applied to 100% of our corporate loans.

Own environmental footprint
- CO_2 emissions decreased by 27%.
- 91% of our global electricity use is from renewables.

Retail Banking

Retail Banking performed well in 2016 despite the low interest rate environment and higher regulatory costs. Our digital-first operating model continued to provide a clear and easy, anytime and anywhere experience for customers, supported by tools and advice that empower them to make smart financial decisions. We will bring together our Retail Banking operating models to create a banking platform that will speed up innovation, offer a superior customer experience across borders and integrate with third-party providers to offer customers services that go beyond traditional banking.

Who are we?

Retail Banking provides products and services to individuals, small and medium-sized enterprises (SMEs) and mid-corporates. We serve more than 35.8 million customers in a variety of markets.

Market Leaders are businesses in the Netherlands, Belgium and Luxembourg where we have strong market positions in Retail Banking and Wholesale Banking.

Challengers are businesses in Australia, Austria, the Czech Republic, France, Germany, Italy and Spain where we aim to build a full bank relationship, digitally distributed at low cost.

Growth Markets are those expanding economies that offer above average growth potential: Poland, Romania and Turkey. In addition, ING has stakes in the Bank of Beijing (China), TMB (Thailand) and Kotak Mahindra Bank (India).

In most markets ING offers a full range of retail banking products and services, covering payments, savings, investments and secured and unsecured lending. ING pursues a digital-first approach, complemented by advice when needed, with omnichannel contact and distribution possibilities.

Challenges

Regulatory costs have continued to increase and weigh heavily on the bank's expenses. In 2013, regulatory costs made up four percent of total underlying expenses. In 2016 they accounted for nine percent.

These cost increases have coincided with a low interest rate environment which adversely impacts banks' interest income generating capabilities. This environment is unlikely to change in the foreseeable future. Add to that slow economic growth, a new competitive landscape and changes in customer behaviour, and it becomes apparent that all banks will need to re-think their business models. To address these challenges, banks need to cut costs, for example through increased digitalisation and efficiency. They also need to look to relevant new offers for customers that can generate new revenue streams, such as fee income.

Overall, there were many different challenges and trends impacting our retail businesses in 2016. For instance, in the Netherlands we saw a major shift in the mortgage market to non-bank suppliers (especially insurance companies and pension funds). Also in the Netherlands as well as Belgium, there was more prepayment financing of mortgages brought on by low interest rates. Demand for SME lending was also low, particularly in the Netherlands, brought on by a slow recovery in some sectors. Each of our retail businesses in their own competitive environment have had to overcome both local and global challenges.

Providing a differentiating customer experience

Our customer promise

Technology and digitalisation are accelerating. Mobile interactions are growing quickly and mobile devices are becoming the channel of choice for customers, leading to more consistent digital customer behaviour.

ING's strategic priorities unite around the goal of offering a differentiating customer experience. Underpinning that experience is ING's Customer Promise: to be clear and easy, with an anytime, anywhere service offering that empowers customers to make smart decisions. We also promise to keep getting better.

ING uses the Net Promoter Score (NPS) to measure progress in offering a differentiating customer experience. Our aim is to achieve a number one NPS ranking, with a 10-point lead compared to our main competitors in each retail banking market. Based on a rolling average of NPS scores over 2016, ING was ranked number one in 7 of our 13 major markets. Our number one positions were in Australia, Austria, France, Germany, Poland, Romania and Spain.

We are increasingly innovating in pursuit of a better customer experience. A significant number of customers are self-directed. They expect to be able to choose from clear and easy products and services that are available to them when and where they want them.

Technology and advanced analytics allow ING to use data it already has rather than asking the customer to provide it. Customers in many countries can apply for a loan anytime, anywhere – a significant improvement on having to supply large amounts of paperwork when applying for a loan.

Instant Lending allows customers in Poland, Romania, Spain and Turkey to get a personal loan instantly online. There is no requirement to submit income declarations. Credit risk decisions are taken within minutes.

Spain introduced an initiative to offer small and medium enterprises (SMEs) loans of up to EUR 100,000.

The process was developed following the bank's partnership with Kabbage, a leading US-based technology platform. Credito Negocios makes use of full credit scoring and real-time risk monitoring and allows SMEs to get a loan within 10 minutes, based on real-time business data. The lending process is reduced to a few minutes from the days it previously took to process applications.

Twyp (The Way You Pay), ING´s new social payments app, allows users (not just ING customers) to send and receive money instantly. Instead of lengthy and difficult to remember IBANs, users can access mobile phone numbers in their contact list to transfer money. It is as easy as sending a text and useful for paying back small amounts to friends, for instance. There are currently 300,000 registered users in Spain.

The app was initially also launched in the Netherlands but has now been discontinued there as part of a "fail fast" approach to innovation. It became clear that there was limited customer demand and insufficient differentiation with an existing service.

Expanding further on the Twyp app platform, in 2016 Twyp Cash was also launched. Customers in Spain can conveniently withdraw money with their smartphone when paying for other purchases, avoiding ATM fees. This is available at more than 3,500 supermarkets and fuel stations.

In Poland, Moje ING provides a one-stop shop for managing personal finances for customers. Launched in early 2016, and reusing some of Spain's digital banking platform Genoma, Moje ING offers customers a simple overview of their finances and access to an easy-to-use financial planning tool.

To ensure fair pricing and communication on our products and services, we have a Product Approval and Review Process (PARP). Customers are able to provide feedback on products and services through ratings and online communities via ING websites.

Financial empowerment

ING wants people to make the right financial decisions and in doing so improve their day-to-day finances. ING believes financially empowered people contribute to a healthy economy and this helps drive social progress. In this way ING promotes sustainable and inclusive economic growth as part of the UN's Sustainable Development Goals.

ING has a three-way approach to financially empower customers. First, we want to offer clear and easy products and services anytime, anywhere. ING in Poland, for instance, makes use of technology to help deaf customers who have previously had to bring an interpreter with them to do their banking. Partnering with Migam.pl, ING is the first Polish bank to feature online sign language interpreters. The service is now present in all branches.

Think Forward Initiative (TFI)

The Think Forward Initiative is an open-source initiative by ING, CEPR (Centre for Economic Policy Research), EMC, Microsoft, Dimension Data and Deloitte. Its goal is to empower people to make financial decisions that are better for them and ultimately better for society. It does this by gaining a deeper understanding of how people make financial decisions.

The first step was taken at the Think Forward Summit in February 2016 in Brussels, where more than 120 academics, European and national policy-makers, consumer organisations, and leaders from the financial and technology sectors gathered for a "meeting of minds".

Following post-summit sessions, it was agreed to develop practical solutions and present the first results at the 2017 Think Forward Summit.

Notifying overdrawn customers

Bank customers regularly overdraw their account despite many of them having enough savings to balance their overdraft. With higher interest rates on overdrafts and a low interest rate on savings, this is costly for them. While for some this is a conscious decision, others are simply unaware. To address this, ING in the Netherlands proactively sent messages to a group of customers in a pilot, alerting them of their overdraft and how to balance their account using their savings. Around 16 percent of those informed took action, this saves them money and keeps them a step ahead in managing their finances.

Secondly, ING wants to offer the right information and tools at the right time. In the Netherlands ING has the Financially Fit programme where it offers a broad set of products and services that support customers in making better financial decisions. For example, the Kijk Vooruit (or Look Ahead) tool gives users more control over their finances through an overview of planned and predicted transactions. ING in Spain introduced My Money Coach, a free digital service that helps customers make smart savings, investment and retirement decisions. My Money Coach designs a personalised savings and investment plan to help customers achieve their financial goals. It is based on Coach Epargne offered by ING in France.

Using the Dutch Financial Fit Test, several business units introduced financial tests in 2016. German customers, for example, can now identify both strengths and weaknesses in their finances through the "DiBadurchblicker" app. The app compares the user's financial situation to others and makes budgeting suggestions and provides goals. Despite being a minimum viable product, it attracted more than 77,000 visits in 2016.

Lastly, ING wants to make an impact on the communities we operate in, and on society in general. We put an emphasis on young people because to become a financially capable adult you need to start developing the right skills at a young age. ING funds research, makes donations and shares its knowledge and expertise. For example BAKCYL, an initiative of the Warsaw Institute of Banking that has Polish colleagues teaching students about financial challenges. Also ING and UNICEF's Power for Youth partnership aims to reach 335,000 adolescents in six less-developed countries by 2018, helping them to develop the social and financial knowledge and skills needed to build a brighter future.

To see if we are making improvements in the financial behaviour of customers and society, we measure our performance. That is why in 2016 we announced our ambition to make 25 million people feel financially empowered by 2020. In 2016, 23.9 million people felt financially empowered and we had more than 101.9 million interactions with customers and non-customers through financial empowerment initiatives.

More information on the measurement of these numbers can be found in the Non-financial data reporting protocol at www.ing.com/16ar1 (PDF - 876 kb).

Austria goes full service

While some European banks have downsized operations in Central and Eastern Europe, ING sees opportunities for growth and deepening of customer relationships in becoming a full-service bank in Austria.

The first new product of ING in Austria is a current account, the ING-DiBa Giro and Gehaltskonto. It features instant opening online, no fees, free debit/credit card, plus a feature that ensures those that shop over their limit (up to EUR 50) won't be charged with debit interest.

An estimated 83 percent of all mobile phones in Austria are smart phones. ING in Austria, which started there as a direct bank dedicated to savings, has adopted a "mobile-first" approach with "banking in your pocket" as its campaign slogan.

Apart from a new current account, the pipeline for new customer features and services will expand further in 2017.

We aim to achieve a real impact for customers and society at large with our financial empowerment activities. However, we encounter challenges in measuring the impact of our products and services. ING works continuously with a number of internal and external experts to refine and improve the way we measure this so we can gain a better understanding of how we can contribute to empowering our customers.

Earning the primary relationship

ING wants to build primary relationships with customers, earning their loyalty so that they consider us the first bank with which they conduct their financial business. As a result, ING understands customers better and is equipped to offer them the right solutions at the right time. We know that primary customers are eight times more loyal compared to non-primary customers because there is more interaction with the customer which in turn deepens the relationship. Primary relations are better for the customer and also for the bank.

We define a retail primary relationship as a customer that has recurrent income on their ING payment account and is active with at least one other ING product.

ING is striving to earn 14 million primary retail customers by 2020. It is well on track. By the end of 2016, we had 9.7 million primary customers, an 8.1% increase on the previous year.

Knowing our customers

ING aims to use data to drive decision-making and generate analytical insights that allow it to personalise customer interactions. By doing that it empowers customers, which in turn earns primary relationships for the bank.

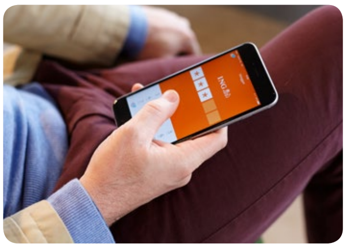
Data is an important asset – along with people, processes and systems – underpinning ING's ambition to become a next-generation digital bank. The bank's efforts in this area include:
- Redesigning data platforms into more customer-centric environments. Organising information around the customer (not systems or processes), allows ING to identify relevant insights and put them to work for the benefit of both the bank and its customers.
- Building the bank's data and communication capabilities to interact immediately with customers. To be relevant, we need to be timely. Our customer-facing platforms offer multiple touch points to interact with customers. Testing insights by providing information to customers and getting their feedback helps us to continue improving services.
- Effective data management builds the foundation for analytics. Local chief data officers have been appointed for our Market Leaders segment, Wholesale Banking, Finance, Risk, Procurement and HR.

Thinking beyond traditional banking

With new regulation opening up financial services to competitors from beyond the sector and low economic growth putting pressure on traditional sources of income, it is important that Retail Banking develops new products and services that are distinct from those traditionally offered by banks.

We are embracing this opportunity. Finding new solutions, new ways to make things easier and continuing to improve the customer experience are integral to our overall strategy.

On top of your balance with "Look Ahead"



Keeping track of their bank balance is now a lot easier for ING's Dutch customers. The "Look Ahead" feature in the mobile app is a "crystal ball" that gives a view 35 days into the future. It uses advanced analytics to show planned and predicted transactions, helping customers to keep a grip on their finances and avoid going into the red.

ING undertook several such initiatives in 2016, including Payconiq, a method of making payments via mobile phone in online and offline shops in an easy way without a credit or a debit card. ING joined forces with two Belgian banks, KBC and Belfius to develop Payconiq. The mobile app has gone live in Belgium. It allows for payments to be integrated with additional features and services, including loyalty programmes and peer-to-peer payments. All users require is a connection to a current account.

ING Invoice Solutions, an online platform for SMEs to manage their sales invoices from start to finish is another Belgian initiative.

With standardised steps and automated tasks, clients can use it to gain greater control over their company's finances.

Developed in partnership with Zervant and Basware, ING Invoice Solutions features a user-friendly interface where clients can easily make offers, turn them into invoices, create projects and track time as well as send out invoices in whatever form their counterparty prefers (electronically as a PDF, in an email or on paper).

One idea that stemmed from the bank's first Innovation Bootcamp in 2014 is Direct Lease, which aims to make leasing for SMEs and mid-corporates far simpler and quicker by letting customers handle their leases online. Direct Lease went live in 2016. Now, with just a few clicks, customers can create different scenarios for leasing their asset, get instant credit approval and turn the chosen scenario into a contract. They can then manage their contracts online during the lease.

In October 2016, ING announced its re-entry into the UK retail banking market with a free mobile app to help people keep track of their finances. Yolt allows users to manage money matters with different banks in one place. It is one of the first examples of a bank in the UK providing a platform for customers to manage money held by competitors. The app integrates a user's bank accounts (including savings and credit card accounts) in one mobile dashboard. It also lets them know how many days are left until payday, predicts their bank balance based on their direct debits and points out any significant changes in their spending patterns.

Accelerating Think Forward

The next chapter of Think Forward is a story of convergence with all parts of the company collectively moving toward one ING. ING will become faster and more efficient by standardising its offer across borders. The goal is a single global banking platform but there is some way to go yet.

Retail Banking plans to come together, pick the best practices from across the company and use those globally, allowing ING to create a uniform and differentiating customer experience and enabling us to innovate faster.

In the Netherlands and Belgium, ING intends to improve the customer experience by moving to harmonise the business models and integrate banking platforms. We intend to combine the omnichannel capabilities of the Netherlands, with the relationship model and advice capabilities of Belgium. The intended combination would provide scale advantages to ING's 11-million customer base, creating one value proposition, one strategy, one set of systems, one culture and one organisation - but with two legal entities and two balance sheets.

ING's Challengers businesses such as Spain, Italy, France, the Czech Republic and Austria, will also shift to a common banking platform called Model Bank. This will be highly scalable, so that countries can add new products and services as needed, and other countries can come on board in the future. An example of this is the adoption of Spain's Genoma omnichannel approach in Poland (ING Moje).

Model Bank will use a central and shared IT service centre, and high levels of standardisation. The move is designed to keep costs low across all markets and increase the pace of innovation.

In Germany, the plan is to make operations even more efficient through investments in IT systems. The end result should be a constant stream of mobile innovations to captivate the customer, and a seamless switch between mobile and other channels such as online and the contact centre (omnichannel).

While these steps will benefit customers they will come at a price for our staff. Some jobs will change in nature or location and some will be eliminated. We anticipate that as many as 7,000 jobs will be impacted.

Socially responsible investment

ING has been providing socially responsible investment (SRI) strategies for customers in select retail countries since 1999. SRI strategies consist of dedicated portfolios of sustainable investment funds, or of bonds and equity of individual sustainable companies.

Retail customers in Belgium, Luxembourg, Germany and the Netherlands are given the opportunity to invest in SRI investments. In the Netherlands the Bank applies a robust assessment and excludes companies in specific sectors, such as tobacco or coal mining, as well as companies that exhibit controversial behaviour, such as violations of human rights. In other countries, it is only possible to invest in sustainable funds that use these screening methods.

SRI opportunities cover all asset classes, including government bonds, corporate bonds, investment funds and index trackers. At the end of 2016, sustainable assets under management (SAuM) for customers were EUR 3,306 million, up from EUR 2,573 million in 2015.

Sustainable assets under management

in EUR million at year-end	2016 [1]	2015	2014
Sustainable investment portfolios [2]	2,596	2,011	1,517
Sustainable structured products	140	143	15
Sustainable investment funds (incl. CS ING SRI Index Fund)	570	419	92
Subtotal	3,306	2,573	1,624
Correction to eliminate double counting [3]	-	-	86
Total sustainable assets under management	**3,306**	**2,573**	**1,538**

1 The 2014 and 2015 figures are based on Benelux. In 2016 the SAuM figures also include Germany.
2 The Sustainable investment portfolios are managed by ING. The other sustainable assets are managed by others, but kept at ING accounts.
3 There used to be an overlap with allocated assets in the sustainable investment funds and the managed sustainable investment portfolios. In 2014 the Netherlands decided to align the calculation methodology with that of Belgium and Luxembourg. There has therefore been no double counting.

ING Groenbank

ING Groenbank is a 100 percent subsidiary of ING Bank N.V.. It finances sustainable investment by offering lending services at favourable rates to a variety of Dutch sectors. These include organic farming, renewable energy generation, sustainable construction and the re-use of waste materials. All assets covering ING Groenbank loans must receive Dutch government accreditation. This helps ING Groenbank accurately quantify the sustainable impact of its investments.

In 2016, ING Groenbank made a strategic shift in its lending portfolio by increasing the volume of loans to SME and mid-corporate clients. New channels were opened to offer lending services to clients in commercial real estate as well as structured finance transactions for clients operating small to medium-sized renewable energy generation projects.

Due to a more favourable overall economic climate, ING Groenbank profited from increases in investment volumes throughout the aforementioned sectors.

Financial inclusion

In addition to its lending services for green investments, ING Groenbank also directs up to 10 percent of its balance sheet towards impact activities, including education and research. In 2016, there was a strategic shift from traditional microfinance portfolios in India and Turkey to a more diversified portfolio, both in location and the mix of financial services offered. Groenbank now acts as a catalytic fund to initiate impact investments in, and outside, ING. ING Groenbank research supported the finance sector's appetite for more SME finance. "A Billion to Gain 2016" looked at the role technological innovation can play in unlocking micro/SME finance opportunities.

Trophy cabinet

- *ING earned top prizes at The Banker's 2016 Best Bank Awards in London, winning the Global Bank of the Year and best bank awards in the Netherlands, Belgium and Western Europe.*
- *ING's emphasis on innovation in banking was recognised in an award for Western Europe's Best Digital Bank by Euromoney magazine.*
- *ING in Spain was voted the "best bank for customer experience" for the second year running by Spain's Customer Experience Measurement Index (IMEX).*
- *Gazeta Bankowa awarded ING Poland "Best Bank" in the category of Large Commercial Bank.*
- *ING in Australia was recognised as the "Financial Institution of the Year" and outgoing country head Vaughn Richtor the "Finance Industry Executive of the Year" by the Retail Banking Awards in Australia.*
- *ING in Poland customer service has been recognised with the Bank taking home the main award in Poland's Golden Banker competition. The bank was also ranked first in the "Best Bank in Social Media" category.*
- *ING in Romania was awarded the "Most Innovative Bank of the Year" while ING Home Bank was declared the "Online Service of the Year" by MasterCard in Romania.*
- *First prize in Mortgage Banking at "friendly banks" ranking in Poland.*

Results

Total Retail Banking

Retail Banking posted a strong set of 2016 results, although net result declined to EUR 2,671 million from EUR 3,091 million in 2015, primarily due to the restructuring charges and impairments related to the intended digital transformation programmes as announced at ING's Investor Day on 3 October 2016. Underlying net result (excluding divestments and special items in both years) rose to EUR 3,294 million from EUR 2,782 million in 2015. The underlying result before tax increased 15.8 percent to EUR 4,579 million in 2016, driven by higher income and lower risk costs.

Compared with 2015, underlying income increased 4.7 percent to EUR 11,791 million. This was mainly due to higher income in the Other Challengers & Growth Markets, while the increase in the Benelux and Germany was limited. Income growth was supported by a EUR 200 million gain on the sale of Visa shares and higher revenues from Bank Treasury, while 2015 included a EUR 127 million non-recurring charge related to the Italian and Belgium mortgage portfolios. Interest results increased two percent, mainly due to volume growth in most countries and higher margins on consumer and business lending. This was partly offset by margin pressure on current accounts due to lower reinvestment yields. Commission income rose 5.1 percent, particularly in the Challengers & Growth Markets.

The net production of customer lending (excluding Bank Treasury, currency impacts and transfers of WestlandUtrecht Bank mortgages to NN Group) was EUR 10.3 billion in 2016. Net core lending, also excluding the run-off in the WestlandUtrecht Bank portfolio, increased by EUR 12.2 billion, driven by growth outside of the Netherlands. Net customer deposits (excluding Bank Treasury and currency impacts) grew by EUR 25.4 billion in 2016.

Underlying operating expenses increased 2.5 percent to EUR 6,606 million compared with 2015, mainly due to further increases in regulatory costs. Excluding regulatory costs, expenses declined 0.6 percent on a year ago. Additional expenses related to strategic projects and selective business growth in the retail Challengers & Growth Markets, as well as additional provisioning for Dutch SME clients with interest rate derivatives, were offset by the benefits from the running cost-saving programmes and a EUR 95 million one-off expenses adjustment in Belgium. The underlying cost/income ratio improved to 56.0 percent from 57.2 percent in 2015.

Risk costs declined 30.3 percent to EUR 606 million, mainly visible in the Netherlands and Germany. By contrast, risk costs in Turkey increased.

Market Leaders
Retail Netherlands

The underlying result before tax of Retail Netherlands rose to EUR 1,705 million from EUR 1,495 million in 2015, due to lower risk costs, while income was resilient due to stable interest margins and higher revenues from Bank Treasury.

Underlying income rose 0.7 percent to EUR 4,436 million. The interest result slightly declined, mainly caused by a decline in lending volumes and margin pressure on current accounts, partly offset by higher margins on savings and lending. The lower lending volumes were partly caused by the continued transfer of WestlandUtrecht Bank (WUB) mortgages to NN Group and the run-off in the WUB portfolio. Net core lending (excluding the WUB portfolio, Bank Treasury products and movements in the mortgage hedge) declined by EUR 4.2 billion. The decline was both in mortgages and other lending; the latter reflecting subdued demand in business lending. Net customer deposits (excluding Bank Treasury) grew by EUR 7.1 billion. Commission income rose by EUR 31 million, or six percent, and investment and other income was up EUR 32 million, in part due to a gain on the sale of Visa shares.

Underlying operating expenses increased 3.4 percent on 2015, mainly due to higher regulatory costs and an additional provision for Dutch SME clients with interest-rate derivatives, while 2015 included some smaller restructuring provisions. These factors were partly offset by the benefits from ongoing cost-savings initiatives. From the existing cost-savings programmes announced since 2011, which aim to realise EUR 657 million of annual cost savings by the end of 2017, EUR 562 million has already been realised.

Risk costs declined to EUR 171 million, or 32 basis points of average risk-weighted assets, from EUR 433 million in 2015. The decline was both in business lending and residential mortgages, reflecting improvements in the Dutch economy and housing market.

Retail Belgium

Retail Belgium includes Record Bank and ING in Luxembourg.

The underlying result before tax of Retail Belgium rose 13.7 percent to EUR 961 million in 2016, compared with EUR 845 million in 2015, reflecting lower expenses and slightly higher income.

Underlying income increased 1.1 percent to EUR 2,573 million, from EUR 2,546 million in 2015, supported by higher Bank Treasury revenues and a gain on the sale of Visa shares. The interest result declined 0.9 percent, mainly due to lower margins on savings and current accounts, as well as on mortgages due to lower prepayment and renegotiation fees, which was largely offset by increased volumes in most products. The net production in the customer lending portfolio (excluding Bank Treasury) was EUR 4.8 billion, of which EUR 1.7 billion was in mortgages and EUR 3.2 billion in other lending. The net inflow in customer deposits was EUR 1.4 billion. Commission income was 3.0 percent lower. Investment and other income rose by EUR 58 million, driven by the Visa gain.

Operating expenses declined by EUR 94 million, or 6.1 percent to EUR 1,438 million, due to a EUR -95 million one-off expense adjustment in 2016.

Risk costs increased by EUR 6 million to EUR 175 million, or 54 basis points of average risk-weighted assets. The increase was mainly in business lending due to a few specific files, while risk costs for mortgages and consumer lending declined.

Challengers & Growth Markets
Retail Germany

Retail Germany includes Interhyp and ING in Austria.

Retail Germany's underlying result before tax increased 4.2 percent to EUR 1,055 million, compared with EUR 1,012 million in 2015. This increase was supported by a net release in risk costs, partly offset higher expenses.

Underlying income rose 0.7 percent to EUR 1,923 million, from EUR 1,910 million in 2015, supported by a gain on the sale of Visa shares. The interest result increased 3.4 percent following continued business growth, partly offset by lower margins on most products. Net inflow in customer deposits (excluding Bank Treasury) was EUR 9 billion in 2016. The net production in customer lending (excluding Bank Treasury and movement in the mortgage hedge) was EUR 3.8 billion, of which EUR 3 billion was in mortgages and EUR 0.8 billion in consumer lending. Commission income rose 6.4% to EUR 183 million. Investment and other income was EUR 53 million lower, due to lower gains on the sale of bonds and less positive hedge results, which was partly compensated by a EUR 44 million gain on the sale of Visa shares.

Operating expenses increased 5.2 percent to EUR 886 million, from EUR 842 million in 2015. The increase was mainly due to a higher headcount to support business growth and customer acquisition, as well as investments in strategic projects. This was partly offset by lower regulatory costs. The cost/income ratio was 46.1 percent, compared with 44.1 percent in 2015.

Risk costs turned to a net release of EUR 18 million from a net addition of EUR 57 million in 2015, reflecting a benign credit environment in the German market and model updates for mortgages.

Retail Other

Retail Other's underlying result before tax rose to EUR 858 million, from EUR 604 million in 2015. The increase was largely attributable to a EUR 109 million gain on the sale of Visa shares in 2016, while 2015 included a EUR 97 million of non-recurring charges in Italy related to increased prepayments and renegotiations of fixed-term mortgages.

Total underlying income increased by EUR 451 million, or 18.7 percent, to EUR 2,859 million. Excluding the gain on Visa shares in 2016 and the one-off charge in Italy in 2015, underlying income grew by 9.8%. This increase was mainly attributable to revenue growth in most businesses and was furthermore supported by a EUR 32 million one-time gain from the reduction of ING's stake in Kotak Mahindra Bank. The interest result rose 8.9% due to volume growth in most countries and higher margins on lending, partly offset by lower margins on current accounts. The net production (excluding currency effects and Bank Treasury) in both customer lending and customer deposits was EUR 7.8 billion in 2016. Commission income rose 15.1% on the back of continued client and volume growth in most countries.

Operating expenses increased by EUR 129 million, or 8.1 percent, to EUR 1,723 million. This increase was mainly due to increased regulatory costs as well as higher IT and professional-services expenses related to strategic projects. The cost/income ratio improved to 60.3 percent from 66.2 percent in 2015.

The addition to the provision for loan losses was EUR 278 million, or 57 basis points of average risk-weighted assets, up from EUR 210 million, or 45 basis points of average risk-weighted assets. The increase was mainly attributable to higher risk costs in Turkey.

Conclusion

Collectively, ING's Retail Banking units again performed well in 2016. By lending money and providing customers with the tools to help make smart financial decisions, we continued to empower people in life and in business.

Customer satisfaction was again high with 7 out of 13 retail units holding number one NPS positions.

ING also earned top prizes at *The Banker's* 2016 Best Bank Awards in London winning the Global Bank of the Year and best bank awards in the Netherlands, Belgium and Western Europe.

Financially, Retail Banking posted strong 2016 results driven by higher income and lower risk costs. The underlying result (before tax) increased by 15.8 percent to EUR 4,579 million. This was achieved despite the low interest rate environment and higher regulatory costs.

Retail Banking continued to pursue a digital-first operating model with a clear and easy, anytime and anywhere experience for customers. It also made progress in earning an increased number of primary relationships.

In 2016, the bank announced an intention to converge our various banking models into one to create an integrated digital platform that can cater to all our customers' financial needs and provide new and relevant offers to enhance the customer experience. Such a transformation should put our business on a solid footing for the future.

Wholesale Banking

Wholesale Banking performed well in 2016. We continued to implement the Think Forward strategy and to take initiatives to enhance the customer experience. We have successfully grown the business while maintaining a prudent risk profile. We are strongly committed to sustainability. We try to minimalise our own environmental footprint and we support clients with their own transition to more sustainable business. We will continue accelerating our strategy and transforming the way we do business to serve clients better, easier and faster.

Who are we?

Wholesale Banking (WB) is a primary-relationship-driven European bank with global reach. We want to help clients to achieve their ambitions. We aim to provide a differentiating and seamless client experience through specialised and integrated services across the globe, supported by new technologies.

In addition to the basic banking services of lending, payments and cash management and treasury, WB provides tailored banking solutions in areas including corporate finance, commercial finance (factoring), equity markets and debt capital markets to help our clients achieve their business goals. Through our global franchises in Industry Lending we serve clients across sectors where we have proven expertise. We support clients in realising their sustainability ambitions.

International network

We facilitate clients' business through our international network of offices in over 40 countries across Europe, the Americas, Asia and Australia. This extensive international network is a key element of our value proposition to clients. We continuously invest in our network to serve clients better and to seize growth opportunities in different regions. This included in 2016 the launch of trade commodity finance services in New York. We also expanded and strengthened our network and presence to support clients in China, Sweden and India. We extended our network in 2016 with the opening of a new securities branch in Seoul. This offers capital market products to both local and international corporate clients and financial institutions in South Korea. We have been active in Seoul for 25 years and became one of the leading international banks in the country offering a full range of corporate and investment banking products. In 2016, we also applied to the Colombian Finance Superintendence for a licence to operate as a Representative Office in Colombia.

Delivering a differentiating customer experience

WB aims to be the bank of choice for its clients. In Industry Lending this means becoming the lead lender, in Debt Capital Markets the lead financing bank and in Transaction Services and Financial Markets increasing the volume of flow products. In 2016, we continued to implement the Think Forward strategy and deliver on our priorities. We have successfully grown the business while maintaining a prudent risk profile. We grew net core lending by EUR 22.6 billion and risk costs decreased to 24 bps of average risk-weighted assets (RWA) in 2016. We continued to grow lending in Germany, redeploying the liabilities created in our low-cost German bank. We are selective and grow in market segments that show healthy growth, while aiming to ensure that our portfolio remains appropriately diversified and within our risk appetite.

We continued with our transformation programme, Wholesale Target Operating Model (Wholesale TOM), further driving simplification, business growth and innovation across the network.

In 2016, we took additional steps to improve the client experience and to deliver on our Customer Promise to be clear and easy, anytime and anywhere, empower people and keep getting better. InsideBusiness, our digital, cross-border banking platform, offers clients real-time insights and a single point of access to manage all their financial transactions on any device. After rolling out the platform in the Netherlands and Belgium in 2015, we have extended it to clients in 15 more countries. In 2017, we will include countries in Asia and the Americas. In 2016, we also increased our InsideBusiness offering with more products and services available online, including a mobile app, support for intercompany loan administration, confirmations and reporting for financial markets transactions, and a self-service administration function.

We continued to innovate to offer clients better products. An example of innovation is the development of a Virtual Cash Management solution. This next-generation payments and cash management solution allows clients to manage cash, payments and collections in a multi-bank set-up, using virtual accounts and a self-service portal. This solution will be introduced across the ING network in 2017.

ING partners with fintechs to stimulate innovation. WB for example is working with fintech Owlin to provide sector-relevant dashboards that convert three million news sources into real-time actionable intelligence, which ING's Lending Services, Financial Markets and Risk Management divisions can use in conversations with our clients.

We aim to establish ourselves in the market as a thought leader on blockchain. We have successfully trialled fixed-income trading between 40 of the world's largest banks via the international R3 consortium. In 2016, ING won the Global Finance Innovation Award for Top Innovators in Transaction Services in the Process Innovation category in recognition of our efforts to transform our documentation processes for payments and cash management. Transaction Services simplified the requirements for accounts and payments services, adapting these to include a single set of banking conditions across 18 countries.

Our global business has received recognition and awards from leading publications in the financial industry, showcasing our success as a client-focused bank. Overall, league table positions in EMEA and Western Europe continued their upward trend, supported by continued strong performance in industry lending.

Trophy cabinet

- *The Banker: Best Global Bank*
- *The Banker: Best Bank Western Europe*
- *The Banker: Best Bank the Netherlands*
- *The Banker: Best Bank Belgium*
- *Global Finance: Best Bank in Western Europe*
- *Euromoney: Best Digital Bank Western Europe*
- *Treasury Management International (TMI): Best Bank Payments & Collections CEE*
- *Treasury Management International (TMI): Best Cash Management Solution in Technology & Innovations (TMI)*
- *Global Finance: Best Bank for Working Capital Optimisation in Western Europe and the same award for CEE*
- *Merger Market: Benelux M&A Financial adviser of the year*

Green Bond recognition

ING won Environmental Finance Green Bond Awards in the categories "Biggest Issuer" and "Bond of the Year". This is a recognition of ING's role as leader in the sector and of our pioneering effort in raising awareness for green bonds. The award for "Corporate Bond of the Year" went to leading European electricity transmission system operator TenneT, for which ING was adviser and underwriter.

Accelerating the financing of sustainable transitions

ING is committed to helping facilitate the transition to a fairer, greener economy by financing clients who are environmental outperformers compared to industry peers, and projects that address environmental and social challenges. We measure the above with our sustainable transitions financed (STF).

In 2016, WB introduced an ambition to increase the amount of STF to EUR 35 billion by 2020. At year-end 2016, our STF amounted to EUR 34.3 billion. This is an increase of more than EUR 10 billion compared to year-end 2015, driven partly by new transactions and partly by continous improvement of our processes for identifying sustainable transactions and clients. (See graph "sustainable transitions financed" for a breakdown of STF growth.) To drive growth, we train and encourage employees to engage with our clients in finding strategic financing solutions for their sustainability ambitions.

Such solutions are provided through a variety of products, including corporate loans and project finance loans. We also offer finance through innovative green products like green loans and green bonds. We nearly met our 2020 ambition for sustainable transitions financed in 2016. We plan to revisit this ambition in 2017 in our continued drive to accelerate our STF.

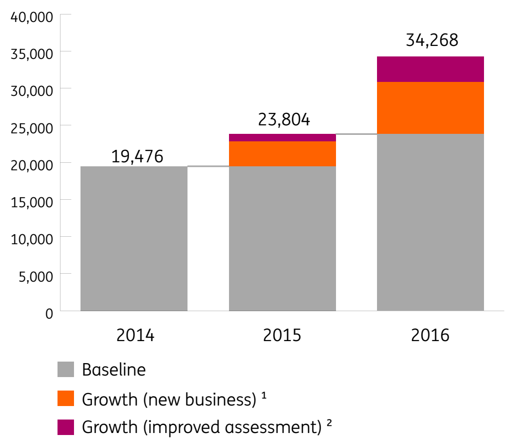
Our financing and investment policies and practices include strict social, ethical and environmental risk criteria. We also aim for our financing activities to have a positive impact on the environment and society. Our approach to positive impact initially concentrated on the positive environmental impact of our financing. Following the launch of the Sustainable Development Goals, we developed a structured approach that will enable us to also include the positive social impact of the projects we finance. We primarily focus on promoting sustainable and inclusive economic growth (goal 8) and sustainable consumption and production (goal 12).

More information on ING's commitment to the Sustainable Development Goals can be found at www.ing.com/16ar2.

We also recognise the need to tighten sustainability assessments and ensure that the financing we label as sustainable is truly significant in its contribution to the environment and society. For this purpose, the different sustainability teams within ING are currently working on refining and strengthening our client and transaction assessment criteria. Furthermore, we are working to continuously improve our assessment scope and screen our entire loan book against the STF criteria (for detailed STF definition, see glossary page 445). The graph below shows the growth of our STF portfolio in 2016 attributable to new business and due to improved assessment scope.

Sustainable transitions financed

in EUR million at year-end



1 Growth (new business) 2016: EUR 7,030 million.
2 Growth (improved assessment) 2016: EUR 3,434 million; growth attributed to improved processes, methodology and assessment scope for identifying STF within our existing portfolio

Total sustainable transitions financed [1]

in EUR million at year-end	2016	2015	2014
ING Groenbank [2]	745	875	836
Renewable Energy [3]	4,658	3,187	1,730
Sustainable Real Estate [4]	7,207	998	389
Other projects [5]	1,638	1,274	379
Environmental Outperformers [6]	20,020	17,470	16,142
Total	**34,268**	**23,804**	**19,476**

1 For more information on the boundaries of the number reported, please refer to non-financial data reporting protocol on ing.com.
2 ING Groenbank finances projects within and outside of the Netherlands. In line with Dutch tax authority guidelines the amount of green loans on the Groenbank balance sheet is over 70 percent. For more details on ING Groenbank, please see the "Retail Banking" chapter.
3 Includes biomass, geothermal, hydro, solar, offshore and onshore wind power generation. In 2016, we improved the process for extracting renewables data from our system, which gives a more complete overview of our exposure.
4 Sustainable real estate grew by EUR 6.2 billion in 2016. This is largely due to an improved data collection process which allowed us to identify existing loans that qualify as sustainable. The development of innovative tools and green products for clients, staff training and setting ambitious targets helped drive new sustainable business.
5 Includes projects involving energy efficiency, greenhouse gas reduction, climate change mitigation, waste management, water efficiency, public transport and social welfare.
6 As of year-end 2014, ING reports on loans to clients who have been identified as environmental outperformers compared to industry peers based on independent reputable data providers or internal client assessments.

The table demonstrates our inclusive approach to sustainability throughout our entire global lending portfolio. On the one hand, we finance projects in specific sustainable areas, including renewable energy, sustainable real estate, public transport, water and waste management. At the same time, through our client and transaction assessments, we identify those clients with the best environmental record in their sector (outperformers). We focus on those outperforming clients in all sectors, which we finance based on our Environmental and Social Risk (ESR) framework.

Read more on our ESR framework in the "Risk and capital management" chapter.

Beatrice Offshore Windfarm

In Europe, the Utility, Power and Renewable platform closed a project financing for the Beatrice Offshore Windfarm. ING acted as one of the six bookrunners and mandated lead arrangers in this landmark GBP 1.96 billion transaction.

Whether as an underwriter, issuer, or member of the ICMA Green Bond Principles, ING has been at the forefront of the development of the sustainable bond market. When we issued our first green bond in November 2015, we promised to disclose how the proceeds would be used, as well as the projects' positive impact on the environment in terms of emissions avoided.

The bond proceeds have now been fully allocated, with 24 percent going to new projects. This is higher than our initial commitment of 20 percent. We have worked with an external expert to develop a framework for measuring the positive environmental impact of renewable energy projects. Based on this framework, we estimate that these projects decrease the amount of emissions by 744 kilotonnes of carbon annually, which is comparable to the annual carbon emissions of 93,000 Dutch households.

Landmark green bond transactions

ING's highly experienced team has been actively involved in a series of landmark green bond transactions for a wide range of clients: French utility EDF, Bank of China, Turkish development bank Türkiye Sınai Kalkınma Bankası A.Ş. ("TSKB") and Spanish utility Iberdrola. Furthermore, we supported the Dutch dairy company Royal Friesland Campina, Dutch utility Tennet and Swiss utility Repower with their inaugural Green Schuldscheins and helped Dutch utility Alliander raise green funding from investors.

ING is responding to the developing needs and expectations of clients and society regarding the circular economy. Our support has so far taken the form of thought leadership. In 2016, we published a report on how companies can make their business model more circular.

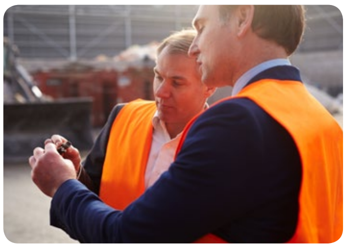
For more information, see the report "From assets to access" at www.ing.com/16ar3. (PDF - 937 kb).

We are also working on the challenge of defining our role as a financier in this pioneering area. There is as yet no blueprint for how banks can service clients' circular business needs. To address that, we are working to co-create a way ahead with clients and platforms like the Ellen MacArthur Foundation. We joined the Ellen MacArthur Foundation as a CE100 member to share and further broaden our knowledge on the topic and drive the development of new business models to support more clients in circular business. We are currently supporting companies that want to grow their business in the circular economy with strategic investments, equity and subordinated debt.

Shanks

ING acted as adviser and underwriter to international waste-to-product business Shanks Group's merger with leading Dutch waste processor Van Gansewinkel Groep. The merger will create one of Europe's leading players in recycling. This transaction strengthens ING's commitment to the circular economy, as both Shanks and Van Gansewinkel put circular economy at the heart of their businesses by making new products out of waste.

ING for a sustainable future



In our view, the circular economy is the answer to solving the problem of the depletion and scarcity of resources. In 2016, ING acted as sole underwriter in the merger of international waste-to-product business Shanks Group plc and leading Dutch recycler Van Gansewinkel Groep, creating Europe's leading player in recycling.

Accelerating Think Forward – moving towards 2020

The Think Forward strategy empowers us to achieve our WB ambitions and fulfil our purpose. Given the challenging macroeconomic environment, the fast-moving changes in our industry and the fact that technology and digitalisation are moving faster than expected, we need to accelerate our strategy.

Read more in the "Our strategy and how we create value" chapter.

In 2016, ING launched a number of strategic programmes and initiatives to accelerate change and to stay a step ahead. At the ING Investor Day in October, ING announced its intention to begin converging to one digital banking platform. This addresses the trend that in an increasingly virtual world, customer needs and expectations are converging. This makes it all the more important for ING to operate as one integrated company across borders.

Wholesale TOM Transformation programme

The ING of the future will be one digital platform, with one brand, and with the same differentiating experience for all our customers, wherever they are in the world. WB is leading the way within ING, having already standardised products, processes and client experience as part of the Wholesale TOM transformation.

Wholesale TOM aims to enhance the client experience across products and countries. It does this by standardising our products and channels, harmonising our client services and improving our mobile and online offering. In 2016, we continued to concentrate on decommissioning legacy systems and on migrating services to global operating hubs in Manila and Bratislava that provide services directly to our clients across different businesses, locations and time zones. Wholesale TOM has increased efficiency and reduced complexity for our clients. With EUR 305 million in cost savings as per the end of December 2016, we expect to meet our cost savings target of EUR 340 million by the end of 2017. These cost savings are partly being reinvested in our business, and we will continue to drive simplification, business growth and innovation through extensions of the programme. In 2016, we announced an additional restructuring provision of EUR 70 million.

Financial Markets' (FM) strategic measures

FM will continue to develop its client-driven franchise, delivering a differentiating experience by offering multiple market and trading products efficiently and effectively. At the same time, FM is adjusting to changing market circumstances, higher regulatory costs and more rigorous regulatory standards. Following the ING Investor Day in October, we announced our intention to strengthen FM's focus on areas in the business that are best aligned to its core clients and WB strategy, to converge functions into one location and to consolidate certain business lines. Some products will be discontinued, including the equity derivatives offering to financial institutions. These changes will not reduce our continued commitment to Benelux cash equities, global commodity derivatives and linear equity derivative financing franchises.

FM is also streamlining certain trading functions in Western Europe by reducing roles in Amsterdam and Brussels and combining these in London. This will create a more efficient trading platform alongside our investments in e-commerce.

Putting our strategy into practice – our business activities in 2016

Industry Lending

Industry Lending is a high value-added product for clients and ING. Our Industry Lending teams provide financing to clients in selected markets based on specialist industry knowledge and expertise. Industry Lending is broadly diversified across sectors and geographies. Its activities are grouped into the Energy, Transport & Infrastructure Group, the Specialised Financing Group, the International Trade and Export Finance Group, and Real Estate Finance. Risks are controlled in a number of ways. These include careful selection by industry and sub-sector, country and client, transactional structure and collateral value of assets. Industry Lending has a track record of disciplined growth. It continues to grow in selected industries and markets whose underlying dynamics create attractive opportunities for our clients. This lending asset growth also supports ING Bank's balance sheet optimisation, whilst delivering a solid return on equity.

The Energy, Transport and Infrastructure Group (ETIG) specialises in capital-intensive industry sectors such as natural resources, transportation, utilities and power, and infrastructure. ETIG financings are typically longer tenor loans via senior secured debt with strong structural credit risk protection or collateral value. ETIG performed well in 2016 in terms of profitability, risk costs and growth. Market declines in oil and commodity prices at the end of 2015 continued into early 2016. The effects varied according to the type of commodity and the underlying business – lower commodity prices are not necessarily bad news for all our clients. While some sub-sectors have come under pressure, interesting opportunities remain in the natural resource space. Similarly, in Transportation Finance, we see attractive areas of growth. In Power and Utilities, ING is supporting many of its clients in the renewables area.

Nagi PV GK

Nagi PV GK, a Japanese incorporated company, a subsidiary of BCPG Japan (BCPGJ), is developing a 14 MW solar photovoltaic farm in the Okayama Prefecture, on Honshu island, in Japan. The solar PV farm is expected to produce up to 16,300 MWh of electricity per year, the equivalent of powering over 4,500 homes. Nagi PV GK can prevent up to 12,500 tonnes of CO_2 emissions per year. The project will help Japan to reach its goal to meet a 25 percent renewable energy target by 2030. ING acted as sole Mandated Lead Arranger, IRS Swap Arranger, Facility and Security Agent and Account Bank in the JPY 3.86 billion project financing. For ING, being involved in this project means that we can build upon our experience and best practices with financing green projects.

The Specialised Finance Group (SFG) coordinates global teams that primarily arrange, underwrite and lend against clients' business cash flows. They are active in sectors such as telecommunications, media and technology, and healthcare. They also provide specialised support for the insurance industry. Exposures are mostly medium term in established markets. We apply careful industry and client selection criteria. In line with our primary relationship strategy, we aim to lead transactions to maximise the value delivered to clients. SFG has continued to perform well in 2016 in terms of volume growth, risk costs and profitability. This is testament to our sector expertise and close cooperation between the different WB teams.

WestConnex

WestConnex is the largest transport project being undertaken in Australia. It is to be delivered over three stages, with separate financing to be raised for each stage. ING's Utilities, Infrastructure & Project Finance (UIP) in Sydney acted as Joint MLA, Bookrunner and Swap Arranger in the AUD 1.75 billion financing of WestConnex (Stage 1). The project will significantly reduce congestion across Sydney's motorway network and provide improved access to the city's central business district. WestConnex is the first primary syndication to be undertaken since the inception of the UIP business in Sydney and highlights ING's market position. UIP's acknowledged motorway sector expertise developed from over 70 motorway transactions was one of the key reasons for success of this deal.

International Trade and Export Finance (ITEF) supports international trade in commodities such as oil, oil products, metals and grains. The largest part of ITEF is the Trade and Commodity Finance Group (TCF). Most business is short term, self-liquidating trade-related finance, often collateralised, with comprehensive credit risk mitigations. Commodity prices have been low and at times volatile. ING's TCF clients are not speculators and largely avoid or hedge commodity price risk: their business model primarily depends on trading and logistics to deliver commodities when and where their clients require, not on profit from price volatility. Consequently the commodity price movements have had limited effect on TCF clients, and our risk costs remained low. ING has carried on supporting its clients, and has continued to build primary relationships. Our ability to innovate has underpinned our continued success.

Trailstone Goup

An example is the financing of Trailstone Group, a US-based, diversified and international physical commodity trading company. As sole lead manager, ING drew on experience and expertise in the area of the structuring of borrowing base facilities and insights into gas and power trade flows. Its gas and power borrowing base facility was a market first, underlining both ING WB's innovation capabilities and its leadership position in trade and commodity financing.

Real Estate Finance (REF) primarily lends to investors in income-producing real estate backed by first mortgages. In Europe and selected premier global property markets we are one of the leading bookrunners in syndicated real estate finance loans. The year was characterised by market caution, primarily because of concerns over political instability in Europe. However, there was abundant liquidity, partly driven by interest from Asian investors. We saw strong activity in France, Germany and the Netherlands.

Real Estate is one of the sectors where improvements in energy efficiency in existing buildings can have a large impact on lowering CO_2 emissions. Our international transactions increasingly involve high-grade sustainable real estate collateral. In the Netherlands for example we support clients through our innovative Sustainability App and with the transition to a sustainable portfolio. At year-end, Sustainable Real Estate Finance totalled EUR 7.2 billion, making up 23 percent of the total REF portfolio.

General Lending and Transaction Services

General Lending

General Lending is offered to corporate clients as the anchor product in a broader relationship typically involving flow products in FM or Transaction Services. It is typically less complex than Industry Lending with more standardised transactions. Client teams focus on cross-sell opportunities with other bank products.

Lidl

ING acted as sole lender and sole arranger in the EUR 90 million financing of supermarket chain Lidl's two distribution centres which are considered the most sustainable in the Netherlands with their efficiency, state-of-the-art logistics and equipment. They hold the highest levels of the BREEAM certification.

Transaction Services

Transaction Services supports our client's core processes and daily financial operations with tailor-made, integrated solutions and advice. It comprises Payments & Cash Management, Trade Finance Services, Working Capital Solutions and Bank Mendes Gans, our cash pooling business. These are all activities that require a clear focus on operational excellence. After strong performances in previous years, Transaction Services (TS) met headwinds in 2016. Regulatory challenges and negative euro interest rates both drove TS income down. Across all our TS products, we continued to concentrate on innovation and further developing our services to Corporate and FI clients.

ING is an important player in the issuing (corporate cards) and the retail payment markets. Both product lines generate fee-based income. ING achieved year-on-year growth of over 35 percent with our corporate card offering. These solutions, including the innovative virtual card, help our clients to reduce the cost of administrative procurement and provide short-term working capital. Our European POS and e-commerce payment proposition is a key element in building the primary relationship for retailers in Europe.

Despite a challenging yield curve, Payments & Cash Management's growth prospects improved this year. The exit of a global competitor has strengthened our position as a top payments and cash management provider in the Benelux and enhanced our ranking amongst the top league pan-European cash management banks.

Trade Finance Services (TFS) finances, settles and mitigates risks of international trade for clients in all markets globally, but primarily in Asia, the Middle East, Central and Eastern Europe and Latin America. Lower import and export trade volumes, combined with lower commodity prices and lower interest rates, are putting pressure on income derived from Trade Finance Services activities. This decline has been partly offset by increased use of risk mitigation instruments by clients.

Working Capital Solutions (WCS) combines ING's Supply Chain Finance and Trade Receivables activities and is a key growth area for WB, offering substantial opportunities for our clients to achieve efficiency benefits. We believe the underlying short-term and capital-efficient nature of this asset class makes it an attractive area for us to expand. This year, despite fierce pricing competition and unfavourable market circumstances in the steel and oil sectors, WCS's business continued to grow.

Bank Mendes Gans (BMG) is a specialist bank providing global liquidity management services, including multi-currency, multi-bank cash-pooling and netting solutions to multinational corporations. BMG selectively onboarded new clients in 2016.

Porr AG

ING was involved in the closing of a landmark EUR 180 million Guarantee Facility for Porr AG, which is one of the largest construction companies in the Austrian market, active in building, civil construction and underground engineering. The deal is a novelty with a syndicate consisting only of insurance companies fronted by ING as the only issuing bank. ING led the transaction and facilitated the syndication process acting as Coordinator, Bookrunner Mandated Lead Arranger, Issuing Bank, Documentation and Facility Agent. The facility will be used for the issuance of guarantees on a multi-currency basis (EUR, PLN, CHF, CZK and other) to cover the whole business cycle of Porr's projects in respective countries. One of the key reasons for the deal's success is ING's presence in Porr's key markets and its capabilities to provide local guarantees in local currencies and local language. Apart from these advantages, the client also benefited from the excellent risk rating of the insurers and ING, all A-rated, as the rating of the guarantee issuing bank is getting more an more important in international project guarantees.

Financial Markets

Financial Markets (FM) is a well-diversified business targeting developed markets and emerging economies. It focuses on interest rates, currencies and credit products. It aims to serve ING's institutional, corporate and retail clients with relevant financial markets products.

Through FM we also provide our clients with a gateway to global institutional markets. A multi-product global sales force offers a full range of products and services across three main business lines: FX, Rates and Credit Trading; Global Equity Products; and Global Capital Markets. We provide clients with hedging solutions to mitigate financial risk in all markets. We also provide investment solutions to meet specific investment objectives, as well as financing solutions through clients' public or private debt or equity issuance, or through securities financing. In Debt Capital Markets we continue to transform the business into a consistent top-10 European player in our chosen areas of focus. These areas of focus include supporting existing clients, maintaining our position as Dutch bank of choice for issuers, and capitalising on our continued balance sheet support for Russia, Turkey, Poland and Romania.

We intensified our focus on increasing client activity with further expansion of the Global Account Management (GAM) initiative. A global account manager is responsible for FM clients' needs at holding company level, while working closely with client relationship managers within ING to better understand and serve client needs. This now accounts for 50 percent of FM client revenues, up from 30 percent in 2015. The GAM approach now has two tiers depending on the global or local nature of the client relationship.

Collaboration between Industry Lending teams continued with increased cross-buy, flow and tailored solutions for specific financial needs. However, the continuing low interest rate environment and negative Euribor fixings have made derivative hedging less attractive. This impacted volumes in the first quarter. Volumes returned to anticipated levels towards the end of the year, but were not strong enough to make up for the early year shortfall.

FM has defined a clear strategy for e-commerce. We will offer electronic trading solutions to FM clients, ING sales and traders to improve client relationships and profitability, and optimise risk distribution while reducing cost. ING offers electronic trading for the majority of our products, adding value for our clients via speed, transparency and better controls.

Key challenges

Our business, market and regulatory environments remained challenging in 2016. WB has a strong market position and performance. However, like our peers, we face headwinds including low interest rates, increasing regulatory scrutiny and costs, overcapacity in the European banking sector, and the potential impact of Basel 3.5. WB is actively addressing these challenges.

Business, market and regulatory environment

Markets in 2016 opened with concerns about the Chinese economy. Declines in Chinese equities led to weakness in equity markets worldwide. This, together with the continuing decline in oil prices, impacted markets. As with our peers, this resulted in a challenging first quarter, although markets and profitability returned with a strong performance in the second quarter. Markets were more stable through the rest of the year and profitability returned to more consistent and regular levels, although important political events, such as Brexit and the US presidential election, did trigger short-term spikes in volatility.

In the current low interest rate environment deposits placed at the ECB are earning negative interest. This makes it important to sustain lending returns and develop client propositions that generate fee income. For some time, we have been charging a negative interest rate to both financial institutions and corporate clients who maintain high cash balances in their euro current accounts. We may need to consider further action and expand the scope of clients that will be charged should the low interest environment and negative rates continue.

In early 2016, oil prices recovered. However, the historic low oil prices that preceded that did not have a significant effect on ING's financing to the oil and gas related business thanks to the relatively limited direct exposure to oil prices and the high quality of our lending book. Furthermore, many of our long-term facilities are protected against risks, for example through offtake agreements, fixed price contracts, and/or guarantees provided by export credit agencies. Lending credit outstanding to the oil and gas industry was EUR 36.3 billion at the end of 2016.

Lending credit outstanding to the metals and mining industry was EUR 14.9 billion at the end of 2016. We have a conservative and selective approach to new deals, renewals and refinancing, and we maintain focus on high-credit quality names, low-cost producers and industry leaders.

Country portfolios

Geo-political unrest continued in Ukraine in 2016. The non-performing loan ratio of our Ukrainian lending book was 45 percent at year-end 2016. ING continued to carefully monitor the developments in Turkey, where the non-performing loan ratio at year-end 2016 was 3.1 percent (including Retail Banking activities).

Read more in "The world around us" chapter.

Climate change

ING sees climate change as one of the biggest challenges of our time. We are committed to reducing the impact of our own operations and helping clients reduce theirs. While we have actively measured and managed our carbon footprint for more than a decade, we still face challenges in measuring the indirect impact of our lending activities. In order to take the next step in tackling this challenge, in 2016, we conducted a pilot to measure the emissions performance of two specific asset classes within our lending portfolio. We worked closely with an external consultant who helped us develop a methodology and tool for carbon accounting. This pilot yielded valuable insights into how we might measure the impact of our entire portfolio but also uncovered the challenge of data availability. Therefore, we welcome initiatives like the Financial Stability Board Taskforce for climate-related financial disclosure (TCFD) which aims to provide guidance to the financial sector on the topic of measuring and disclosing climate-related risk and impact. Such initiatives will help us and our clients achieve measurement with comparable results. We believe this level of awareness will steer action on climate change.

Read more on the challenges and opportunities related to CO_2 impact measurement, including next steps, in the "Non-financial appendix".

Results

Wholesale Banking recorded strong results in 2016. The net result, however, declined to 1,754 million from EUR 1,841 million in 2015, fully caused by the restructuring charges and impairments related to the digital transformation programmes as announced at ING's Investor Day in October 2016. Excluding these charges, underlying net result rose by EUR 62 million to EUR 1,903 million, reflecting excellent performance in Industry Lending, steady volume growth across industries and products, and a lower level of risk costs. Despite regulatory costs that continued to increase, underlying operating expenses remained broadly flat year-on-year.

The underlying result before tax was EUR 2,668 million, up 5.3 percent from 2015. Credit and debt valuation adjustments (CVA/DVA) were EUR -71 million in 2016, compared with EUR 181 million in 2015. Excluding CVA/DVA impacts, the increase in pre-tax result was 16.4 percent.

Industry Lending posted an underlying result before tax of EUR 1,736 million, up 14.4 percent compared with 2015, driven by continued business growth in Structured Finance and Real Estate Finance at attractive margins. The underlying result before tax from General Lending & Transaction Services rose by 31.3 percent to EUR 613 million, due to lower expenses and risk costs. Income growth was limited as volume growth was largely offset by some pressure on margins. Financial Markets' underlying result before tax fell to EUR 134 million from EUR 462 million in 2015, largely due to the afore mentioned negative swing in CVA/DVA impacts. The underlying result of Bank Treasury & Other was EUR 185 million, up from EUR 87 million in 2015, which was negatively impacted by a EUR 92 million impairment on an equity stake. Excluding this impairment, the pre-tax result increased by EUR 6 million as higher Bank Treasury results were offset by lower results in the run-off businesses, mainly due to lower sales results in the Real Estate Development portfolio.

Underlying income increased 0.7 percent to EUR 5,608 million, compared with 2015. Excluding CVA/DVA impacts, income rose 5.4 percent driven by strong volume growth in lending and higher income in Bank Treasury. The net production of customer lending (excluding Bank Treasury and currency impacts) was EUR 21.8 billion in 2016. Wholesale Banking's net core lending book (also excluding Lease run-off) grew by EUR 22.6 billion, due to strong growth in Structured Finance and General Lending & Transaction Services. The inflow in customer deposits (excluding Bank Treasury and currency impacts) was EUR 3.1 billion. The interest result rose 6.0 percent on 2015, whereas commission income increased by 4.3 percent.

Underlying operating expenses increased 0.5 percent to EUR 2,572 million, mainly due to higher regulatory costs and an increase in FTEs to support business growth. This increase was largely offset by benefits from cost saving initiatives, and lower IT change costs. The previously announced restructuring programmes are on track to realise EUR 340 million of annual cost savings by the end of 2017. At the end of 2016, EUR 305 million of annual cost savings had already been realised.

Risk costs declined to EUR 368 million, or 24 bps of average risk-weighted assets, from EUR 478 million, or 33 bps of average risk-weighted assets, in 2015. Lower risk costs were mainly visible in General Lending and to a lesser extent Industry Lending, in part due to larger releases on Ukraine clients.

Conclusion

Wholesale Banking performed well in 2016, maintaining a prudent risk profile. Clients are at the heart of our strategy. We serve them across the globe with a range of products and services, helping them to meet their ambitions. We will continue to broaden our international network.

In 2016, we further increased the digital service offering to clients, empowering them to do their business anytime, anywhere. We also succeeded in increasing the number of primary relationships.

We believe our role is to facilitate and finance the transition to a sustainable society. Our financing of sustainable projects and clients that are environmental outperformers compared to industry peers rose to EUR 34.3 billion at year-end, illustrating our support for a greener economy. We closed several notable deals and we launched a number of initiatives to encourage businesses to become more sustainable.

Wholesale Banking plays an important part in ING's strategy. We will continue to accelerate our Think Forward strategy. ING is on a path of convergence towards one digital banking platform. We are proud that our transformation programme, Wholesale TOM, is leading the way within ING, resulting in an improved and more uniform experience for clients. In 2017, we will continue with our transformation programme. We will also continue to innovate to meet the changing needs and expectations of clients and support their business.

A number of external awards underscored our success in meeting the needs of clients. We appreciate this recognition of our work that motivates us to keep getting better while delivering a differentiating experience to our clients.

People

A company is only as good as its people. ING is made up of over 54,000 employees from different countries, cultures, backgrounds, education and experience. We value diversity and our success depends on it. ING needs every position filled with capable, motivated professionals. To do that, we have put a series of programmes in place aimed at further developing the skills and attributes needed to achieve our goals.

Our people strategy

Our people strategy centres around creating greater leaders and better managers to engage employees and empower them to deliver on ING's customer promise. At the same time, it equips employees to own their positions and become the best they can be.

We have a distinctive culture: entrepreneurial, open, collaborative, innovative and energetic. But we also recognise that there are areas where we can improve – such as diversity – and that from a people perspective, working in a changing environment can bring challenges.

Who we are

Our more than 54,000 employees are drawn from a wide variety of backgrounds and are active in over 40 countries. We aim to have a workforce that reflects the diversity of our customer base and to foster an inclusive culture. It is important that our people feel comfortable being themselves irrespective of who they are, what they believe or where they come from.

Why diversity is important and what we are doing in this area

We value diversity. Our success depends on it. That is why we introduced a diversity manifesto, "Success through difference", in January 2016 that applies to all employees worldwide. This official bank policy sets out what diversity means at ING, why it is important, and what employees can do.

ING believes that there is a clear link between more diverse leadership and better financial performance. More diverse companies are more successful at attracting and retaining talent, relate to customers more effectively, have higher employee engagement and are better at decision-making.

ING is committed to accelerating the development of diversity, including in areas such as gender, age, background, sexual orientation, physical ability and religious beliefs.

Different diversity challenges exist in each of our locations and business units. In several markets, such as the Benelux, we need to do more to make gender balance more representative.

The bank is working to increase the number of women in leadership positions, ie employees that manage others. ING, as with many financial organisations, is finding this a challenge. Of our managers of managers, 29.3 percent were women as of end-2016.

With the support of our Leadership Council, ING has introduced a range of initiatives to promote the inclusion of women in leadership positions. These include:

- Diverse interview and decision panels in the recruitment process.
- Inclusion of more female candidates on succession lists.
- Tracking and analysing the number of female appointments, promotions and leavers to gain more insight into problems and potential solutions.
- Actively supporting flexible working.

Earlier this year, Isabel Fernandez was appointed to ING's Management Board Banking (MBB) as head of Wholesale Banking, the first-ever woman appointed to the board.

Overcoming unconscious bias

ING has encouraged managers from a variety of business units to attend workshops that help them understand their unconscious biases, promoting more objective people decisions. We all have these biases. By being aware of them we can learn to be more objective.

More than 1,000 employees across eight countries, including the bank's Leadership Council and the Human Resources Management Team, have participated in the course.

External recognition for diversity

The *Bloomberg* Financial Services Gender-Equality Index was published for the first time in May 2016. ING was recognised as one of the most transparent financial sector companies for diversity and social equality. The index measures how companies disclose gender statistics and company policies and practices. It also provides investors and organisations with standardised data on these statistics and policies.

In October, we also saw an improvement in scores within the Workplace Pride Global Benchmark Survey – an external measurement of lesbian, gay, bi-sexual and transgender (LGBT) workplace inclusion. In 2016, we achieved a top-tier score of 70 percent compared to a median score of 61 percent in the Finance and Industry sector. This has increased from 63 percent in 2015, and 51 percent in 2014.

Internal networks

We encourage employees to participate in a number of internal networks that stimulate diversity. These include:

- ***Crossing*** – a network concentrating on cultural diversity.
- ***Lioness*** – a network to help women realise their ambitions.
- ***Gala*** – a community focusing on LGBT inclusion.
- ***Ring*** – a networking community for young employees up to 36 years of age.
- ***Experience*** – a network for senior employees.

HeForShe programme leads to real action for Turkish mothers

Since March 2016, Turkey has supported the UN's HeforShe initiative, a programme that aims to create a gender equal world. ING in Turkey regularly organises HeforShe dinners for mothers working at the bank. Colleagues share their experiences, hold discussions and create communities so they can develop practical solutions for the advancement of women, including special leave, increased networking opportunities for female colleagues and monitoring of women in leadership positions.

ING in Turkey is a signatory to the UN's Women's Empowerment Principles (WEP). With 35 percent of women in leadership it exceeds the WEP's criterion. Fifty-five percent of employees are women.

How we work

What does ING believe in and what sets it apart from other companies? In January 2015, the Orange Code was launched, a framework for a common corporate culture to unite employees, based on input from employees themselves.

The Orange Code, which is based on the principle of "integrity above all", comprises:

- Values that set the standard. The non-negotiable promises we make to the world no matter what.
  - We are honest.
  - We are responsible.
  - We are prudent.

- Behaviours. The commitments we make to each other and the standards by which we measure each other's performance:
  - You take it on and make it happen.
  - You help others to be successful.
  - You are a step ahead.

The Orange Code underpins all people processes and tools including performance management. We also have ongoing local and global communication programmes around living the Orange Code to make sure it is embedded within ING.

June saw the launch of kudos, ING's online compliment tool. Employees can send compliments to colleagues for displaying Orange Code behaviours. ING believes that compliments can shape people's behaviour and lead to better performance. Regular compliments lead to more positive emotions, stimulate behaviour directly linked to the Orange Code and ultimately foster a more productive culture.

At the end of 2016, more than 33,000 employees had signed up as kudos users and just under 143,000 compliments were sent.

In a recent survey, 97 percent of employees globally, indicated they were familiar with the Orange Code, 79 percent were aware of the Code and 18 percent said that they had heard of it ("it rings a bell").

Banker's Oath

Since April 2015, all new employees working for ING in the Netherlands take the Banker's Oath routinely. The oath contains a set of principles affirming the banking industry's commitment to maintain high standards of ethical behaviour. A disciplinary sanction mechanism is linked to breaches of these principles.

An Ethics Centre of Expertise (ECE) and a Banker's Oath Committee were also established to support employees in dilemma management. The ECE provides training and a methodology (a so-called "seven-step approach") which is used in dilemma discussions and to support balanced decision making in dilemmas experienced by employees and management.

The Banker's Oath Committee was established to provide a platform for employees and management to discuss more complex dilemma cases. Advice is also given to help ethical decision-making and to resolve dilemmas.

How we attract and motivate employees

Trends in the market and ING's own business strategy determine long-term skill requirements and allocation of resources.

The labour market is a global marketplace and the bank has recruitment challenges in some areas. To ensure we have the resources we need at the right place and time, we have to be able to identify talent, internally and externally.

Internal mobility plays an important part in this. To better facilitate internal people moves, job opportunities are made more accessible and transparent for employees within the company. A new internal careers site will be launched early in 2017.

Job rotation, international assignments and job swaps help to optimise our talent management strategy. Employees are encouraged to apply for any position or training that fits their skills and experience. We aim to give qualified internal employees preference over external candidates and are committed to a positive employee experience for staff from the moment they apply for a job until the moment they leave.

ING Top Employer and a Great Place to Work

The Top Employer Institute is an independent organisation that measures employee offerings against an international standard. For employees, the classification illustrates that ING is a top-ranked company in its culture, in how we deal with each other and in the way we deal with human talent. The Top Employer Institute gave individual certificates to Spain, Poland, France, Belgium and the UK as well as awarding us Top Employer Europe status.

Austria, Germany (including Interhyp), Luxembourg and Spain were all recognised by the US-based Great Place to Work Institute in 2016. The institute analyses feedback from more than 10 million employees in 50 countries representing some 6,000 organisations. To obtain recognition as a Great Place to Work, employees from each ING country are surveyed and their responses collated to provide an overall ranking.

Employer branding

In 2016, ING introduced a new global Employee Value Proposition (EVP). The EVP provides a consistent point of reference for all of the bank's employer branding activities. It sets out the qualities ING looks for in its people and what the company offers.

The EVP consists of two layers:

- **Distinctive:** These are the promises that make ING different. These are very much linked to the Orange Code.
- **Competitive:** While these promises might not set us apart, they are still important as they represent what the bank needs to offer to attract and retain good people. They include work-life balance, emphasis on good performance and the importance of respecting one another.

The starting point in formulating the EVP was an extensive global research project to identify the benefits of working at ING. Input came from external surveys held across 12 different markets, with responses from students, professionals and employees.

The EVP will be used to guide the employee experience underpinning HR processes, as well as being central to our employer brand positioning.

Employee engagement

We believe there is a direct link between employee engagement and business performance and our ability to serve customers. ING regularly measures employee engagement and is committed to taking the actions identified.

ING's Winning Performance Culture (WPC) survey looks at how engaged, enabled and energised employees are. A WPC survey was conducted in September 2016. Around 70 percent of employees responded. ING achieved an overall engagement score of 77 percent exceeding the 70 percent target it had set. The survey identified a range of improvement areas on a global and local level.

Engagement scores, on a country level, ranged from 64 percent to 84 percent. Following the survey, HR and local management teams develop action plans which aim to address the improvement areas identified.

Communication is also an important part of employee engagement. Global and local communication teams collaborate to make sure employees are engaged in our strategy and direction on a global and local level. In 2016, we also undertook roadshows around the globe where our CEO and Management Board Banking members visited 16 countries to help explain the acceleration of the Think Forward strategy. A further 12 visits are also planned for early in 2017.

Equipping employees to become the best they can be

Leadership development

Creating greater leaders and better managers is pivotal to ING's people strategy. The bank needs effective leaders to engage employees and empower them to deliver on its Customer Promise.

ING manages the performance of senior managers centrally. It aims to ensure that all performance management activities are coordinated and implemented to the highest standards.

ING continued to run its distinctive banking training platform for senior leaders, the Think Forward Simulation. The training simulates operations at a bank and is fully aligned with the priorities of the Think Forward strategy. Over 100 leaders from 15 countries attended this training in 2016.

We also introduced a new Think Forward Leadership Programme specifically designed to develop the leadership behaviours needed to achieve our strategy. The Think Forward Leadership programme was piloted in the fourth quarter of 2016 and will be introduced from January 2017. Designed for the Management Board and two hierarchical levels below, it has been tailor-made for the bank and is based on results from ING's 2015 Organisational Health Index survey. Eventually the programme will be broadened and made available globally to around 6,800 managers.

ING recognises that being fit to lead is not just about expertise and experience. The programme takes an all-inclusive approach to developing leadership. It targets specific proficiencies, but also encourages and equips participants to reflect on and develop their mental, spiritual and physical wellbeing.

Early career talent development

The ING International Talent Programme (IITP) is designed to ensure the bank has the right talent in the right place to help meet future leadership needs. The programme selects and develops top graduates who are ambitious, international and have high growth potential.

The IITP features six tracks: Wholesale Banking, Retail Banking, Finance, Risk, HR and IT. It is primarily delivered by ING staff. In 2016, ING recruited 130 IITP trainees of which 53 percent were female and 47 percent male. This was in line with an ambition to have at least 50-50 gender balance by 2016.

Development and training

ING encourages employees to take the lead in their own personal and career development. It allocates a budget for employees for training, professional development and personal development. Around EUR 70 million was spent on training and development in 2016.

More than 72 percent of learning is carried out via online channels. Globally, much of this training is offered online through the ING Learning Centre. Here, a variety of educational and business reading, inspirational videos and e-learning courses are made available. This includes the compulsory Promoting Integrity Programme, online training for all employees designed to strengthen our risk culture.

Online learning includes a global e-learning programme, Get Orange, which supports ING's local onboarding programmes in welcoming new employees to the company. The programme introduces them to ING's strategy, culture and way of working. Get Orange is available in almost all ING countries. All new joiners are invited to participate.

Work-life balance

We need people to be at their best. That can only happen when they are rested, healthy and enjoying life. ING is an ambitious company and that can bring challenges as employees seek to combine their personal and professional commitments. Nevertheless, we are committed to a positive work-life balance. Local HR teams support this ambition with tailored work-life balance programmes to suit both business and employee needs.

ING also encourages employees to contribute to positive change in society and the communities where they live. A wide range of local programmes gives employees opportunities to contribute their time or to make a financial contribution to worthwhile causes. In 2016 we donated over EUR 13.5 million to various charities and just under 50,000 company hours.

Managing performance

Stepping up performance management

A strong performance culture is needed if the bank is to achieve its ambitions and deliver on its Customer Promise.

Employees are required to take personal responsibility for becoming the very best they can be. ING's approach to performance management supports this. In 2016, 99 percent of employees took part in a formal performance management process.

We are also working to improve performance management through the Step up Performance Management practice. It replaces a backward-looking review process with real-time improvement that aims to empower employees and make them more personally accountable for their own performance and growth.

Step up Performance Management includes:

- **Stretch ambitions:** personal "stretch" aspirations that drive personal growth and make a tangible difference to the bank.
- **Validation sessions:** objectives and outcomes of mid-year review and year-end evaluations are validated in management team discussions and against peers to ensure relevance and consistency.
- **Continuous improvement conversations:** informal coffee-corner conversations designed to provide instant, meaningful feedback that immediately improves performance.
- **Recognition management:** An approach where managers are fully empowered and responsible for continually deciding on tailored recognition including financial recognition in line with standard guidelines.

As part of the rollout, almost 300 workshops involving more than 1,000 managers were held in 2016 in 15 countries. The process was also introduced to all employees in Spain, managers in Belgium and around 200 senior leaders globally. The implementation is ongoing and will be introduced to all employees from 2017 onwards.

Remuneration

ING has compensation and reward packages in place to attract, recruit and retain highly qualified employees. Our Employee Value Proposition (EVP) sets out the various rewards and benefits received by employees in return for their performance. Remuneration is just one of these. Our promise includes personal growth opportunities, an open and dynamic environment as well as a forward-thinking mentality.

People planning for the future

Organisational requirements continually change so we need to stay a step ahead in strategic people planning.

ING is developing its HR analytics and HR intelligence capabilities to aid business performance and employee well-being. The goal is to understand what most makes a difference to employees so investments can be made in the right places.

The Human Capital Return on Investment indicator shows ING's profitability in relation to total employee costs. This ratio helps ING to identify the influence of HR contributions, such as performance management, training and development, automation and organisational structures, on the bank's profitability. We are improving in this area. In 2016, the indicator was 2.59 compared to 2.48 in 2015 and 2.30 in 2014.

Changing resource requirements

Like all companies, ING periodically restructures activities in line with business requirements. In some instances this may lead to job losses.

In October 2016, ING announced its intention in many countries and business units to start a path of convergence towards one digital banking platform. The various measures and intentions announced are expected to have a significant impact on many colleagues. It means some functions will change significantly in nature. It may require changes in the location of some functions. Certain positions may no longer be there in the future. While not all plans are finalised, we anticipate that over the coming five years around 7,000 jobs will be impacted, including 950 positions held by external suppliers.

It is always extremely difficult to announce such proposals, because of the possible consequences for many colleagues. We intend to build on our good track record of treating affected colleagues with respect and care, doing our utmost to help them find new job opportunities.

HR Mobility in the Netherlands

In the Netherlands, HR Mobility provided assistance to redundant colleagues in multiple locations. To prepare colleagues for a future outside ING, we closely monitor the external job market. Redundant colleagues are supported during the period preceding any redundancy and are helped with interview preparation – internally and externally. Activities included:

- *Job link events were held in Amsterdam, Arnhem and Leeuwarden. Around 935 colleagues attended these events which included around 1,000 speed dates, helping every participant to walk away with at least four new networking contacts.*
- *Mobility events for secretaries at a specialist secretarial agency in which 86 colleagues participated.*
- *Ninety IT colleagues met with external companies and IT specialist job organisations as part of our External Job Matches project with 68 percent of participants finding a new job within four months after leaving ING.*

Bankwide shared services

ING continues to look at different ways to help standardise, consolidate and optimise operational processes across the bank so that it can address new client demands rapidly and efficiently. In some areas, we are looking to further centralise operational and IT tasks bringing people together to create larger, more specialised skill pools in single locations.

This could mean that some activities could be transferred to our existing shared service centres, for example in Bratislava or Bucharest, or outsourced to external providers as part of our strategy to converge towards one digital banking platform. This is not new for ING. We have already standardised and streamlined some of our Wholesale Banking and IT operations and have centres of excellence in several locations.

Supporting colleagues in transition

We recognise that it is not always easy for colleagues to find new jobs within the banking industry. ING is committed to helping employees to find new roles and/ or supporting them in learning new skills so they are better equipped for their next role, whether that be inside or outside of ING.

Collective bargaining and employee consultation

Human rights are fundamental and universal. ING upholds the rights proclaimed in the Universal Declaration of Human Rights and aims to respect human rights in all global operations. Where countries have weaker labour laws, ING abides by its own human rights policy, developed in accordance with the International Labour Organisation convention.

ING upholds freedom of association for all employees and recognises the right to collective bargaining as laid down by International Labour Organization convention Numbers 87 and 98. We seek to judge employees only on their merit and skills. Our policy is not to discriminate by social origin, gender, age, background, sexual orientation, physical ability or religious beliefs.

ING always aims to treat employees with respect and communicate with them fairly and transparently. How we consult employees depends on local legislation and culture. In some countries, employee consultation is a legal requirement. In much of Europe it is arranged via works councils. At a bank-wide level, ING aims to encourage local employee participation in countries where employee consultation is not already formally established.

Improving the customer experience

To keep pace with customers' evolving needs and continue delivering on our Customer Promise we have to be innovative and move fast to turn ideas into products and services that create differentiating customer experiences. This requires an innovative culture and a willingness to connect and cooperate with others. We also have to be operationally excellent, efficient and comply with regulations.

ING's customers are already digital and increasingly mobile. Across ING, digital channels now account for 98 percent of contact with retail customers and mobile interactions increased by more than 50 percent during 2016.

Digital customers have different expectations, driven by their various online experiences. No matter where they are in the world, people want seamless interaction across multiple devices and channels. They want products and services – not just financial ones – that are simple, save time and can be accessed when and where they need them.

Meeting these expectations requires simple, standardised processes and systems and an IT architecture that is integrated, and globally scalable. Our systems and platforms should be able to plug into others, both inside the bank and within third-party ecosystems.

In a world that is increasingly digital and where financial products and services are increasingly commoditised, we strive for a differentiating customer experience that will set us apart.

Converge
ING has a head start. We are already a digital leader in banking and we are pan-European. We have a unique opportunity now to converge our capabilities into one borderless digital financial platform: the go-to place for all our customers' financial needs and an open ecosystem offering our products and services along with third-party offerings.

We intend to invest EUR 800 million in our digital transformation to deliver a consistent, first-class experience for our customers everywhere. To drive the execution of this strategic priority, COO Roel Louwhoff was appointed as Chief Transformation Officer in 2016. We also set up a robust transformation governance model to ensure we achieve our intermediate goals for 2020.

We are laying a strong foundation on which to converge ING onto a single platform for financial services. This encompasses global process management, global data management, modular architecture, a cloud-based infrastructure and operational efficiency through bank-wide shared services.

To ensure customers everywhere have the same experience and level of service we are standardising processes and re-using best practices across the business to standardise our systems and platforms. In Germany, we are developing the Welcome banking platform, which will be open to non-ING customers and third parties; the Model Bank to be rolled out in Austria, the Czech Republic, France, Italy, Poland and Spain, will be a standardised platform for six million users; and through the Wholesale TOM (target operating model) we are creating a superior client experience for Wholesale Banking customers around the globe, based on simplified systems and uniform products and services. In the Netherlands and Belgium we also intend to move to an integrated banking platform with a harmonised business model and shared operating model as part of our Orange Bridge programme.

Technology
In 2016, we started developing TouchPoint Architecture (TPA), our own modular architecture that will enable our strategy. With TPA we can build generic components that can be used across businesses and countries to create a consistent customer experience. This unlocks our global scalability, speeds up innovation so we can bring new experiences to more customers faster, and makes it easier to integrate our systems with those of third parties.

The ING private cloud is another enabler. It went live in 2016, starting in the Netherlands, and provides a single global platform on which we can standardise and automate our infrastructure. Migrating business applications onto the private cloud further simplifies our IT landscape and optimises the use of our IT infrastructure to speed up the pace of innovation and improve the customer experience.

Reliability and stability
Excellent delivery requires our services to be available to customers when and where they need them. Some countries' legacy IT and operational systems obstruct this; here, remedial actions have been taken. For example, in the Netherlands and Belgium the Focused Reliability Initiative was launched in 2015 to find permanent solutions for issues that impacted the availability of online channels (internet, mobile) and payments processing. We continued the programme in 2016 to further improve the reliability of our financial services to customers. As a result, ING's channel availability towards our customers improved to 99.75 percent on average in the Netherlands, Belgium and Wholesale Banking.

Operational excellence
Standardising and simplifying our systems, processes and ways of working are key to becoming a leaner, more customer-responsive organisation that delivers a consistent customer experience everywhere. Operational excellence also allows us to respond faster and more

efficiently to regulatory demands and new technology standards in the rapidly evolving digital environment.

To step up operational excellence we launched a global programme to improve 11 end-to-end bank-wide processes by standardising them based on the best practices from across the organisation. This will lead to fewer errors and help us work faster, more effectively and more efficiently. For example, getting a consumer loan varies from 10 minutes in one ING country to 10 days in another. On average it takes 3-4 days. ING aims to halve this to 1-2 days in all countries.

In addition to consumer loans, the identified processes include contact centre operations, opening a current account, getting a mortgage, small business loans and Wholesale Banking lending.

We also see enormous potential in using robotics and artificial intelligence to improve accuracy, cycle time and productivity. Creating systems that can autonomously learn to perceive the world will allow us to address key challenges and provide personal assistance on a large scale.

Shared services

We took steps in 2016 to improve the operational excellence of our shared services and align bank-wide support functions such as Procurement, Human Resources, Finance and Risk Management. We are looking to further centralise operational and IT tasks by bringing people together to create larger, more specialised skill pools in single locations. This could mean transferring some activities to shared service centres, for example in Bratislava or Bucharest, or outsourcing others to external providers as part of our strategy to converge to one digital banking platform.

This is not new for ING. We have already successfully standardised and streamlined some of our Wholesale Banking and IT operations and have Centres of Excellence in several locations. We are convinced this will allow us to respond faster to new client needs, improve our IT capabilities and boost the efficiency of our digital-first model, helping it to evolve into a true competitive advantage.

Data management

Another area we are standardising is global data management. As a bank we collect and store vast amounts of data, such as customer profiles, payment transactions, complaints and more. This information can give us meaningful insights to better understand our customers and provide them with more personalised products or services. At the same time, it gives customers a complete personal financial picture that empowers them to predict the financial impact of their decisions. It also improves the accuracy of our internal and external reporting.

We understand the sensitivities around data collection and privacy and comply with legal and regulatory requirements. We are transparent about how we handle customer data and seek customer consent when using data to personalise our offering. (see Data privacy and security below).

However, raw data in itself has little value. It has to be sorted, harmonised and put into context to be meaningful for ING and our customers. Global data management is therefore a key priority to ensure the quality, integrity, usability and security of our data.

In 2016, we started using ING Esperanto, a set of common terms that harmonises our data definitions. We also implemented data lakes, cloud-based repositories for storing and accessing vast amounts of data by authorised ING employees. We aim for 95 percent of our core data to be in the Esperanto language by the end of 2017.

Data privacy and security

Earning and keeping the trust of our customers is of paramount importance. Customers trust us to keep their – and our own – data safe and to offer reliable products and services. We comply with our legal obligations to protect customer data, which can differ from country to country.

We are transparent about what we do with the personal data of customers, suppliers and business partners and only process personal data for specific business purposes. Our approach can be summarised as: the right people use the right data for the right purpose. We consider the wishes of our customers and corporate clients, which is critical whenever data is processed for services and offers. In cases where we rely on consent the customer can withdraw this consent at any time.

All business units have adopted the global data protection policy (GDPP) that qualifies as binding corporate rules. In each business unit and at bank level, a data protection executive is responsible for maintaining GDPP compliance and compliance with local privacy laws. Local data protection officers provide expertise and support. The GDPP is currently being revised to comply with the new EU General Data Protection Regulation 2016/679, which must be adhered to by May 2018.

We continuously invest in our security organisation and systems to protect the data of customers. In a world where cyber-attacks are on the rise, both in frequency and intensity, we have created an agile cybercrime resilience control environment designed to predict, protect against, detect, respond and mitigate e-banking fraud, distributed denial of service (DDoS) attacks and targeted attacks.

We maintain strong global alliances with the financial industry, law enforcement authorities, governments and internet service providers to jointly fight cybercrime. ING's responsible disclosure programme encourages ethical hackers to report vulnerabilities they might discover in ING's online services.

Innovation Bootcamp at ING

ING actively promotes a culture of innovation. At our annual Innovation Bootcamp, employees submit ideas to improve the customer experience and compete for seed funding. Ideas launched commercially in 2016 included Startarium, a starter platform for entrepreneurs, and Direct Lease, a leasing platform for small and medium-sized enterprises.

We take a holistic approach to counter the complex and constant threat of cybercrime by combining prevention with detection and rapid response. We also provide e-banking fraud awareness training for employees and clients which, in addition to maturing controls, has resulted in e-banking fraud damages stabilising at low levels across our organisation.

The advanced analytics capabilities we are developing to better understand and service customers also play a key role in combatting criminal activity. Pattern recognition and advanced algorithms help to predict and detect, and thus prevent, fraudulent activity.

Creating a culture of innovation

Next to operational excellence we will continue to innovate to remain relevant to customers in a digital world. By being innovative we can turn ideas into products faster and use new technologies, like blockchain and artificial intelligence, to improve our efficiency, make things easier for customers and define future competitive advantage. In future, customers could even interact with smart machines (robots or virtual personal assistants and smart advisors) rather than with impersonal menus and buttons on a phone.

Our approach to innovation is built around making banking easier for customers; stimulating a culture that is open to new ideas; and connecting and cooperating with others to innovate faster.

We use a structured process called PACE to accelerate innovation within ING. In 2016, more than 2,000 employees were trained in the PACE methodology (a combination of the Lean Startup, Agile Scrum and Design thinking methods). We also launched the PACE Accelerator, an intensive 18-week programme that speeds up the time to market by testing ideas for new products and services through experimentation and customer validation. The programme is running in six businesses across the bank.

In early 2017, we will set up a Innovation Council to define and align priorities and measure the bank's innovation progress. It will replace the Innovation Fund Steering Committee. We will also set up Business Unit Innovation Councils for each country and bundle large internal start-up initiatives in a Scale-up Portfolio. This will help speed up ING's transformation into an innovation-enabled organisation offering customers an integrated digital ecosystem beyond traditional banking.

To bring internal ideas to fruition, the Innovation Fund continued in 2016 to finance concepts developed by the business units, particularly when these can be shared and replicated in other countries. It supported 20 initiatives in 2016. These include FM Katana, a data-driven dashboard for bond traders. Since 2014, the fund has financed 29 ideas in total. In addition, the Chief Innovation Office supported initiatives such as Yolt, our UK cross-bank aggregator.

Another way we source ideas is through our annual Innovation Bootcamp. It encourages employees to come up with innovative ways to improve the customer experience. A total of 1,194 ideas were submitted to the third edition in 2016. The winners receive funding to develop their concepts further. Innovations from previous Bootcamps that were commercially released in 2016 include Startarium, a starter platform for entrepreneurs in Romania, Direct Lease, for small and medium-sized enterprises in Belgium and the Netherlands, and digital safety box Safe & Sound in Germany.

In total, 16 employee innovations have been transferred to the business since 2014. Some are still in development. Six were shelved. One of these is Kid'ING, an app to help teenagers become more money literate. It won the 2015 Innovation Bootcamp but the pilot in Belgium only attracted 250 users. In 2016, we also pulled our instant payments app Twyp (The Way you Pay) from the Dutch market following feedback from users that they preferred their existing mobile banking app. Twyp is still widely used in Spain where the mobile banking apps have less functionality.

The use of advanced analytics to improve the customer experience led to innovations in 2016 such as Kijk Vooruit (Look Ahead), a mobile app showing customers direct debits due up to 35 days in advance. It has 750,000 users in the Netherlands (where 2.5 million people use the banking app). More than 50% rate it favourably.

Connect and cooperate

We work in an agile way to bring products and services to market quickly and use customer feedback to improve and develop propositions for a better customer experience. We also partner with external financial technology companies – usually start-ups – whose technologies and propositions we can adopt or embed to move even faster. In return, these fintechs benefit from our strong brand, extensive network and large customer base. The ING Innovation Studio links start-ups with internal teams globally to develop ideas into viable products and services.

Our fintech partnerships are spread across several countries and business areas such as instant lending, payments and money management.

At the end of 2016, ING had more than 65 fintech partners, of which we invested in 11. Among these are Zervant, an e-invoicing and money management platform for Belgian SMEs, and Kabbage, an alternative credit scoring method incorporated into our SME lending proposition in Spain. Thirteen partnerships were stopped, mostly after unsuccessful or unsatisfactory proof of concepts.

We are also working closely with 12 start-ups at Fintech Village in Belgium and the ING Innovation Studio in Amsterdam. These are our incubators where we link start-ups with internal teams globally to develop ideas into viable products and services. Products that emerged from the Innovation Studio include Whydonate, an internal portal for employees to donate to charitable causes and CheckMetrix, a 360° dashboard for SMEs that gives retailers insight into their customers' buying behaviour.

Risk and capital management

Risk and capital management play a key role in supporting our senior leaders as they implement the Think Forward strategy. Financial and non-financial risk management support our leaders in setting our commercial direction and are key tools for sustainable decision-making. Capital management promotes the success and growth of our business by ensuring that we deploy capital efficiently at all levels of the bank.

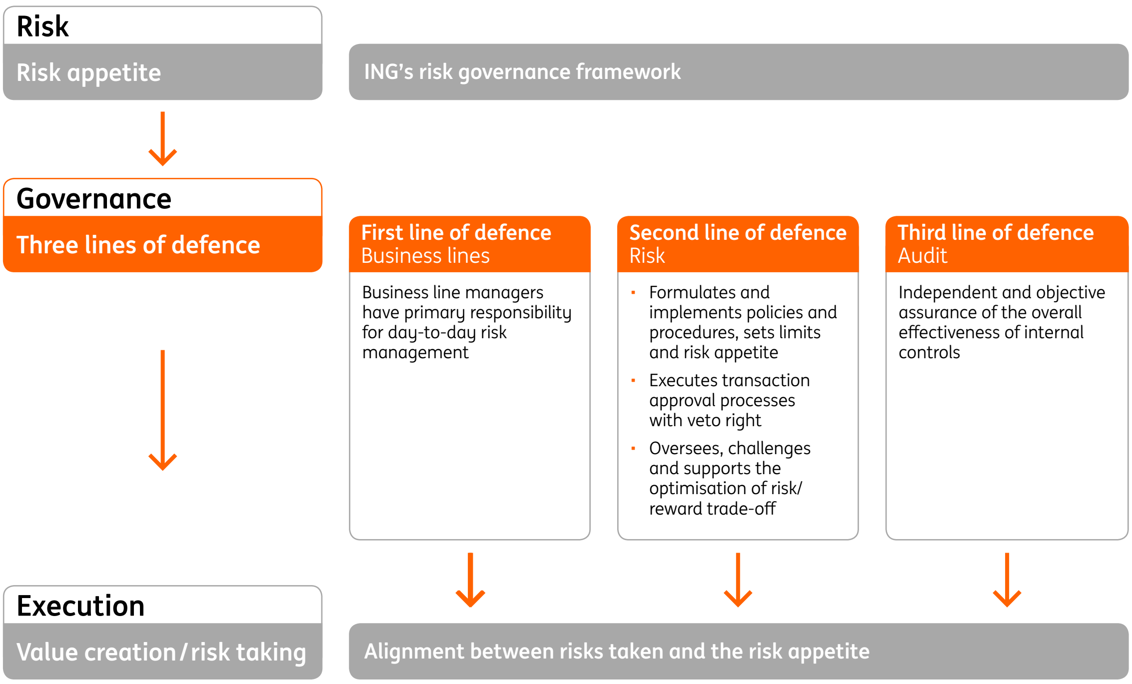
Managing risks

Taking risks is an integral part of doing business. ING faces both financial and non-financial risks. Financial risks arise when we extend loans to customers, take their deposits, provide them with hedging solutions and when we play our role as intermediary in financial markets. Non-financial risks are those associated with failures in our processes, and with failure to comply with rules, regulations, laws, and the ethical norms that are generally considered to apply to our people and activities.

The mission of risk management is to properly identify, measure and manage these risks so that they are aligned with both our strategy and our appetite for risk. ING puts a lot of effort into understanding, measuring and managing risks. We believe that we have set up an effective risk management framework and a strong risk management culture.

ING's overall capacity to take risks is set out in the Risk Appetite Framework. Within the framework, we monitor a range of risk metrics to make sure that our risk profile is in line with our appetite for risk. ING also conducts bank-wide and portfolio-specific stress tests to assess resilience in specific market conditions. Underlying assumptions and metrics are regularly reviewed to ensure they stay relevant in a constantly changing environment. ING's most important risks and control measures are regularly reported to and discussed by the Risk Committee of the Supervisory Board. Both the financial and non-financial risk reports are reviewed in detail, including the status of ING's metrics with regard to solvency, liquidity, funding, credit and market risk.

For more information on risk appetite and risk metrics, please refer to the risk appetite framework section of the "Risk Management" chapter, part of the consolidated annual accounts of this Annual Report.



Three lines of defence

ING's governance framework establishes three lines of defence to manage risk effectively.

The commercial departments, which have the primary responsibility for day-to-day risk management, form the first line of defence. They are accountable for identifying and addressing the risks that occur in conducting their activities, including originating loans and taking deposits, within applicable frameworks and the institution's limits. They know our customers well and are best placed to act in both customers' and ING's best interests.

The independent risk management departments, headed by the Chief Risk Officer (CRO), act as a second line of defence. Their role is to make sure risk is properly identified, measured, managed and reported. In order to achieve that, they set policies, implement and operate control frameworks, and have a deciding influence on risk acceptance. They also ensure compliance with internal and external requirements on an individual and consolidated basis. Further, they support the commercial departments and act where necessary to keep the risk profile within the defined risk appetite. The CRO sits on the Executive Board and the Management Board Banking, ensuring risk remains a continuing topic for the leadership team.

Corporate Audit is the bank's third line of defence. It tests and evaluates the risk governance and management, as well as its internal control processes. It provides an independent and objective assessment to improve the functional effectiveness of the first two lines.

Taken together, we believe these three layers make for a strong risk and control environment.

For more information on key risks, please refer to the risk profile section of the "Risk Management" chapter, part of the consolidated annual accounts of this Annual Report.

Impact of changing customer expectations

ING operates in a rapidly changing world. To remain relevant, we need to look closely at the quality of the services we provide to our customers. Customer expectations are changing drastically. Most retail customers prefer to use digital channels; this is the main interface for ING's communication. Although we face competition from other banks, fintechs are challenging the entire banking sector. These new entrants rely on technology to deliver innovative financial services.

ING is responding to these changes with a strategy that focuses on differentiating through leadership in digital banking and increasing the digital interactions that we have with our customers. Digitalisation is our strongest asset and most effective barrier for new entrants, as well as our best opportunity for increasing revenue and efficiency in our distribution model.

Although these aspects are commercial in nature, there is a major impact on the risk management function. As distribution and communication channels become more direct and are available 24/7, customers expect instant and continuous access to their funds and our services. Our risk management function must evolve accordingly. Therefore, ING has introduced a number of initiatives to further improve the customer experience and to simplify, standardise and automate our core risk processes. This resulted in a new risk organisation starting on 1 March 2017. Risk management helps ensure that we provide this convenience without compromising on our risk standards.

Key developments

Uncertainty in the macroeconomic environment persisted throughout 2016. Political and economic instability in Turkey, the outcome of the Brexit referendum in the United Kingdom, uncertainty about US economic policy, a slowing Chinese economy, the simmering conflict between Russia and Ukraine, as well as volatility in commodity prices (including oil prices) further impacted markets worldwide. At the same time, ING faced a further decline in interest rates, putting pressure on its net interest margin.

Against this backdrop, ING's balance sheet demonstrated its resilience. We experienced healthy lending growth and declining risk costs resulting from active management of non-performing loans. ING Bank's non-performing loans (NPLs) expressed as a percentage of lending credit outstandings further improved. The NPL ratio decreased at the end of 2016 to 2.1% from 2.5% at the end of 2015. This decrease was caused by a EUR 1.7 billion reduction in NPLs, mainly in residential mortgages in the Netherlands and Real Estate Finance, combined with an increase in total credit outstandings. For the oil and gas portfolio, the NPL ratio increased to 2.1% from 1.8% at the end of 2015, mainly caused by higher NPL amounts, as market conditions remained challenging.

In 2016, ING Bank maintained its liquidity position on a consolidated level above minimum requirements. ING Bank issued EUR 9.5 billion long-term debt, including EUR 7.5 billion of long-term senior unsecured debt and EUR 1.0 billion of CRD IV eligible Tier 2 securities. ING Bank's loan-to-deposit ratio, excluding securities that are recorded at amortised costs, rose to 1.05 compared to 1.04 at the end of 2015, mostly due to growth of the loan book.

Compliance with applicable laws and regulations is resource-intensive and costly. Banks continue to be faced with new and increasingly onerous regulatory requirements, and we expect the scope and extent of regulations in the jurisdictions in which we operate to generally increase further. ING is concerned that the lack of coordination among policymakers and the lack of clarity on future regulatory requirements is making it increasingly difficult to actively support the economies where we operate.

Regulation is becoming increasingly more extensive and complex. A recent example is the implementation of the Common Reporting Standard (CRS) in 2016, which like FATCA requires financial institutions to report detailed client-related information to the competent authorities. Customer due diligence (CDD) and transaction monitoring impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering (AML), terrorist financing, and fraud.

Despite our efforts to comply with applicable laws and regulations, there are a number of risks in areas where applicable regulations are unclear, subject to multiple interpretations or under development, are in conflict with each other, or where regulators revise their guidance or courts overturn previous rulings. Meeting all these requirements within the strict timelines that have been set poses a significant operational challenge for banks. Implementing the necessary processes and procedures to effectively comply has significant implications for IT systems and data, while people who have the necessary knowledge and skills are scarce.

User Access Management (UAM) is an important element of our control framework to mitigate unauthorised and/or inappropriate access to our data and information. The standards of controls on UAM are high and best practices illustrate that the trends are towards further increasing requirements. We have identified control deficiencies related to UAM and a central task force was formed to coordinate, assess, monitor and track remediation efforts that resulted in increased focus by the Executive Board, senior management and ING staff. In 2017, management will continue to enhance the internal controls, mitigation and monitoring the progress of mitigation and remediation.

Cybercrime is a continuous threat to companies in general and to financial institutions specifically. Both the frequency and the intensity of attacks increase on a global scale. Threats from Distributed Denial of Service (DDoS), targeted attacks (also called Advanced Persistent Threats) and Ransomware intensify worldwide. ING Bank builds on its cybercrime resilience, further enhancing the control environment to protect, detect and respond to e-banking fraud, DDoS and targeted attacks. Additional controls continue to be embedded in the organisation as part of the overall internal control framework and are continuously re-assessed against existing and new threats. During 2016 ING did not experience any cyber incident that can be classified as material. ING provides continuous reporting on cyber incidents to the ECB.

ING Bank also works on strengthening its global cybercrime resilience including strong collaboration against cybercrime with the financial industry, law enforcement authorities, government (e.g. National Cyber Security Center) and Internet Service Providers (ISPs).

To address non-financial risk, global education and awareness in the form of e-learning modules, awareness sessions and other materials were provided on topics such as fraud and security, conflicts of interest, financial economic crime (FEC) and an onboarding e-learning for staff new to Operational Risk Management (ORM) worldwide. We continue to develop e-learning modules and campaigns to increase knowledge and awareness around topics like market abuse, anti-bribery, corruption and other financial/economic crimes. ING addresses personal conduct-related integrity risks by committing to conduct business in an honest and ethical manner and taking a zero tolerance approach to bribery and corruption in all of its relationships and business dealings, wherever it operates.

A comprehensive chapter on ING's risk management practices is part of the consolidated annual accounts of this Annual Report.

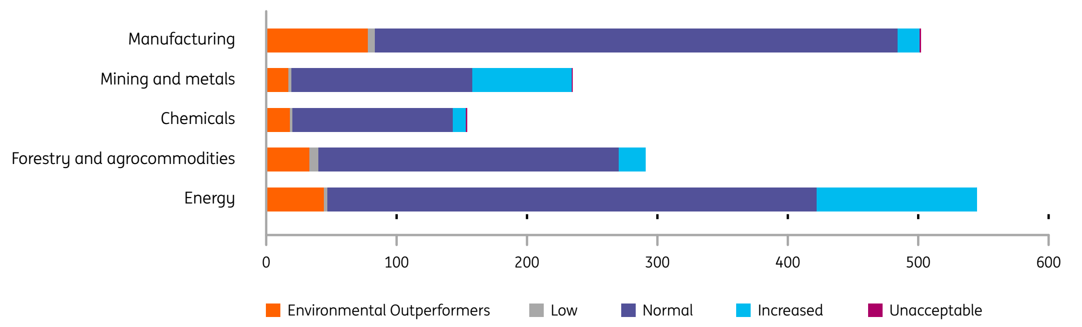
Environmental and Social Risk Management

ING Bank makes a positive contribution to global economic growth by promoting responsible lending and investment practices. Transparency, openness and regaining trust are material topics, both for ourselves and our stakeholders. ING's Environmental and Social Risk (ESR) policy framework underpins the choices we make in a consistent and transparent manner on how, where and with whom we do business.

The ESR policy framework gives ING Bank a competitive advantage by helping us to stay a step ahead as new environmental, social and human rights regulations are implemented globally. It is regularly updated to help ING and our clients enhance gradually the implementation of key standards of the UN Guiding Principles on Human Rights and the OECD Guidelines for Multinational Enterprises. Hence, the ESR policy framework also provides guidance for compliance with new directives and government decisions to combat climate change.

The ESR policy framework applies to all business conduct globally. It is on the Wholesale segment (34.6 percent of ING Bank's assets) that we focus our assessments and promote active ESR dialogue, as Wholesale clients run a more substantial risk of being involved with environmental and social issues. We have been working with Wholesale clients for more than 15 years to support them in understanding and managing their environmental and social impacts. The ESR policy framework also applies to ING's retail activities for mid-corporates and SMEs. This follows the framework's rationale and principles, but usually employs a simplified version of the approach used for Wholesale clients.

ESR client assessment outcome per sector policy



The ESR policy framework in action

We screen all ING clients across the entirety of our relationship. The ESR policy framework incorporates assessment tools that are used in ING's mainstream processes and systems. It is therefore fully integrated into regular client and transaction reviews. The ESR policy framework covers ESR-sensitive sectors and also includes explicit restrictions for activities not in line with ING Values (for example, companies involved in manufacturing cluster munitions), which we will not finance.

The graph above reflects portfolio figures per sector for ESR client assessment outcomes relating to Wholesale clients.

A client's ESR risk profile is just the starting point when assessing how the ESR policy framework will apply in each specific business engagement. One of the most important determinants of ING's ability to assess and manage environmental, social and human rights-related risks with a client is our proximity to the potential impact. The type of financial product or service offered to the client determines this proximity upfront and thus the appropriate level of due diligence and mitigation measures. The sector, operating context and geography will also provide an initial indication of the degree of ESR due diligence that is needed.

For example, the graph above highlights the risk profile of ING's mining and metals portfolio. One of the clients identified as high risk is Endeavour Mining, whose relationship is managed by ING's Mining & Metals (M&M) Structured Finance Team. The risk profile is high as Endeavour's gold mines and projects are located in high-risk countries including Mali, Burkina Faso, and Ivory Coast. As part of ING's site visits in 2013, 2015 and 2016 the M&M Team discussed with Endeavour's senior management the effective implementation of their Health, Safety and Environment policies across all their operations. The client provided information to ING on local employment, sanitation, clean drinking water, and the client's contribution to local development. As part of monitoring, the client provides regular reports on compliance with international standards and best practices. This example illustrates how ING focuses on and establishes meaningful and informed client engagements that better support our clients in managing environmental, social and human rights impacts.

In 2016, 4,433 wholesale lending engagements were assessed under the ESR policy framework. Engagements categorised as ESR low (86%) and medium risk (8%) were managed by local and regional risk management, whereas engagements categorised as ESR high risk (5%) required specialised advice by the ESR Department headquartered in Amsterdam. In 2016, this Department issued 214 advices which followed a deeper ESR assessment. Out of 214 cases related to high-risk engagement 47% received ESR positive advice, 26% negative and 27% were granted positive advice subject to conditions. These improvements play an important role in the transition towards an improved environmental and social performance on the ground.

The ESR policy framework follows mainstream approval processes and it is applied by well-trained and empowered people. In 2016, 545 risk, front office and compliance colleagues participated in ESR-dedicated training globally via webinars. Training also included classroom sessions in ING Amsterdam, Bratislava, Brussels, Paris, Frankfurt, Luxembourg, Geneva, Moscow and Istanbul.

Training

	2016	2015	2014
Number of employees	545	479	375

The ESR policy framework contributed to ING being ranked the most sustainable bank out of 395 banks in 2016 by Sustainalytics, a global provider of environmental, social and governance (ESG) research and ratings. And we were again included in the DJSI World Index and the Europe Index in the category "banks".

Our commitment to sustainability and a positive ESR profile has also contributed to ING becoming the Environmental Agent Bank to two large and complex project financings where we take responsibility for coordinating the environmental, social and human rights information for the other lenders in the syndication.

Developing best practice

Beyond stimulating higher environmental and social performance in our portfolio, ING actively collaborates with other institutions and regulators to address environmental challenges that are sector- not just client-specific.

- **ING and climate change:** In 2015, ING decided to cease financing new coal-fired power plants and coal mines and to continue to reduce our coal portfolio. ING declined approximately 10 coal-related projects or transactions in 2016 as a result of this policy.

- We recognise that regulators are increasingly concerned with climate change risk as more countries ratify the Paris Agreement. We participate in a number of climate change initiatives, including round tables. And ING has been engaging with the Financial Stability Board Task Force on Climate-related Financial Disclosures, which is developing voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to stakeholders.

- **ING and Human rights:** In October 2016, ING became an adhering bank to the Dutch banking sector agreement on international responsible business conduct regarding human rights. The Agreement aims to set the standard on how Dutch banks should organise themselves in order to avoid human rights impacts through the businesses they finance. One of the challenges pointed out by ING during our human rights presentation in the UN Forum on Business and Human Rights was the need for alignment and policy coherence on state and industry level in order to ensure that those seeking to do "the right thing" are not pushed out of competitive markets. ING is increasing its efforts to engage with other financial institutions in the Netherlands and globally to promote a common level playing field in business and human rights. This is done through our ongoing participation in the Thun Group of banks, which promote dialogue on human rights among banks, and through our formal advisory role to the OECD on responsible business conduct in the financial sector.

- **ING and Biodiversity:** As a member of the Round Table for Sustainable Palm Oil (RSPO), we participate in the RSPO Financial Institutions Task Force, which discusses issues linked to deforestation in the palm oil supply chain. In 2016, we supported the disclosure of concession maps of palm oil suppliers' plantations in Southeast Asia. This improves transparency and addresses illegal deforestation and fire monitoring by attributing land to the owners.

- During 2016, we actively supported the Cross-Sector Biodiversity Initiative (CSBI), a partnership between the oil & gas industry (IPIECA), mining and metals (ICMM) and the Equator Principles Association to develop and share good practices related to biodiversity and ecosystem services.

By participating in the above initiatives, we aim to contribute positively to a level playing field that provides feasible and pragmatic feedback reflecting the views of our clients, shareholders, employees, regulators and other stakeholders.

Regulatory developments

Banks must contend with new fundamental reform initiatives for some aspects of Basel III that are evolving into a so-called "Basel 3.5" capital regime. We are disappointed by the continuing lack of clarity around these reforms to capital rules to be set by the Basel Committee. This uncertainty makes it increasingly difficult for banks to actively support the economies where they operate, particularly in financing areas such as mortgages, SMEs and areas that structurally support economic recovery, including utilities, renewables and infrastructure.

One element of Basel III is the possible restriction on distributable items (established in the EU in article 141 of the Capital Requirements Regulation). This limits the ability of the bank to pay dividends, hybrid coupons and/or management remuneration if its capital drops below the sum of its Pillar 1 and Pillar 2 requirements and combined buffer requirements, often referred to as the Maximum Distributable Amount (MDA) trigger. As part of the 2016 Supervisory Review and Evaluation Process (see more on SREP below), the ECB decided to split the Pillar 2 requirement into:

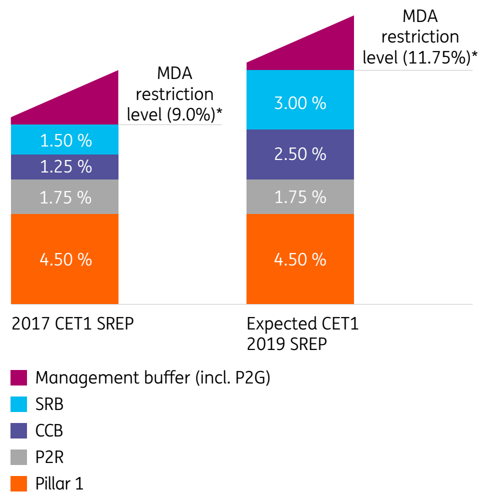
- Pillar 2 requirements (P2R), which are binding and thus breaches have direct legal consequences.
- Pillar 2 guidance (P2G), which is not directly binding, so a failure to meet P2G does not automatically trigger legal action. Nonetheless, the ECB expects banks to meet P2G and a breach of the P2G will lead to the ECB taking fine-tuned measures based on the individual situation of the bank.

Requirement and Guidance for ING Group in 2017

ING Group has been notified of the European Central Bank (ECB) decision on the 2016 Supervisory Review and Evaluation Process (SREP), which sets the capital requirements for 2017. The common equity Tier 1 requirement for ING Group was set at 9.0% in 2017. This requirement consists of a 4.5% Pillar 1 requirement, a 1.75% Pillar 2 requirement, a 1.25% Capital Conservation Buffer (CCB) and the 1.50% Systemic Risk Buffer (SRB) that has been set separately for Dutch systemic banks by the Dutch Central Bank (De Nederlandsche Bank). This excludes Pillar 2 guidance, which is not disclosed. ING Group's fully-loaded common equity Tier 1 ratio of 14.2% at 31 December 2016 is well in excess of this requirement.

The CCB and the SRB are scheduled to phase in over the coming years to 2.5% and 3.0% respectively by 1 January 2019. Consequently, the fully loaded Maximum Distributable Amount (MDA) trigger level is expected to rise from 9.0% in 2017 to 11.75% in 2019 and assumes a stable Pillar 2 requirement. In the event that ING Group breaches the MDA level it may face restrictions on paying dividends, coupons on AT1 instruments and bonuses. We believe that the impact from the Countercyclical Buffer (CCyB) is negligible at this stage. With a 14.2% fully-loaded Group CET1 ratio as at 31 December 2016, ING is already in compliance with the expected fully-loaded requirement of 11.75% as of 2019 .

ING Group SREP



* Excluding CCyB which is negligible at this stage.

Bank Recovery and Resolution Directive

Since its adoption by the European Parliament in 2014, the Bank Recovery and Resolution Directive (BRRD) has come into effect in most EU countries after transposition into national law, including in the Netherlands. The BRRD aims to safeguard financial stability and minimise the use of public funds in cases where banks face financial distress or fail. To comply with the new rules, banks across the EU need to have recovery plans in place and to cooperate with resolution authorities to determine and make feasible the preferred resolution strategy.

ING has set up a very comprehensive recovery plan to ensure the bank's readiness and support decisive action to tackle financial crises on its own. Effective since 2012, the plan is updated annually to make sure it stays fit for purpose and to ensure ING's ability to act decisively. In 2016, the plan was extensively updated to bring it in accordance with the BRRD. The completeness, quality and credibility of the updated plan is assessed annually by ING's regulators.

To support orderly resolution, the BRRD requires banks to meet minimum requirements for own funds and eligible liabilities (MREL). In addition, ING as a Global Systemically Important Bank (G-SIB) needs to comply with the total loss absorption capacity (TLAC) proposal published by the Financial Stability Board (FSB) in November 2015.

Since 2012, ING has worked diligently with the different resolution authorities to determine a resolution strategy and to identify potential impediments to resolution. Following an intensive discussion throughout 2016, with the Single Resolution Board (SRB) and the national resolution authority, De Nederlandsche Bank (DNB), we concluded that ING Group should be our designated resolution entity. In November 2016, we concluded that ING Group should be our designated resolution entity. At the end of January 2017, the Single Resolution Board (SRB) informed us that it supports the designation of ING Group as the point of entry. Henceforth, ING Group will be the issuing entity for all TLAC/MREL eligible debt consisting of Additional Tier 1, Tier 2 and senior unsecured debt.

G-SIBs will be required to meet the TLAC requirement alongside the minimum regulatory requirements set out in the Basel III framework. Specifically, they will be required to meet a Minimum TLAC requirement of at least 16% of the resolution entity's risk-weighted assets (TLAC RWA Minimum) as from 1 January 2019 and at least 18% as from 1 January 2022. Minimum TLAC must also be at least 6% of the Basel III leverage ratio denominator (TLAC Leverage Ratio Exposure (LRE) Minimum) as from 1 January 2019, and at least 6.75% as from 1 January 2022. Buffer requirements will come on top of the RWA requirement but not on top of the leverage requirement. In addition, the Single Resolution Board has assumed full power as per 1 January 2016. The work plan for the SRB in 2016 focused on determining the preferred resolution strategy, the resolution entity and the required amount of Minimum Required Eligible Liabilities (MREL).

On 6 April 2016, ING Bank issued EUR 1 billion of Tier 2 bonds with an issuer substitution option through exchange. Now that clarity has been provided on the preferred resolution strategy, ING intends to use the option to replace these ING Bank Tier 2 notes with ING Group Tier 2 notes at similar terms through exchange. The noteholders have agreed upfront to the terms and conditions to exchange their ING Bank Tier 2 notes for ING Group Tier 2 notes.

A consistent approach to capital management

ING Group's overall approach to capital management is to make sure capital is adequate to cover the economic risk at all levels and to ensure compliance with regulations. ING Group reassesses these levels constantly to ensure optimal capital use. The continued strength of ING's capital position, the adequacy of our financial position and our risk management effectiveness allow us to empower people and businesses to realise their goals. They make it possible to increase our lending capabilities, pay dividend on common shares to shareholders and invest in new technologies and best practices. In this way, ING delivers shareholder returns while at the same time investing in further innovation of products and services.

ING's Capital Management strategy is driven by its strategic aims and its risk appetite. Our policy is to retain sufficient financial flexibility to implement ING's strategy in all market conditions. ING's risk appetite statements form the basis of the capital plan. The capital plan sets targets above the minimum regulatory requirements. The risk appetite statements and targets are developed and communicated to the different businesses in line with capital allocation. Policies for recovery planning and resolution are a natural extension of ING's capital management policies and are fully aligned with ING's risk management framework.

Capital distribution

ING Group manages capital at Group as well as Bank level and allocates capital within its different entities to meet local capital requirements. ING's subsidiaries are well capitalised. ING sets targets for individual businesses above the minimum local capital requirements and aims for an efficient distribution of capital. The capital provides room for loan growth and supports the acceleration of our Think Forward strategy to achieve continued commercial growth, an improved customer experience and quicker delivery of new products.

Stress testing

Stress testing is an integral component of our risk and capital management framework. It allows us to (i) assess potential vulnerabilities in our businesses, business model or portfolios; (ii) understand the sensitivities of the core assumptions in our strategic and capital plans; and (iii) improve decision-making through balancing risk and return.

In addition to internal stress test scenarios reflecting the outcomes of the annual risk assessment, ING also participates in regulatory stress test exercises. ING was subject to the 2016 EU-wide stress test conducted by the European Banking Authority (EBA) in cooperation with the European Central Bank (ECB), De Nederlandsche Bank (DNB), the European Commission and the European Systemic Risk Board (ESRB). The adverse stress-test scenario was set by the ECB/ESRB and covers a three-year time horizon (2016-2018). The stress test was carried out applying a static balance sheet assumption as at December 2015, and therefore does not take into account current or future business strategies and management actions.

The results of the EBA stress test reaffirmed the resilience of our business model and the strength of ING's capital base. Our commitment to maintain a robust, fully-loaded Group CET1 ratio in excess of prevailing requirements remains. Under the hypothetical baseline scenario and EBA's methodological instructions, ING Group would have a fully loaded common equity Tier 1 capital ratio (CET1) of 12.5% in 2018. Whereas, under the hypothetical adverse scenario and EBA's methodological instructions, ING Group would have a fully loaded CET1 ratio of 9.0% in 2018.

Capital developments at ING Group

2016 was an important year for ING Group, as it further strengthened its capitalisation. The further regulatory capital strengthening reflects strong profitability as well as the sale of the remaining stake in NN Group. Although the regulatory environment remains uncertain, our strong capital position ensures we can continue to support our customers to realise their financial futures.

In January 2016, ING successfully sold 33 million ordinary shares of NN Group, and in February 2016 it exchanged the final tranche of EUR 337.5 million mandatory exchangeable subordinated notes, which had been issued in 2014 as part of the anchor investment in NN Group. These transactions reduced ING's remaining stake in NN Group from 25.8% to 14.1%. In April 2016, ING sold its remaining 14.1% stake in NN Group. The divestment of NN Group is the final step of ING´s programme to divest all of its insurance and investment management businesses as part of the restructuring agreement with the European Commission. As a result of the sale of the NN shares, Tier 1 instruments lent to NN Group no longer need to be deducted from available Tier 1 capital. This had a positive impact on available Tier 1 capital of EUR 0.8 billion.

In March 2016 a GBP 66 million grandfathered additional Tier 1 security, which was fully on-lent to ING Bank, was redeemed by ING Group on its first call date. In April 2016, ING Bank NV successfully issued EUR 1.0 billion of CRD IV-eligible Tier 2 instruments. The transaction had an issuer substitution option which gives ING the right to exchange these for subordinated Tier 2 notes issued by ING Groep NV.

In September 2016, ING Group redeemed USD 800 million 7.05% grandfathered Perpetual Debt Securities which were on-lent to ING Bank NV.

In November 2016, ING issued USD 1,000 million contingent convertible Securities which qualify as Additional Tier 1 capital under CRD IV/CRR to strengthen ING's capital base. The perpetual bond, that can be called by ING Group five years after issuance, has a coupon of 6.875%.

ING Group's fully-loaded common equity Tier 1 ratio was 14.2% at the end of 2016. The proposed dividend, to be paid in May 2017, has already been excluded from ING Group's capital base, in line with regulatory requirements. The Group's phased-in common equity Tier 1 ratio at the end of the year increased by 1.2%-point from the previous year to 14.1%, largely due to higher capital and lower RWA. The fully loaded CET1 ratio showed a slightly more positive development compared to the phased-in ratio which is largely explained by the larger reduction of the deduction of significant investments in financial institutions due to the sale of the NN Group shares. ING Group's phased-in (transitional) common equity Tier 1 ratio of 14.1% is well in excess of the 10.25 % common equity Tier 1 2016 requirement and the 9.0% common equity Tier

1 2017 requirement. ING Group's fully-loaded Tier 1 ratio (including grandfathered securities) was 16.6% at the end of 2016, while the total capital ratio (including grandfathered securities) increased to 19.7%.

Dividend

ING's dividend policy aims to pay a progressive dividend over time which will reflect considerations including expected future capital requirements, growth opportunities available to the Group, net earnings, and regulatory developments. The Executive Board proposes to pay a total cash dividend of EUR 2,560 million, or EUR 0.66 per ordinary share, over the financial year 2016. This is subject to the approval of shareholders at the Annual General Meeting in May 2017. Taking into account the interim dividend of EUR 0.24 per ordinary share paid in August 2016, the final dividend will amount to EUR 0.42 per ordinary share and will be paid fully in cash. The total amount of EUR 1,629 million is fully covered by the remaining balance of "interim profits not included in CET1 capital" at year-end 2016.

Capital development at ING Bank

ING Bank's capital position is primarily managed through its published common equity Tier 1 ratio and leverage ratio. These elements are the most widely used variables for assessing bank capitalisation. ING Bank also takes other constraints into account, including:

- Additional regulatory capital requirements, including the amount of Tier 1 capital, total capital and the Basel I floor.
- Economic capital. Although it is currently not a constraining factor, economic capital is used to manage the bank's risk profile and to set limits.
- Rating agency considerations. Each rating agency provides a different analysis and specific topics may need to be addressed.

A strong capital base

ING Bank continues to maintain a strong and high quality capital level, with a fully-loaded common equity Tier 1 ratio and a phased-in common equity Tier 1 ratio of 12.6%, thereby complying with CRR/CRD IV solvency requirements. A dividend from ING Bank to ING Group of EUR 1.3 billion was paid in November 2016. The fourth quarter 2016 profit of EUR 0.6 billion is not included in the regulatory capital per December 2016 as this was upstreamed as dividend to ING Group in February 2017

The sale of 2.5% of Kotak Mahindra Bank shares, which was settled in October 2016, had no material impact on ING's capital ratios. The fully-loaded and phased-in Tier 1 ratios respectively increased from 13.9% to 14.7% and 13.4% to 14.4%, primarily reflecting developments in ING Bank's common equity Tier 1 ratio. This was partly offset by the redemption of the USD 800 million 7.05% grandfathered Perpetual Debt Securities in September. The total capital ratio (including grandfathered securities) increased to 17.8%.

In April 2016, ING Bank issued EUR 1 billion of Tier 2 bonds with an issuer substitution option through exchange. Now that clarity has been provided on the preferred resolution strategy, ING intends to use the option to replace these ING Bank Tier 2 notes with ING Group Tier 2 notes at similar terms through exchange. The noteholders have agreed upfront to the terms and conditions to exchange their ING Bank Tier 2 notes for ING Group Tier 2 notes.

ING also demonstrated in 2016 the ability to generate capital consistently through strong profitability. ING currently has a strong capital position, meeting all regulatory requirements and capable of withstanding market challenges and new regulations. The strength of the balance sheet provides a firm base to execute further lending capabilities, serving customer needs, as well as paying dividends.

Read more in the "Capital management"chapter, part of the Consolidated annual accounts in this Annual Report.

Composition of the Executive Board and Management Board Banking


Ralph Hamers


Patrick Flynn


Wilfred Nagel


Koos Timmermans


Isabel Fernandez Niemann


Roel Louwhoff


Aris Bogdaneris

R.A.J.G. (Ralph) Hamers (50)
CEO and chairman of the Executive Board ING Group and chairman of the Management Board Banking

Ralph Hamers was appointed a member of the Executive Board of ING Group as of 13 May 2013. He was appointed chief executive officer (CEO) and chairman of the Executive Board and of the Management Board Banking on 1 October 2013. He is, among others, responsible for Innovation, Legal, Corporate Strategy, Corporate HR, Corporate Communications, and Corporate Audit Services.

P.G. (Patrick) Flynn (56)
CFO on the Executive Board ING Group and CFO on the Management Board Banking

Patrick Flynn was appointed a member and chief financial officer (CFO) of the Executive Board of ING Group as of 27 April 2009. He also serves as a member and CFO of the Management Board Banking. He is responsible for ING's finance departments, including Tax, Capital Management, ING Group Investments, and Investor Relations.

W.F. (Wilfred) Nagel (60)
CRO on the Executive Board ING Group and CRO on the Management Board Banking

Wilfred Nagel was appointed a member and chief risk officer (CRO) of the Executive Board of ING Group as of 14 May 2012. Wilfred Nagel became a member and CRO of the Management Board Banking as of 5 October 2011. He is responsible for all of ING's risk management departments.

J.V. (Koos) Timmermans (56)
Vice-chairman of the Management Board Banking

Koos Timmermans was appointed a member and vice-chairman of the Management Board Banking as of 1 October 2011. He is responsible for, among others, advanced analytics, bank treasury, group research, regulatory and international affairs, and sustainability. Koos Timmermans has also assumed responsibility for the Bank's operations in the Benelux.

M.I. (Isabel) Fernandez Niemann (48)
Head of Wholesale Banking and member of the Management Board Banking

Isabel Fernandez joined ING and was appointed to the Management Board Banking as of 1 September 2016. She was appointed head of Wholesale Banking on 1 November 2016, succeeding William Connelly. Before joining ING, Isabel Fernandez was Global Commercial Leader and Head of Sales at General Electric.

R.M.M. (Roel) Louwhoff (51)
COO/CTO on the Management Board Banking

Roel Louwhoff was appointed a member and chief operations officer (COO) of the Management Board Banking as of 1 May 2014. He was also appointed chief transformation officer (CTO) per 1 October 2016. In this role, that he fulfils alongside his COO role, he is responsible for operations of the bank-wide transformation that was announced in October 2016. In his COO role, Roel is responsible for operations, IT (including standardisation), data management, information security, process management, and procurement.

A. (Aris) Bogdaneris (53)
Head of Challengers & Growth Markets and member of the Management Board Banking

Aris Bogdaneris was appointed a member of the Management Board Banking as of 1 June 2015. He is also head of Challengers & Growth Markets, responsible for all markets where ING is active in both retail banking and wholesale banking outside the Benelux.

ING Shares

Share information
The authorised share capital of ING Groep N.V. consists of ordinary shares and cumulative preference shares. Currently, only ordinary shares are issued, while a right to acquire cumulative preference shares has been granted to the ING Continuity Foundation. Each share in the capital of ING Groep N.V. gives entitlement to cast one vote.

Listings
ING Group ordinary shares are listed on the stock exchanges of Amsterdam and Brussels, and American depositary receipts (ADRs) are listed on the New York Stock Exchange (NYSE). Options on ING Group ordinary shares and ADRs are traded on the Euronext Amsterdam Derivative Markets and the Chicago Board Options Exchange.

Key developments
On 25 April 2016, the annual general meeting of ING Groep N.V. decided to abolish the Dutch depositary receipt structure. Consequently, on 26 July 2016 depositary receipts for shares in ING Groep N.V. were converted into ordinary shares of ING Groep N.V.. As a result, holders of depositary receipts for shares in ING Groep N.V. became ordinary shareholders of ING Groep N.V. and the depositary receipts for shares ceased to exist. In addition, ING's ADRs became automatically linked to the underlying ordinary shares.

Read more in the "Report of ING Trust Office".

Read more in the "Corporate governance" chapter on the share capital of ING Group.

Shareholders and ADR holders with stakes of 3 percent or more
Pursuant to the Dutch Financial Supervision Act, shareholders and holders of ADRs of ING Groep N.V. are required to provide updated information on their holdings once they cross threshold levels of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. As of 31 December 2016, ING Group is not aware of shareholders, potential shareholders or investors with an interest of three percent or more in ING Group other than BlackRock Inc. and Artisan Investments GP LLC.

Authorised and issued capital [1]

in EUR million	Year-end 2016	Year-end 2015
Ordinary shares		
– authorised	147	3,480
– issued	39	928
Cumulative preference shares		
– authorised	46	1,080
– issued	-	–

Number of shares in issue and shares outstanding in the market [1]

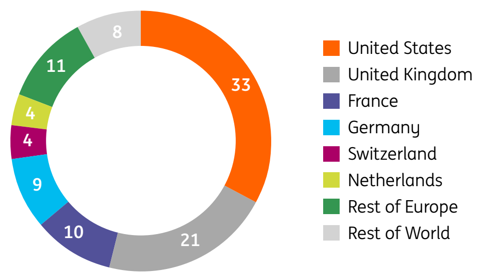
in millions	Year-end 2016	Year-end 2015
Ordinary shares	3,878.5	3,870.2
Own ordinary shares held by ING Group and its subsidiaries	0.6	1.5
Ordinary shares outstanding in the market	3,877.9	3,868.7

Prices of ordinary shares [1]

Euronext Amsterdam by NYSE Euronext in EUR	2016	2015	2014
Price – high	13.73	15.90	11.95
Price – low	8.55	10.35	9.50
Price – year-end	13.37	12.45	10.83
Price/earnings ratio [2]	11.1	12.0	33.8
Price/book value ratio	1.04	1.01	0.81

1 As of 26 July 2016, the depositary receipts were converted into ordinary shares and the nominal value per share was reduced from EUR 0.24 to EUR 0.01. Prior to that date, for year-end 2015 and 2014, the nominal value of (depositary receipts for) ordinary shares was EUR 0.24.
2 Based on the share price at year-end and the earnings per ordinary share for the financial year.

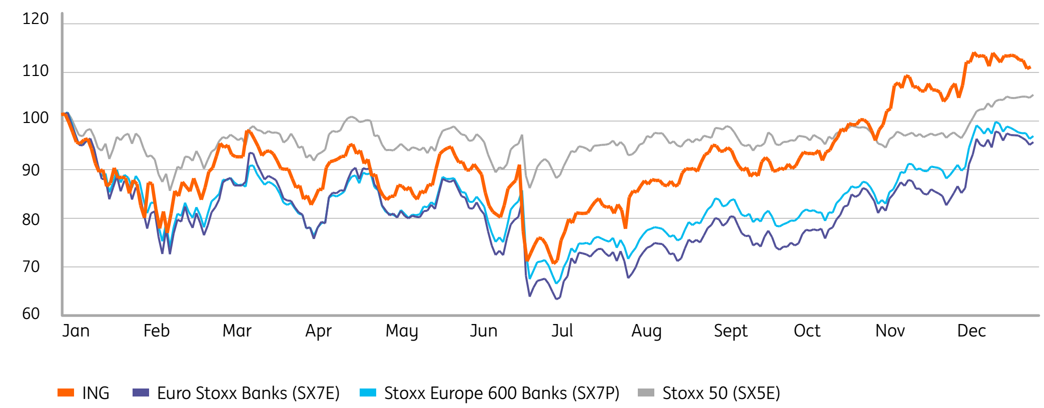
Geographical distribution of ING ordinary shares (in %) [1]



1 These figures are based on year-end 2016 estimates of institutional share ownership provided by IPREO.

ING Shares – continued

One-year price development of ING ordinary shares



Sustainability ratings

ING Group's approach to sustainability is shaped by our specific skills and expertise as a financial company, our vision of the future and the expectations of our stakeholders. Reviews of our performance by sustainability research and rating agencies help us to improve our strategy and policies. ING's 2016 scores and rankings in key sustainability benchmarks show our progress and are as follows:

External reviews of our sustainability performance

	2016	2015	2014	2013
Dow Jones Sustainability Indices (RobecoSAM)	Score: 90 (out of 100) Included in World and Europe Index	Score: 86 (out of 100) Included in World and Europe Index	Score: 82 (out of 100) Included in World and Europe Index	Score: 76 (out of 100) Included in World and Europe Index
Sustainalytics [1]	Score: 86 (out of 100) Position: 1 (out of 395 financial peers)	Score: 88 (out of 100) Position: 3 (out of 409 financial peers)	Score: 77 (out of 100) Position: 3 (out of 130 financial peers)	Score: 75 (out of 100) Position: 6 (out of 196 financial peers)
CDP (Carbon Disclosure Project) [2]	Score: A for climate leadership Position: Included	Score: 100 for disclosure (out of 100) and A for performance Position: Included	Score: 97 for disclosure (out of 100) and A for performance Position: Included	Score: 96 for disclosure (out of 100) and B for performance Position: Included
FTSE4 Good Index Series	Position: Included	Position: Included	Position: Included	Position: Included
Transparantie Benchmark (NL)	Score: 186 Position: 20 (out of 512)	Score: 181 Position: 14 (out of 461)	Score: 172 Position: 18 (out of 409)	Score: 188 Position: 13 (out of 483)
Euronext Vigeo Europe 120 Index (Vigeo)	Score: 54 (out of 100) Position: Included	Score: 54 (out of 100) Position: Included	Score: 54 (out of 100) Position: Not included	Score: 53 (out of 100) Position: Included

1 Ranked 1st and Industry Leader of 395 listed banks by Sustainalytics in August 2016.
2 Starting 2016, CDP no longer separates disclosure and performance scores. A score of "A" represents the highest possible score across disclosure, awareness, management, and leadership evaluation.

Credit ratings

ING's short- and long-term credit ratings are shown in the table below. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency. A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of any other rating. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency's judgement, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

Main credit ratings of ING at 31 December 2016

	Standard & Poor's		Moody's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
ING Groep N.V.	A-	Stable	Baa1	Stable	A+	Stable
ING Bank N.V.	A	Stable	A1	Stable	A+	Stable
– Short term	A-1		P-1		F1	

Important dates in 2017 [1]

2017 Annual General Meeting
8 May 2017
Ex-date for final dividend 2016 (Euronext Amsterdam)
10 May 2017 [2]
Publication results 1Q2017
10 May 2017
Record date for final dividend 2016 entitlement (NYSE)
11 May 2017 [2]
Record date for final dividend 2016 entitlement (Euronext Amsterdam)
11 May 2017 [2]
Payment date final dividend 2016 (Euronext Amsterdam)
18 May 2017 [2]
Payment date final dividend 2016 (NYSE)
25 May 2017 [2]
Publication results 2Q2017
2 August 2017
Ex-date for interim dividend 2017 (Euronext Amsterdam)
4 August 2017 [2]
Record date for interim dividend 2017 entitlement (Euronext Amsterdam)
7 August 2017 [2]
Record date for interim dividend 2017 entitlement (NYSE)
14 August 2017 [2]
Payment date interim dividend 2017 (Euronext Amsterdam)
14 August 2017 [2]
Payment date interim dividend 2017 (NYSE)
21 August 2017 [2]
Publication results 3Q2017
2 November 2017

1 All dates are provisional.
2 Only if any dividend is paid.

For more information, see the calendar on www.ing.com/16ar4.

Investor Relations

To receive press releases and other ING news, you can subscribe to the email service at www.ing.com. You can also access the latest financial information and press releases on our website at www.ing.com/ir.

Investors and financial analysts may contact:
ING Group
Investor Relations (AMP C.03.049)
P.O. Box 1800
1000 BV Amsterdam
The Netherlands
Telephone: +31 20 576 6396
E-mail: investor.relations@ing.com

About this report

Our stakeholders want to assess our ability to create and sustain value in the short, medium and long term. To do that, they need both financial and non-financial information. We believe that integrated reporting is a better way to meet the requirements and interests of all our stakeholders.

Our approach to integrated reporting

In our view a balanced integrated report contains information both on our economic performance and on the impact of our organisation on society and the environment. By disclosing and explaining our financial and non-financial results, strategy, governance, external developments and the risks and opportunities we face, we aim to enable our stakeholders to assess how we create value and how we earn our income. Our ambition is to further integrate financial and non-financial information and advance towards concise and connected reporting, focusing on material data points.

How we defined content for this report and materiality

In drawing up content for this report we have taken into account the topics that can have a material impact on our business and society as well as risks and opportunities, applicable regulation and trends.

The boundaries of our economic, environmental and social impact differ. As a financial institution, we have a direct impact through our own operations and processes, but our impact in the value chain is more significant, through credit, loans and investments. In ING's Sustainability Reporting Protocol, we describe the impact per material topic, by stakeholder group. Additionally, we report our impact on the society through our value creation model on pages 26 and 27.

We are continually listening to key constituencies, and as material topics change we adapt our reporting to fit developing stakeholder expectations. As part of our materiality analysis, we have consulted key stakeholder groups – retail and business clients, investors, employees, academia, civil society organisations, and supervisors – via a structured stakeholder dialogue. Our materiality assessment guides our reporting with the aim of providing a more balanced and complete picture of our performance over the reporting year. The report including materiality disclosure is reviewed by the Executive Board.

Read more in the "The world around us" chapter.

Audiences

This report is intended to serve the information needs of key stakeholder groups that affect, and are affected by our business: customers, employees, share- and bondholders, supervisors, regulators, civil society organisations, citizens and society at large. However, the information needs of stakeholders differ. Therefore we also publish a concise and accessible online overview of our results in 2016 on ING.com. This aims to share our key figures and impacts with customers and society in a clear and easy way.

For a concise and accessible overview of ING's 2016 results, see www.ing.com/2016ar.

Sustainability rating agencies and analysts can find the content they need for an in-depth analysis of our performance on sustainability in this report and the accompanying Non-financial Appendix.

Reporting guidelines

ING's integrated report, including the Non-financial Appendix, is prepared in accordance with "the GRI Standards: Comprehensive option" and Dutch Accounting Standard 400. The content and quality criteria specified by the standards (for example: sustainability context, stakeholder inclusiveness, materiality, completeness, balance, comparability, accuracy and reliability) are integral to our reporting process. The Framework of the International Integrated Reporting Council served as a reference in drawing up the content for this report, particularly for our value creation model.

Data compilation and boundaries

All financial data in this integrated report is extracted or derived from, and in line with, our annual accounts. The non-financial performance data published in this report covers five topics: sustainable business, customers, HR, environment and community investment. We extract or derive data on sustainability-related business activities, customers and HR from our regular business systems, in line with the data in our annual accounts. Data on environment and community investment is gathered through an online data management system. The centralised data processing team at ING Group is assisted by an independent external agency that helps to validate and process the large amount of environmental data gathered from our operations worldwide.

Scope and boundaries

Through our materiality assessment we ensure that all material economic, social and environmental topics are addressed in this report. The report covers the period 1 January to 31 December 2016 and is published on 16 March 2017. The data and content in the integrated report and Non-financial appendix aim to provide a concise, accurate and balanced account of ING's economic, social and environmental performance in 2016. Depending on the topic, our approach and performance are explained either in text, by referring to our policies or by providing data and progress on targets.

More information on the non-financial data, the scope and data collection process of the different performance indicators can be found in detail in the non-financial data reporting protocol at www.ing.com/16ar5.

Assurance

We value the accuracy and reliability of all information and data in this report, both financial and non-financial. Therefore assurance for this integrated report, including the accompanying Non-financial Appendix, is provided by KPMG Accountants N.V. (KPMG).

KPMG has reviewed and provided a limited level of assurance on the non-financial information of the report of the executive board and the non-financial appendix for the year 2016 as defined in the table on pages 15 to 18. The topics with asterix (*) in this table are out of the assurance scope.

See the assurance report of the independent auditor on page 68. The chapters "Risk and capital management" and "Remuneration report" are an integral part of the audited consolidated annual accounts.

KPMG audited the financial statements 2016 of ING Group.

See the independent auditor's report on page 337.

Furthermore, KPMG audited ING Group's internal control over financial reporting as of 31 December 2016, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria).

See the report of the independent registered public accounting firm on page 96.

Future-oriented statements

In this integrated annual report we also look forward and share our vision, ambitions, strategy, opinion and plans for the future. These forward-looking statements can be recognised by terms such as:

- expect
- anticipate
- intend
- plan
- believe
- seek
- see
- will
- would
- target
- forecast
- of the opinion
- or similar terms.

These forward-looking statements are based on management's current beliefs and assumptions about future activities and are subject to uncertainties. Therefore our assurance provider cannot assure these statements.

Feedback

This integrated report aims to give all our stakeholders a balanced and complete overview of our activities and ability to create and sustain value. We welcome stakeholder reactions and views. Please send us your feedback via communication@ing.com.

Report of the Executive Board

The Corporate Governance section starting on page 77 is incorporated by reference in this Report of the Executive Board.

Amsterdam, 13 March 2017

The Executive Board

Assurance report of the independent auditor

To the Supervisory Board and the Shareholders of ING Group N.V.

Our conclusion

We have reviewed the non-financial information in the Report of the Executive Board as defined in the table on pages 15 to 18 and in the 'Non-financial appendix' (hereafter: the Non-financial Information) of ING Group N.V. (hereafter: ING Group) based in Amsterdam, The Netherlands.

Based on our review, nothing has come to our attention to indicate that the Non-financial Information is not prepared, in all material respects, in accordance with the GRI Standards for Sustainability Reporting and the internally developed criteria as described in the section 'About this report'.

The Non-financial Information includes prospective information such as ambitions, strategy and expectations. Inherently the actual future results may differ from these and are therefore uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the Non-financial Information.

Basis for our conclusion

We have performed our review on the Non-financial Information in accordance with Dutch law, including Dutch Standard 3000: "Assurance Engagements other than Audits or Reviews of Historical Financial Information". This review engagement is aimed to obtain limited assurance. Our responsibilities under this standard are further described in the section 'Our responsibilities for the review of the Non-financial Information' below.

We are independent of ING Group 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 that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Key assurance matters

Key assurance matters are those matters that, in our professional judgement, were of most significance in our review of the Non-financial Information. We have communicated the key assurance matters to the Executive Board and the Supervisory Board. The key assurance matters are not a comprehensive reflection of all matters discussed. These matters were addressed in the context of our review of the Non-financial Information within the scope of our engagement as a whole and in forming our conclusion thereon, and we do not provide a separate conclusion on these matters.

1. Materiality of topics

Description:
The GRI Standards require to focus on (non-financial) material topics. Material topics are those topics that are sufficiently important to be reported as omission could substantially influence stakeholders' decisions. ING Group updated the materiality assessment process in 2016 amongst others on the basis of a qualitative stakeholder sessions to define which Non-financial information has to be included. The materiality assessment is subject to significant management judgement and was therefore identified as a significant area for our review.

Our response:
We reviewed the process that ING Group executed to identify and prioritize the Non-financial Information to be reported in the Report of the Executive Board. We also conducted a media search and a peer benchmark to assess potential material other topics to be included and compared these with the Company's materiality assessment. We reviewed the results from the materiality assessment against the Non-financial Information included.

Our observation:
We found the materiality assessment process that ING Group executed during 2016 to be sufficiently solid to identify relevant material topics for inclusion. We also observed that the material topics as identified in the related process have been reflected in the Report of the Executive Board.

2. Balance of the Non-financial Information

Description:
GRI requires that the Non-financial Information provides a balanced picture of ING Group's (non-financial) performance to its stakeholders. For a balanced assessment of the overall performance of ING Group the Non-financial Information has to reflect both positive and negative aspects of the organization's performance as applicable. This area was significant to our review as the assessment of the right balance is inherently subject to a qualitative evaluation of the information gathered and judgment about the extent to which specific information needs to be included.

Our response:
Our assurance procedures included, among other things, obtaining an understanding of the principles and governance structure that ING Group applied to collect and document information used in preparing the Non-financial Information. We interviewed several staff members responsible for the information gathering and its qualitative evaluation as well as preparing and reviewing the Non-financial Information of ING Group and evaluated whether the Non-financial Information reflects their insights. Finally, we performed an overall assessment on the Non-financial Information based on our knowledge of the company and all evidence obtained to evaluate whether the Non-financial

Information presents a balanced overall picture of ING Group's non-financial performance.

Our observation:
We observed that the Non-financial Information reflects the insights of several ING staff members involved in the preparation of the Non-financial Information in a balanced manner.

3. Sustainable transitions financed

Description:
ING Group reports on sustainable transitions financed. These are defined as clients and projects that are environmental and/or social outperformers in their industry. In 2016, ING Group increased the coverage of the company's loan book which has been assessed against the definition and criteria for sustainable transitions financed. This area was significant to our review since we identified that sustainable transitions financed serves as a material indicator for ING to monitor its performance and reporting and because the assessment of outperformers is inherently subject to assumptions and judgement related to the criteria and definitions.

Our response:
We reviewed the reporting process and internal control framework, including the applicable definitions and criteria. We interviewed several staff members to understand the application of these definitions and criteria and we requested underlying evidence for some transactions classified as sustainable transitions financed. Finally, we reviewed whether the criteria, assumptions and limitations regarding the sustainable transitions financed are sufficiently explained in the Non-financial Information.

Our observation:
We observed that the definitions and criteria for sustainable transitions as described in the internally developed reporting criteria are sufficiently applied and that the assumptions and limitations are adequatly explained in the Non-financial Information.

Responsibilities of Executive Board for the Non-financial Information

The Executive Board of ING Group is responsible for the preparation of the Non-financial Information in accordance with the GRI Standards and the internally developed criteria as described in 'About this report'. The Executive Board is also responsible for such internal control as it determines is necessary to enable the preparation of the Non-financial Information to be free from material misstatement, whether due to fraud or error.

Our responsibilities for the review of the Non-financial

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

A review is aimed to obtain a limited level of assurance. Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than a reasonable assurance engagement. The procedures performed consisted primarily of making inquiries of staff within the entity and applying analytical procedures on the information in scope. The level of assurance obtained in review engagements is therefore substantially less than the level of assurance obtained in an audit engagement.

We apply the 'Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA)' (Regulations for Audit Firms Regarding Assurance Engagements) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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 decisions of users taken on the basis of the information in scope. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

We have exercised professional judgement and have maintained professional skepticism throughout the review, in accordance with the Dutch Standard 3000, ethical requirements and independence requirements.

Our main procedures consisted of:
- Performing an analysis of the external environment, obtaining an understanding of relevant social trends and issues, and of the organization's business;
- Evaluating the appropriateness of the reporting criteria and its consistent application, including the evaluation of the reasonableness of management's estimates;
- Evaluating the design and implementation of the reporting systems and processes related to the Non-Financial Information;
- Interviewing management and relevant staff at corporate and business level responsible for the sustainability's strategy and policy;
- Interviewing relevant staff responsible for providing the Non-financial Information, carrying out internal control procedures on the data and consolidating the data as included in the Non-Financial Information;
- An analytical review of the trends and data submitted for consolidation at corporate level;
- Reviewing relevant data and evaluating internal and external documentation, based on limited sampling, to assess the accuracy of the information in scope.

Amsterdam
13 March 2017

KPMG Accountants N.V.,
Marc Hogeboom, Partner

Chairman's statement

In a fast-changing world with many uncertainties, ING was able to achieve robust results in 2016. More customers joined us, customer satisfaction scores increased and lending – supporting economies of the countries where we are present – grew. This shows that we are successfully achieving our goal of a consistent customer focus and are serving the needs of all stakeholders.

Uncertain external environment

2016 was a year of many uncertainties and unexpected developments. The global economy showed weak performance, growth in the US lost momentum and the eurozone recovery was slow. Britain's decision to leave the European Union and the outcome of the US presidential elections added to the uncertainty. Financial market volatility increased and the geo-political situation became more complex. All of this contributed to an overall feeling of instability and uncertainty for ING and others.

A focused strategy

Operating in an environment of uncertainty requires a focused strategy, disciplined management and the agility to respond to unexpected events. ING has these elements in place.

ING's strong performance since launching the Think Forward strategy in 2014 proves that we are on the right track. But given the challenging macro-economic environment, the fast-moving changes in our industry and the fact that technology and digitalisation are moving faster than expected, we need to accelerate change.

To do this, the Supervisory Board in 2016 approved the intention to converge to a single digital banking platform. This plan provides clarity on ING's direction and on how ING can successfully grow its business in a rapidly changing environment. The role of banks is evolving. With the decision to invest in a scalable platform, ING aims to ensure that it is properly prepared for a fast-changing future.

The intended transformation is expected to impact employees, particularly in Belgium and the Netherlands where ING has announced it would lead to substantial job reductions. While we know these measures are necessary to realise our ambitions, the Management Board is fully aware of the impact these changes have on ING's people. ING has a track record of treating employees with respect and care and has a wide range of programmes in place to help those who face the prospect of losing their job find new opportunities or develop their skills to make them more employable in the marketplace. We plan to continue to build on that.

Topics on the agenda

In the "Report of the Supervisory Board" chapter you can read more about the subjects we discussed and about the most important topics on our agenda in 2016. I highlight a few of these here.

In 2016 there were a large number of new regulatory initiatives related to bank capitalisation, as well as continued uncertainty about how and when additional proposed measures might be implemented. The Supervisory Board had many discussions on how these requirements could develop and on how to define a safe and adequate capital level. ING supports a stable and safe banking sector. However, looking at all the requirements regarding capital and regulatory costs, we are concerned about the cumulative effects of these measures and about the level playing field in Europe. There is still an urgent need for more coordination to ensure banks can continue to play their vital role in stimulating economic growth.

This year the Supervisory Board spent considerable time studying technological developments in banking and the growing impact of fintechs on the industry. The biggest challenge ING is facing is to move fast in a changing world. IT plays a key role in this. It will be a cornerstone in our future. The Supervisory Board strongly supports partnerships such as those with fintechs to speed up innovation and bring new and better services to ING's customers. At the same time, adapting IT so we can move ahead quickly is complex and not always achievable in the timelines we have set for ourselves. Also cybercrime adds to the complexity. These developments remain a key area of attention for the Supervisory Board.

In our Supervisory Board meetings we also expressed our concerns about the image of banks and financial institutions in society. Public trust is still an issue. And sometimes it feels that we are an easy target for politicians. This makes it all the more important to strike a balance between the interests of all the stakeholders and to maintain an open dialogue. In defining our role and where we will focus, the Supervisory Board looks more broadly than just to the interests of shareholders. We seek to take the interests of all stakeholders into account. It is my view that this is the best way to ensure our shareholders benefit in the long term.

Our role as Supervisory Board members has changed markedly in recent years and now requires significantly more time and effort to understand the business so that we can properly fulfil our supervisory role. In 2016, we participated in workshops and educational sessions, we visited ING businesses and had sessions with senior management representatives reporting directly to the Executive Board and the Management Board Banking.

Corporate governance review

In 2015, ING conducted a review of its corporate governance, including the depositary receipt structure via the ING Trust Office. This structure was solely used to prevent a minority of shareholders from taking control of the decision-making process at the Annual General Meeting (AGM). As the attendance rate at ING's AGM has been steadily increasing in recent years, the purpose of the depositary receipt structure has become less relevant. Therefore this review resulted in a proposal to amend ING's articles of association, which was adopted at the 2016 AGM. As a result, holders of depositary receipts became shareholders of ING. I am pleased that this decision has been widely supported by investors, investors' associations and proxy advisory bureaus. I want to thank the ING Trust Office for its work in the past and its co-operation in developing the proposal to abolish the depositary receipt structure.

As the abolition of the depositary receipt structure demonstrates, it is important to constantly review - and if needed - adapt the corporate governance structure. The ideal corporate governance structure does not exist. The Supervisory Board and the Executive Board believe that the current two-tier structure, which is the common structure for Dutch banks, serves ING well.

Sustainability & diversity

Sustainability and diversity are important to be successful. They require a long-term view, and I believe that is a key element of building a great company. I am proud of what ING has achieved in the field of sustainability. You can read more about ING's achievements in this report.

Diversity is defined in many ways, including in terms of gender and ethnicity. An emerging concept is diversity of thought. People with different cultural and other backgrounds contribute different views to the discussion. Diversity of thought helps to discover new ways of doing things.

We also have diversity of expertise and thought in our Supervisory Board. At a time of rapid change for the bank, it is helpful to have a Supervisory Board that is based not just on financial experience, but also on expertise from various other backgrounds and industries. In my view you can always learn from this, especially regarding change. One of the Supervisory Board's tasks is to reflect on the risks of change. What risks are involved in doing new things? What are the risks of not changing? Drawing on diversity of thought is helpful in finding the answers.

Commitment

ING is in a process of change, building upon its position of strength. I realise that change is not easy, especially when it impacts many of ING's employees. I am therefore all the more impressed by the enthusiasm of our people, their preparedness for and commitment to change, to go in new directions, to put the strategy into practice and to serve ING's customers every day. Thanks to the dedication and hard work of ING's employees, ING has been able to book good results and to earn a position as one of the digital leaders among Europe's banks.

I am pleased with the progress we are making to fulfil our purpose of empowering customers to stay ahead in life and in business. And I am confident the important steps we are taking to continue to do so in the future will be successful.

Jeroen van der Veer
Chairman of the Supervisory Board of ING Group

13 March 2017

Report of the Supervisory Board

Important topics on the agenda of the Supervisory Board in 2016 were the acceleration of the bank's Think Forward strategy, capital requirements, the accounting for the NN anchor investments, completion of the divestment of NN Group, sustainability, the enhancement of ING's internal controls and associated risk mitigation, and developments in the regulatory and external supervision landscape. The committees of the Supervisory Board discussed a range of subjects, the main ones being the interests of ING's clients and other stakeholders, the quarterly results, corporate governance, risk management, human resources (including culture and behaviours throughout ING) and regulatory costs.

Supervisory Board meetings

The Supervisory Board met 12 times in 2016. On average, 98 percent of the Supervisory Board members were present at the meetings. This attendance rate illustrates that the members of the Supervisory Board are engaged with ING and are able to devote sufficient time and attention to ING's affairs. The Executive Board and Management Board Banking were present during each Supervisory Board meeting. For part of the meetings only the chief executive officer was present; this was dependent on the nature of the topics addressed. Each Supervisory Board meeting was preceded by a session with only the Supervisory Board members present. The members of the Supervisory Board also interacted with senior management outside the regular Supervisory Board meetings for discussion and information sharing purposes. This includes speed-meet sessions which contribute to better mutual understanding and alignment on what matters most to ING and the Supervisory Board. The Supervisory Board finds it important to strike a balance between the interests of all the stakeholders and to maintain an open dialogue. ING seeks to take the interests of all stakeholders into account to ensure ING's shareholders benefit, with the interest of the client remaining key.

The Executive Board has prepared the annual accounts and discussed these with the Supervisory Board. The annual accounts will be submitted for adoption at the 2017 Annual General Meeting as part of the Annual Report.

Apart from closely monitoring the financial results in 2016, the Supervisory Board's main focus points during 2016 were the acceleration of the bank's Think Forward strategy, technological developments in banking and the growing impact of fintechs on the industry, capital requirements, the accounting for the NN anchor investments, completion of the divestment of NN Group, sustainability, the enhancement of ING's internal controls and associated risk mitigation, and developments in the regulatory costs and external supervision landscape (including bank capitalisation). Also the results of the continuous dialogue between ING and the external supervisors were standard agenda items throughout the year.

Permanent education

The key theme in 2016 of the annual Supervisory Board Knowledge Day was an in-depth update on the status of the implementation of ING's Think Forward strategy and anticipated developments. On the agenda were sessions related to accelerating the Think Forward strategy, an innovation and IT update, IT security and cybercrime, the organisational health index, and updates from the business lines and the COO domain. The Supervisory Board was also updated on ING's annual talent review achievements and developments including a trend analysis summary.

In September 2016, the Supervisory Board visited Hong Kong and Beijing for four days, allowing it to get a better understanding of the Asian business activities and how these relate and contribute to ING's strategy. Presentations included Asian economics, trends and challenges, ING's business and footprint in Asia, including ING's relationship with the Bank of Beijing, and insights into Asian financial industry fintechs and disruptors such as Alibaba, WeChat and WeLab. The Supervisory Board members also met with various clients and government officials. A number of other educational sessions on specific topics were organised for the Supervisory Board throughout the year, including ones addressing various developments in the regulatory and external supervision landscape, financial reporting including IFRS 9, compliance, sustainability and risk and capital management.

Corporate strategy

In January 2016, the Supervisory Board held its meeting on ING's strategy as well as the Medium-Term Plan (MTP) 2016–2018. The MTP addresses the plans and the financial and non-financial targets for the Group as a whole and for the banking business specifically. The Supervisory Board considered that positive results would not take away the need to anticipate on potential challenges that include economic and regulatory uncertainty. Given the nature of challenges ahead and the level of ambition of the MTP that included significant growth projections, the Supervisory Board concurred with the proposed acceleration of the Think Forward strategy. The year 2016 therefore was a year of transition, supported by the implementation of transformation management, with the creation and execution of a transformation roadmap per country. In addition, dynamic forecasting was introduced, to allow for a regular balance sheet evaluation in terms of funding, liquidity and capital requirements.

A global transformation programme was developed to realise the acceleration of the Think Forward strategy. The basic starting point of the programme was ING's value proposition, captured in multiple work streams.

In August 2016, the Supervisory Board discussed this. This strategy includes a number of initiatives to further improve the customer experience, further grow primary customers and lending, and increase efficiency. Around the end of September 2016 further aspects of the programme were discussed and approved. Important drivers of the programme were addressed such as the future of banking, the journey of convergence, maintaining commercial momentum, how to fund and drive the transformation, as well as risk management. The importance was acknowledged of taking into account the duty of care towards the Bank's stakeholders that may be impacted by the transition. Accelerating Think Forward was announced on 3 October 2016, during the ING Investor Day.

In connection with accelerating Think Forward, the MTP 2017-2019 was discussed and approved by November 2016, an acceleration compared to previous years.

Financial and risk reporting

The fourth quarter and annual financial results for 2015 and 2016 were discussed in February 2016 and in March 2017 respectively. This included the related press release and reports from the external auditor. The Executive's Board assessment of the adequacy and effectiveness of the risk management and control systems was also discussed.

ING's Annual Report, for the second time in integrated form, was reviewed and the annual accounts and the SOX 404 Report were approved, including the proposal to pay a final 2015 dividend of EUR 0.65 per share, which was approved by the Annual General Meeting of Shareholders on 25 April 2016. The quarterly results were reviewed and discussed in May, August and November 2016 with the external auditor being able to issue an unqualified review opinion on the financial results. On 3 August 2016, ING Group declared an interim 2016 dividend of EUR EUR 0.24 per ordinary share, which is equal to the interim dividend paid over the first half of 2015.

The draft agenda for the 2016 Annual General Meeting was discussed and approved, including the publication on the 2015 application of the Dutch Banking Code.

The Supervisory Board approved the annual review of the risk appetite framework that was updated to reflect recent regulatory changes. Throughout the year, the Supervisory Board was informed in detail on the potential risks for ING, including those relating to the Panama Papers, Brexit and the political and economic developments in various countries and regions.

In order to comply with the mandatory external auditor rotation, KPMG is ING's new external auditor as per the financial year 2016. KPMG declared independence from ING per 1 October 2015 in its role as new auditor and it was confirmed that KPMG's independence is compliant with applicable rules and regulations. As of October 2015 EY facilitated the auditor transition. As per 28 September 2016, EY was no longer required to be independent in accordance with independence regulations applicable to audit firms.

Throughout the year the Supervisory Board was updated on and discussed regulatory risk including the associated operational and anticipated financial impact. Since the start of ECB supervision the increase in regulatory reporting has been significant. Reporting timelines also shortened and requested data granularity has increased, in addition to local requirements to be met. ING aims to safeguard that all reporting processes and data quality continue to be up to standards. The aggregate impact of upcoming new regulatory reporting requirements is expected to be substantial, also as a consequence of additional capital requirements.

Internal Supervisory Board meetings

During the internal meetings of the Supervisory Board (which were joined by the CEO, except when the annual self-evaluation of the Supervisory Board or matters concerning the CEO were discussed), the Executive and Management Board Banking 2015 performance assessments were discussed and approved. Also the variable remuneration proposals for the employees in scope relating to 2015 were discussed and decided on. Furthermore the Executive and Management Board Banking 2016 targets were approved.

The future composition of the Executive Board, the Management Board Banking and the Supervisory Board, its committees and potential candidates were a recurring topic of discussion in light of various developments. In addition ING's talent and succession planning were discussed including the outcome of the Annual Talent Review. Remuneration was also a recurring agenda item. The Supervisory Board approved the update of ING's Remuneration Framework 2017.

The Supervisory Board self-assessment was also on the agenda. The action points resulting from last year's self-assessment were acted upon during the year. As was the case in the previous year, an independent external party facilitated the 2016 self-assessment process for the (members of the) Supervisory Board and its committees by drafting the questionnaires as well as the reports with the results. The questionnaires built upon the ones from the previous year were designed in such a way that a comparison between two consecutive years could be made. Similar as for 2015, input was also requested from several executives who regularly interact with the Supervisory Board and attend Supervisory Board meetings. The questionnaires were completed in December 2016, after which in the first quarter of 2017 bilateral meetings were held between the chairman of the Supervisory Board and each member (for the chairman, a bilateral meeting was held between the vice-chairman and the chairman). The respective committee results were then discussed in each committee meeting, with the overall results and conclusions being discussed in the internal Supervisory Board meeting (without the Executive and Management Board Banking members present). In general, the performance of the committees was rated highly overall and the performance of the Supervisory Board was considered to at least have been maintained and even improved in several areas since last year's review. A number of suggestions were made as priorities for improving the performance of the Supervisory Board over the coming year, such as increasing the focus on business issues, having more in-depth discussion time, and addressing the delegation of matters to be dealt with between the Supervisory Board and its committees. Additional key priorities identified were continued close monitoring and assessment of the developments in the regulatory and external supervision landscape as well as in the areas of non-financial risk, compliance and internal control. Attention will also continue to be paid to the challenging role and countervailing power of the Supervisory Board towards the Executive and Management Board.

The Supervisory Board also met in closed sessions, with Supervisory Board members only, in advance of the regular Supervisory Board meetings. The purpose of these pre-meetings is to have a “check-in” and to provide the possibility for airing early concerns in advance of the regular meetings.

Audit Committee meetings

In 2016, the Audit Committee met six times. On average, 96 percent of the members were present at the scheduled meetings.

The Audit Committee discussed the quarterly results, the interim accounts and the annual accounts. Key audit matters, as included in the auditors’ reports and management letter were also a topic of discussion. In addition to the financial results and accounts, the subjects of the Audit Committee’s regular deliberations also included financial reporting, auditor’s independence and fees, the overall internal control environment, the internal controls over financial reporting, the external auditor reports and management letters, and capital management related matters. The Audit Committee also reviewed the quarterly press releases related to the results, the Annual Report, the 20-F form and the SOX404 Report.

Specific attention was paid to a variety of other, related topics as well, such as the divestment of NN Group (including the accounting for the NN anchor investments), financial reporting standards (IFRS 9), the updated internal audit charter, netting of notional cash pools, deferred tax, the governance of ING’s booking centres around the world, the Dutch SME interest rate derivatives case, the financial control enhancement plan, the quarterly whistleblower report, CRR remuneration disclosures and sector-wide reviews on market conduct. User Access Management (UAM) was discussed as an important element of the control framework over financial reporting. These controls were discussed extensively, and as a result requirements increased and key control testing has been improved. In 2017 efforts will be continued to further enhance ING’s UAM.

All relevant items discussed by the Audit Committee were reported to the Supervisory Board with the Supervisory Board approving those items as required from a governance perspective. Directly following the Audit Committee meetings, the members of the Audit Committee met with the internal and external auditors to seek confirmation that all relevant topics were discussed in the Audit Committee meetings.
In addition to the Audit Committee meetings, the chairman of the Audit Committee regularly held separate sessions with the independent external auditor, the head of the Corporate Audit Services department and the CFO. In addition he also met with different senior managers.

Risk Committee meetings

The Risk Committee met four times in 2016 with no absentees. As with the meetings of the other committees, all relevant items discussed by the Risk Committee were reported to the Supervisory Board with the Supervisory Board approving those items as required from a governance perspective.

In each Risk Committee meeting both the financial and non-financial risk reports were discussed in detail including the status of ING’s metrics with regard to solvency, liquidity, capital, credit risk, country risk and market risk.

In addition a wide range of other topics were discussed, such as IT risk, capital requirements, Customer Due Diligence / Know Your Customer, expected loss and loss given default limits, and Brexit. Also, other future risks and various stress test scenarios were looked into, ranging from regulatory uncertainty to continued low interest rates.

Other important topics on the agenda related to risk modelling and model validation, the regulatory risk aspect, ensuring compliance with the CRD IV / CRR requirements and the results of the continuous dialogue between ING and the external supervisors related to risk management.

As a standard practice, the annual risk appetite statements, now also including one for profitability risk, were reviewed and supported.

Read more in the “Risk and capital management” chapter and the Risk section in the Annual Accounts.

Nomination Committee meetings

The Nomination Committee met seven times in 2016 with no absentees.

In the first half of 2016 the Nomination Committee discussed the hiring of Isabel Fernandez who was appointed member of the Management Board Banking as per 1 September 2016 and Head of Wholesale Banking succeeding William Connelly as per 1 November 2016. In light of various developments In the second half of 2016, future succession scenarios in general for the Executive Board and the Management Board Banking were discussed as well as the future composition of the Supervisory Board. Various diversity related aspects were taken into account, such as the minimum and optimal size of a Supervisory Board combined with a sound and reasonable balance in representation of geographies, gender, and financial and generalist expertise. Several potential candidates were discussed for various positions, including that of a candidate qualifying as financial expert, as defined by the SEC in its final rule implementing section 407 of the Sarbanes-Oxley Act of 2002, thereby taking into account ING's diversity policy. This resulted in short lists of potential candidates to be appointed to the Supervisory Board.

In addition, the outcomes and achievements following the Annual Talent Review were discussed. The approach for this year's process was shared with the Supervisory Board and the 2016 results were discussed in January 2017. Both the process and reporting had improved resulting in increased transparency. Improving diversity at the higher management levels, senior management succession planning and accelerating refreshment continued to be focus points. Special attention was also paid to performance management and how to enhance the process and its effectiveness by means of fostering continuous conversations between managers and employees throughout the year. Attention was also paid specifically to regrettable losses among senior managers who left ING in 2016 for various reasons.

Remuneration Committee meetings

In 2016, the Remuneration Committee met seven times with no absentees.

At the start of 2016 the Chairman of the Supervisory Board informed the Remuneration Committee of the results of the meetings he had with various Dutch politicians and labour unions to discuss remuneration of Dutch companies in general. Also the proposed amendments to the existing remuneration for the members of the management board were on the agenda as was the renewal of the Supervisory Board's remuneration policy. These were approved in the 2016 Annual General Meeting.

The Remuneration Committee reviewed the thresholds above which the pool for variable remuneration may be used for actually granting variable remuneration. It discussed the variable remuneration pool and reviewed the performance assessment for the Executive Board, Management Board Banking, as well as the variable remuneration proposals. The remuneration proposals for Identified Staff were also reviewed, including potential cases for holdback of deferred compensation by way of malus.

In addition, the proposed 2016 targets for the Executive Board and the Management Board Banking members were approved.

The ING Bank remunerations framework was updated to align with the renewed EBA guidelines that took effect per 1 January 2017.
Throughout the year the Remuneration Committee approved Identified Staff related remuneration matters, based on ING's accompanying governance framework. The framework itself was also reviewed with regard to the boards' approval and notification requirements.

Read more in the "Remuneration report" chapter.

Corporate Governance Committee meetings

The Corporate Governance Committee met four times with no absentees.

In 2016 the Committee discussed the agenda for the 2016 Annual General Meeting, including the publication on the application of the Dutch Banking Code 2015.

During the first months of 2016 the Committee had extensive discussions on the future corporate governance of ING Groep N.V. in preparation for the 2016 Annual General Meeting, including the abolishment of the depositary receipt structure. External stakeholders were consulted on various aspects of the corporate governance of ING Groep N.V. The proposed amendments were discussed and approved by the 2016 Annual General Meeting.

During the year the Committee also discussed the draft proposal for the new Dutch Corporate Governance Code that was published on 11 February 2016. The final version of the revised Code was published on 8 December 2016. The new Code will take effect as per the reporting year 2017 assuming it will be embedded in Dutch law. The implications for ING are being assessed and will be embedded in ING's governance to the extent needed and applicable.

Furthermore, the Executive Board, Management Board Banking and Supervisory Board charters were updated and discussed. These will be updated again if needed to cater for the new Dutch Corporate Governance Code requirements.

The committee also discussed the results of the continuous dialogue between ING and the external supervisors related to corporate governance.

Composition of the Executive and the Management Board

At the Annual General Meeting on 25 April 2016, no changes to the Executive Board were proposed. As per 1 September 2016, as first female member of the Management Board Banking, Isabel Fernandez joined ING. She succeeded William Connelly as head of Wholesale Banking as per 1 November 2016.

Composition of the Supervisory Board

At the Annual General Meeting on 25 April 2016, Ann Sherry was appointed a member of the Supervisory Board. Joost Kuiper stepped down due to health reasons. In May 2016, Mariana Gheorghe became a member of the Risk Committee and Robert Reibestein became a member of the Remuneration Committee.

Read more in the "Corporate Governance" chapter on the composition of the Supervisory Board committees at year-end 2016.

The Nomination Committee and the Supervisory Board will continue to strive for an adequate and balanced composition of the Supervisory Board when selecting and nominating new members for appointment, taking into account ING's diversity policy among other factors.


Eric Boyer de la Giroday


Mariana Gheorghe


Hermann-Josef Lamberti


Isabel Martín Castellá


Robert Reibestein


Jeroen van der Veer


Ann Sherry


Henk Breukink

Currently, only one Supervisory Board member, Eric Boyer de la Giroday, qualifies as "non-independent" as defined in the best practice provision III.2.2 of the currently applicable Dutch Corporate Governance Code. According to this Code, no more than one person can be non-independent. He is considered not independent because of his position as Chairman of the Board of Directors of ING Belgium S.A./N.V. and his former positions as a member of the Executive Board of ING Groep N.V. and vice-chairman of the Management Board Banking of ING Bank N.V.

Appreciation for the Executive Board and ING employees

The Supervisory Board would like to thank the members of the Executive Board and the Management Board Banking for their hard work in 2016. Important milestones were the successful completion of the NN Group divestment that led to deconsolidation of NN Group and the sale of a remaining stake of 14.1 percent in April 2016. Also, the delivery on ING's ambitions and purpose through the Think Forward strategy is something to be proud of, as is the delivery of a programme to further accelerate this strategy to create a scalable banking platform to cater for continued commercial growth, an improved customer experience and a quicker delivery of products. The Supervisory Board would like to thank all ING employees for their contribution in realising this and for continuing to serve the interests of customers, shareholders and other stakeholders of ING.

Additional information

"Corporate governance" chapter, pages 77 to 89 and the "Remuneration report" chapter, pages 97 to 106 for more information, which are deemed to be incorporated by reference here.

Amsterdam, 13 March 2017

The Supervisory Board

Corporate Governance

This chapter reports on the application of the Dutch Corporate Governance Code effective as from 1 January 2009 ("Corporate Governance Code"), at ING Groep N.V. ("ING Group"), including information on ING's share capital, control, Executive Board, Supervisory Board and external auditor.

This chapter, including the parts of this Annual Report incorporated by reference, with the separate publication "ING's implementation of the Dutch Corporate Governance Code" dated April 2010, (see www.ing.com), together comprise the "corporate governance statement" as specified in section 2a of the Decree with respect to the contents of the annual report ("Besluit tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag")[1].

Recent developments

Corporate governance review 2015

As announced in the 2014 Annual Report, the Executive Board and Supervisory Board, assisted by its Corporate Governance Committee, have reviewed ING Group's corporate governance, including the depositary receipts structure, in 2015. An external law firm and a proxy advisory firm have advised ING in this review. As part of this review ING has also reached out to investors, proxy advisors and other stakeholders to seek their views on key elements of the corporate governance. Also the board structure and the interaction between the Supervisory Board and the ING organisation were reviewed.

The outcome of the review was submitted to the 2016 Annual General Meeting, in the form of a proposal to amend ING Group's articles of association, in particular the provisions concerning the appointment, suspension and dismissal of the members of the Executive Board and of the Supervisory Board (see pages 83 and 85).

The Annual General Meeting adopted the proposed amendments of the articles of association which implied the abolition of the depositary receipts structure.

Legislative and regulatory developments

On 11 February 2016 the proposal for revision of the Corporate Governance Code was published by the Corporate Governance Code Monitoring Committee. The final version of the revised Corporate Governance was published on 8 December 2016. The Code is based on the "comply or explain" principle and applies as from the financial year 2017.

Corporate Governance Codes

Compliance with the Corporate Governance Code

ING Group uses the Corporate Governance Code as reference for its corporate governance structure and practices.

The Corporate Governance Code can be downloaded from the website of the Dutch Corporate Governance Code Monitoring Committee (www.commissiecorporategovernance.nl).

The application of the Corporate Governance Code by ING is described in the 2010 publication "ING's implementation of the Dutch Corporate Governance Code", which is available on the website of ING Group (www.ing.com). This is to be read in conjunction with this section and is deemed to be incorporated into this section. In case there is a difference between the content of ING's publication and this section, this section will prevail.

Dutch Banking Code

The Dutch Banking Code ("Banking Code"), a revised version of which was adopted by the Dutch Banking Association in 2014, is applicable only to ING Bank N.V. and not to ING Group. The Banking Code can be downloaded from the website of the Dutch Banking Association (www.nvb.nl). Its application to ING Bank is described in the "Application of the Dutch Banking Code by ING Bank N.V.", available on the ING Group website (www.ing.com). This is to be read in conjunction with the Annual Report of ING Bank N.V. ING Group voluntarily applies the principles of the Banking Code regarding remuneration to the members of its Executive Board and considers these principles as a reference for its own corporate governance. ING Group's remuneration policy for the Executive Board and senior management is compliant with these principles.

Differences between Dutch and US corporate governance practices

In accordance with the requirements of the US Securities and Exchange Commission, ING Group, as a foreign private issuer whose securities are listed on the New York Stock Exchange ("NYSE"), must disclose in its Annual Report on Form 20-F any significant differences between its corporate governance practices and those applicable to US domestic companies under NYSE listing standards.

ING Group believes the following to be the significant differences between its corporate governance practices and NYSE corporate governance rules applicable to US companies:

- ING Group has a two-tier board structure, in contrast to the one-tier board structure used by most US companies. In the Netherlands, a public limited liability company ("naamloze vennootschap") with a two-tier board structure has an executive board as its management body and a supervisory board that advises and supervises the executive board. In general,

1 Dutch Bulletin of Acts (Staatsblad) 2009, 154.

members of the executive board are employees of the company while members of the supervisory board are not. The latter are often former state or business leaders and sometimes former members of the executive board. A member of the executive board or other officer or employee of the company cannot simultaneously be a member of the supervisory board. The supervisory board must approve specified decisions of the executive board. Under the Corporate Governance Code, all members of the supervisory board, with the exception of not more than one person, should be independent. The definition of independence under the Corporate Governance Code however differs in its details from the definitions of independence under the NYSE listing standards. In some cases, Dutch requirements are stricter; in other cases the NYSE listing standards are stricter. The Audit Committee, Risk Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee of ING Group are comprised of members of the Supervisory Board.

- In contrast to the Sarbanes-Oxley Act of 2002, the Corporate Governance Code contains a "comply-or-explain" principle, offering the possibility of deviating from the Code as long as any such deviations are explained. To the extent that such deviations are approved by the general meeting, the company is deemed to be fully compliant with the Code.

- Consistent with Dutch law, the supervisory board committees generally act only in an advisory capacity to the supervisory board and, for instance, ING's Remuneration Committee may not directly set the compensation of the CEO.

- Dutch law requires that ING Group's external auditors be appointed by the General Meeting and not by the Audit Committee.

- The articles of association of ING Group ("Articles of Association") provide that there are no quorum requirements to hold a General Meeting, although certain shareholder actions and certain resolutions may require a quorum.

- The shareholder approval requirements for equity compensation plans under Dutch law and the Corporate Governance Code differ from those applicable to US companies that are subject to NYSE's listing rules that require a shareholder vote on all equity compensation plans applicable to any employee, director or other service provider of a company. The results of such votes are advisory in nature rather than binding. Under Dutch company law and the Corporate Governance Code, binding shareholder approval is only required for equity compensation plans (or changes thereto) for members of the executive board and supervisory board, and not for equity compensation plans for other groups of employees.

Capital

Capital structure

The authorised capital of ING Group consists of ordinary shares and cumulative preference shares. Currently, only ordinary shares are issued, while a call option to acquire cumulative preference shares has been granted to the ING Continuity Foundation ("Stichting Continuïteit ING"). The acquisition of cumulative preference shares pursuant to the call option is subject to the restriction that, immediately after the issuance of cumulative preference shares, the total amount of cumulative preference shares outstanding may not exceed one-third of the total issued share capital of ING Group (see page 93).

The purpose of this call option is to protect the independence, the continuity and the identity of ING Group against influences that are contrary to the interests of ING Group, its enterprise and the enterprises of its subsidiaries and all stakeholders (including, but not limited to, hostile takeovers). However, the ordinary shares are not used for protective purposes.

The Board of the ING Continuity Foundation is comprised of four members who are independent of ING Group. No (former) Executive Board member, (former) Supervisory Board member, (former) ING Group employee or (former) permanent adviser to ING Group is on the Board of the ING Continuity Foundation. The Board of the ING Continuity Foundation appoints its own members, after consultation with the Supervisory Board of ING Group, but without any requirement for approval by ING Group.

Read more in the "Report of ING Continuity Foundation" chapter.

ING Group's authorised capital is the maximum amount of capital allowed to be issued under the terms of the Articles of Association. New shares in excess of this amount can only be issued if the Articles of Association are amended. For reasons of flexibility and to meet the requirement as set forth in the Bank Resolution and Recovery Directive ("BRRD") that the amount of authorised share capital should at all times be sufficient to permit the issuance of as many ordinary shares as required for a potential future bail-in, ING Group seeks to set the authorised capital in the Articles of Association at the highest level permitted by law, which is five times the actually issued share capital.

Issuance of shares

Share issuances are decided by the General Meeting, that may also delegate its authority. Each year, a proposal is made to the General Meeting to delegate authority to the Executive Board to issue new ordinary shares or to grant rights to subscribe for new ordinary shares, both with and without pre-emptive rights to existing shareholders.

In the context of ING's corporate governance review that was performed in 2015-2016 the authorisation of the Executive Board to issue ordinary shares was revised. The new set-up and content has been discussed with many investors, proxy advisors and other stakeholders and ING has taken into account their feedback.

The currently applicable share issue authorisation enables the Executive Board to issue ordinary shares (including the granting of rights to subscribe for ordinary shares, such as warrants or in connection with convertible debt instruments) for a period of 18 months, ending on 25 October 2017:

1 up to 40% of the issued share capital, as a general rule with pre-emptive rights of existing shareholders; plus
2 up to 10% of the issued share capital, with or without pre-emptive rights of existing shareholders.

Specific approval by the General Meeting is required for any share issuance exceeding these limits.

The share issue authorisation which will be proposed to the 2017 Annual General Meeting will be along the same lines. Its first element will enable the Executive Board to issue up to 40 percent of the issued share capital by means of a rights issue. This entails that the shares to be issued will be offered to all shareholders in proportion to their existing holdings of ordinary shares as nearly as may be practical. However, the Executive Board and Supervisory Board may exclude certain shareholders from such a share offering for practical or legal reasons such as record dates, fractional entitlements, treasury shares, applicable legal restrictions on share offerings or in the context of a syndicated rights issue.

In line with market practice, ING Group currently intends to include the following categories of shareholders in such a share offering by way of a rights issue:

1 Qualified investors as well as retail investors in the Netherlands and the US (SEC registered offering).
2 Qualified investors in EU member states;
3 Retail investors in EU member states where ING has a significant retail investor base, provided that it is feasible to meet local requirements (in ING's 2009 rights offering, shares were offered to existing shareholders in Belgium, France, Germany, Luxemburg, Spain and the UK, where ING believed the vast majority of retail investors were located at that time); and
4 Qualified or institutional investors in Canada and Australia.

Retail investors in Canada and Australia and investors in Japan will not be included in such a share offering.

Shareholders who are not allowed to, do not elect to, or are unable to subscribe to a rights offering, are entitled to sell their rights in the market or receive any net financial benefit upon completion of a rump offering after the exercise period has ended.

This delegation of authority allows ING Group to respond promptly to developments in the financial markets. Without such delegation, should ING Group wish to issue new shares, there would be an increased risk that conditions in the financial markets may change during the time needed to convene a General Meeting, especially given the 42-day statutory convocation period in the Netherlands.

Transfer of shares and transfer restrictions

Shares not included in the Securities Giro Transfer system ("Wet Giraal Effectenverkeer" system) are transferred by means of a deed of transfer between the transferor and the transferee. To become effective, ING Group has to acknowledge the transfer, unless ING Group itself is a party to the transfer. The Articles of Association do not restrict the transfer of ordinary shares.

Shares which are included in the Securities Giro Transfer system are transferred pursuant to the Securities Giro Transfer Act ("Wet Giraal Effectenverkeer"). Shareholders wishing to transfer such shares must instruct the securities intermediary where their shares are administered accordingly.

Repurchase of shares

ING Group may repurchase issued shares. Although the power to repurchase shares is vested in the Executive Board subject to the approval of the Supervisory Board, prior authorisation from the General Meeting is required for these repurchases. Under Dutch law, this authorisation lapses after 18 months. Each year, a proposal is made to the General Meeting to authorise the repurchase of shares by the Executive Board.

Pursuant to this authorisation, no more than 10% of ING Group's share capital may be held as treasury shares. When repurchasing shares, the Executive Board must observe the price ranges prescribed in the authorisation. For the ordinary shares , the authorisation currently in force stipulates a minimum price of one eurocent and a maximum price equal to the highest stock price on the Amsterdam stock exchange on the date on which the purchase agreement is concluded or on the preceding day of stock market trading.

Special rights of control

No special rights of control referred to in Article 10 of the directive of the European Parliament and the Council on takeover bids (2004/25/EC) are attached to any share.

Shareholders' structure

Pursuant to the Dutch Financial Supervision Act ("Wet op het financieel toezicht"), any person who, directly or indirectly, acquires or disposes of an interest in the voting rights and/or the capital of ING Group as a result of which acquisition or disposal the percentage of his voting rights or capital interest, whether through ownership of shares, American depositary receipts ("ADR") or any other financial instrument, whether stock-settled or cash-settled, such as call or put options, warrants, swaps or any other similar contract, reaches, exceeds or falls below certain thresholds, is required to notify in writing the Dutch Authority for the Financial Markets ("Autoriteit Financiële Markten") immediately after the acquisition or disposal of the triggering interest in ING Group's share capital. These thresholds are 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% or 95% of the issued share capital of ING Group. The notification will be recorded in a public register that is held by the Dutch Authority for the Financial Markets.

Details of investors, if any, who have reported their interest in ING Group pursuant to the Dutch Financial Supervision Act (or the predecessor of this legislation), are shown on page 63.

ING Group is not aware of any investors (or potential shareholders) with an interest of three percent or more in ING Group other than those shown on page 63 as per year-end 2016.

Pursuant to Regulation (EU) no. 236/2012 of the European Parliament and the Council on short-selling and certain aspects of credit default swaps, any person who acquires or disposes of a net short position relating to the issued share capital of ING Group, whether by a transaction in shares or ADRs, or by a transaction creating or relating to any financial instrument where the effect or one of the effects of the transaction is to confer a financial advantage on the person entering into that transaction in the event of a change in the price of such shares or ADRs, is required to notify, in accordance with the provisions of the above-mentioned regulation:

a. The Dutch Authority for the Financial Markets if, as a result of such acquisition or disposal the person's net short position reaches, exceeds or falls below 0.2% of the issued share capital of ING Group and each 0.1% above that.
b. ING Group if, as a result of such acquisition or disposal the person's net short position reaches, exceeds or falls below 0.5% of the issued share capital of ING Group and each 0.1% above that.

Investor Relations and bilateral contacts with investors

ING Group encourages and recognises the importance of bilateral communication with the investment community. The Investor Relations department actively manages communications with current and potential shareholders, holders of ADRs, bondholders, and industry analysts.

ING Group strives to provide clear, accurate and timely financial information that is in strict compliance with applicable rules and regulations, in particular those concerning selective disclosure, inside information and equal treatment. In addition to the Annual General Meeting, ING Group communicates with its shareholders and the investment community through earnings announcements, presentations, and meetings with analysts or investors.

ING Group publishes a comprehensive quarterly disclosure package that includes extensive and detailed financial figures with relevant explanatory remarks. This information is discussed thoroughly on the day of the earnings release during media, analyst and investor conference calls. These are broadly accessible to interested parties. The publication dates of quarterly earnings releases are announced in advance on ING Group's website.

ING Group participates in several industry conferences and generally hosts one Investor Relations Day every two to three years. These events are announced in advance on ING Group's website, and presentation materials are made available in real time on the website. This is in accordance with the applicable regulatory requirements intended to ensure that all shareholders and other market participants have equal and simultaneous access to information that could potentially influence the price of the company's securities. ING Group's Investor Relations Days can be accessed by means of live webcasts. Investor Relations Days or conferences in which ING Group participates will not take place during the period immediately prior to the publication of quarterly financial results.

ING Group strives to maintain an open and constructive dialogue with current and potential investors, and with industry analysts. The scope of such bilateral communication may range from single investor queries via email, to more elaborate discussions with analysts or institutional investors that take place via telephone or face-to-face. ING Group's Investor Relations department is the main point of contact for these communications. Executive Board members or Management Board Banking or divisional management members may also participate in investor meetings. These meetings are not announced in advance, nor can they be followed by webcast or any other means. Information provided during such occasions is limited to what is already publicly available.

If bilateral communication between ING Group and investors is organised and/or facilitated through a broker, an analyst or specialist salesperson representing the broker may be present in the meeting.

In the event that any inside information is inadvertently disclosed during any bilateral contacts, it is ING Group's policy, in accordance with applicable regulations, to publish such information as soon as possible.

ING Group may decide not to accommodate or accept any requests or invitations to enter into a dialogue with potential investors, or to accommodate or accept such request or invitation under specific conditions. ING does not initiate bilateral contacts during the period immediately prior to publication of regular quarterly results.

Approximately 25 analysts actively cover and generally issue reports on ING Group. A list of these analysts can be found under "Analyst Coverage" in the Investor Relations section of ING Group's website. During 2016, ING Group did not provide any form of compensation to parties that are directly or indirectly involved in the production or publication of analysts' reports, with the exception of credit-rating agencies.

ING Group participated in 13 industry conferences during 2016. In total, there were approximately 700 meetings (including conference calls) with institutional investors and/or analysts during 2016. Conference presentations and face-to-face meetings with investors and/or analysts took place in 47 different cities across the globe.

ING Group held an Investor Day on 3 October 2016. "Accelerating Think Forward" was the theme of the strategy update that CEO Ralph Hamers and other executives presented at this event, which was held in Amsterdam, the Netherlands.

The geographical distribution of ING Group's investor base is diverse: an estimated 33% of our shares are held in the United States, 21% in the United Kingdom, 10% in France, 9% in Germany, 4% in Switzerland, 4% in the Netherlands, 11% in rest of Europe and 8% in the rest of the world.

These figures are based on the year-end 2016 estimates of institutional share ownership provided by IPREO.

Read more in the "ING Shares" chapter.

General Meeting

Frequency, notice and agenda of General Meetings

ING's General Meeting is normally held each year in April or May to discuss the course of business in the preceding financial year on the basis of the reports prepared by the Executive Board and the Supervisory Board, and to decide on:

- The distribution of dividends or other distributions;
- The appointment and/or reappointment of members of the Executive Board and the Supervisory Board;
- Any other items requiring shareholder approval pursuant to Dutch law; and
- Any other matters proposed by the Supervisory Board, the Executive Board or shareholders in accordance with the Articles of Association.

As of the Annual General Meeting of 2017 Corporate Governance will only be a separate agenda item in case of material corporate governance changes.

General Meetings are convened by public notice via the ING Group website (www.ing.com) at least 42 days before the day of the General Meeting. As of the date of convening a General Meeting, all information relevant for shareholders is made available via the ING Group website and through its head office.

As provided in the Dutch Civil Code, implementing the BRRD, ING Group's Articles of Association permit to shorten this convocation period to 10 days if (i) ING Group meets the criteria for early intervention measures, (ii) resolution can be avoided by means of a capital increase and (iii) a general meeting would be required to enable ING Group to issue the required number of shares.

Information relevant for shareholders includes the notice of the General Meeting, the agenda, the place and time of the meeting, the address of the website of ING Group, the verbatim text of the proposals with an explanation and instructions on how to participate in the meeting (either in person or by proxy), as well as the reports of the Executive Board and the Supervisory Board. More complex proposals, such as proposals to amend the Articles of Association, are normally not included in the notice, but are made available separately on the website of ING Group and at the ING Group head office.

Proposals by shareholders

Proposals to include items on the agenda for a General Meeting that have been adequately substantiated under applicable Dutch law can be made by shareholders representing together a certain interest in ING's share capital. As of 26 July 2016 the Articles of Association of ING Group were amended to the effect that this interest should represent at least one per cent of the issued share capital.

Dialogue with shareholders

Shareholders are given the opportunity to contact ING about the Annual General Meeting, via the Annual General Meeting dedicated web page on the website of ING Group (www.ing.com).

Record date

Pursuant to Dutch law, the record date for attending a general meeting and voting on the proposals at that general meeting is the 28th day before the day of the general meeting. Only those who hold shares at the record date are entitled to attend the general meeting and to exercise other rights related to the general meeting in question on the basis of their holding at the record date, notwithstanding any subsequent sale or purchase of shares. The record date is published in the notice for the general meeting. If the shortened convocation of 10 days is applicable (see above, paragraph: "Frequency, notice and agenda of General Meetings"), the record date is two days after the convocation date.

In accordance with US requirements, the depositary sets a record date for the ADRs, which date determines which ADRs are entitled to give voting instructions. This record date can differ from the record date set by ING Group for shareholders.

Attending General Meetings

Holders of ordinary shares may attend a General Meeting, or may grant in writing a proxy to a third-party to attend the meeting and to vote on their behalf. Prior to General Meetings, ING will make proxy forms available on its website. For logistical reasons, attending the General Meeting, either in person or by proxy, is subject to the requirement that ING Group is notified in advance. Instructions to that effect are included in the notice for the General Meeting.

General Meetings are webcast via ING Group's website (www.ing.com), so that shareholders who do not attend the General Meeting in person may nevertheless follow the meeting online.

Voting rights on shares

Each share entitles the holder to cast one vote at the General Meeting. The Articles of Association do not restrict the voting rights on any class of shares. ING Group is not aware of any agreement pursuant to which voting rights on any class of its shares are restricted.

Proxy voting facilities

ING Group provides proxy voting facilities to its investors via its website and solicits proxies from its ADR holders in line with common practice in the US.

Proxy voting forms for shareholders are made available on the website of ING Group (www.ing.com). By returning the form, shareholders will give a proxy to an independent proxy holder (a public notary registered in the Netherlands) who will vote according to the instructions expressly given on the proxy form. The submission of these forms is subject to additional conditions specified on such forms.

To encourage participation at the Annual General Meeting, ING provides the EVO (e-voting) platform, an online facility through which shareholders can register for a meeting or appoint a proxy.

Main powers of the General Meeting

The main powers of the General Meeting are to decide on:

- The appointment, suspension and dismissal of members of the Executive Board and members of the Supervisory Board, subject to a binding nomination or a proposal of the Supervisory Board as set forth in the Articles of Association.
- The adoption of the annual accounts.
- The declaration of dividends, subject to the power of the Executive Board to allocate part or all of the profits to the reserves – with approval of the Supervisory Board – and the declaration of other distributions, subject to a proposal by the Executive Board and approved by the Supervisory Board.
- The appointment of the external auditor.
- An amendment of the Articles of Association, a legal merger or division of ING Group, and winding-up of ING Group, all subject to a proposal made by the Executive Board with approval by the Supervisory Board.
- The issuance of shares or rights to subscribe for shares, the restriction or exclusion of pre-emptive rights of shareholders, and delegation of these powers to the Executive Board, subject to a proposal by the Executive Board which was approved by the Supervisory Board.
- The authorisation of a repurchase of outstanding shares and/or a cancellation of shares.

In addition, the approval of the General Meeting is required for Executive Board decisions that would be expected to have a material effect on the identity or nature of ING Group or its enterprise.

Reporting

Resolutions adopted at a General Meeting are generally published on the website of ING Group (www.ing.com), within one week following the meeting. The draft minutes of the General Meeting are, in accordance with the Corporate Governance Code, made available to shareholders on the website of ING Group (www.ing.com) no later than three months after the meeting. Shareholders may react to the draft minutes in the following three months, after which the final minutes are adopted by the chairman of the meeting in question and by a shareholder appointed by that meeting. The final minutes are made available on the website of ING Group (www.ing.com). In a deviation from the provisions of the Corporate Governance Code, shareholders will not have the opportunity to react to the minutes of a General Meeting if a notarial report of the meeting is made, as this would be in conflict with the laws applicable to such notarial report.

Executive Board

Appointment, suspension and dismissal

Members of the Executive Board are appointed, suspended and dismissed by the General Meeting. For the appointment of Executive Board members, the Supervisory Board may draw up a binding list, which may be rendered non-binding by the General Meeting.

A resolution of the General Meeting to render this list non-binding, or to suspend or dismiss Executive Board members without this being proposed by the Supervisory Board, requires an absolute majority of the votes cast. Additionally, this majority must represent more than half of the issued share capital. This additional requirement was tightened up (from one third to one half of the issued share capital) in connection with the abolition of the depositary receipts structure in 2016. Also in connection with the abolition of the depositary receipts structure in 2016, the Articles of Association now exclude the possibility under Dutch corporate law to waive this requirement in a second General Meeting. Both additional elements, which deviate from what is recommended under the Dutch Corporate Governance Code, ensure that significant proposals of shareholders cannot be adopted in a General Meeting with a low attendance rate and can only be adopted with substantial support of ING Group's shareholders.

Candidates for appointment to the Executive Board must comply with the suitability and reliability requirements as set out in the Dutch Financial Supervision Act and must continue to meet these while in function.

Function of the Executive Board

The Executive Board is charged with the management of ING Group. This includes responsibility for setting and achieving ING Group's strategy, objectives and policies, as well as the ensuing delivery of results. It also includes the day-to-day management of ING Group. The Executive Board is accountable for the performance of these duties to the Supervisory Board and the General Meeting. The responsibility for the management of ING Group is vested in the Executive Board collectively. The organisation, powers and modus operandi of the Executive Board are detailed in the Executive Board Charter, which was approved by the Supervisory Board.

The Executive Board Charter is available on the website of ING Group (www.ing.com).

According to the Banker's Oath that is taken by the members of the Executive Board, they must carefully consider the interests of all stakeholders of ING. In that consideration they must put the customer's interests at the centre of all their activities.

ING Group indemnifies the members of the Executive Board against direct financial losses in connection with claims from third parties, as far as permitted by law, on the conditions laid down in the Articles of Association and their employment or commission contract. ING Group has taken out liability insurance for the members of the Executive Board.

Profile of members of the Executive Board

The Supervisory Board has drawn up a profile to be used as a basis for selecting members of the Executive Board. It is available on the website of ING Group (www.ing.com) and at the ING Group head office.

ING Group aims to have an adequate and balanced composition of its Executive Board. The Supervisory Board annually assesses the composition of the Executive Board. In the context of such assessment, ING Group aims to have a gender balance by having at least 30% men and at least 30% women amongst its Executive Board members.

However, because of the fact that ING Group needs to balance several relevant selection criteria when composing its Executive Board, the composition of the Executive Board did not meet the abovementioned gender balance in 2016 (no women). In accordance with the diversity policy mentioned on page 45, ING Group will continue to strive for an adequate and balanced composition of its Executive Board in future appointments, by taking into account all relevant selection criteria including, but not limited to, gender balance, executive experience, experience in corporate governance of large stock-listed companies and experience in the political and social environment.

Remuneration and share ownership

Members of the Executive Board are permitted to hold shares in the share capital of ING Group for long-term investment purposes. Transactions by members of the Executive Board in these shares are subject to the ING regulations for insiders. These regulations are available on the website of ING Group (www.ing.com).

Details of the remuneration of members of the Executive Board, including shares granted to them, together with additional information, are provided in the "Remuneration report".

Ancillary positions/conflicting interests

No member of the Executive Board has corporate directorships at listed companies outside ING.

Transactions involving actual or potential conflicts of interest

In accordance with the Corporate Governance Code, transactions with members of the Executive Board in which there are significant conflicts of interest will be disclosed in the Annual Report. In deviation from the Corporate Governance Code this however does not apply if (i) such disclosure would be against the law; (ii) the confidential, share-price sensitive or competition-sensitive character of the transaction prevents disclosure; and/or (iii) the information is so competition-sensitive that the disclosure could damage the competitive position of ING Group.

Significant conflicting interests are considered to be absent and are not reported if a member of the Executive Board obtains financial products and services, other than loans, which are provided by ING Group subsidiaries in the ordinary course of their business on terms that apply to all employees. In connection with the aforementioned, the term loans does not include financial products in which the granting of credit is of a subordinated nature, e.g. credit cards and overdrafts in current account, because of a lack of materiality.

For an overview of loans granted to members of the Executive Board, see page 104 of the "Remuneration report" chapter.

Information on members of the Executive Board

R.A.J.G. (Ralph) Hamers, Chief Executive Officer ("CEO")

(Born 1966, Dutch nationality, male; appointed in 2013, term expires in 2017)

Ralph Hamers has been a member of the Executive Board of ING Group since 13 May 2013 and was appointed CEO and Chairman of the Executive Board and the Managing Board Banking on 1 October 2013. He is responsible for the proper functioning of the Exective Board and the Management Board Banking and its committees, formulating and implementing ING's strategy, acting as main contact for the Supervisory Board and also responsible for the following departments: innovation, Legal, Corporate Strategy, Corporate Human Resources, Corporate Communications and Corporate Audit Services. He joined ING in 1991 and has held various positions including Global Head Wholesale Banking Network from 2007 to 2010, Head of Network Management for Retail Banking Direct & International from 2010 to 2011, and CEO of ING Belgium and Luxembourg from 2011 to 2013. He holds a Master of Science degree in Business Econometrics/Operations Research from Tilburg University, the Netherlands.

Relevant positions pursuant to CRD IV: [2]

Chairman and CEO of the Executive Board of ING Groep N.V. and of the Management Board of ING Bank N.V.

Other relevant ancillary positions:

Member of the Management Board of the Nederlandse Vereniging van Banken (NVB), member of the Board of the Institute of International Finance, Inc. and member of the Supervisory Board of Foundation Royal Concertgebouw Orchestra Amsterdam.

2 *The fourth EU Capital Requirements Directive 2013/36/EU*

P.G. (Patrick) Flynn, Chief Financial Officer ("CFO")

(Born 1960, Irish nationality, male; appointed in 2009, term expires in 2017)
Patrick Flynn has been a member of the Executive Board and CFO of ING Group since 27 April 2009. He also serves as a member and CFO on the Management Board Banking. He is responsible for ING's financial strategy, including internal and external reporting, budgeting, procurement, forecasting, capital management, investments/acquisitions and divestments, tax management, investor relations and business performance reporting and analysis, including measuring adherence to financial targets. He is a Chartered Accountant, a member of the Institute of Chartered Accountants Ireland, and a member of the Association of Corporate Treasurers in the UK. He holds a Bachelor's degree in Business Studies from Trinity College Dublin.

Relevant positions pursuant to CRD IV:
Member and CFO of the Executive Board of ING Groep N.V., Member and CFO of the Management Board of ING Bank N.V.

W.F. (Wilfred) Nagel, Chief Risk Officer ("CRO")

(Born 1956, Singaporean nationality, male; appointed in 2012, term expires in 2020)
Wilfred Nagel has been a member of the Executive Board and CRO of ING Group since 14 May 2012. He also serves as a member and CRO on the Management Board Banking. He is responsible for ING's risk appetite, risk-related policies, methodologies and guidance, risk management and control activities performed by the business. He was CEO of ING Bank Turkey until 5 October 2011, when he was appointed as a member of the Management Board Banking. He joined ING in 1991 and held various positions including Global Head Credit Risk Management from 2002 to 2005 and CEO Wholesale Banking in Asia from 2005 to 2010. He holds a Master's degree in Economics from VU University Amsterdam.

Relevant positions pursuant to CRD IV:
Member and CRO of the Executive Board of ING Groep N.V. and Member and CRO of the Management Board of ING Bank N.V.; Non-Executive Board Member of Nidera Capital B.V.

Supervisory Board

Appointment, suspension and dismissal

Members of the Supervisory Board are appointed, suspended and dismissed by the General Meeting. For the appointment of Supervisory Board members, the Supervisory Board may draw up a binding list, which may be rendered non-binding by the General Meeting.

A resolution of the General Meeting to render this list non-binding, or to suspend or dismiss Supervisory Board members without this being proposed by the Supervisory Board, requires an absolute majority of the votes cast. Additionally, this majority must represent more than half of the issued share capital. Also in connection herewith this, the Articles of Association now exclude the possibility available under Dutch corporate law to waive this requirement in a second General Meeting. Both additional elements, which deviate from what is recommended under the Corporate Governance Code, ensure that significant proposals of shareholders cannot be adopted in a General Meeting with a low attendance rate and can only be adopted with substantial support of ING Group's shareholders.

Candidates for appointment to the Supervisory Board must comply with the suitability and reliability requirements as set out in the Dutch Financial Supervision Act and must continue to meet these while in function.

Function of the Supervisory Board

The function of the Supervisory Board is to supervise the policy of the Executive Board and the general course of affairs of ING Group and its business, as well as to provide advice to the Executive Board.

In line with Dutch company law, the Articles of Association, the Corporate Governance Code as well as the Supervisory Board Charter, all members of the Supervisory Board are required to:

- act in accordance with the interests of ING Group and the business connected with it, taking into account the relevant interests of all stakeholders of ING Group;
- perform their duties without mandate and independent of any interest in the business of ING Group; and
- refrain from supporting one interest without regard to the other interests involved.

According to the Banker's Oath that was taken by the members of the Supervisory Board, they must carefully consider the interests of all stakeholders of ING. In that consideration they must put the customer's interests at the centre of all their activities. Certain resolutions of the Executive Board, specified in the Articles of Association, in the Executive Board Charter and in the Supervisory Board Charter, are subject to approval of the Supervisory Board.

ING Group indemnifies the members of the Supervisory Board against direct financial losses in connection with claims from third parties as far as permitted by law on the conditions laid down in the Articles of Association and an indemnity statement.

ING Group has taken out liability insurance for the members of the Supervisory Board.

Profile of members of the Supervisory Board

The Supervisory Board has drawn up a profile to be used as a basis for its composition. It is available on the website of ING Group (www.ing.com) and at the ING Group head office.

In view of their experience and the valuable contribution that former members of the Executive Board can make to the Supervisory Board, it has been decided, taking into account the size of the Supervisory Board and

ING's wide range of activities that such individuals may become members of the Supervisory Board of ING Group. Former Executive Board members must wait at least one year before becoming eligible for appointment to the Supervisory Board.

Former members of the Executive Board are not eligible for appointment to the position of chairman or vice-chairman of the Supervisory Board, unless they are independent within the meaning of the Corporate Governance Code.

After a former member of the Executive Board has been appointed to the Supervisory Board, this member may also be appointed to one of the Supervisory Board's committees. However, appointment to the Audit committee is only possible if the individual in question resigned from the Executive Board at least four years prior to such appointment.

ING Group needs to balance several relevant selection criteria when composing its Supervisory Board but strives for an adequate and balanced composition of the board by taking into account all relevant selection criteria including, but not limited to, experience in retail and wholesale banking, gender balance, executive experience, experience in corporate governance and experience in the political and social environment.

The Nomination Committee assesses the composition of the Supervisory Board at least annually. In the context of this assessment, ING Group aims to have a gender balance by having at least 30% men and at least 30% women amongst its Supervisory Board members. After the appointment of Ann Sherry at the Annual General Meeting in April 2016, the composition of the Supervisory Board met the above-mentioned gender balance (more than 33% women). Other diversity related aspects are taken into consideration as well in light of the overall SB composition (read more on page 75 in the "Report of the Supervisory Board" chapter).

Term of appointment of members of the Supervisory Board

A member of the Supervisory Board retires no later than at the end of the first General Meeting held four years after his or her last appointment or reappointment. In accordance with the Corporate Governance Code, members of the Supervisory Board may, as a general rule, be reappointed for two additional four-year terms. Under special circumstances however, the Supervisory Board may deviate from this general rule, for instance in order to maintain a balanced composition of the Supervisory Board and/or to preserve valuable expertise and experience. As a general rule, members of the Supervisory Board shall also resign at the end of an Annual General Meeting in the year in which they attain the age of 70 and shall not be reappointed. However, the Supervisory Board may, at its discretion, decide to deviate from this age limit. The schedule for resignation by rotation is available on the website of ING Group (www.ing.com).

Ancillary positions/conflicting interests

Members of the Supervisory Board may hold other positions, including directorships, either paid or unpaid. CRD IV restricts the total number of supervisory board positions or non-executive directorships with commercial organisations that may be held by a Supervisory Board member to four, or to two, if the Supervisory Board member also has an executive board position. The European Central Bank may, under special circumstances, permit a Supervisory Board member to fulfil an additional supervisory board position or non-executive directorship. Positions with, inter alia, subsidiaries or qualified holdings are not taken into account in the application of these restrictions. Such positions may not conflict with the interests of ING Group. It is the responsibility of the individual member of the Supervisory Board and the Corporate Governance Committee to ensure that the directorship duties are performed properly and are not affected by any other positions that the individual may hold outside ING Group.

Members of the Supervisory Board are to disclose material conflicts of interest (including potential conflicts of interest) and to provide all relevant information relating to them. The Supervisory Board – without the member concerned taking part – then decides whether a conflict of interest exists.

In case of a conflict of interest, the relevant member of the Supervisory Board abstains from discussions and decision-making on the topic or the transaction in relation to which he or she has a conflict of interest with ING Group.

Transactions involving actual or potential conflicts of interest

In accordance with the Corporate Governance Code, transactions involving members of the Supervisory Board in which there are material conflicting interests are disclosed in the Annual Report. In a departure from the Corporate Governance Code this however does not apply if (i) such disclosure would be against the law; (ii) the confidential, share-price sensitive or competition-sensitive character of the transaction prevents such disclosure; and/or (iii) the information is so competition-sensitive that disclosure could damage the competitive position of ING Group.

Any relation that a member of the Supervisory Board may have with ING Group subsidiaries as an ordinary, private individual, is not considered a significant conflict of interest. Such relationships are not reported, with the exception of any loans that may have been granted.

For an overview of loans granted to members of the Supervisory Board, see page 105 of the "Remuneration report".

Independence

The members of the Supervisory Board are requested to assess annually whether the criteria of dependence set out in the Corporate Governance Code do not apply to them and to confirm this in writing. On the basis of these criteria, all members of the Supervisory Board, with the exception of Eric Boyer de la Giroday, are to be regarded as independent on 31 December 2016. Eric Boyer de la Giroday is not considered independent because of his position as Chairman of the Board of Directors of ING Belgium S.A./N.V. and his former positions as member of the Executive Board of ING Group and vice-chairman of the Management Board Banking of ING Bank N.V. On the basis of the NYSE listing standards, all members of the Supervisory Board are to be regarded as independent.

Committees of the Supervisory Board

On 31 December 2016, the Supervisory Board had five committees: the Audit Committee, the Risk Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee. An organisational chart of the five committees of the Supervisory Board can be found below.

The organisation, powers and conduct of the Supervisory Board are detailed in the Supervisory Board Charter which can be found on www.ing.com.

Separate charters have been drawn up for the Audit Committee, the Risk Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee. These charters are available on the website of ING Group (www.ing.com). A short description of the duties for the five Committees follows below.

The Audit Committee assists the Supervisory Board in monitoring the integrity of the financial statements of ING Group, and ING Bank N.V., in monitoring the compliance with legal and regulatory requirements and in monitoring the independence and performance of ING Group's internal and external auditors. On 31 December 2016, the members of the Audit Committee were: Hermann-Josef Lamberti (chairman), Eric Boyer de la Giroday, Isabel Martín Castellá, and Robert Reibestein. No member of the Audit Committee was considered as a "financial expert" as defined by the SEC in its final rules implementing Section 407 of the Sarbanes-Oxley Act of 2002. Eric Boyer de la Giroday is a financial expert as defined in the Corporate Governance Code considering his academic background as well as his knowledge and experience in his previous role as board member and vice-chairman of ING Groep N.V. and ING Bank N.V.

The Risk Committee assists and advises the Supervisory Board in monitoring the risk profile of ING as a whole as well as the structure and operation of the internal risk management and control systems. On 31 December 2016, the members of the Risk Committee were: Robert Reibestein (chairman), Eric Boyer de la Giroday, Mariana Gheorghe, Hermann-Josef Lamberti and Jeroen van der Veer.

The Remuneration Committee's tasks include advising the Supervisory Board on the terms and conditions of employment (including remuneration) of the members of the Executive Board and on the policies and general principles on which the terms and conditions of employment of the members of the Executive Board and of senior managers of ING Group and its subsidiaries are based. On 31 December 2016, the members of the Remuneration Committee were: Henk Breukink (chairman), Robert Reibestein and Jeroen van der Veer.

The Nomination Committee's tasks include advising the Supervisory Board on the composition of the Supervisory Board and Executive Board. On 31 December 2016, the members of the Nomination Committee were: Jeroen van der Veer (chairman), Henk Breukink and, Isabel Martín Castellá.

The Corporate Governance Committee assists the Supervisory Board in monitoring and evaluating the corporate governance of ING as a whole and reporting on this in the Annual Report and to the General Meeting. It also advises the Supervisory Board on improvements. On 31 December 2016, the members of the Corporate Governance Committee were: Henk Breukink (chairman) and Jeroen van der Veer.

More information on the composition of the Supervisory Board Committees can be found at www.ing.com/16ar6, which is updated on a regular basis.

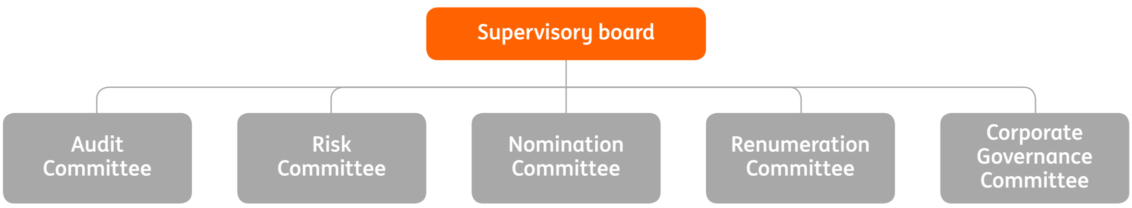
Company secretary

The Supervisory Board is assisted by the company secretary Cindy van Eldert-Klep.

Remuneration and share ownership

Remuneration of the members of the Supervisory Board is determined by the General Meeting and is not dependent on the results of ING Group. Details of the remuneration are provided in the Remuneration report on page 97. Members of the Supervisory Board are permitted to hold shares in the share capital of ING Group for long-term investment purposes. Details are given on page 97. Transactions by members of the Supervisory Board in these shares are subject to the ING regulations regarding insiders.

More information on ING's regulations regarding insiders can be found at www.ing.com/16ar7.



Information on members of the Supervisory Board

J. (Jeroen) Van der Veer (chairman)

(Born 1947, Dutch nationality, male; appointed in 2009, term expires in 2017)
Former Chief Executive Officer of Royal Dutch Shell plc.

Relevant positions pursuant to CRD IV:
Chairman of the Supervisory Board of ING Groep N.V./ ING Bank N.V., Chairman of the Supervisory Board of Koninklijke Philips Electronics N.V., Member of the Supervisory Board of Koninklijke Boskalis Westminster N.V. and Member of the Supervisory Board of Statoil ASA.

Other relevant ancillary positions:
Member of the Supervisory Board of Het Concertgebouw N.V. and Chairman of the Supervisory Council of the Technical University of Delft.

H.J.M. (Hermann-Josef) Lamberti (Vice-Chairman)

(Born 1956, German nationality, male; appointed in 2013, term expires in 2017)
Former Chief Operating Officer of Deutsche Bank AG.

Relevant positions pursuant to CRD IV:
Vice-chairman of the Supervisory Board of ING Groep N.V./ING Bank N.V., Non-Executive Member of the Board of Directors of Airbus Group N.V., (formerly European Aeronautic Defense and Space Company N.V.), Chairman of the Supervisory Board of Addiko Bank (Austria), member of the Supervisory Board of Lefdal Mine Data Centre SA and member of the Supervisory Board of Stonebranch.
The number of positions held by Hermann-Josef Lamberti currently exceeds the maximum allowed under CRD IV. Steps are being taken to reduce the number of positions as required by CRD IV in the near future.

E.F.C.B. (Eric) Boyer de la Giroday

(Born 1952, Belgian nationality, male: appointed in 2014, term expires in 2018)
Former Vice-Chairman Management Board Banking ING Groep N.V. and ING Bank N.V.

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Groep N.V./ING Bank N.V. and Chairman of the Board of Directors of ING Belgium S.A./N.V.

Other relevant ancillary position:
Non-Executive Director of Instituts Internationaux de Physique et de Chimie fondé par Ernest Solvay, asbl.

H.W. (Henk) Breukink

(Born 1950, Dutch nationality, male; appointed in 2007, term expires in 2019)

Former Managing Director of F&C and country head for F&C Netherlands (asset management firm).

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Groep N.V./ING Bank N.V., Chairman of the Supervisory Board of NSI N.V. (real estate fund) and Non-Executive Director of Brink Groep B.V.

Other relevant ancillary position:
Chairman of the Supervisory Board of Stichting Hoger Onderwijs Nederland.

I. (Isabel) Martín Castellá

(Born 1947, Spanish nationality, female; appointed in 2013, term expires in 2017)
Former Vice-President and Member of the Management Committee of the European Investment Bank.

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Groep N.V./ING Bank N.V. and Member of the Supervisory Board of SACYR S.A.

Other relevant ancillary positions:
Member of the Advisory Board of NEINVER S.A. and Member of the Advisory Committee of GED Capital.

M. (Mariana) Gheorghe

(Born 1956, Romanian nationality, female, appointed in 2015, term expires in 2019)
Current Chief Executive Officer OMV Petrom S.A.

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Groep N.V./ING Bank N.V., Chief Executive Officer of OMV Petrom S.A., Chairwoman of the Supervisory Board of OMV Petrom Marketing SRL, Chairwoman of the Supervisory Board of OMV Petrom Gas SRL and Member of the Supervisory Board of OMV Petrom Global Solutions SRL.

A.C. (Ann) Sherry

(Born 1954, Australian nationality, female, appointed in 2016, term expires in 2020)
Former Chief Executive Officer Carnival Australia

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Groep N.V./ING Bank N.V., Member of the Supervisory Board ING Direct (Australia), Member of the Supervisory Board Sydney Airport Corporation and Member of the Supervisory Board The Palladium Group.

Other relevant ancillary position:
Chairwoman of Carnival Australia (advisory role).

R.W.P. (Robert) Reibestein

(Born 1956, Dutch nationality, male; appointed in 2012 as an observer, full member as of 2013, term expires in 2017)
Former senior partner of McKinsey & Company.

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Groep N.V./ ING Bank N.V. and Member of the Supervisory Board of IMC B.V.

Other relevant ancillary position:
Member of the Supervisory Board of Stichting World Wildlife Fund.

Changes in the composition
In April 2016, the General Meeting appointed Ann Sherry to the Supervisory Board, while Joost Kuiper resigned for health reasons from the Supervisory Board.

Financial reporting
A description of the main features of ING Group's internal control and risk management systems in relation to the financial reporting process is included in the statement with respect to Section 404 of the Sarbanes-Oxley Act on page 96, which is deemed to be incorporated by reference herein.

Change of control provisions
Legal provisions
Pursuant to the terms of the Dutch Financial Supervision Act, a declaration of no objection from the European Central Bank must be obtained by anyone wishing to acquire or hold a participating interest of at least 10 percent in ING Group and to exercise control attached to such a participating interest. Similarly, on the basis of indirect change of control statutes in the various jurisdictions where subsidiaries of ING Group are operating, permission from, or notification to, local regulatory authorities may be required for the acquisition of a substantial interest in ING Group.

Change of control clauses in material agreements
ING Group is not a party to any material agreement that becomes effective or is required to be amended or terminated, in case of a change of control of ING Group following a public bid as defined in section 5:70 of the Dutch Financial Supervision Act.

ING Group subsidiaries may have customary change of control arrangements included in agreements related to various business activities, such as joint-venture agreements, letters of credit and other credit facilities, ISDA-agreements, hybrid capital and debt instruments, insurance and reinsurance agreements and futures and option trading agreements. Following a change of control of ING Group (as a result of a public bid or otherwise) such agreements may be amended or terminated, leading, for example, to an obligatory transfer of the interest in the joint venture, early repayment of amounts due, loss of credit facilities or reinsurance cover, and liquidation of outstanding futures and option trading positions.

Severance payments to members of the Executive Board
The contracts entered into with the members of the Executive Board provide for severance payments, that become due upon termination of the applicable Executive Board member's contract, including if this occurs in connection with a public bid as defined in section 5:70 of the Dutch Financial Supervision Act. For purposes of calculating the amounts due, it is not relevant whether or not termination of the employment or commission contract is related to a public bid. Severance payments to the members of the Executive Board are limited to a maximum of one year's fixed salary, in line with the Corporate GovernanceCode.

Amendment of the Articles of Association
The General Meeting may resolve to amend the Articles of Association of ING Group, provided that the resolution is adopted based on a proposal of the Executive Board, which has been approved by the Supervisory Board. An amendment of the Articles of Association must be passed by notarial deed.

External auditor
At the Annual General Meeting held on 11 May 2015, KPMG was appointed as the external audit firm for ING Group for the financial years 2016 through 2019. This appointment includes the responsibility to audit the financial statements of ING Group for the financial year 2016, to audit the effectiveness of internal control over financial reporting on 31 December 2016, to report on the outcome of these audits to the Executive Board and the Supervisory Board and to provide an audit opinion on the financial statements of ING Group. Additionally KPMG performs a review of the sustainability information in the annual report to obtain limited assurance about whether this information is free from material misstatement.

The external auditor may be questioned at the Annual General Meeting in relation to its audit opinion on the financial statements. The external auditor will therefore attend and be entitled to address this meeting. The external auditor attended the meetings of the Audit Committee and Risk Committee and attended and addressed the 2016 Annual General Meeting, at which the external auditor was questioned on the audit opinion.

The external auditor may only provide services to ING Group and its subsidiaries with the permission of the Audit Committee.

ING Group provides the Audit Committee with a full overview of all services provided by the external auditor, including related fees, supported by sufficiently detailed information. This overview is periodically evaluated by the Audit Committee throughout the year.

More information on ING's policy on external auditor independence can be found at www.ing.com/16ar8.

Depositary receipts
Prior 26 July 2016, more than 99.9 percent of the issued ordinary shares were held by ING Trust Office ("Stichting ING Aandelen"). In exchange for these shares, ING Trust Office issued depositary receipts. These depositary receipts were listed on various stock exchanges (see page 63 for an overview of the listings). Depositary receipts could be exchanged upon request of the holders of depositary receipts for non-listed ordinary shares, without any restriction, other than payment of an administrative fee of one eurocent (EUR 0.01) per depositary receipt with a minimum of 25 euros (EUR 25.00) per exchange transaction.

The holder of a depositary receipt was entitled to receive from ING Trust Office payment of dividends and other distributions corresponding to the dividends and other distributions received by ING Trust Office on an ordinary share.

On 26 July 2016 the depositary receipts were exchanged for ordinary shares and ING Trust Office no longer holds any Shares in ING Group. As of this date, the depositary receipt holders of ING Group automatically became shareholders of ING Group and the depositary receipt structure was abolished as approved by the Annual General Meeting of 25 April 2016. The ADRs, representing bearer depositary receipts issued by ING Trust Office, which are listed at the New York Stock Exchange, represent ordinary shares in ING Group as of 26 July 2016.

Any reference to "shares" and "shareholders" in this Corporate Governance Chapter should also be read as a reference to "depositary receipt of shares" and "depositary receipt holders" that existed until 26 July 2016.

The Board of ING Trust Office reports on its activities through an annual report, which has been included on pages 90 to 92.

Voting on the ordinary shares by holders of depositary receipts as proxy of ING Trust Office during 2016

Although the depositary receipts for shares did not formally carry any voting rights, holders of depositary receipts, in practice, ranked equally with shareholders with regard to voting. ING Trust Office granted, subject to certain restrictions, a proxy to a holder of depositary receipts allowing such holder, in the name of ING Trust Office, to exercise the voting rights attached to the number of ordinary shares that corresponds to the number of depositary receipts held by such holder of depositary receipts. On the basis of such a proxy, the holder of depositary receipts could vote such shares according to his or her own discretion.

The following restrictions applied to the granting of voting proxies to holders of depositary receipts by ING Trust Office:

- The relevant holder of depositary receipts had to announce his or her intention to attend the General Meeting observing the provisions laid down in the Articles of Association.
- The relevant holder of depositary receipts could delegate the powers conferred upon him or her by means of the voting proxy, provided that the relevant holder of depositary receipts had announced his or her intention to do so to ING Trust Office observing a term before the commencement of the General Meeting, which term was determined by the ING Trust Office.

Voting instructions of holders of depositary receipts to ING Trust Office

Holders of depositary receipts not attending a General Meeting were entitled to give binding instructions to ING Trust Office, concerning ING Trust Office's exercise of the voting rights attached to the ordinary shares. ING Trust Office followed such instructions for such number of ordinary shares equal to the number of depositary receipts for shares held by the relevant holder of depositary receipts.

Voting on the ordinary shares by ING Trust Office

ING Trust Office had discretion to vote in respect of shares for which it had not issued voting proxies to holders of depositary receipts and had not received any voting instructions.

According to its articles of association and the Trust Conditions, ING Trust Office was guided primarily by the interests of the holders of depositary receipts, taking into account the interests of ING Group and its affiliated enterprises.

ING Trust Office promoted the solicitation of specific proxies or voting instructions by holders of depositary receipts. ING Trust Office encouraged the greatest possible participation of holders of depositary receipts and promoted the execution of voting rights in a transparent way. At the same time it prevented a minority of shareholders and holders of depositary receipts from using a chance majority of votes to the disadvantage of the shareholders and holders of depositary receipts neither present nor represented at a General Meeting of ING Group.

Report of ING Trust Office

The following report is issued in compliance with the provisions of article 14 of the trust conditions for registered shares in the share capital of ING Groep N.V. ("ING Group") and best-practice provision IV.2.6 of the Dutch Corporate Governance Code.

Object

The Stichting ING Aandelen (the "ING Trust Office"), a foundation organised under the laws of the Netherlands, was incorporated on 22 January 1991. The articles of association were most recently amended on 7 October 2010 (the "Articles of Association"). The most recent amendments of the trust conditions for registered shares in the share capital of ING Groep N.V. ("Trust Conditions") date from 26 July 2016.

The object of the Trust Office, as described in the Articles of Association, is as follows:

a. to acquire and administer against assignment of depositary receipts, registered shares in the capital of ING Groep N.V., a public limited company with its registered office in Amsterdam and any bonus shares which may be distributed thereon or shares acquired as stock dividend or by the exercise of subscription rights and to issue exchangeable depositary receipts for these shares, to exercise voting rights and all other rights attaching to the shares, to exercise subscription rights and to receive dividends and other distributions, including proceeds of liquidation, subject to the obligation to distribute the income to the holders of depositary receipts, with the understanding that depositary receipts shall be issued for bonus shares, shares acquired as stock dividend and shares acquired on behalf of holders of depositary receipts by virtue of the exercise of subscription rights;
b. to foster the exchange of information between ING Group on the one hand and the holders of depositary receipts and shareholders in ING Group on the other;
c. to promote the solicitation of proxies of shareholders other than the foundation itself and of specific proxies and/or voting instructions of holders of depositary receipts,
and further to engage in any activity which may be related to the foregoing in the widest sense, whereby all activities which entail commercial risk shall be excluded from the foundation's object.

Activities

Board meetings

During the 2016 Reporting Year, the board of ING Trust Office (the "Board") held seven meetings. The topics discussed in these meetings included:

- the Annual General Meeting of ING Group ("AGM") of 25 April 2016, the items on the agenda of the AGM, the proxy voting results and the voting by ING Trust Office during the AGM 2016;
- the annual report and the annual accounts of ING Trust Office, the results of the audit concerning the book year 2015 and the applicable accountancy rules;
- the corporate governance review of ING Group, including the preparation and the completion of the exchange of depositary receipts of ING Group into shares of ING Group;
- press releases of ING Group;
- the functioning of ING Trust Office and the composition of the board;
- the meeting and the preparation of the meeting of holders of depositary receipts of 25 April 2016;
- developments at ING Group on the basis of the quarterly report Q1 2016, the annual report of ING Group and the presentations of ING Group to analysts; and
- preparation of the meetings with the chairmen of the Executive Board and the Supervisory Board of ING Group on the basis of public information and press releases.

Meetings with ING Group

During the 2016 reporting year, the board had two meetings with the chairmen of the Executive Board and the Supervisory Board of ING Group. In these meetings, among other things, the following topics were discussed:

- the results of ING Group as reported in the annual report 2015 and the results of Q1 2016;
- the corporate governance review of ING Group, including the preparation and the completion of the exchange of depositary receipts of ING Group into shares of ING Group;
- the ratio requirements imposed by the ECB, Basel and the Financial Stability Board;
- the legal structure of ING;
- several topics of the agenda of the AGM 2016, such as the proposal to amend the corporate governance resulting in the abolishment of the depositary receipt structure and the share issue authorisation;
- risk related costs and exposure in certain countries;
- IT strategy and IT investments;
- the development of the cost/income ratio and of risk costs;
- impact of fintechs on the financial sector; and
- innovation.

Annual General Meeting ING Group 2016, votes cast and voting behaviour

ING Trust Office attended the AGM 2016 and during this meeting ING Trust Office gave an explanation of voting with respect to agenda item (5A) Corporate governance/ amendment of the Articles of Association and agenda item (9) Authorisation to issue ordinary shares. The explanation of voting is included in the adopted minutes of the AGM 2016, available on the website of ING Group (www.ing.com).

Votes cast

During the AGM 2016, holders of around 57 percent of the outstanding depository receipts used their voting right, either by means of binding voting instructions to ING Trust Office (around 56 percent of the outstanding depository receipts), or by attending the meeting in person or represented by a third party (around 1 percent of the outstanding depository receipts). A more detailed overview of these voting results can be found on the website of ING Group (www.ing.com).

In accordance with the Articles of Association and the Trust Conditions, ING Trust Office voted at its own discretion on the shares for which it did not issue voting proxies and for which it did not receive voting instructions, representing around 43 percent of the total votes that might be cast at the AGM 2016. In voting on these shares, ING Trust Office was guided primarily by the interests of all holders of depositary receipts, taking into account the interests of ING Group and its affiliated enterprise in accordance with article 4 of the Trust Conditions and the best-practice and best-practice provision IV.2.6 of the Dutch Corporate Governance Code. ING Trust Office voted on these shares in favour of all voting items on the agenda of the AGM.

Meeting of holders of depositary receipts on 25 April 2016

The board convened a meeting of holders of depositary receipts, which was held on 25 April 2016, shortly after the AGM 2016. Holders of 0,1 percent of the total number of depositary receipts issued were present or were represented during this meeting.

The main topic of this meeting was the decision of the Executive Board and the Supervisory Board to abolish the depositary receipt structure subject to the condition that the AGM resolved to amend the Articles of Association of ING Group. The board explained its intention to amend the Trust Conditions to facilitate a swift exchange of depositary receipts ING for ordinary shares ING.

Moreover a report was made on the activities of ING Trust Office and the board answered various questions from holders of depositary receipts attending the meeting. The minutes of the aforementioned meeting are published on the website of ING Trust Office (www.ingtrustoffice.com).

Abolition of depositary-receipts structure

As announced in the 2014 Annual Report of ING Group, ING Group conducted a review of the company's corporate governance, including the depositary receipt structure, in 2015. ING Trust Office was informed by and discussed with ING Group the key elements of the proposed amendments to the corporate governance. One of these elements was the proposal to abolish the depositary receipt structure. In this respect, ING Trust Office was informed that ING Group recognised the increased attendance rates at the AGM's over the past five years. During the years 2010-2016, participation of shareholders, other than ING Trust Office, and holders of depositary receipts in the decision-making process in annual general meetings of ING Group continually increased from 41.3 percent to around 57 percent. On average, the attendance rate was 54% over the past three years.

At the request of ING Group, ING Trust Office advised ING Group that it would cooperate in abolishing the depositary receipt structure if the AGM of 25 April 2016 adopted the proposed amendments of the Articles of Association. The AGM approved the proposed amendments of the Articles of Association of ING Group, which implied the abolition of the depositary receipt structure.

On 13 July 2016, the Board of ING Trust Office announced that the date of the conversion of depositary receipts for shares into ordinary shares and the amendment of the Trust Conditions had been set on 26 July 2016, (the "Conversion Date") being also the date of the amendment of the Articles of Association of ING Group.

As of the conversion of depositary receipts for shares into ordinary shares on the Conversion Date, the ING Trust Office no longer holds any shares in ING Group. As of this date, the depositary receipt holders of ING Group became shareholders of ING Group and the depositary receipt structure was abolished

The American depositary receipts, representing bearer depositary receipts issued by ING Trust Office, which are listed on the New York Stock Exchange, will be continued to represent ordinary shares ING Group as of the Conversion Date.

Depositary receipts

On 25 July 2016, the day before the Conversion Date, the nominal value of administered ordinary shares amounted to EUR 930,711,798 for which 3,877,965,825 depositary receipts were issued, each with a nominal value of EUR 0.24. During the reporting year, the net number of depositary receipts increased by 7,791,484.

The increase came about as follows:
Add:
conversion of shares into depositary receipts as of
1 January 2016 up to 25 July 2016:
7,792,484
Less:
conversion of depositary receipts into shares as of
1 January 2016 up to 25 July 2016:
1,000

Composition and remuneration board

The members of the board are appointed by the board itself for a maximum term of four years and may be reappointed twice. Holders of depositary receipts may make recommendations to the board on persons to be appointed as members of the board. In connection with this, the board informs them in a timely manner regarding the reason why, and according to which profile, a vacancy must be filled, and also in which manner a recommendation should take place.

The board consisted during the 2016 Report Year of Herman Hazewinkel, chairman, Mick den Boogert, Paul Frentrop, Harrie Noy and Jolanda Poots-Bijl.

The board re-appointed Harrie Noy for a second term as of 14 June 2016, ending on 13 June 2020. A profile and an overview of relevant positions held by the members of the board can be found on the website of ING Trust Office (www.ingtrustoffice.com). All members of the board stated that they meet the conditions regarding independence as referred to in the Articles of Association and in the Dutch Corporate Governance Code.

Harrie Noy and Jolanda Poots-Bijl stepped down on 31 December 2016. Herman Hazewinkel, chairman, Mick den Boogert, Paul Frentrop remain the members of the board in order to take care of a prudent winding down of ING Trust Office.

The annual remuneration for the chairman of the Board amounts EUR 25,000.00 and for the other members of the Board EUR 20,000.00 in 2016.

Costs

In 2016, the costs of the activities of ING Trust Office amounted to EUR 418,192 (2015 EUR 460,508).
An amount of EUR 204,250 (2015 EUR 282,430) is related to the costs of administration of the depository receipts. ING Trust Office was advised by a law firm in respect of the termination of the depositary receipt structure. The costs of the external advice amounted to EUR 54.904.

Other

The activities involved in the administration of shares are performed by Administratiekantoor van het Algemeen Administratie- en Trustkantoor B.V., Amsterdam until 26 July 2016.

Contact details

The contact details of ING Trust Office are:
Jet Rutgers
Telephone + 31 20 576 1226
Email: jet.rutgers@ing.nl
Website: www.ingtrustoffice.com

Amsterdam, 13 March 2017

Board of Stichting ING Aandelen

Report of ING Continuity Foundation

Stichting Continuïteit ING ("ING Continuity Foundation"), a foundation organised under the laws of the Netherlands, established in Amsterdam, was founded on 22 January 1991.

A call-option agreement concluded between ING Continuity Foundation and ING Groep N.V. ('ING Group') vests ING Continuity Foundation with the right to acquire cumulative preference shares in the share capital of ING Group up to a maximum of 4.571 billion cumulative preference shares. The acquisition of cumulative preference shares by ING Continuity Foundation is subject to the restriction that, immediately after the issue of cumulative preference shares, the total amount of cumulative preference shares may not exceed one-third of the total issued share capital of ING Group. If new shares other than cumulative preference shares are subsequently issued, ING Continuity Foundation may again exercise its right, subject to the provisions of the preceding sentence. On acquisition of cumulative preference shares, at least 25 percent of the nominal value must be paid on said shares.

In 2016 the board of ING Continuity Foundation (the "Board") held two meetings, on 5 April and 28 November.

The composition of the Board is currently as follows: Sebastian Kortmann, chairman of the Board, Rob van den Bergh, Allard Metzelaar, and Wim van Vonno. Sebastian Kortmann was reappointed as of 13 May 2016 as chairman.

All members of the Board stated that they meet the conditions regarding independence as referred to in the Articles of Association of ING Continuity Foundation.

Amsterdam, 13 March 2017

Board of Stichting Continuïteit ING

Conformity statement

The Executive Board is required to prepare the Annual Accounts and the Annual Report of ING Groep N.V. for each financial year in accordance with applicable Dutch law and those International Financial Reporting Standards (IFRS) that were endorsed by the European Union.

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

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

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

- the ING Groep N.V. 2016 Annual Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of ING Groep N.V. and the enterprises included in the consolidation taken as a whole; and
- the ING Groep N.V. 2016 Annual Report gives a true and fair view of the position at the balance sheet date, the development and performance of the business during the financial year 2016 of ING Groep N.V. and the enterprises included in the consolidation taken as a whole, together with a description of the principal risks ING Groep N.V. is being confronted with.

Amsterdam, 13 March 2017

R.A.J.G. (Ralph) Hamers
CEO, chairman of the Executive Board

P.G. (Patrick) Flynn
CFO, member of the Executive Board

W.F. (Wilfred) Nagel
CRO, member of the Executive Board

Section 404 Sarbanes-Oxley Act

Internal control over financial reporting

Due to the listing of ING shares on the new York Stock Exchange, ING Group is required to comply with the SEC regulations adopted pursuant op Section 404 of the Sarbanes-Oxley Act, SOX 404.

These regulations require that the Chief Executive Officer and the Chief Financial Officer of ING Group report and certify on an annual basis on the effectiveness of ING Group's internal controls over financial reporting. Furthermore, the external auditors are required to provide an opinion on the effectiveness of ING Group's internal controls over financial reporting.

SOX 404 activities are organised along the lines of the governance structure, and involve the participation of senior management across ING. Following the SOX 404 process, ING is in the position to publish an unqualified statement which denotes that the Company's internal control over financial reporting is effective as of 31 December 2016. The SOX 404 statement by the Executive Board is included on this page, followed by the report of the external auditor as issued on Form 20-F.

Changes in Internal Controls over Financial Reporting

In the assessment of the internal control over financial reporting for the year ended December 31, 2015, ING Group disclosed a material weakness related to the determination of specific accounting policies for certain aspects of the "anchor investment transaction" undertaken in connection with the July 2014 IPO of NN Group. ING remediated this material weakness by revising and clarifying its accounting policy controls related to complex divestiture transactions. With regards to transactions with a high degree of accounting complexity, ING enhanced the identification, evaluation and documentation of alternative accounting considerations and policy judgements, including the communication and dialogue throughout the chain of management and with the Audit Committee. Furthermore, based upon self-assessment of in-house accounting skills against transactions, management has applied additional technical skills and resources to such transactions, as appropriate.

Report of the Executive Board on internal control over financial reporting

The Executive Board is responsible for establishing and maintaining adequate internal control over financial reporting. ING's internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of ING;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorisations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use of disposition of our assets that could have a material effect on our financial statements.

Because if its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Executive Board assessed the effectiveness of our internal control over financial reporting as of 31 December 2016. In making this assessment, the Executive Board performed tests based on the criteria of the Committee of Sponsoring Organisations of the Treadway Commission ("COSO") in Internal Reporting - Integrated Framework (2013 framework). Based on the Executive Board's assessment and those criteria, the Executive Board concluded that the Company's internal control over financial reporting is effective as of 31 December 2016.

Our independent registered public accounting firm has audited and issued their report on ING's internal control over financial reporting, which appears on the following page.

Amsterdam, 13 March 2017

R.A.J.G. (Ralph) Hamers
CEO, chairman of the Executive Board

P.G. (Patrick) Flynn
CFO, member of the Executive Board

Report of independent registered public accounting firm

The Board of Directors and Stockholders ING Groep N.V.

We have audited ING Groep N.V.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). ING Groep N.V.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *"Report of the Executive Board on Internal Controls over Financial Reporting"*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with international financial reporting standards, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, ING Groep N.V. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ING Groep N.V. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated March 13, 2017 expressed an unqualified opinion on those consolidated financial statements.

Amstelveen, the Netherlands
March 13 2017

KPMG Accountants N.V.

Remuneration report

ING's remuneration policy forms an integral part of our strategy, performance culture and risk management framework. Its objective is to enable ING to retain and recruit expert leaders, senior staff and other highly qualified employees to ensure we meet our responsibilities towards stakeholders, now and in the future.

When looking at remuneration, our starting point is our position as a global financial institution in a rapidly changing marketplace.

ING is a global financial institution with a strong European base. Its more than 54,000 employees offer retail and wholesale banking services to customers in more than 40 countries. More than 70% of ING's employees work outside of the Netherlands, approximately 70% of total income is earned outside of the Netherlands and more than 95% of the investor base is non-Dutch.

Remuneration policy ING

ING's global remuneration policy complies with relevant international and local legislation and regulations. In determining compensation of ING's staff, we consider a variety of factors, including but not limited to:

- The complexity of work
- The scope of responsibilities
- The geographical location
- Risk alignment
- The (inter)national legal and regulatory landscape
- Perception in society
- Long-term objectives of ING and its stakeholders

These factors differ for each role, line of business and country.

Performance Management

There is a strong link between our remuneration approach and performance management. We have a comprehensive performance management process in place that aligns individual performance objectives to the strategy of ING and its annual priorities in order to build a sustainable and successful business for all our stakeholders.

Performance is assessed against financial and non-financial indicators. The targets that are individually determined should represent a balanced range of measures that support long-term sustainable performance of the organisation and should take full consideration of areas such as:

- Customer satisfaction, retention and growth
- Corporate social responsibility and sustainability
- Employee engagement, development and productivity
- Market share, growth rates, financial return and value creation
- Operational effectiveness and efficiency
- Compliance with risk management policies and all other internal policies and external legislation

The outcome of the performance assessment is linked to remuneration consequences such as moderate adjustments to fixed salary or variable remuneration awards (if appropriate).

Total direct compensation

ING aims to provide total direct compensation levels which, on average, are at the median of the markets in which we operate, benchmarked against relevant peer groups.

ING believes that in principle fixed remuneration should be considered sufficient to compensate employees for their daily work. For some positions limited variable remuneration opportunities apply.

Variable remuneration, where applicable, is primarily focused on long-term value creation and based on individual, business line and bank-wide performance criteria.

In line with the Capital Requirements Directive (CRD IV) and the Dutch Act on Remuneration Policies of Financial Undertakings (Wet beloningsbeleid financiële ondernemingen, or WBFO), any variable remuneration is based for at least 50% on non-financial performance and subject to maximum ratios of variable remuneration in relation to fixed remuneration for different categories of staff.

For Identified Staff (i.e. staff that are considered to have a material impact on the risk profile of ING, as selected on the basis of the Regulatory Technical Standards developed by the European Banking Authority,) a maximum of 60% of total variable remuneration is awarded upfront. The remaining part of the total variable remuneration (a minimum of 40%) is deferred. It is subject to a tiered vesting schedule over a period of three years. Both the upfront part and the deferred part are delivered at a maximum of 50% in cash and a minimum of 50% in shares (or other equity-linked instruments).

Shareholders' mandate

Under the WBFO, financial institutions are permitted to set a variable remuneration cap higher than 100% of fixed remuneration for staff outside the European Economic Area (EEA), provided that the higher cap is approved by their shareholders. In 2015, approval was given by the Annual General Meeting to increase the cap up to 200% in performance years 2014 to 2016 for no more than 1% of ING's staff globally.

Considering ING's international footprint and in order to maintain its competitive position, the Executive Board and the Supervisory Board wish to continue the possibility to apply increased caps outside the EEA.

In the Annual General Meeting on 8 May 2017 the shareholders will be asked to issue a new mandate to subsidiaries of ING, to increase the maximum percentage of variable remuneration compared to fixed remuneration from 100% up to 200%. The mandate will be requested for a period of five performance years, starting in 2017, and can only be applied to staff outside the EEA working in the Corporate Staff, Wholesale Banking and Retail Banking business lines. The total number of staff that may be awarded more than 100% variable remuneration will constitute no more than 1% of the global ING staff base. The increased caps will not limit the ability of ING to strengthen its capital base.

Risk mitigating measures

Our remuneration policy takes into consideration risk, capital, liquidity and the likelihood and timing of earnings. Based on applicable remuneration regulations, specific risk adjustment mechanisms must be applied in the pay-out process of variable remuneration. To this end, ING operates a so called pre-award and post-award assessment process when determining any variable remuneration.

The pre-award risk assessment process aims to consider the full range of any current and potential future risks. As part of this process, ING takes into account both company, business line and individual performance. In addition, it applies a solvency test and a RoE test. Risk requirements are set for all Identified Staff holding risk taker roles, setting the minimum standard to be reached during the performance year. Deviation from this may lead to full or partial reduction of variable remuneration via a so called risk modifier.

The post-award assessment process includes an analysis as to whether the outcomes of the initial pre-award risk assessment process were correct, providing ING with a mechanism to adjust any variable remuneration downwards. ING can apply holdback up to 100% of the awarded and unvested deferred variable remuneration, or clawback up to 100% of the paid and/or vested variable remuneration from any (current or ex-) staff member. Any decision to apply holdback or clawback is at the discretion of the ING Supervisory Board.

To ensure the autonomy of staff in control functions (such as risk management functions), financial performance metrics are dependent on objectives determined at the next higher organisational level (i.e. not at the level of the business they directly control) and the functional line is in the lead for the performance assessment.

2016 Remuneration

The total amount of variable remuneration awarded to all employees over 2016 was EUR 386 million, compared to total staff expenses of EUR 5,039 million. Variable remuneration includes both individual and collective variable remuneration, such as profit-sharing arrangements agreed with relevant trade unions.

In 2016, there were 17 employees, working in the Corporate Staff, Wholesale Banking and Retail Banking business lines, to whom total annual remuneration (fixed and variable remuneration including employer pension contributions) of EUR 1 million or more was awarded. The majority of these employees (excluding the Executive Board) work outside the Netherlands.

Remuneration policy for the Executive Board

The Executive Board remuneration policy is in line with the remuneration principles that apply to all staff, consisting of a combination of fixed and variable remuneration (together “total direct compensation”), including pension arrangements and benefits as described below.

The performance targets for the Executive Board are pre-determined annually by the Supervisory Board to support delivery of the ING strategy.

The current remuneration policy for the Executive Board was adopted by the Annual General Meeting (AGM) on 27 April 2010. Amendments to this policy were adopted by subsequent AGMs:

- On 9 May 2011 in response to new regulatory requirements.
- On 12 May 2014 with respect to pensions.
- On 11 May 2015 in order to lower the maximum variable remuneration in line with legal requirements and specify that variable remuneration be paid fully in shares.

Total direct compensation

The Executive Board remuneration policy aims to award total direct compensation slightly below the median of comparable positions in the chosen peer group.

Bearing in mind international scope, complexity, revenue, assets and market capitalisation, the companies in the Euro Stoxx 50 index are the appropriate peer group for ING. The index comprises 50 companies, including ING, in a range of financial and non-financial industries from 12 countries within the Eurozone, mainly operating in an international context. Total direct compensation is determined in line with the relevant international market environment and reviewed periodically by the Supervisory Board. ING’s Executive Board remuneration policy is compliant with applicable laws and regulations, including the WBFO, the Dutch Banking Code and the Dutch Corporate Governance Code.

Variable remuneration

In line with legal requirements, variable remuneration for the members of the Executive Board is limited to a maximum of 20% of base salary at the time of award. It is based for at least 50% on non-financial performance criteria and fully paid out in shares. We do not pay variable remuneration in cash.

The policy provides for an at-target variable remuneration of 16% of base salary if performance criteria are met. If performance criteria are exceeded, the variable component can be increased by the Supervisory Board from target to maximum, but may not exceed 20% of base salary at the time of award. If performance is below target, the variable component will be decreased, potentially down to zero.

The Executive Board remuneration policy combines the short- and long-term variable components into one structure, aiming to support both long-term value creation and short-term company objectives. The emphasis on long-term performance indicators within the variable component of the compensation package is increased by means of deferral, retention, holdback and clawback mechanisms.

In line with applicable regulations, a maximum of 40% of total variable remuneration is awarded "upfront" in the year following the performance year. The remaining part of the total variable remuneration (a minimum of 60%), is deferred. It is subject to a tiered vesting on the first, second and third anniversary of the grant date (one-third per annum).

The entire variable remuneration is subject to post-award assessment by the Supervisory Board. The post-award assessment cannot lead to an upward adjustment of the deferred variable remuneration.

Both the upfront part of the variable remuneration and all deferred parts are fully awarded in shares. A retention period of five years from the date of grant applies to all share awards granted to Executive Board members in their capacity as Board member. However, they are allowed to sell part of their shares on the date of vesting to pay tax on the vested share award.

Pension

As of 1 January 2015, all members of the Executive Board participate in the Collective Defined Contribution (CDC) pension plan with respect to their salary up to a certain amount. As of 1 January 2016 this amount was set at EUR 101,519 per year. As is the case with all employees who earn a salary above that amount per year, the Executive Board members are compensated for the lack of pension accrual by means of a savings allowance to be annually determined (see further details on page 101).

Benefits

Executive Board members are eligible for additional benefits (e.g. the use of company cars, contributions to company savings plans and, if applicable, expatriate allowances) as well as banking and insurance benefits from ING in the ordinary course of their business. These additional benefits are provided on the same terms that apply to other employees of ING in the Netherlands. In addition, tax and financial planning services are provided to ensure compliance with the relevant legislative requirements.

Tenure

Members of the Executive Board who were appointed prior to 2013 have an employment agreement with ING Groep N.V. Members who have been appointed as of 2013 have a commission contract. The employment agreement and the commission contract for Executive Board members are for an indefinite period of time and provide for an initial appointment for a period of four years, with the possibility of reappointment by the AGM. In the case of an involuntary exit, Executive Board members are eligible for an exit arrangement limited to a maximum of one year of base salary.

Supervisory Board discretion to review the policy and the remuneration paid

Within the Executive Board remuneration policy as adopted by the AGM and as described here, the Supervisory Board annually determines the actual remuneration for the Executive Board members based on the advice given by the Supervisory Board Remuneration Committee.

It is the responsibility of ING's Supervisory Board to take into account the interests of all stakeholders, as well as business continuity and sustainable growth, when determining the Executive Board's remuneration.

The legal, regulatory and market environment is continuously changing and this may further impact ING. In order to ensure that ING can adapt to these dynamic and uncertain factors, the Supervisory Board will continue to re-evaluate the Executive Board remuneration policy as and when required.

The Supervisory Board has the authority to impose holdback and/or clawback on variable remuneration awarded to a member of the Executive Board based on the same criteria that apply to all staff within ING (including inaccurate data and/or behaviour that led to significant harm to ING). The Supervisory Board also has the authority to adjust variable remuneration if application of the predetermined performance criteria results in undesired outcomes. The Supervisory Board has decision-making authority in situations not addressed in the policy.

Special employment conditions

Special employment conditions, such as commitments required to secure the recruitment of new executives, may be used in exceptional circumstances, subject to approval by the Supervisory Board.

2016 Remuneration Executive Board

The Executive Board remuneration for 2016 is in accordance with the Executive Board remuneration policy, with the exception of the alignment to the benchmark. The policy as approved by the AGM, specifies that total direct compensation should be slightly below the median of comparable positions in the Euro Stoxx 50 peer group. However, - as the tables show on page 103 - the actual total direct compensation for the Executive Board, particularly for the CEO, is significantly below the median.

2016 Executive Board base salary

In 2016, the Supervisory Board slightly increased the total (at target) remuneration of all Executive Board members by 2% with effect from 1 January 2016. Please see the first table on page 102 for more information.

2016 Performance indicators Executive Board

As indicated in the remuneration policy, the performance of the Executive Board is assessed based on financial and non-financial indicators. For 2016, performance indicators applied included the following:

Performance indicators

Non-financial performance indicators	Financial performance indicators
• Think Forward Strategy: improving customer experience and enabling commercial growth • Strengthening ING's high performance culture through the Step Up Performance Management and Think Forward Leadership programmes • Delivering multiple, innovative products to create a differentiating customer experience • Growing the number of primary retail customers • Enhancing Finance and Risk capabilities and optimising their organisation • Driving digital transformation to improve customer experience and realise further efficiency gains • Increasing sustainable transitions financing, strengthening environmental and social risk management and increasing empowerment scores (i.e. number of people who feel empowered by ING)	• Underlying net result bank • Underlying return on IFRS equity ING Bank • Common equity Core Tier 1 ratio ING Bank • Underlying operating expenses • Underlying cost/income ratio

2016 Executive Board performance evaluation

On the next page, a table is included highlighting key achievements collectively accomplished by the Executive Board in 2016 in the areas of strategy implementation, capability development, innovation, sustainability and ING's (financial) performance. The table includes both financial and non-financial achievements against the overall ambitions of ING and the specific performance indicators agreed with the Supervisory Board at the beginning of 2016.

Key achievements	
Strategy implementation	• **Accelerated** the **Think Forward** strategy to further improve the customer experience, further grow the number of primary customers and lending and increase efficiency. • **Launched** four major programmes to drive **digital transformation** (i.e. Orange Bridge, Model Bank, Welcome and WB TOM), while converging towards a global scalable banking platform. • Adopted **One Way of Working** to increase management understanding of the integrated network and realise delayering throughout the organisation. • Ranked **number one** in **Net Promoter Scores** relative to competitors in 7 of 13 retail markets.
Capability development	• Invested in **capability building** of senior leaders at Management Board level and two hierarchical levels below, as well as all employees in Spain and senior managers in Belgium, ahead of a global roll-out in 2017 of the **Step Up Performance Management** programme. • Developed the **Think Forward Leadership Programme** to support ING's leaders in executing the Think Forward strategy in a manner desired by ING, with roll out planned to all leaders and managers around the world. • Enhanced overall organisation of the **Finance and Risk functions** in part through progress on the target operating model projects for risk and finance and through leadership planning combined with management delayering.
Innovation	• Introduced insightful financial tools that make banking easier and more accessible for customers, including: ▪ Mobile payments via **Payconiq**: just under 16,000 activated merchants. ▪ ING Direct Spain's service **Twyp Cash** to withdraw money via smartphone: over 200,000 registered users in Spain. ▪ **Instant Lending:** Consumer loan production in Romania increased by 70% since 2015; Digital loan production in Poland increased by 45%. ▪ **Moje ING** in Poland for managing personal finances: in 2016 the number of users increased fourfold compared to 2015. • Improved ING's innovation capabilities through partnering with more than 65 **fintechs** and ongoing internal efforts such as training more than 2,000 professionals in ING's own innovation methodology called **PACE**.
Sustainability	• **Sustainable transitions financed** increased to EUR 34.3 billion (2020 ambition: EUR 35 billion of sustainable transitions). • **Financially empowered** 23.9 million people (2020 ambition: to make 25 million people feel financially empowered). • Demonstrated **excellent performance on sustainability** in the ratings (e.g. ranked as number one Sustainable Bank out of 395 publicly listed banks by sustainability research leader Sustainalytics and scored 90 out of 100 in the Dow Jones Sustainability Indexes compared to an average industry score of 61).
ING's (financial) performance	• **Increased** number of new retail customers by 1.4 million to 35.8 million; number of primary relationships up by 0.7 million to 9.7 million. • **Grew** core lending by EUR 34.8 billion (6.5%); increased customer deposits by EUR 28.5 billion (5.6%). • **Achieved** underlying net profit of ING Bank of EUR 4,976 million, up 17.9% from 2015. • **Realised** underlying return on equity for ING Bank of 11.6% for 2016, up from 10.8% in 2015. • **Increased** CET1 ratio of ING Group and ING Bank to 14.2% and 12.6% respectively. • Underlying operating expenses (excluding regulatory costs) were **stable** at EUR 8.6 billion. • **Improved** underlying cost/income ratio to 54.2% from 55.9% in 2015.

2016 Executive Board variable remuneration

The performance of the Executive Board is evaluated against financial and non-financial performance indicators. Variable remuneration in 2016 of the CFO and CRO was based for more than 75% on non-financial performance indicators. The variable remuneration in 2016 for the CEO was based for more than 50% on non-financial performance indicators. As evidenced by the table on the previous page, the collective performance of the Executive Board members was broadly ahead of target. There were minor differences in achievement of personal targets, this explains why variable remuneration for the CEO was set at 19%, for the CFO at 18% and for the CRO at 18%.

The table below shows the remuneration awarded to the individual members of the Executive Board with respect to the performance years 2016, 2015 and 2014.

Total direct compensation of the individual members of the Executive Board

		2016		2015		2014
amounts in thousands of euros	amount	number of shares	amount	number of shares	amount	number of shares
Ralph Hamers						
Base salary	1,663		1,630		1,270	-
Variable remuneration (fully in shares) [1]	316	23,092	293	28,404	-	-
Patrick Flynn						
Base salary	1,204		1,180		772	
Variable remuneration (fully in shares) [1]	217	15,838	153	14,850	-	-
Wilfred Nagel						
Base salary	1,204		1,180		772	
Variable remuneration (fully in shares) [1]	217	15,838	189	18,278	-	-

1 The number of shares is based on the average ING stock price on the day on which the 2016 year-end results were published. The shares will be awarded in May 2017.

In 2016, no holdback or clawback was applied to paid, unvested or vested variable remuneration of any of the Executive Board members. The total direct compensation of former members of the Executive Board amounted to nil for 2016, nil for 2015 and nil for 2014.

Pension costs

In 2015 and 2016, members of the Executive Board participated in the Collective Defined Contribution (CDC) pension plan as part of the Executive Board remuneration policy. In 2014 the Executive Board participated in the Dutch Defined Contribution Pension Plan.

The table below shows the pension costs of the individual members of the Executive Board in 2016, 2015 and 2014.

Pension costs of the individual members of the Executive Board

amounts in thousands of euros	2016 [2]	2015 [1]	2014
Ralph Hamers	26	25	230
Patrick Flynn	26	25	159
Wilfred Nagel	26	25	187

1 As from 1 January 2015 pension accrual only applies to salary up to an amount of EUR 100,000.
2 As from 1 January 2016, this amount increased to EUR 101,519.

Benefits

The individual members of the Executive Board receive other emoluments, including savings allowances for the loss of pension benefits for salary above EUR 101,519, employer contributions to savings schemes, reimbursement of costs related to home/work commuting, costs associated with company cars and housing (for expats).

The other emoluments amounted in 2016, 2015 and 2014 to the following costs:

Other emoluments

amounts in thousands of euros	2016	2015 [1]	2014
Ralph Hamers	553	473	45
Patrick Flynn	403	433	178
Wilfred Nagel	370	322	34

1 The significant increase in 2015 results from the introduction of savings allowances to compensate for the loss of pension accrual for salary above EUR 100,000 and the increase in base salaries in that year.

Long-term incentives awarded in previous years

In 2016, no long-term incentives (other than the shares disclosed in the first table on page 102), were awarded to the Executive Board members.

The long-term incentive plan (LTIP) in place at ING until 2010 included employee stock options and performance shares. The ING employee stock options have a total term of 10 years and a vesting period of three years, after which they can be exercised during the remaining seven years.

A retention period of five years from the grant date applies to all share and employee stock option awards granted to Executive Board members. During this five-year period, the Executive Board members are only allowed to sell part of their shares on the date of vesting to pay tax on the vested amount of the award.

Employee stock options

The table below contains information on the outstanding employee stock options and the movements during the financial year of employee stock options held by the members of the Executive Board as of 31 December 2016, which were all awarded to these board members in roles within ING prior to their appointment to the Executive Board.

Options held by the members of the Executive Board

Number of options	Outstanding as at 31 December 2015	Exercised in 2016	Waived or expired in 2016	Outstanding as at 31 December 2016	Grant price in euros	Vesting date	Expiry date
Ralph Hamers	8,504	0	8,504	0	€ 25.16	23 Mar 2009	23 Mar 2016
	14,889	0	0	14,889	€ 24.72	22 Mar 2010	22 Mar 2017
	16,957	0	0	16,957	€ 16.66	13 Mar 2011	13 Mar 2018
	19,985	0	0	19,985	€ 2.90	19 Mar 2012	19 Mar 2019
	22,124	0	0	22,124	€ 7.35	17 Mar 2013	17 Mar 2020
Patrick Flynn	0	0	0		-	-	-
Wilfred Nagel	11,721	0	11,721	0	€ 25.16	23 Mar 2009	23 Mar 2016
	9,530	0	0	9,530	€ 24.72	22 Mar 2010	22 Mar 2017
	12,436	0	0	12,436	€ 16.66	13 Mar 2011	13 Mar 2018

Shares

Deferred shares are shares conditionally granted, with the final shares awarded in three years (tiered), of which the ultimate value of each deferred share will be based on ING's share price on the vesting date.

For the Executive Board members the following shares vested during 2016:

Shares vested for the Executive Board during 2016

	Shares	Granting date	Vesting date	Nr. of shares granted	Nr. of shares vested	Vesting price
Ralph Hamers [1]	LSPP Deferred share units[2]	27 March 2014	27 March 2016	828	828	€ 10.95
	LSPP Deferred share units[2]	27 March 2013	27 March 2016	3,441	3,441	€ 10.95
	LSPP Deferred share units[2]	28 March 2012	28 March 2016	3,512	3,512	€ 10.95
	LSPP Upfront shares	11 May 2016	11 May 2016	11,362	11,362	€ 10.39
Patrick Flynn	LSPP Upfront shares	11 May 2016	11 May 2016	5,940	5,940	€ 10.39
Wilfred Nagel	LSPP Deferred shares[3]	15 May 2013	15 May 2016	2,489	2,489	€ 10.30
	LSPP Upfront shares	11 May 2016	11 May 2016	7,311	7,311	€ 10.39

1 Shares granted to Ralph Hamers in March 2013 and 2014 were awarded for his performance in positions prior to his appointment to the Executive Board.
2 Upfront or deferred share units of Ralph Hamers are cash settled instruments, the ultimate value of which will be based on ING Group's share price at the vesting date.
3 Shares granted to Wilfred Nagel in 2012 and 2013 were awarded for his performance in positions prior to his appointment to the Executive Board.

Loans and advances to Executive Board members

The table below presents the loans and advances provided to Executive Board members and outstanding on 31 December 2016, 2015 and 2014.

Loans and advances to individual members of the Executive Board

amounts in thousands of euros	2016			2015			2014		
	Amount outstanding 31 December	Average interest rate	Repay-ments	Amount outstanding 31 December	Average interest rate	Repay-ments	Amount outstanding 31 December	Average interest rate	Repay-ments
Ralph Hamers	2,499	2.6%	0	2,499	2.5%	0	2,499	2.5%	98
Patrick Flynn	0	0	0	0	0	0	0	0	0
Wilfred Nagel	350	2.6%	150	500	2.0%	0	500	2.2%	250

ING shares held by Executive Board members

Executive Board members are encouraged to hold ING shares as a long-term investment to maintain alignment with ING. The table below shows an overview of the shares held by members of the Executive Board at 31 December 2016, 2015 and 2014.

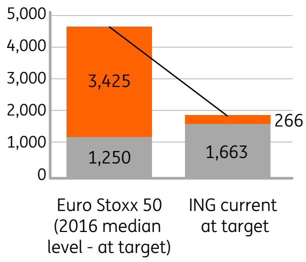
ING shares held by members of the Executive Board

number of shares	2016	2015	2014
Ralph Hamers	50,216	44,182	44,182
Patrick Flynn	89,134	85,084	85,084
Wilfred Nagel	122,334	115,707	81,285

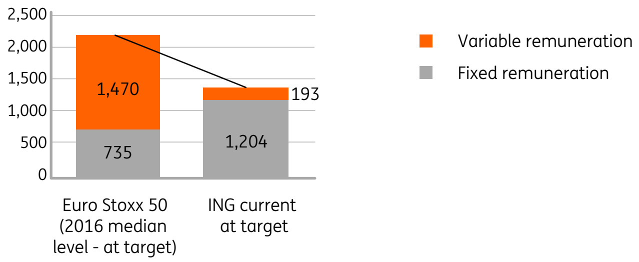
2017 Remuneration Executive Board

In the diagrams below, the median 2016 total (at target) remuneration is shown for the CEO and other Executive Board positions in the Euro Stoxx 50.

CEO
amounts in thousands of euros



CFO and CRO
amounts in thousands of euros



Current remuneration levels of the ING Executive Board are below the median of the Euro Stoxx 50 benchmark, and in the case of the CEO position, even significantly below. This remains a concern. ING needs to be able to attract and retain the best (international) talent for its Executive Board. It is ING's aim to further reduce the gap between the total direct compensation of ING's Executive Board and the median of the Euro Stoxx 50 peer group over time. In determining executive remuneration, the ING Supervisory Board is aware of the public debate surrounding this topic and strives to balance all stakeholder interests.

In this context, the Supervisory Board has decided to slightly increase the total (at target) remuneration of the CEO by 3% with effect from 1 January 2017. The remuneration of the other Executive Board members will remain the same.

In accordance with guidelines issued by the European Banking Authority (EBA), the variable remuneration of the members of the Executive Board will, as from 2017, be subject to tiered vesting over a period of five years. This will be applied for the first time in 2018 with regard to variable remuneration earned for the performance year 2017.

The Supervisory Board will continue to monitor the development of international remuneration policies and the benchmarks and will continue to support the Executive Board remuneration policy of compensating slightly below the median of the Euro Stoxx 50 benchmark. As such, annual reviews will be held and trends monitored.

Remuneration Supervisory Board

Supervisory Board remuneration policy

On 25 April 2016, the AGM approved a new remuneration policy for the Supervisory Board. The policy aims to:

- Move to a simpler and more transparent structure
- Bring remuneration levels more in line with peers and with levels adequate to attract qualified (international) Supervisory Board members
- Further align remuneration with increased responsibilities and time spent

The current Supervisory Board remuneration structure is set out in the below table:

Supervisory Board remuneration structure

Amounts in thousands of euros	
Annual remuneration	
Chairman Supervisory Board	125
Vice Chairman Supervisory Board	95
Supervisory Board Member	70
Committee fees (annual amounts)	
Chairman Committee (excluding Corporate Governance Committee)	20
Member Committee (excluding Corporate Governance Committee)	10
Chairman Corporate Governance Committee	7,5
Member Corporate Governance Committee	5
Attendance fees (per meeting)	
Attendance fee outside country of residence	2
Attendance fee outside continent of residence	7,5

In addition, members of the Supervisory Board are reimbursed for travel and business expenses.

2016 Remuneration Supervisory Board

The table below shows the remuneration, including attendance per Supervisory Board member.

2016 Remuneration Supervisory Board

	2016		2015		2014	
amounts in thousands of euros	Remuneration	VAT [1]	Remuneration	VAT	Remuneration	VAT
Jeroen van der Veer	178	37	122	26	118	25
Henk Breukink	115	24	83	17	76	16
Joost Kuiper [2]	30	6	81	17	93	19
Mariana Gheorghe [3]	98		40			
Robert Reibestein	114	24	76	16	78	16
Hermann-Josef Lamberti	149		111		81	
Isabel Martín Castellá	114		92		87	
Eric Boyer de la Giroday	114		92		53	
Ann Sherry [4]	85					

1 As of 2013, the remuneration of members of the Supervisory Board living in the Netherlands is subject to VAT.
2 Joost Kuiper left the Supervisory Board as of 25 April 2016. The remuneration figures for 2016 reflect a partial year as a member of the Supervisory Board.
3 Mariana Gheorghe is a member of the Supervisory Board as of 11 May 2015. The remuneration figures for 2015 reflect a partial year as a member of the Supervisory Board.
4 Ann Sherry is a member of the Supervisory Board as of 25 April 2016. The remuneration figures for 2016 reflect a partial year as a member of the Supervisory Board.

Compensation of former members of the Supervisory Board who are not included in the table above amounted to nil in 2016, 62,000 in 2015 and EUR 309,000 in 2014.

Loans and advances to Supervisory Board members

Supervisory Board members may obtain banking and insurance services from ING Group subsidiaries in the ordinary course of their business and on terms that are customary in the sector. The Supervisory Board members do not receive privileged financial services. Currently there are no loans and advances outstanding to Supervisory Board members.

ING shares and employee stock options held by Supervisory Board members

Supervisory Board members are permitted to hold ING shares as a long-term investment. The table below shows the holdings by members of the Supervisory Board at 31 December 2016, 2015 and 2014.

ING shares held by the members of the Supervisory Board

number of shares	2016	2015	2014
Jeroen van der Veer	119,469	119,469	119,469
Hermann-Josef Lamberti	5,700	5,700	5,700
Eric Boyer de la Giroday	47,565	47,565	43,094

The following table contains information on the employee stock options outstanding by, and awards vested for, the members of the Supervisory Board.

Employee stock options on ING Groep N.V. shares held by members of the Supervisory Board at 31 December 2016

number of stock options	Outstanding as at 31 December 2016	Expired in 2016	Outstanding as at 31 December 2015	Expired in 2015	Outstanding as at 31 December 2014	Expired in 2014
Eric Boyer de la Giroday	226,864	92,984	319,848	69,542	389,390	23,181

Works councils

Central works council Bank (COR) December 2016

L.G. (Bert) Woltheus, ***chairman***
J. (Yoap) Brugmann, ***deputy chairman***
F.E. (Ferry) van Wezel, ***secretary***
Yvonne Vork ***(Works council Support)***

Edward Boeijenga
W. (Wim) van den Brink
G.F. (Gerard) Dekkers
P.E. (Egon) Gijsbers
Michiel van Lagen
Arie Noomen
M.A. (Margriet) Pel
Wouter Rietveld
Michel Rutte
Marinus Stoffers
Erik Timmerman

European works council December 2016

Austria: O. (Otmar) Haneder
Belgium: J.P. (Jean Pierre) Lambert, H. (Herman) van Eesbeek, F. (Franck) Goethals, Ahmed Sanhayi
Bulgaria: A. (Andrew) Nitov
Czech: Lukas Jenicek
Germany: N. (Norbert) Lucas, (chairman), Andre Fioritto
Hungary: G. (Géza) Bodor (deputy chairman)
Italy: C (Claudio) Casazza
Luxembourg: A. (Alain) Back,
Netherlands: Michel Rutte (secretary), Jan van Hest, Maarten Kramer, Bert Woltheus, Judith Roosken
Poland: M. (Mariusz) Cieslik, Jakub Dzianowicz, Arthur Banasik
Romania: Adrian Piscu, Magdalena Nitu
Slovakia: Miroslav Fliega
Spain: Santiago Hernanz Gomez, Francisco Javier Díaz Mosquera (deputy secretary)
United Kingdom: Mark Foley
Works council support: Miriam Rozenbrand, Karin van de Schouw

Contents

Consolidated annual accounts

Parent company annual accounts

Other information

Additional information

Consolidated statement of financial position

as at 31 December

in EUR million	2016	2015	2014
Assets			
Cash and balances with central banks 2	18,144	21,458	12,233
Loans and advances to banks 3	28,858	29,988	37,119
Financial assets at fair value through profit or loss 4			
– trading assets	114,504	131,467	136,959
– non-trading derivatives	2,490	3,347	4,384
– designated as at fair value through profit or loss	5,099	3,234	2,756
Investments 5			
– available-for-sale	82,912	87,000	95,402
– held-to-maturity	8,751	7,826	2,239
Loans and advances to customers[1] 6	563,660	700,807	703,279
Investments in associates and joint ventures 7	1,141	962	953
Property and equipment 8	2,002	2,027	2,100
Intangible assets 9	1,484	1,567	1,655
Current tax assets	314	322	289
Deferred tax assets 36	1,000	814	1,145
Other assets 10	14,722	12,261	12,612
Assets held for sale 11		2,153	165,532
Total assets	**845,081**	**1,005,233**	**1,178,657**
Liabilities			
Deposits from banks 12	31,964	33,813	29,999
Customer deposits[1] 13	522,942	664,241	669,672
Financial liabilities at fair value through profit or loss 14			
– trading liabilities	83,167	88,807	97,091
– non-trading derivatives	3,541	4,257	6,040
– designated as at fair value through profit or loss	12,266	12,616	13,551
Current tax liabilities	546	590	450
Deferred tax liabilities 36	919	643	860
Provisions 15	2,028	964	1,017
Other liabilities 16	16,852	13,132	13,919
Debt securities in issue 17	103,234	121,289	126,352
Subordinated loans 18	17,223	16,411	18,158
Liabilities held for sale			142,132
Total liabilities	**794,682**	**956,763**	**1,119,241**
Equity 19			
Share capital and share premium	16,989	16,982	16,971
Other reserves	5,897	5,759	11,213
Retained earnings	26,907	25,091	23,160
Shareholders' equity (parent)	**49,793**	**47,832**	**51,344**
Non-controlling interests	606	638	8,072
Total equity	**50,399**	**48,470**	**59,416**
Total liabilities and equity	**845,081**	**1,005,233**	**1,178,657**

1 Loans and advances to customers and Customer deposits, as at 31 December 2015 and 2014, are adjusted as a result of a change in accounting policies. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies in 2016.

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.
Reference is made to Note 1 'Accounting policies' for information on Changes in presentation of the Consolidated annual accounts and related notes.

Consolidated statement of profit or loss

for the years ended 31 December

in EUR million	2016	2016	2015	2015	2014	2014
Continuing operations						
Interest income	44,182		46,321		48,169	
Interest expense	–30,941		–33,760		–35,865	
Net interest income 20		13,241		12,561		12,304
Commission income	3,581		3,411		3,297	
Commission expense	–1,148		–1,093		–1,004	
Net commission income 21		2,433		2,318		2,293
Valuation results and net trading income 22		1,134		1,283		297
Investment income 23		421		123		236
Share of result from associates and joint ventures 7		88		492		138
Result on disposal of group companies 24		1		2		195
Other income 25		173		66		97
Total income		**17,491**		**16,845**		**15,560**
Addition to loan loss provisions 6		974		1,347		1,594
Staff expenses 26		5,039		4,972		5,788
Other operating expenses 27		5,575		4,354		4,471
Total expenses		**11,588**		**10,673**		**11,853**
Result before tax from continuing operations		**5,903**		**6,172**		**3,707**
Taxation 36		1,618		1,637		971
Net result from continuing operations		**4,285**		**4,535**		**2,736**
Discontinued operations 28						
Net result from discontinued operations				793		746
Net result from classification as discontinued operations				3		–470
Net result from disposal of discontinued operations		441		–918		–1,572
Total net result from discontinued operations		**441**		**–122**		**–1,296**
Net result (before non-controlling interests)		**4,726**		**4,413**		**1,440**
Net result attributable to Non-controlling interests		75		403		189
Net result attributable to Equityholders of the parent		**4,651**		**4,010**		**1,251**

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Reference is made to Note 1 ‘Accounting policies’ for information on Changes in presentation of the Consolidated annual accounts and related notes.

Consolidated profit or loss account of ING Group - continued

in EUR million	2016	2015	2014
Net result attributable to Non-controlling interests			
– from continuing operations	75	69	79
– from discontinued operations		334	110
	75	**403**	**189**
Net result attributable to Equityholders of the parent			
– from continuing operations	4,210	4,466	2,657
– from discontinued operations	441	–456	–1,406
	4,651	**4,010**	**1,251**

in EUR	2016	2015	2014
Earnings per ordinary share 29			
Basic earnings per ordinary share	1.20	1.04	0.13
Diluted earnings per ordinary share	1.20	1.03	0.13
Earnings per ordinary share from continuing operations 29			
Basic earnings per ordinary share from continuing operations	1.09	1.16	0.50
Diluted earnings per ordinary share from continuing operations	1.09	1.15	0.49
Dividend per ordinary share **30**	0.66	0.65	0.12

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Reference is made to Note 1 ‘Accounting policies’ for information on Changes in presentation of the Consolidated annual accounts and related notes.

Consolidated statement of comprehensive income

for the years ended 31 December

in EUR million	2016	2015	2014
Net result (before non-controlling interests)	4,726	4,413	1,440
Other comprehensive income			
Items that will not be reclassified to the statement of profit or loss:			
Unrealised revaluations property in own use	5	35	–30
Remeasurement of the net defined benefit asset/liability 35	–65	24	–289
Items that may subsequently be reclassified to the statement of profit or loss:			
Unrealised revaluations available-for-sale investments and other revaluations	61	–414	6,981
Realised gains/losses transferred to the statement of profit or loss	–146	–92	–139
Changes in cash flow hedge reserve	77	–724	2,394
Transfer to insurance liabilities/DAC		601	–2,146
Exchange rate differences	–254	1,697	2,374
Share of other comprehensive income of associates and joint ventures and other income	–14	–5	43
Total comprehensive income	**4,390**	**5,535**	**10,628**
Comprehensive income attributable to:			
Non-controlling interests		529	1,291
Equityholders of the parent	4,390	5,006	9,337
	4,390	**5,535**	**10,628**

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Reference is made to Note 36 'Taxation' for the disclosure on the income tax effects on each component of the other comprehensive income.

Consolidated statement of changes in equity

in EUR million	Share capital and share premium	Other reserves	Retained earnings	Share-holders' equity (parent)	Non-controlling interests	Total equity
Balance as at 1 January 2016	16,982	5,759	25,091	47,832	638	48,470
Unrealised revaluations available-for-sale investments and other revaluations		80		80	–19	61
Realised gains/losses transferred to the statement of profit or loss		–146		–146		–146
Changes in cash flow hedge reserve		111		111	–34	77
Unrealised revaluations property in own use		5		5		5
Remeasurement of the net defined benefit asset/liability 35		–65		–65		–65
Exchange rate differences		–232		–232	–22	–254
Share of other comprehensive income of associates and joint ventures and other income		251	–265	–14		–14
Total amount recognised directly in other comprehensive income		**4**	**–265**	**–261**	**–75**	**–336**
Net result from continuing and discontinued operations		124	4,527	4,651	75	4,726
Total comprehensive income		**128**	**4,262**	**4,390**	–	**4,390**
Dividends 30			–2,521	–2,521	–32	–2,553
Changes in treasury shares		10		10		10
Employee stock option and share plans	7		75	82		82
Balance as at 31 December 2016	**16,989**	**5,897**	**26,907**	**49,793**	**606**	**50,399**

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Changes in individual Reserve components are presented in Note 19 'Equity'.

Consolidated statement of changes in equity of ING Group - continued

in EUR million	Share capital and share premium	Other reserves	Retained earnings	Share-holders' equity (parent)	Non-controlling interests	Total equity
Balance as at 1 January 2015	16,971	11,213	23,160	51,344	8,072	59,416
Unrealised revaluations available-for-sale investments and other revaluations		–528		–528	114	–414
Realised gains/losses transferred to the statement of profit or loss		–94		–94	2	–92
Changes in cash flow hedge reserve		–715		–715	–9	–724
Unrealised revaluations property in own use		35		35		35
Remeasurement of the net defined benefit asset/liability 35		34		34	–10	24
Transfer to insurance liabilities/DAC		609		609	–8	601
Exchange rate differences and other[1]		1,662		1,662	35	1,697
Share of other comprehensive income of associates and joint ventures		–7		–7	2	–5
Total amount recognised directly in other comprehensive income		**996**		**996**	**126**	**1,122**
Net result from continuing and discontinued operations		131	3,879	4,010	403	4,413
Total comprehensive income		**1,127**	**3,879**	**5,006**	**529**	**5,535**
Impact of partial divestment of NN Group		–1,499	–270	–1,769	3,042	1,273
Impact of deconsolidation of NN Group		–5,345		–5,345	–10,801	–16,146
Dividends 30			–1,393	–1,393	–118	–1,511
Coupon on Undated subordinated notes issued by NN Group			–19	–19	–15	–34
Changes in treasury shares		28		28		28
Employee stock option and share plans	11		105	116	1	117
Changes in the composition of the group and other changes		235	–371	–136	–72	–208
Balance as at 31 December 2015	**16,982**	**5,759**	**25,091**	**47,832**	**638**	**48,470**

1 Exchange rate differences and other include the transfer of Revaluation reserves to Other reserves due to the partial sale of NN Group in February 2015.

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Changes in individual Reserve components are presented in Note 19 'Equity'.

Consolidated statement of changes in equity of ING Group - continued

in EUR million	Share capital and share premium	Other reserves	Retained earnings	Share-holders' equity (parent)	Non-voting equity securities	Non-controlling interests	Total equity
Balance as at 1 January 2014	16,959	1,242	27,575	45,776	1,500	5,913	53,189
Unrealised revaluations available-for-sale investments and other revaluations		5,503		5,503		1,478	6,981
Realised gains/losses transferred to the statement of profit or loss		–133		–133		–6	–139
Changes in cash flow hedge reserve		2,001		2,001		393	2,394
Unrealised revaluations property in own use		–30		–30			–30
Remeasurement of the net defined benefit asset/liability 35		–254		–254		–35	–289
Transfer to insurance liabilities/DAC		–1,428		–1,428		–718	–2,146
Exchange rate differences and other		2,384		2,384		–10	2,374
Share of other comprehensive income of associates and joint ventures		–118	161	43			43
Total amount recognised in other comprehensive income		**7,925**	**161**	**8,086**		**1,102**	**9,188**
Net result from continuing and discontinued operations		83	1,168	1,251		189	1,440
Total comprehensive income		**8,008**	**1,329**	**9,337**		**1,291**	**10,628**
Impact of deconsolidation of Voya		87		87		–5,100	–5,013
Impact of IPO NN Group		–1,924	–1,327	–3,251		5,397	2,146
Repayment and premium on non-voting equity securities[1]			–750	–750	–1,500		–2,250
Dividends						–44	–44
Impact of issuance Undated subordinated notes issued by NN Group						986	986
Changes in treasury shares		–14		–14			–14
Employee stock option and share plans	12		87	99		13	112
Changes in the composition of the group and other changes		3,814	–3,754	60		–384	–324
Balance as at 31 December 2014	**16,971**	**11,213**	**23,160**	**51,344**	**–**	**8,072**	**59,416**

1 In 2014, ING Group made the final repayment on the core Tier 1 securities of EUR 1.025 billion to the Dutch State. Including the final payment, the total amount paid to the Dutch State was EUR 13.5 billion, which contained EUR 10 billion in principal and EUR 3.5 billion in interest and premiums and resulted in an annualised return of 12.7% for the Dutch State.

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Changes in individual components are presented in Note 19 'Equity'.

Consolidated statement of cash flows

for the years ended 31 December

in EUR million		2016	2015	2014
Cash flows from operating activities				
Result before tax[1]		6,342	6,193	2,682
Adjusted for:	– depreciation	536	634	692
	– change in provisions for insurance and investment contracts		–1,499	–3,527
	– addition to loan loss provisions	974	1,347	1,594
	– other[7]	1,495	–100	1,912
Taxation paid		–1,603	–1,450	–1,073
Changes in:	– loans and advances to banks, not available on demand	–1,162	6,766	3,360
	– trading assets	16,956	5,458	–23,676
	– non-trading derivatives	1,812	–303	–3,022
	– other financial assets at fair value through profit or loss	–3,401	–256	–553
	– loans and advances to customers[2]	–29,656	–23,030	–13,901
	– other assets	–915	549	246
	– deposits from banks, not payable on demand	–342	5,179	3,353
	– customer deposits[2]	23,493	17,970	19,015
	– trading liabilities	–5,634	–8,276	23,855
	– other financial liabilities at fair value through profit or loss	–432	–1,582	–1,018
	– provisions and other liabilities[7]	90	2,977	2,080
Net cash flow from/(used in) operating activities		**8,553**	**10,577**	**12,019**
Cash flows from investing activities				
Investments and advances:	– associates and joint ventures	–49	–40	–528
	– available-for-sale investments	–27,003	–47,858	–85,799
	– held-to-maturity investments	–1,731	–3,457	–315
	– property and equipment	–351	–353	–375
	– assets subject to operating leases	–64	–37	–34
	– investments for risk of policyholders		–2,417	–20,598
	– other investments	–288	–648	–6,831
Disposals and redemptions:	– group companies (including cash in company disposed)[3]		–6,926	–1,216
	– associates and joint ventures[4]	1,071	1,175	2,505
	– available-for-sale investments[5]	32,540	52,675	69,444
	– held-to-maturity investments	630	1,219	1,172
	– property and equipment	63	74	55
	– assets subject to operating leases	12	17	3
	– investments for risk of policyholders		7,566	28,003
	– loans	1,295	3,201	1,167
	– other investments	9	5	5,928
Net cash flow from/(used in) investing activities 31		**6,134**	**4,196**	**–7,419**

Consolidated statement of cash flows of ING Group - continued

in EUR million	2016	2015	2014
Net cash flow from/(used in) operating activities	**8,553**	**10,577**	**12,019**
Net cash flow from/(used in) investing activities 31	**6,134**	**4,196**	**–7,419**
Cash flows from financing activities			
Proceeds from debt securities	106,174	139,424	143,628
Repayments of debt securities	–123,748	–147,337	–149,604
Proceeds from issuance of subordinated loans	2,070	3,159	4,211
Repayments of subordinated loans[6]	–1,042	–6,092	–3, 367
Repayment and premium paid on non-voting equity securities			–2,250
Purchase/sale of treasury shares	10	34	–14
Proceeds from NN Group divestments and related transactions		1,040	2,733
Dividends paid 30	–2,521	–1,393	
Net cash flow from/(used in) financing activities	**–19,057**	**–11,165**	**–4,663**
Net cash flow	**–4,370**	**3,608**	**–63**
Cash and cash equivalents at beginning of year	20,379	17,113	17,180
Effect of exchange rate changes on cash and cash equivalents	155	–342	–4
Cash and cash equivalents at end of year 32	**16,164**	**20,379**	**17,113**

1 Result before tax includes results from continuing operations of EUR 5,903 million (2015: EUR 6,172 million; 2014: EUR 3,707 million) as well as results from discontinued operations of EUR 439 million (2015: EUR 21 million; 2014: EUR –1,025 million).

2 Changes in cash flows of Loans and advances to customers and Customer deposits are not impacted by the change in accounting policies, as described in Note 1 'Accounting policies' – Changes in accounting policies in 2016, on the basis that the change in policy does not comprise a change in actual cash flows for the respective periods.

3 In 2015, Disposals and redemptions – group companies included EUR –7,975 million and EUR 997 million related to cash and cash equivalents of NN Group and proceeds from the sale of shares of NN Group resulting in loss of control at the end of May 2015 respectively. (2014: EUR 950 million proceeds from the sale of shares of Voya which resulted in loss of control in the first quarter of 2014).

4 Disposals and redemptions – associates and joint ventures includes EUR 1,016 million proceeds on the further sale of NN Group shares in January 2016 resulting in loss of significant influence over NN Group (2015: EUR 995 million proceeds on the further sale of NN Group shares in September 2015; 2014: EUR 1,940 million proceeds from the sale of Voya shares in September and November 2014).

5 Disposals and redemptions – available-for-sale investments includes EUR 1,375 million proceeds on the divestment of the remaining shareholding in NN Group in April 2016.

6 Included in Repayment of subordinated loans is a cash outflow of EUR 128 million related to the third and final tranche of mandatory exchangeable subordinated notes from the Anchor investors into NN Group ordinary shares in February 2016.

7 The defined contribution payment for pension plans was previously presented in 'Adjusted for: other' and is now presented in 'provisions and other liabilities'. Comparatives have been adjusted accordingly.

As at 31 December 2016, Cash and cash equivalents includes cash and balances with central banks of EUR 18,144 million (2015: EUR 21,458 million; 2014: EUR 12,233 million). The decrease in cash and balances with central banks is as a result of the lowering of excess liquidity and negative interest rates. Reference is made to Note 32 'Cash and cash equivalents'.

Comparison of the Consolidated cash flow statements between 2016, 2015 and 2014 is impacted by NN Group. Included in the 2015 and 2014 cash flow statements respectively, are the NN Group cash flows for five months until deconsolidation at the end of May 2015 and NN Group cash flows for the year ended 31 December 2014, respectively.

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Consolidated statement of cash flows of ING Group - continued

Interest and dividend received and paid

	2016	2015	2014
Interest received	44,470	46,884	51,301
Interest paid	–31,702	–34,306	–38,001
	12,768	**12,578**	**13,300**
Dividend received	123	116	61
Dividend paid	–2,521	–1,393	–

Interest received, interest paid and dividends received are included in operating activities in the cash flow statement. Dividend paid is included in financing activities in the cash flow statement.

Notes to the Consolidated annual accounts

amounts in millions of euros, unless stated otherwise

Notes to the accounting policies

Reporting entity

ING Groep N.V. is a company domiciled in Amsterdam, the Netherlands. Commercial Register of Amsterdam, number 33231073. These Consolidated annual accounts, as at and for the year ended 31 December 2016, comprise ING Groep N.V. (the Parent company) and its subsidiaries, together referred to as ING Group. ING Group is a global financial institution with a strong European base, offering a wide range of retail and wholesale banking services to customers in over 40 countries.

Authorisation of the Consolidated annual accounts

The ING Group Consolidated annual accounts, for the year ended 31 December 2016, were authorised for issue in accordance with a resolution of the Executive Board on 13 March 2017. The Executive Board may decide to amend the annual accounts as long as these are not adopted by the General Meeting of Shareholders. The General Meeting of Shareholders may decide not to adopt the annual accounts, but may not amend these.

Basis of preparation of the Consolidated annual accounts

The ING Group Consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union (EU) and the relevant articles of Part 9 of Book 2 of the Dutch Civil Code.

ING Group applies International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), which are IFRS Standards and IFRS IC Interpretations as issued by the International Accounting Standards Board (IASB) with some limited modifications such as the temporary 'carve out' from IAS 39 'Financial Instruments: Recognition and Measurement' (herein, referred to as IFRS).

Under the EU carve out, ING Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging). For further information, reference is made to Note 1 'Accounting policies', f) Principles of valuation and determination of results and Note 38 'Derivatives and hedge accounting'.

1 Accounting policies

a) Changes in accounting policies in 2016

ING Group has consistently applied its accounting policies to all periods presented in these Consolidated annual accounts. Other than the change in accounting policy related to 'Offsetting of financial assets and liabilities', as described below, there were no changes in accounting policies, effective from 1 January 2016, that materially impact ING Group.

Offsetting of financial assets and financial liabilities

IAS 32 'Financial Instruments: Presentation' prescribes that a financial asset and a financial liability shall be offset when there is a legally enforceable right to set off and in addition an 'intention to settle on a net basis' simultaneously (IAS 32.42). ING has both the legally enforceable right (by contract) to set off the amounts under notional cash pooling arrangement as well as the intention to settle on a net basis. IFRS is principle based and does not prescribe how the intention to settle on a net basis is evidenced.

In April 2016, an Agenda Rejection Notice (ARN) was published by the IFRS Interpretations Committee (IFRIC) on balance sheet offsetting of notional Cash Pooling products. The issue in the ARN relates to the question whether certain cash pooling arrangements would meet the requirements for offsetting under IAS 32. The IFRIC provided further clarification that the transfer of balances into a netting account should occur at the period end to demonstrate an intention to settle on a net basis.

As a result of the ARN, which is applicable from 6 April 2016, ING has changed its accounting policy and practice, and therefore as a result performs physical transfers of cash balances of certain clients subject to cash pooling arrangements into a single netting account on a period end basis to evidence the intention to settle net. This change in accounting policy is accounted for retrospectively. Comparative amounts are adjusted accordingly with further information as set out below.

Summary of impact of changes in accounting policies

The change in the accounting policy, as described above, has no impact on the Consolidated statements of profit or loss (including earnings and diluted earnings per ordinary share), statements of comprehensive income, statements of cash flows and the statements of changes in equity.

Comparative amounts in the Consolidated statements of financial position are impacted in the line items Loans and advances to customers, Total assets, Customer deposits and Total liabilities. These line items increase by EUR 163,464 million and EUR 185,801 million as at 31 December 2015 and 31 December 2014 respectively.

Reference is made to the Consolidated statement of financial position, Note 6 'Loans and advances to customers', Note 13 'Customer deposits', Note 34 'Information on geographical areas', Note 37 'Fair value of assets and liabilities', Note 39 'Assets by contractual maturities', Note 40 'Liabilities by maturity' and Note 43 'Offsetting financial assets and liabilities'.

b) Changes in presentation of the Consolidated annual accounts and related notes

Following further restructuring and deconsolidation of the insurance business in 2014 and 2015, ING Group revised its presentation of the Consolidated annual accounts to best present its core business and related results. Where relevant, comparative amounts are adjusted accordingly. The main changes in the presentation of the Consolidated annual accounts and related notes are as follows:

- The primary statements and other terms used in these statements are renamed as follows:
  - The 'Consolidated balance sheet' is renamed to 'Consolidated statement of financial position';
  - The line item 'Amounts due from banks' is renamed to 'Loans and advances to banks':
  - The line item 'Amounts due to banks' is renamed to 'Deposits from banks';
  - The line item 'Customer deposits and other funds on deposit' is renamed to 'Customer deposits';
  - The line item 'Minority interest' is renamed to 'Non-controlling interest';
  - The 'Consolidated profit and loss account' is renamed to 'Consolidated statement of profit or loss'; and
  - The naming of income and expense line items, specifically related to Interest and Commission, were simplified for further clarification.
- The Consolidated statement of financial position is changed as follows:
  - The order of line items presented is changed to present assets, liabilities and equity in order of liquidity;
  - The line item 'Real estate investments' is now included in the line item 'Other assets' and renamed to 'Investment properties';
  - 'Current and deferred tax assets and liabilities' are now separately presented (previously included in the line items 'Other assets and liabilities');
  - 'Provisions', as previously included in the line item 'Other liabilities', are now separately presented;
  - The line item 'Subordinated loans' includes the line item 'Other borrowed funds' (previously separately presented);
  - The presentation of equity is changed to more granularly present the components of 'Shareholder's equity (parent)'; and
  - The asset line items Loans and advances to banks, Loans and advances to customers, and the liability line items Deposits from banks, Customer deposits, previously included amounts for Items to be settled. The Items to be settled amounts are now included in Other assets and Other liabilities respectively. On the basis of materiality, comparative amounts as at 31 December 2015 and 2014 have not been adjusted.
- The Consolidated statement of profit or loss is changed as follows:
  - The order of line items presented is changed to present the components of 'Total income' more in line with the core business of ING;
  - Valuation results on non-trading derivatives and Net trading income have been combined into one line;
  - Interest income on trading portfolio has been split into two lines: 'Interest income on trading derivatives' and 'Interest income on other trading portfolio'; and
  - Interest expense on trading liabilities has been split into two lines: 'Interest expense on trading derivatives' and 'Interest expense on other trading portfolio'.
- The Consolidated Statement of Cash Flows
  - The defined contribution payment for pension plans was previously presented in 'Adjusted for: other' and is now presented in 'provisions and other liabilities'. Comparatives have been adjusted accordingly.

c) Changes in IFRS effective in 2016

ING Group has applied a number of interpretations and amendments to standards for the first time for the annual periods beginning on or after 1 January 2016. Apart from the accounting policy change described above, the implementation of these changes had an insignificant impact on the consolidated financial position, net result, other comprehensive income and related disclosures of ING Group. ING Group has not early adopted any other standard, interpretation or amendment which has been issued, but is not yet effective.

d) Upcoming changes in IFRS after 2016

Changes to IFRS effective in 2017 onwards

The following published amendments are not mandatory for 2016 and have not been early adopted by the group. These amendments are effective for 2017 annual periods (and 2018 for part of the annual improvements cycle) but have not yet been endorsed by the EU. The implementation of these amendments will have no significant impact on ING Group's results or financial position.

The list of upcoming changes to IFRS, which are applicable for ING Group:

- Amendments to IAS 12 'Income Taxes': Recognition of Deferred Tax Assets for Unrealised losses;
- Amendments to IAS 7 'Statement of Cash Flows: Disclosure Initiative'; and
- Annual improvement cycle 2014 – 2016

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014 and endorsed by the EU in November 2016. IFRS 9 will replace IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting. The new requirements become effective as of 1 January 2018. ING Group has decided to apply the classification, measurement, and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018, with no restatement of comparative periods. ING has also chosen not to early adopt changes introduced by IFRS 9 for financial liabilities where movements in own credit for financial liabilities designated at fair value through profit or loss will be presented in other comprehensive income.

IFRS 9 Program governance and status

The structure of the IFRS 9 Program has been set-up based on the three pillars of the IFRS 9 standard: Classification and Measurement, Impairment, and Hedge Accounting. These central work streams consist of experts from Finance, Risk, Bank Treasury, Operations and the business. The IFRS 9 Technical Board consists of the heads of various Finance and Risk functions supporting the IFRS 9 Steering Committee by reviewing the interpretations of IFRS 9, the central guidance, and instructions as prepared by the central work streams. The IFRS 9 Steering Committee is the key decision making body and consists of senior managers from Group Finance, Finance Operations, Retail Banking, Credit & Trading Risk, Risk Operations, Bank Treasury, Balance Sheet Risk Management, and Wholesale Banking Lending Services. In addition, an international IFRS 9 network has been created within ING to connect all countries with the central team to ensure consistency in implementation. The Management Banking Board and the Audit Committee are periodically updated about IFRS 9 and will be actively involved in future decisions.

In order to increase transparency and comparability across banks, the Enhanced Disclosure Task Force (EDTF) published a report in November 2015 on recommended disclosures on IFRS 9 that can help the market understand the upcoming changes as a result of using the Expected Credit Loss (ECL) approach. Given that IFRS 9 is effective on 1 January 2018, the EDTF recommended disclosures for the periods prior to the 2018 financial statements aimed at promoting consistency and comparability across internationally active banks.

The IFRS 9 Program is being implemented across functions, businesses, and countries. The Group Accounting policies are also being updated to align IFRS 9. In 2017, parallel runs will be performed to ensure IFRS 9 readiness on 1 January 2018.

Classification and Measurement

IFRS 9 is built on a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Financial assets are therefore classified in their entirety rather than being subject to complex bifurcation requirements.

Two criteria are used to determine how financial assets should be classified and measured at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVPL):

1. The Business Model assessment is performed to determine how a portfolio of financial instruments as a whole is managed in order to classify it as Hold to Collect, Hold to Collect & Sell, or Other Business Model; and
2. Contractual cash flow characteristics test is performed to determine whether the financial instruments give rise to cash flows that are Solely Payments of Principal and Interest (SPPI).

In 2016, the central team finalised a Business Model Blueprint based on the structure of the organisation and all the entities across the Group through discussions with various parties from the business, finance, and risk functions. The central team created and communicated the Business Model templates that were later tailored by local project teams to fit the local organisation as well as local business structure and product offering.

The central team also finalised an approach for performing the SPPI test and is in the process of performing a detailed analysis of the cash flow characteristics of our financial assets to detect whether they meet SPPI criteria. The SPPI test is performed on groups of assets that have a set of similar characteristics resulting in a homogenous population. Where testing is being performed at a local level, these local teams are trained and supported by the central team to ensure IFRS 9 is understood and implemented consistently across the Group.

The focus in 2017 will be finalising SPPI testing and formalising the governance to embed the changes brought by IFRS 9 into everyday business and financial reporting cycles to ensure ongoing compliance.

Impact

ING is currently assessing the impact of IFRS 9 on the classification and measurement of its financial assets. The classification and measurement of financial liabilities remains essentially the same as under IAS 39.

Impairment
The expected credit loss (ECL) model more is more forward-looking, than the incurred loss model under IAS 39. The ECL estimates are required to be unbiased, probability-weighted, and should include supportable information about past events, current conditions, and forecasts of future economic conditions. The ECL should reflect multiple macroeconomic scenarios and include the time value of money. The ECL model applies to all on-balance financial assets accounted for at amortised cost and FVOCI such as loans and debt securities, as well as off-balance items such as certain loan commitments, financial guarantees, and undrawn revolving credit facilities.

Three stage approach
ING Group will apply the IFRS 9 three stage approach to measure expected credit losses:
- Stage 1: 12 month ECL - performing
- Financial instruments that have not had a significant increase in credit risk since initial recognition require, at initial recognition a provision for ECL associated with the probability of default events occurring within the next 12 months (12 month ECL).
- Stage 2: Lifetime ECL – under-performing
- In the event of a significant increase in credit risk since initial recognition, a provision is required for ECL resulting from all possible default events over the expected life of the financial instrument (Lifetime ECL).
- Stage 3: Lifetime ECL – non-performing
- Financial instruments that move into Stage 3 once credit impaired and purchases of credit impaired assets will require a Lifetime ECL provision.

Key concepts
ING Group aims to align the definition of credit impaired under IFRS 9 with the definition of default for prudential purposes. ING Group considers a financial asset credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. ING Group's definition of modification that does not result in a derecognition event refers to any non-significant changes to contractual terms that impact the (timing of) contractual cash flows of that financial asset. In case the modification results in a significant change to the contractual terms, the asset is derecognised.

ING Group established a framework for whether an asset has a significant increase in credit risk. Each asset will be assessed at the reporting date on the triggers for significant deterioration. ING Group intends to assess significant increase in credit risk using a delta in the lifetime default probability, forbearance status, watch list status, arrears and the more than 30 days past due backstop for stage 1 to stage 2 transfers. The stage allocation will be implemented in the central credit risk systems. In 2017 analyses on the movements between stages in both directions will be performed.

Measurement
The calculation of ECL will be based on ING Group's expected loss models (PD, LGD, EAD) currently used for regulatory capital, economic capital, and collective provisions in the current IAS 39 framework. The IFRS 9 ECL model builds on existing IRB models, removes embedded prudential conservatism (such as PD floors), and includes forward-looking point in time information based on macroeconomic indicators, such as unemployment rates and GDP growth. The expected loss parameters will be determined by using historical statistical relationships and macroeconomic predictions. For the small portfolios outside the IRB approach, existing framework for loan loss provisions will be applied to set the parameters to measure credit risk. The lifetime risk assessment will be based on historical observations enriched with forward-looking information. The data series will be shorter compared to the assets under the IRB approach.

To measure ECL, ING Group applies a PD x EAD x LGD approach. For stage 1 assets a forward looking approach on a 12 month horizon will be applied. For stage 2 assets a lifetime view on the underlying parameters is taken. The Lifetime Expected Loss (LEL) is the discounted sum of the portions of lifetime losses related to default events within each time window of 12 months. For stage three the PD equals 100% and the LGD and EAD represent a lifetime view of the characteristics of facilities that are in default.

In 2016, enhanced data was collected from all source systems within ING and significant progress has been made in the implementation of IFRS 9 concepts in the central credit risk system. Furthermore, ING Group's asset portfolios are split into a number of sub-portfolios based on asset class and jurisdiction (e.g. mortgages in the Netherlands) in order to accurately measure ECL.

Impact
Based on the IFRS 9 ECL model a more volatile impairment charge may be expected on the back of macroeconomic predictions. Financial assets with high risk and long maturity profiles are expected to be subject to the biggest impact. A 12-month ECL will be recognized for all financial assets that have not had a significant increase in credit risk. IFRS 9 requires to calculate lifetime ECL for those assets with a significant increase in credit risk since initial recognition but are not credit impaired at the reporting date (i.e. Stage 2). This category did not exist under IAS 39. These factors combined with off-balance sheet items also in scope of the ECL model could result in an increase in the total level of impairment allowances.

ING expects that any negative effect on equity may be partly offset by the release of expected loss elements currently included in the calculation of regulatory capital (i.e. the regulatory shortfall). As the impact cannot be quantified reliably as of 31 December 2016, ING intends to quantify the potential impact of IFRS 9 no later than in the Annual Report 2017.

Hedge Accounting
The IFRS 9 hedge accounting requirements aim to simplify general hedge accounting requirements. Furthermore, IFRS 9 aims to align hedge accounting more closely with risk management. All micro hedge accounting strategies as well as the macro cash flow hedge accounting are in scope of IFRS 9. Macro fair value hedging is not in scope of IFRS 9.

ING Group performed an assessment of the impact of the new hedge accounting requirements. Based on the outcome of this assessment, ING Group has made a decision to continue applying IAS 39 for hedge accounting including the application of the EU carve out as explicitly permitted by IFRS 9. ING Group will implement the revised hedge accounting disclosures as required by IFRS 7 'Financial Instruments: Disclosures' as per 1 January 2018.

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 'Revenue from Contracts with Customers' is effective for annual periods beginning on or after 1 January 2018 and has been endorsed by the EU in September 2016. IFRS 15 introduces a five-step approach for recognising revenue as and when the agreed performance obligations are satisfied. Agreed performance obligations are individual promises made to the customer that delivers benefit from the customers perspective. Revenue should either be recognised at a point-in-time or over-time depending on the service being delivered to the customer. The standard may be applied retrospectively, although transitional relief is available. Fees related to the effective yield of the loan which is presented in Interest income and bank guarantee fees are not in the scope of IFRS 15. ING is currently assessing the revenue stream for commission income.

IFRS 16 'Leases'
In January 2016, the IASB issued IFRS 16 'Leases' the new accounting standard for leases. The new standard is effective for annual periods beginning on or after 1 January 2019 and will replace IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'. IFRS 16 is not yet endorsed by the EU. The new standard removes for lessee accounting, the distinction between operating or finance leases, resulting in all leases being treated as finance leases. All leases will be recognised on the statement of financial position with the optional exceptions for short-term leases with a lease term of less than 12 months and leases of low-value assets (for example mobile phones or laptops). A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The main reason for this change is that this approach will result in a more comparable representation of a lessee's assets and liabilities in relation to other companies and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. The standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. Furthermore the standard provides some practical options and exemptions to ease the costs of transition. Lessor accounting remains substantially unchanged. ING will adopt the standard at its effective date and is currently assessing the impact of this standard.

e) Critical accounting policies
ING Group has identified the accounting policies that are most critical to its business operations and to the understanding of its results. These critical accounting policies are those which involve the most complex or subjective decisions or assessments, and relate to loan loss provisions, goodwill impairments, provisions, and the determination of the fair values of financial assets and liabilities. In each case, the determination of these items is fundamental to the financial condition and results of operations, and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce significantly different results. For a further discussion of the application of these accounting policies, reference is made to the applicable notes to the consolidated financial statements and the information in section f) 'Principles of valuation and determination of results'.

Loan loss provisions
Loan loss provisions are recognised based on an incurred loss model. Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) and is based on management's evaluation of the risk in the portfolio, current economic conditions, loss experience in recent years and credit, industry, geographical, and concentration trends. Changes in such judgements and analyses may lead to changes in the loan loss provisions over time.

The identification of impairment and the determination of the recoverable amount are inherently uncertain processes involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices, and expected net selling prices.

Future cash flows in a portfolio of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Current observable data may include changes in unemployment rates, property prices, and commodity prices. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Goodwill impairment

ING assesses at each reporting period, whether there is an indication that an intangible asset may be impaired. Irrespective of whether there is an indication of impairment, intangible assets with an indefinite useful life, goodwill acquired in a business combination, and intangible assets not yet available for use, are tested annually for impairment. Goodwill is allocated to groups of CGUs (that is, the group of cash generating units or CGUs) for the purpose of impairment testing. These groups of CGUs represent the lowest level at which goodwill is monitored for internal management purposes. Goodwill is tested for impairment by comparing the carrying value of the group of CGUs to the best estimate of the recoverable amount of that group of CGUs. The carrying value is determined as the IFRS net asset value including goodwill. The recoverable amount is estimated as the higher of fair value less costs of disposal and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. Impairment of goodwill, if applicable, is included in the statement of profit or loss in Other operating expenses.

The identification and measurement of impairment is an inherently uncertain process involving various assumptions and factors, including financial condition of the counterparty, expected future cash flows, statistical loss data, discount rates, observable market prices, etc. Estimates and assumptions are based on management's judgement and other information available prior to the issuance of the financial statements. Significantly different results can occur as circumstances change and additional information becomes known.

Provisions

A provision involves a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, however the timing or the amount is uncertain. Provisions are discounted when the effect of the time value of money is significant using a pre-tax discount rate. The recognition and measurement of provisions is an inherently uncertain process involving determining when a present obligation exists and estimates regarding amounts and timing of cash flows. Even in consultation with legal experts, the amount provisioned can remain sensitive to the assumptions used which may have a range of outcomes that is difficult to quantify.

Reorganisation provisions include employee termination benefits when the Group is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

A liability is recognised for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the liability is recognised only upon reaching the specified minimum threshold.

Fair values of financial assets and liabilities

All the financial assets and liabilities are recognised initially at fair value, whereas financial assets and liabilities classified as held-for-trading or designated at fair value through profit or loss and financial assets classified as available-for-sale are subsequently measured at fair value in financial statements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It uses the assumptions that market participants would use and takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability. Fair values of financial assets and liabilities are based on unadjusted quoted market prices where available. Such quoted market prices are primarily obtained from exchange prices for listed financial instruments. Where an exchange price is not available, quoted prices in an active market may be obtained from independent market vendors, brokers, or market makers. In general, positions are valued at the bid price for a long position and at the offer price for a short position or are valued at the price within the bid-offer spread that is most representative of fair value in the circumstances. In some cases where positions are marked at mid-market prices, a fair value adjustment is calculated. When markets are less liquid there may be a range of prices for the same security from different price sources, selecting the most appropriate price requires judgement and could result in different estimates of fair value.

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to various valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings), and customer behaviour are taken into account. ING maximises the use of market observable inputs and minimises the use of unobservable input in determining the fair value. It can be subjective dependent on the significance of the unobservable input to the overall valuation. All valuation techniques used are subject to internal review and approval. Most data used in these valuation techniques are validated on a daily basis.

When a group of financial assets and financial liabilities are managed on the basis of their net risk exposures, it measures the fair value of a group of financial assets and liabilities on net portfolio basis.

To include credit risk in the fair value, ING applies both credit and debit valuation adjustments (CVA, DVA). Own issued debt and structured notes that are measured at fair value are adjusted for credit risk by means of a DVA. Additionally, derivatives valued at fair value are adjusted for credit risk by a CVA. The CVA is of a bilateral nature as both the credit risk on the counterparty as well as the credit risk on ING are included in the adjustment. All input data that is used in the determination of the CVA is based on market implied data. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty deteriorates) and right-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty improves) are taken into account in the measurement of the valuation adjustment. ING applies an additional 'funding valuation adjustment' (FVA) based on the market price of funding liquidity and is applied to the uncollateralised derivatives.

Valuation techniques are subjective in nature and significant judgement is involved in establishing fair values for certain financial assets and liabilities. Valuation techniques involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value.

Price testing is performed to assess whether the process of valuation has led to an appropriate fair value of the position and to an appropriate reflection of these valuations in the statement of profit or loss. Price testing is performed to minimise the potential risks for economic losses due to incorrect or misused models.

Reference is made to Note 37 'Fair value of assets and liabilities' and the section 'Risk management – Market risk', paragraph 'Fair values of financial assets and liabilities' for the basis of the determination of the fair value of financial instruments and related sensitivities.

f) Principles of valuation and determination of results

Consolidation

ING Group (the Group) comprises ING Groep N.V. (the Parent Company), ING Bank N.V. and all other subsidiaries. The consolidated financial statements of ING Group comprise the accounts of ING Groep N.V. and all entities in which it either owns, directly or indirectly, more than half of the voting power or over which it has control of their operating and financial policies through situations including, but not limited to:

- Ability to appoint or remove the majority of the board of directors;
- Power to govern such policies under statute or agreement; and
- Power over more than half of the voting rights through an agreement with other investors.

Control exists if ING Group is exposed to variable returns and having the ability to affect those returns through power over the investee.

A list of principal subsidiaries is included in Note 47 'Principal subsidiaries'.

A list containing the information referred to in Section 379 (1), Book 2 of the Dutch Civil Code has been filed with the office of the Commercial Register of Amsterdam, in accordance with Section 379 (5), Book 2 of the Dutch Civil Code.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Group controls another entity.

For interests in investment vehicles, the existence of control is determined taking into account both ING Group's financial interests for own risk and its role as investment manager.

The results of the operations and the net assets of subsidiaries are included in the statement of profit or loss and the statement of financial position from the date control is obtained until the date control is lost. On disposal, the difference between the sales proceeds, net of directly attributable transaction costs, and the net assets is included in net result.

A subsidiary which ING Group has agreed to sell but is still legally owned by ING Group may still be controlled by ING Group at the balance sheet date and therefore, still be included in the consolidation. Such a subsidiary may be presented as a held for sale disposal group if certain conditions are met.

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies are eliminated to the extent that there is no impairment. Where necessary, the accounting policies used by subsidiaries are changed to ensure consistency with group policies. In general, the reporting dates of subsidiaries are the same as the reporting date of ING Groep N.V.

ING Groep N.V. and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital and reserves required by law. Additionally, certain Group companies are subject to restrictions on the amount of funds they may transfer in the form of dividends, or otherwise, to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

Use of estimates and assumptions

The preparation of the consolidated financial statements necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities at the balance sheet date, as well as reported income and expenses for the year. The actual outcome may differ from these estimates.

The process of setting assumptions is subject to internal control procedures and approvals, and takes into account internal and external studies, industry statistics, environmental factors, and trends and regulatory requirements.

Segment reporting

A segment is a distinguishable component of the Group, engaged in providing products or services, subject to risks and returns that are different from those of other segments monitored by management. A geographical area is a distinguishable component of the Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The geographical analyses are based on the location of the office from which the transactions are originated.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euros, which is ING Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Exchange rate differences resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in equity as part of qualifying cash flow hedges or qualifying net investment hedges.

Exchange rate differences on non-monetary items, measured at fair value through profit or loss, are reported as part of the fair value gain or loss. Non-monetary items are retranslated at the date fair value is determined. Exchange rate differences on non-monetary items measured at fair value through the revaluation reserve are included in the revaluation reserve in equity.

Exchange rate differences in the statement of profit or loss are generally included in 'Valuation results and net trading income'. Reference is made to Note 22 'Valuation results and net trading income', which discloses the amounts included in the statement of profit or loss. Exchange rate differences relating to the disposal of available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in Investment income. As mentioned below, in Group companies relating to the disposals of group companies, any exchange rate difference deferred in equity is recognised in the statement of profit or loss in 'Result on disposal of group companies'. Reference is also made to Note 19 'Equity', which discloses the amounts included in the statement of profit or loss.

Group companies
The results and financial positions of all group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- Assets and liabilities included in each statement of financial position are translated at the closing rate at the date of that statement of financial position;
- Income and expenses included in each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange rate differences are recognised in a separate component of equity.

On consolidation, exchange rate differences arising from the translation of a monetary item that forms part of the net investment in a foreign operation, and of borrowings and other instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, the corresponding exchange rate differences are recognised in the statement of profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the balance sheet date.

Recognition and derecognition of financial instruments

Recognition of financial assets
All purchases and sales of financial assets classified at fair value through profit or loss, held-to-maturity and available-for-sale that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date on which the Group commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which the Group receives or delivers the asset.

Derecognition of financial assets
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset.

Realised gains and losses on financial assets
For financial assets at amortised cost, realised gains and losses on investments are determined as the difference between the sale proceeds and (amortised) cost. For available-for-sale financial assets, the accumulated fair value adjustments in other comprehensive income are included in the statement of profit or loss when the asset is disposed. For equity securities, the cost is determined using a weighted average per portfolio. For debt securities, the cost is determined by specific identification.

Recognition of financial liabilities
Financial liabilities are recognised on the date that the entity becomes a party to the contractual provisions of the instrument. Such contracts generally are not recognised unless one of the parties has performed or the contract is a derivative contract not exempted from the scope of IAS 39.

Derecognition of financial liabilities
Financial liabilities removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished and the consideration paid is recognised in profit or loss.

Classification of financial instruments

Financial assets and liabilities at fair value through profit or loss
Financial assets at fair value through profit or loss include equity securities, debt securities, derivatives, loans and receivables, and other, and comprise the following sub-categories: trading assets, non-trading derivatives, and financial assets designated at fair value through profit or loss by management. Financial liabilities at fair value through profit or loss comprise the following sub-categories: trading liabilities, non-trading derivatives, and other financial liabilities designated at fair value through profit or loss by management. Trading liabilities include equity securities, debt securities, funds on deposit, and derivatives.

A financial asset or financial liability is classified at fair value through profit or loss if acquired principally for the purpose of selling in the short term or if designated by management as such. Management will make this designation only if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis.

Transaction costs on initial recognition are expensed as incurred. Interest income and expense from financial instruments is classified at fair value through profit or loss is recognised in Interest income and Valuation results and net trading income in the statement of profit or loss, using the effective interest method.

Dividend income from equity instruments classified at fair value through profit or loss is generally recognised in Investment income in the statement of profit or loss when the dividend has been declared. For derivatives reference is made to the 'Derivatives and hedge accounting' section.

Investments

Investments (including loans quoted in active markets) are classified either as held-to-maturity or available-for-sale and are initially recognised at fair value plus transaction costs. Investment debt securities and loans quoted in active markets with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities and actively traded loans intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale financial assets.

Available-for-sale financial assets

Available-for-sale financial assets include available-for-sale debt securities and available-for-sale equity securities. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. For available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available-for-sale is recognised in Interest income in the statement of profit or loss. Dividend income from equity instruments classified as available-for-sale is recognised in Investment income in the statement of profit or loss when the dividend has been declared. Unrealised gains and losses arising from changes in the fair value are recognised in equity and are recycled to the statement of profit or loss as Investment income when the asset is disposed. Investments in prepayment sensitive securities such as Interest-Only and Principal-Only strips are generally classified as available-for-sale.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Group has the positive intent and ability to hold to maturity and which are designated by management as held-to-maturity assets are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from debt securities classified as held-to-maturity is recognised in Interest income in the statement of profit or loss using the effective interest method. Held-to-maturity investments include only debt securities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Loans and receivables include Cash and balances with central banks, Loans and advances to banks, Loans and advances to customers, and Other assets and are reflected in these line items in the statement of financial position. Interest income from loans and receivables is recognised in Interest income in the statement of profit or loss using the effective interest method.

Credit risk management classification

Credit risk management disclosures are provided in the section 'Risk management – Credit risk' paragraph 'Credit risk categories'. The relationship between credit risk classifications in that section and the consolidated statement of financial position classifications above is explained below:

- Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING Group has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk classification mainly relates to the statement of financial position classification Financial assets at fair value through profit or loss (trading assets and non-trading derivatives) and to securities financing;
- Money market risk arises when ING Group places short term deposits with a counterparty in order to manage excess liquidity and among others relates to the statement of financial position classifications Loans and advances to banks and Loans and advances to customers;
- Lending risk arises when ING Group grants a loan to a customer, or issues guarantees on behalf of a customer and mainly relates to the statement of financial position classification Loans and advances to customers and off-balance sheet items e.g. obligations under financial guarantees and letters of credit;
- Investment risk comprises the credit default and migration risk that is associated with ING Group's investment portfolio and mainly relates to the statement of financial position classification Investments (available-for-sale and held-to-maturity); and
- Settlement risk arises when there is an exchange of value (funds, instruments or commodities) for the same or different value dates and receipt is not verified or expected until ING Group has paid or delivered its side of the trade. Settlement risk mainly relates to the risk arising on disposal of financial instruments that are classified in the statement of financial position as Financial assets at fair value through profit or loss (trading assets and non-trading derivatives) and Investments (available-for-sale and held-to-maturity).

Maximum credit risk exposure

The maximum credit risk exposure for items in the statement of financial position is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 44 'Contingent liabilities and commitments' for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure.

The manner in which ING Group manages credit risk and determines credit risk exposures for that purpose is explained in the section 'Risk management – Credit risk' paragraph 'Credit Risk Appetite and Concentration Risk Framework'.

Financial liabilities at amortised cost

Financial liabilities at amortised cost include the following sub-categories: preference shares classified as debt, debt securities in issue, subordinated loans, and deposits from banks and customer deposits.

Borrowings are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

If the Group purchases its own debt, it is removed from the statement of financial position, and the difference between the carrying amount of the liability and the consideration paid is included in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are initially recognised at fair value and subsequently measured at the higher of the discounted best estimate of the obligation under the guarantee and the amount initially recognised less cumulative amortisation to reflect revenue recognition principles.

Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques (such as discounted cash flow models and option pricing models), as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair values are negative.

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit or loss, and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. An assessment is carried out when the Group first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge), hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedge), or hedges of a net investment in a foreign operation. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction ING Group documents the relationship between hedging instruments and hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

ING Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU carve out. The EU carve-out macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the EU carve-out, hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket.

ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU carve-out to its retail operations. The net exposures of retail funding (savings and current accounts) and retail lending (mortgages) are hedged. The hedging activities are designated under a portfolio fair value hedge on the mortgages. Changes in the fair value of the derivatives are recognised in the statement of profit or loss, together with the fair value adjustment on the mortgages (hedged items) insofar as attributable to interest rate risk (the hedged risk).

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the statement of profit or loss, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortised through the statement of profit or loss over the remaining term of the original hedge or recognised directly when the hedged item is derecognised. For non-interest bearing instruments, the cumulative adjustment of the hedged item is recognised in the statement of profit or loss only when the hedged item is derecognised.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss. Amounts accumulated in equity are recycled to the statement of profit or loss in the periods in which the hedged item affects net result. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is transferred immediately to the statement of profit or loss.

Net investment hedges
Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity and the gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss. Gains and losses accumulated in equity are included in the statement of profit or loss when the foreign operation is disposed.

Non-trading derivatives that do not qualify for hedge accounting
Derivative instruments that are used by the Group as part of its risk management strategies, but which do not qualify for hedge accounting under ING Group's accounting policies, are presented as non-trading derivatives. Non-trading derivatives are measured at fair value with changes in the fair value taken to the statement of profit or loss.

Offsetting of financial assets and financial liabilities
Financial assets and financial liabilities are offset, and the net amount reported, in the statement of financial position when the Group has a current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Offsetting is applied to certain interest rate swaps for which the services of a central clearing house are used. Offsetting is also applied to certain clients subject to cash pooling arrangements where the intention to settle net is demonstrated via a physical transfer of cash balances into a single netting account on a period end basis.

Repurchase transactions and reverse repurchase transactions
Securities sold subject to repurchase agreements (repos) are retained in the consolidated financial statements. The counterparty liability is included in Deposits from banks, Subordinated loans, Customer deposits, or Trading, as appropriate.

Securities purchased under agreements to resell (reverse repos) are recognised as Loans and advances to customers, Loans and advances to banks, or Financial assets at fair value through profit or loss - Trading assets, as appropriate. The difference between the sale and repurchase price is treated as interest and amortised over the life of the agreement using the effective interest method.

Impairments of financial assets at amortised cost
ING Group assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date, (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The following circumstances, among others, are considered objective evidence that a financial asset or group of assets is impaired:
- The borrower has sought or has been placed in bankruptcy or similar protection and this leads to the avoidance of or delays in repayment of the financial asset;
- The borrower has failed in the repayment of principal, interest, or fees and the payment failure has remained unsolved for a certain period;

- The borrower has demonstrated significant financial difficulty, to the extent that it will have a negative impact on the expected future cash flows of the financial asset;
- The credit obligation has been restructured for non-commercial reasons. ING Group has granted concessions, for economic or legal reasons relating to the borrower's financial difficulty, the effect of which is a reduction in the expected future cash flows of the financial asset; and
- Historical experience, updated for current events where necessary, provides evidence that a proportion of a group of assets is impaired although the related events that represent impairment triggers are not yet captured by the Group's credit risk systems.

In certain circumstances ING grants borrowers postponement and/or reduction of loan principal and/or interest payments for a temporary period of time to maximise collection opportunities, and if possible, avoid default, foreclosure, or repossession. When such postponement and/or reduction of loan principal and/or interest payments is executed based on credit concerns it is also referred to as forbearance. In general, forbearance represents an impairment trigger under IFRS. In such cases, the net present value of the postponement and/or reduction of loan and/or interest payments is taken into account in the determination of the appropriate level of Loan loss provisioning as described below. If the forbearance results in a substantial modification of the terms of the loan, the original loan is derecognised and a new loan is recognised at its fair value at the modification date. The Group determines whether there has been a substantial modification using both quantitative and qualitative factors.

The Group does not consider events that may be expected to occur in the future as objective evidence, and consequently they are not used as a basis for concluding that a financial asset or group of assets is impaired.

In determining the impairment, expected future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Losses expected as a result of future events, no matter how likely, are not recognised.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and then individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on an asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account (Loan loss provision) and the amount of the loss is recognised in the statement of profit or loss under Addition to loan loss provision. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a loss emergence period to default probabilities (also referred to as loss identification period). The loss emergence period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point in time at which those events are captured by the Group's credit risk systems. Accordingly, the application of the loss emergence period ensures that impairments that are incurred but not yet identified are adequately reflected in the Group's loan loss provision. Although the loss emergence periods are inherently uncertain, the Group applies estimates to sub-portfolios (e.g. large corporations, small and medium size enterprises, and retail portfolios) that reflect factors such as the frequency with which customers in the sub-portfolio disclose credit risk sensitive information and the frequency with which they are subject to review by the Group's account managers. Generally, the frequency increases in relation to the size of the borrower. Loss emergence periods are based on historical experience and are validated, and revised where necessary, through regular back-testing to ensure that they reflect recent experience and current events.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the provision. The amount of the reversal is recognised in the statement of profit or loss.

When a loan is uncollectable, it is written off against the related loan loss provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the statement of profit or loss.

In most Retail portfolios, ING Bank has a write-off policy that requires 100% provision for all retail exposure after two years (three years for mortgages) following the last default date.

Impairments on other debt instruments (Loans and held-to-maturity investments) are part of the loan loss provision as described above.

Impairment of available for sale financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the specific case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. Significant and prolonged are interpreted on a case-by-case basis for specific equity securities; generally 25% and six months are used as triggers. If any objective evidence exists for available-for-sale debt and equity investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in net result – is removed from equity and recognised in the statement of profit or loss. Impairment losses recognised on equity instruments can never be reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

Investments in associates and joint ventures

Associates are all entities over which the Group has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also is the ability to participate in the financial and operating policies through situations including, but not limited to one or more of the following:

- Representation on the board of directors;
- Participation in the policymaking process; and
- Interchange of managerial personnel.

Joint ventures are entities over which the Group has joint control. Joint control is the contractually agreed sharing of control over an arrangement or entity, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint control means that no party to the agreement is able to act unilaterally to control the activity of the entity. The parties to the agreement must act together to control the entity and therefore exercise the joint control.

Investments in associates and joint ventures are initially recognised at cost and subsequently accounted for using the equity method of accounting.

The Group's investment in associates and joint ventures (net of any accumulated impairment loss) includes goodwill identified on acquisition. The Group's share of its associates and joint ventures post-acquisition profits or losses is recognised in the statement of profit or loss, and its share of post-acquisition changes in reserves is recognised in equity. The cumulative post-acquisition changes are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Unrealised losses are also eliminated unless they provide evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. The reporting dates of all significant associates and joint ventures are consistent with the reporting date of the Group.

Property and equipment

Property in own use

Land and buildings held for own use are stated at fair value at the balance sheet date. Increases in the carrying amount arising on revaluation of land and buildings held for own use are credited to the revaluation reserve in shareholders' equity. Decreases in the carrying amount that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the statement of profit or loss. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the statement of profit or loss. Depreciation is recognised based on the fair value and the estimated useful life (in general 20–50 years). Depreciation is calculated on a straight-line basis. On disposal, the related revaluation reserve is transferred to retained earnings.

The fair values of land and buildings are based on regular appraisals by independent qualified valuers or internally, similar to appraisals of real estate investments. Subsequent expenditure is included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Equipment
Equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight line basis over their estimated useful lives, which are generally as follows: for data processing equipment two to five years, and four to ten years for fixtures and fittings. Expenditure incurred on maintenance and repairs is recognised in the statement of profit or loss as incurred. Expenditure incurred on major improvements is capitalised and depreciated.

Disposals
The difference between the proceeds on disposal and net carrying value is recognised in the statement of profit or loss under Other income.

Borrowing costs
Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Borrowing costs are determined at the weighted average cost of capital of the project.

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date.

ING Group as the lessee
The leases entered into by ING Group are primarily operating leases. The total payments made under operating leases are recognised in the statement of profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any penalty payment to be made to the lessor is recognised as an expense in the period in which termination takes place.

ING Group as the lessor
When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable under Loans and advances to customers or Loans and advances to banks. The difference between the gross receivable and the present value of the receivable is unearned lease finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. When assets are held subject to an operating lease, the assets are included under Assets under operating leases.

Assets under operating leases
Assets leased out under operating leases in which ING Group is the lessor are stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight-line basis over the lease term.

Acquisitions, goodwill and other intangible assets
Acquisitions and goodwill
ING Group's acquisitions are accounted for using the acquisition method of accounting. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. Goodwill, being the difference between the cost of the acquisition (including assumed debt) and the Group's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. Goodwill is only capitalised on acquisitions. The results of the operations of the acquired companies are included in the statement of profit or loss from the date control is obtained.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Contingent consideration arrangements classified as an asset or a liability, are subsequently measured at fair value. Changes in the fair value of the contingent consideration classified as equity, are not recognised.

Where a business combination is achieved in stages, ING Group's previously held interests in the assets and liabilities of the acquired entity are remeasured to fair value at the acquisition date (i.e. the date ING Group obtains control) and the resulting gain or loss, if any, is recognised in the statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the statement of profit or loss, where such treatment would be appropriate if that interest were disposed of. Acquisition related costs are recognised in the statement of profit or loss as incurred and presented in the statement of profit or loss as Other operating expenses.

Until 2009, before IFRS 3 'Business Combinations' was revised, the accounting of previously held interests in the assets and liabilities of the acquired entity were not remeasured at the acquisition date and the acquisition related costs were considered to be part of the total consideration.

The initial accounting for the fair value of the net assets of the companies acquired during the year may be determined only provisionally as the determination of the fair value can be complex and the time between the acquisition and the preparation of the Annual Accounts can be limited. The initial accounting shall be completed within a year after acquisition. Adjustments to the fair value as at the date of acquisition of acquired assets and liabilities, that are identified within one year after acquisition are recognised as an adjustment to goodwill; any subsequent adjustment is recognised as income or expense. On disposal of group companies, the difference between the sale proceeds and carrying value (including goodwill) and the unrealised results (including the currency translation reserve in equity) is included in the statement of profit or loss.

Computer software
Computer software that has been purchased or generated internally for own use is stated at cost less amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over its useful life. This period will generally not exceed five years. Amortisation is included in Other operating expenses.

Other intangible assets
Other intangible assets are capitalised and amortised over their expected economic life, which is generally between three and ten years. Intangible assets with an indefinite life are not amortised.

Taxation
Income tax on the result for the year comprises current and deferred tax. Income tax is recognised in the statement of profit or loss but it is recognised directly in equity if the tax relates to items that are recognised directly in equity.

Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are recognised directly in equity, is also recognised directly in equity and is subsequently recognised in the statement of profit or loss together with the deferred gain or loss.

Uncertain tax positions are assessed continually by ING Group and in case it is probable that there will be a cash outflow; a current tax liability is recognised.

Other assets
Investment property
Investment properties are recognised at fair value at the balance sheet date. Changes in the carrying amount resulting from revaluations are recognised in the statement of profit or loss. On disposal, the difference between the sale proceeds and carrying value is recognised in the statement of profit or loss.

Property obtained from foreclosures
Property obtained from foreclosures is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price, less applicable variable selling expenses. Property obtained from foreclosures is included in Other assets - Property development and obtained from foreclosures.

Property development
Property developed and under development for which ING Group has the intention to sell the property after its completion is included in Other assets – Property development and obtained from foreclosures.

Property developed and under development for which ING Group has the intention to sell the property under development after its completion and where there is not yet a specifically negotiated contract is measured at direct construction cost incurred up to the balance sheet date, including borrowing costs incurred during construction and ING Group's own directly attributable development and supervision expenses less any impairment losses. Profit is recognised using the completed contract method (on sale date of the property). Impairment is recognised if the estimated selling price, less applicable variable selling expenses is lower than carrying value.

Property under development for which ING Group has the intention to sell the property under development after its completion and where there is a specifically negotiated contract is valued using the percentage of completion method (pro rata profit recognition). The stage of completion is measured by reference to costs incurred to date as percentage of total estimated costs for each contract.

Property under development is stated at fair value (with changes in fair value recognised in the statement of profit or loss) if ING Group has the intention to recognise the property under development after completion as real estate investments.

Disposal groups held for sale and discontinued operations

Disposal groups (and groups of non-current assets) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is only the case when the sale is highly probable and the disposal group (or group of assets) is available for immediate sale in its present condition; management must be committed to the sale, which is expected to occur within one year from the date of classification as held for sale.

Upon classification as held for sale, the carrying amount of the disposal group (or group of assets) is compared to its fair value less cost to sell. If the fair value less cost to sell is lower than the carrying value, this expected loss is recognised through a reduction of the carrying value of any goodwill related to the disposal group and the carrying value of certain other non-current non-financial assets. Any excess of the expected loss over the reduction of the carrying amount of these relevant assets is not recognised upon classification as held for sale, but is recognised as part of the result on disposal if and when a divestment transaction occurs.

When a group of assets that is classified as held for sale represents a major line of business or geographical area the disposal group classifies as discontinued operations. Upon classification of a business as held for sale and discontinued operations the individual income and expenses are classified to Total net result from discontinued operations instead of being presented in the usual line items in the Consolidated statement of profit or loss. All comparative years in the Consolidated statement of profit or loss are restated and presented as discontinued operations for all periods presented. Furthermore, the individual assets and liabilities are presented in the Consolidated statement of financial position as Assets and liabilities held for sale and are no longer included in the usual line items in the Consolidated statement of financial position. Changes in assets and liabilities as a result of classification as held for sale are included in the notes in the line Changes in composition of the group and other changes.

Other liabilities

Defined benefit plans

The net defined benefit asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date.

Plan assets are measured at fair value at the balance sheet date. For determining the pension expense, the return on plan assets is determined using a high quality corporate bond rate identical to the discount rate used in determining the defined benefit obligation.

Changes in plan assets that effect Shareholders' equity and/or Net result, include mainly:

- return on plan assets using a high quality corporate bond rate at the start of the reporting period which are recognised as staff costs in the statement of profit or loss; and
- remeasurements which are recognised in Other comprehensive income (equity).

The defined benefit obligation is calculated by internal and external actuaries through actuarial models and calculations using the projected unit credit method. This method considers expected future payments required to settle the obligation resulting from employee service in the current and prior periods, discounted using a high quality corporate bond rate. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index and the expected level of indexation. The assumptions are based on available market data as well as management expectations and are updated regularly. The actuarial assumptions may differ significantly from the actual results due to changes in market conditions, economic and mortality trends, and other assumptions. Any changes in these assumptions could have a significant impact on the defined benefit plan obligation and future pension costs.

Changes in the defined benefit obligation that effects Shareholders' equity and/or Net result, include mainly:

- service cost which are recognised as staff costs in the statement of profit or loss;
- interest expenses using a high quality corporate bond rate at the start of the period which are recognised as staff costs in the statement of profit or loss; and
- remeasurements which are recognised in Other comprehensive income (equity).

Remeasurements recognised in other comprehensive income are not recycled to profit or loss. Any past service cost relating to a plan amendment is recognised in profit or loss in the period of the plan amendment. Gains and losses on curtailments and settlements are recognised in the statement of profit or loss when the curtailment or settlement occurs.

The recognition of a net defined benefit asset in the consolidated statement of financial position is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Defined contribution plans
For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations
Some group companies provide post-employment healthcare and other benefits to certain employees and former employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

Income recognition

Interest
Interest income and expense are recognised in the statement of profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

All interest income and expenses from trading positions and non-trading derivatives are classified as interest income and interest expenses in the statement of profit or loss. Changes in the 'clean fair value' are included in Valuation results and net trading income.

Fees and commissions
Fees and commissions are generally recognised as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as income when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds and investment contract fees are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Fees received and paid between banks for payment services are classified as commission income and expenses.

Lease income
The proceeds from leasing out assets under operating leases are recognised on a straight-line basis over the life of the lease agreement. Lease payments received in respect of finance leases when ING Group is the lessor are divided into an interest component (recognised as interest income) and a repayment component.

Expense recognition

Expenses are recognised in the statement of profit or loss as incurred or when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Share-based payments
Share-based payment expenses are recognised as a staff expense over the vesting period. A corresponding increase in equity is recognised for equity-settled share-based payment transactions. A liability is recognised for cash-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions are measured at the grant date, and the fair value of cash-settled share-based payment transactions are measured at each balance sheet date. Rights granted will remain valid until the expiry date, even if the share based payment scheme is discontinued. The rights are subject to certain conditions, including a pre-determined continuous period of service.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, the grant is recognised over the period necessary to match the grant on a systematic basis to the expense that it is intended to compensate. In such case, the grant is deducted from the related expense in the statement of profit or loss.

Earnings per ordinary share

Earnings per ordinary share is calculated on the basis of the weighted average number of ordinary shares outstanding. In calculating the weighted average number of ordinary shares outstanding:

- Own shares held by group companies are deducted from the total number of ordinary shares in issue;
- The computation is based on daily averages; and
- In case of exercised warrants, the exercise date is taken into consideration.

The non-voting equity securities are not ordinary shares, because their terms and conditions (especially with regard to coupons and voting rights) are significantly different. Therefore, the weighted average number of ordinary shares outstanding during the period is not impacted by the non-voting equity securities.

Diluted earnings per share data are computed as if all convertible instruments outstanding at year-end were exercised at the beginning of the period. It is also assumed that ING Group uses the assumed proceeds thus received to buy its own shares against the average market price in the financial year. The net increase in the number of shares resulting from the exercise is added to the average number of shares used to calculate diluted earnings per share.

Share options with fixed or determinable terms are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. They are treated as outstanding on the grant date. Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

Statement of cash flows

The statement of cash flows is prepared in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In the net cash flow from operating activities, the result before tax is adjusted for those items in the statement of profit or loss and changes in items per the statement of financial position, which do not result in actual cash flows during the year.

For the purposes of the statement of cash flows, Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central banks, treasury bills and other eligible bills, amounts due from other banks, and deposits from banks. Investments qualify as a cash equivalent if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash flows arising from foreign currency transactions are translated into the functional currency using the exchange rates at the date of the cash flows.

The net cash flow shown in respect of Loans and advances to customers relates only to transactions involving actual payments or receipts. The Addition to loan loss provision which is deducted from the item Loans and advances to customers in the statement of financial position has been adjusted accordingly from the result before tax and is shown separately in the statement of cash flows.

The difference between the net cash flow in accordance with the statement of cash flows and the change in Cash and cash equivalents in the statement of financial position is due to exchange rate differences and is accounted for separately as part of the reconciliation of the net cash flow and the change in Cash and cash equivalents in the statement of financial position.

g) Parent company accounts

The parent company accounts of ING Groep N.V. are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Dutch Civil Code, the recognition and measurement principles applied in the Parent company accounts are the same as those applied in the Consolidated annual accounts.

Notes to the Consolidated statement of financial position

Assets

2 Cash and balances with central banks

Cash and balances with central banks

	2016	2015
Amounts held at central banks	16,408	19,753
Cash and bank balances	1,736	1,705
	18,144	**21,458**

In 2016, the decrease in Cash and balances with central banks is mainly as a result of the lowering of excess liquidity.

Amounts held at central banks reflect on demand balances.

Reference is made to Note 41 'Assets not freely disposable' for restrictions on Cash balances with central banks.

3 Loans and advances to banks

Loans and advances to banks

	Netherlands		International		Total	
	2016	2015	2016	2015	2016	2015
Loans	10,381	11,549	18,483	17,497	28,864	29,046
Cash advances, overdrafts and other balances	3	531	2	425	5	956
	10,384	**12,080**	**18,485**	**17,922**	**28,869**	**30,002**
Loan loss provisions			–11	–14	–11	–14
	10,384	**12,080**	**18,474**	**17,908**	**28,858**	**29,988**

Loans include balances (mainly short-term deposits) with central banks amounting to EUR 2,880 million (2015: EUR 1,104 million).

As at 31 December 2016, Loans include receivables related to securities in reverse repurchase transactions amounting to EUR 2,992 million (2015: EUR 1,092 million) and receivables related to finance lease contracts amounting to EUR 88 million (2015: EUR 114 million). Reference is made to Note 42 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions. Reference is made to Note 6 'Loans and advances to customers' for information on finance lease receivables.

As at 31 December 2016, the non-subordinated receivables amount to EUR 28,790 million (2015: EUR 29,924 million) and the subordinated receivables amount to EUR 68 million (2015: EUR 64 million).

Reference is made to Note 41 'Assets not freely disposable' for restrictions on Loans and advances to banks.

No individual loans and advances to banks has terms and conditions that significantly affect the amount, timing or certainty of consolidated cash flows of the Group. For details on significant concentrations, refer to the section 'Risk management – Credit risk' paragraph 'Credit Risk Appetite and Concentration Risk Framework'.

4 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

	2016	2015
Trading assets	114,504	131,467
Non-trading derivatives	2,490	3,347
Designated as at fair value through profit or loss	5,099	3,234
	122,093	**138,048**

Reference is made to Note 42 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Trading assets

Trading assets by type

	2016	2015
Equity securities	9,513	14,799
Debt securities	9,863	14,316
Derivatives	38,231	39,012
Loans and receivables	56,897	63,340
	114,504	**131,467**

In 2016, the decrease is mainly caused by lower market activities.

As at 31 December 2016, Trading assets include receivables of EUR 56,020 million (2015: EUR 62,221 million) with regard to reverse repurchase transactions.

Trading assets and trading liabilities include assets and liabilities that are classified under IFRS as Trading but are closely related to servicing the needs of the clients of ING Group. ING offers institutional and corporate clients and governments products that are traded on the financial markets. A significant part of the derivatives in the trading portfolio are related to servicing corporate clients in their risk management to hedge for example currency or interest rate exposures. In addition, ING provides its customers access to equity and debt markets for issuing their own equity or debt securities (securities underwriting). Although these are presented as Trading under IFRS, these are directly related to services to ING's customers. Loans and receivables in the trading portfolio mainly relate to (reverse) repurchase agreements, which are comparable to collateralised lending. These products are used by ING as part of its own regular treasury activities, but also relate to the role that ING plays as intermediary between different professional customers. Trading assets and liabilities held for ING's own risk are very limited. From a risk perspective, the gross amount of trading assets must be considered together with the gross amount of trading liabilities, which are presented separately on the statement of financial position. However, IFRS does not allow netting of these positions in the statement of financial position. Reference is made to Note 14 'Financial liabilities at fair value through profit or loss' for information on trading liabilities.

Non-trading derivatives

Non-trading derivatives by type

	2016	2015
Derivatives used in		
– fair value hedges	1,012	1,010
– cash flow hedges	438	917
– hedges of net investments in foreign operations	73	72
Other non-trading derivatives	967	1,348
	2,490	**3,347**

ING Group holds warrants for 35 million shares and 26 million shares in NN Group N.V. and Voya Financial Inc. respectively.

Other non-trading derivatives mainly includes interest rate swaps and foreign exchange currency swaps for which no hedge accounting is applied. As at 31 December 2016, Other non-trading derivatives includes EUR 175 million (2015: EUR 103 million) and EUR 19 million (2015: EUR 58 million) related to warrants on the shares of Voya Financial Inc. and NN Group N.V. respectively. Reference is made to Note 22 'Valuation results and net trading income'.

Designated as at fair value through profit or loss

Designated as at fair value through profit or loss by type

	2016	2015
Equity securities	3	7
Debt securities	1,669	1,080
Loans and receivables	3,427	2,147
	5,099	**3,234**

Included in the Financial assets designated at fair value through profit or loss is a portfolio of loans and receivables which is economically hedged by credit derivatives. The hedges do not meet the criteria for hedge accounting and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans and receivables included in Financial assets designated at fair value through profit or loss approximates its carrying value. The cumulative change in fair value of the loans attributable to changes in credit risk is not significant.

The notional value of the related credit derivatives is EUR 260 million (2015: EUR 215 million). The change in fair value of the credit derivatives attributable to changes in credit risk since the loans were first designated, amounts to EUR –8 million (2015: EUR –9 million) and the change for the current year amounts to EUR 1 million (2015: nil).

The changes in fair value of the (designated) loans attributable to changes in credit risk have been calculated by determining the changes in credit spread implicit in the fair value of bonds issued by entities with similar credit characteristics.

As at 31 December 2016, Loans and receivables designated at fair value through profit or loss includes EUR 3,001 million (2015: EUR 1,766 million) with regard to reverse repurchase transactions.

5 Investments

Investments by type

	2016	2015
Available-for-sale		
– equity securities - shares in third party managed structured entities	170	169
– equity securities - other	3,854	4,265
	4,024	**4,434**
– debt securities	78,888	82,566
	82,912	**87,000**
Held-to-maturity		
– debt securities	8,751	7,826
	8,751	**7,826**
	91,663	**94,826**

Investments held-to-maturity increased by EUR 0.9 billion. The increase is attributable to a new investment in USD government bonds and bonds issued by financial institutions, offset by a decrease in covered bonds.

In June 2016, the VISA transaction closed. As a result of this transaction, the Available-for-sale equity securities amounting to EUR 163 million, comprising ordinary shares held in VISA Europe Limited, were derecognised. As part of the upfront consideration, ING received EUR 30 million preferred shares convertible into VISA Inc. class A ordinary shares. These preferred shares are classified as Available-for-sale equity securities. Reference is made to Note 51 'Other events'.

In the fourth quarter of 2016, the merger between Equens SE (Equens) and Worldline was completed. The legal entity Equens ceased to exist and was renamed equensWorldline SE. ING Group previously held 15.42% in Equens at EUR 34.7 million. As a result of the merger, ING Group now holds a shareholding of 5.9% in the combined company at EUR 64.9 million. Reference is made to Note 23 'Investment income' for further information on the results from the merger included in the statement of profit or loss.

In October 2016 ING sold 2.5% of Kotak Mahindra Bank shares representing a carrying value of EUR 456 million.

Exposure to debt securities

ING Group's exposure to debt securities is included in the following lines in the statement of financial position:

Debt securities[1]	2016	2015
Available-for-sale investments	78,888	82,566
Held-to-maturity investments	8,751	7,826
Loans and advances to customers	7,471	9,625
Loans and advances to banks	952	1,857
Available-for-sale investments and Assets at amortised cost	**96,062**	**101,874**
Trading assets	9,863	14,316
Designated as at fair value through profit or loss	1,669	1,080
Financial assets at fair value through profit or loss	**11,532**	**15,396**
	107,594	**117,270**

ING Group's total exposure to debt securities included in available-for-sale investments and assets at amortised cost of EUR 96,062 million (2015: EUR 101,874 million) is specified as follows by type of exposure:

Debt securities by type and line items per the statement of financial position - Available-for-sale investments and Assets at amortised cost

	Available-for-sale investments		Held-to-maturity investments		Loans and advances to customers		Loans and advances to banks		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Government bonds	41,985	46,104	6,688	5,500	858	874			49,531	52,478
Sub-sovereign, Supranationals and Agencies	20,484	20,337	1,613	1,619	267	297			22,364	22,253
Covered bonds	11,297	11,949	100	350	1,820	2,119	882	1,787	14,099	16,205
Corporate bonds	1,345	1,177			791	1,036			2,136	2,213
Financial institutions' bonds	2,020	1,865			351	363	70	64	2,441	2,292
ABS portfolio	1,757	1,134	350	357	3,384	4,936		6	5,491	6,433
Bond portfolio	**78,888**	**82,566**	**8,751**	**7,826**	**7,471**	**9,625**	**952**	**1,857**	**96,062**	**101,874**

Sub-sovereign Supranationals and Agencies (SSA) comprise amongst others, multilateral development banks, regional governments, local authorities, and US agencies. Under certain conditions, SSA bonds may qualify as Level 1 High Quality Liquid Assets for the Liquidity Coverage Ratio (LCR).

Approximately 97% (2015: 91%) of the exposure in the ABS portfolio is externally rated AAA up to and including A-.

Borrowed debt securities are not recognised in the statement of financial position and amount to nil (2015: nil).

Reference is made to Note 42 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Changes in available-for-sale and held-to-maturity investments

Changes in available-for-sale and held-to-maturity investments

	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Opening balance	4,434	2,718	82,566	92,684	7,826	2,239	94,826	97,641
Additions	80	1,279	27,073	42,976	1,731	3,457	28,884	47,712
Amortisation			–144	–106	–87	–67	–231	–173
Transfers and reclassifications	–92			–3,499		3,499	–92	
Changes in unrealised revaluations	363	743	–102	–1,595	–70	–72	191	–924
Impairments	–13	–117		–17			–13	–134
Disposals and redemptions	–682	–216	–30,483	–48,331	–630	–1,219	–31,795	–49,766
Exchange rate differences	–72	27	–16	469	–19	–11	–107	485
Changes in the composition of the group and other changes	6		–6	–15				–15
Closing balance	**4,024**	**4,434**	**78,888**	**82,566**	**8,751**	**7,826**	**91,663**	**94,826**

Reference is made to Note 23 'Investment income' for details on Impairments.

In 2016 'Changes in the composition of the group and other changes' includes the modification of an Available-for-sale debt security into newly issued shares.

Transfers and reclassifications of available-for-sale and held-to-maturity investments

Transfers and reclassifications of available-for-sale and held-to-maturity investments

	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
To/from held-to-maturity				–3,499				–3,499
To/from available-for-sale						3,499		3,499
To/from investment in associates and joint ventures	–82						–82	
To/from other assets/other liabilities	–10						–10	
	–92	**–**	**–**	**–3,499**	**–**	**3,499**	**–92**	**–**

In 2015, EUR 3.5 billion of mainly Government bonds previously classified as Available-for-sale debt securities were classified as Held-to-maturity due to ING's intent and ability to hold these bonds until maturity.

Available-for-sale equity securities - Listed and Unlisted

	2016	2015
Listed	3,539	3,804
Unlisted	485	630
	4,024	**4,434**

6 Loans and advances to customers

Loans and advances to customers by type

	Netherlands[1,2]		International[2]		Total	
	2016	2015	2016	2015	2016	2015
Loans to, or guaranteed by, public authorities[1]	27,746	30,912	18,634	18,214	46,380	49,126
Loans secured by mortgages[2]	126,885	128,685	191,745	179,938	318,630	308,623
Loans guaranteed by credit institutions[1]	201	4,795	944	191	1,145	4,986
Personal lending[1]	4,376	5,636	18,722	17,041	23,098	22,677
Asset backed securities			3,380	4,936	3,380	4,936
Corporate loans[1,2]	38,530	197,069	137,675	119,162	176,205	316,231
	197,738	**367,097**	**371,100**	**339,482**	**568,838**	**706,579**
Loan loss provisions	–2,349	–2,900	–2,829	–2,872	–5,178	–5,772
	195,389	**364,197**	**368,271**	**336,610**	**563,660**	**700,807**

1 The comparative amounts, as at 31 December 2015, are adjusted. Total Loans and advances to customers, as at 31 December 2015, increased by EUR 163.5 billion from EUR 537.3 billion to EUR 700.8 billion mostly as a result of an increase in Corporate loans by EUR 146.1 billion from EUR 170.2 billion to EUR 316.2 billion. Reference is made to Note 1 'Accounting policies' – Change in accounting policies and Changes in presentation in 2016.

2 In 2016, Loans and advances to customers by type as at 31 December 2015 are adjusted. Certain Corporate Loans have been reclassified to Loans secured by mortgages.

The decrease in Loans and advances to customers compared to 2015 is primarily due to a change in accounting policies implemented in 2016. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies in 2016.

As at 31 December 2016, Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 47 million (2015: EUR 418 million).

Reference is made to Note 42 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Loans and advances to customers by subordination

	2016	2015
Non-subordinated[1]	562,363	699,510
Subordinated	1,297	1,297
	563,660	**700,807**

1 The comparative amounts, as at 31 December 2015, are adjusted as a result of a change in accounting policies and a reclassification for Items to be cleared. Total Loans and advances to customers, as at 31 December 2015, increased by EUR 163.5 billion from EUR 537.3 billion to EUR 700.8 billion. Reference is made to Note 1 'Accounting policies' – Change in accounting policies and Changes in presentation in 2016.

No individual loan or advance has terms and conditions that significantly affect the amount, timing or certainty of the consolidated cash flows of the Group. For details on significant concentrations, refer to the section 'Risk management – Credit risk' paragraph 'Credit Risk Appetite and Concentration Risk Framework'.

Loans and advances to customers and Loans and advances to banks include finance lease receivables and are detailed as follows:

Finance lease receivables

	2016	2015
Maturities of gross investment in finance lease receivables		
– within 1 year	2,492	2,690
– more than 1 year but less than 5 years	6,282	6,004
– more than 5 years	3,114	3,672
	11,888	**12,366**
Unearned future finance income on finance leases	–1,254	–1,507
Net investment in finance leases	**10,634**	**10,859**
Maturities of net investment in finance lease receivables		
– within 1 year	2,210	2,368
– more than 1 year but less than 5 years	5,635	5,246
– more than 5 years	2,789	3,245
	10,634	**10,859**
Included in Loans and advances to banks	88	114
Included in Loans and advances to customers	10,546	10,745
	10,634	**10,859**

The allowance for uncollectable finance lease receivables includes in the loan loss provisions an amount of EUR 282 million as at 31 December 2016 (2015: EUR 271 million).

No individual finance lease receivable has terms and conditions that significantly affect the amount, timing or certainty of the consolidated cash flows of the Group.

Loan loss provisions by type

	Netherlands		International		Total	
	2016	2015	2016	2015	2016	2015
Loans to, or guaranteed by, public authorities			7	2	7	2
Loans secured by mortgages	550	819	638	717	1,188	1,536
Loans guaranteed by credit institutions	2	1	12	15	14	16
Personal lending	122	177	620	712	742	889
Asset backed securities			2	2	2	2
Corporate loans and Credit Facilities	1,738	1,903	1,617	1,438	3,355	3,341
	2,412	**2,900**	**2,896**	**2,886**	**5,308**	**5,786**
The closing balance is included in						
– Loans and advances to banks			11	14	11	14
– Loans and advances to customers	2,349	2,900	2,829	2,872	5,178	5,772
– Other provisions other	63		56		119	
	2,412	**2,900**	**2,896**	**2,886**	**5,308**	**5,786**

Changes in loan loss provisions	2016	2015
Opening balance	5,786	5,995
Write-offs	–1,494	–1,718
Recoveries	94	91
Increase in loan loss provisions	974	1,347
Exchange rate differences	–55	38
Changes in the composition of the group and other changes	3	33
Closing balance	**5,308**	**5,786**

The Increase in loan loss provisions is presented as Addition to loan loss provisions in the Consolidated statement of profit or loss.

7 Investments in associates and joint ventures

Investments in associates and joint ventures

2016	Interest held (%)	Fair value of listed invest-ment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	30	729	861	21,439	19,275	685	489
Other investments in associates and joint ventures			280				
			1,141				

Investments in associates and joint ventures

2015	Interest held (%)	Fair value of listed invest-ment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	30	801	732	20,956	19,074	630	419
Other investments in associates and joint ventures			230				
			962				

TMB Public Company Limited (TMB) is an associate in which ING Group holds a 30% ownership interest. TMB is a financial institution providing products and services to Wholesale, Small and Medium Enterprise (SME) and Retail customers. TMB is domiciled in Bangkok, Thailand and is listed on the Stock Exchange of Thailand (SET).

Other investments in associates and joint ventures are mainly investment property funds or vehicles operating predominantly in Europe.

ING Group does not hold any interests in Investments in Associates and joint ventures that are individually significant to ING Group. Other investments in associates and joint ventures represents a large number of associates and joint ventures with an individual statement of financial position value of less than EUR 50 million.

Significant influence for associates in which the interest held is below 20%, is based on the combination on ING Group's financial interest and other arrangements, such as participation in the Board of Directors.

In general, the reporting dates of all significant associates and joint ventures are consistent with the reporting date of the Group. However, the reporting dates of certain associates and joint ventures can differ from the reporting date of the Group, but by no more than three months.

Accumulated impairments of EUR 48 million (2015: EUR 24 million) have been recognised. The values presented in the tables above could differ from the values presented in the individual annual accounts of the associates and joint ventures, due to the fact that the individual values have been brought in line with ING Group's accounting principles. Where the listed fair value is lower than the statement of financial position value, an impairment review and an evaluation of the going concern basis has been performed.

The associates and joint ventures of ING are subject to legal and regulatory restrictions regarding the amount of dividends it can pay to ING. These restrictions are for example dependant on the laws in the country of incorporation for declaring dividends or as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the associates and joint ventures operate. In addition, the associates and joint ventures also consider other factors in determining the appropriate levels of equity needed. These factors and limitations include, but are not limited to, rating agency and regulatory views, which can change over time.

Changes in Investments in associates and joint ventures

	2016	2015
Opening balance	962	953
Additions	49	24
Transfers to and from Investments/Other assets and liabilities	75	–10
Revaluations	38	5
Share of results	91	110
Dividends received	–37	–33
Disposals	–54	–125
Impairments	–3	
Exchange rate differences	20	20
Changes in the composition of the group and other changes		18
Closing balance	**1,141**	**962**

Additions
In 2016 additions are mainly due to several smaller investments in associates.

Transfers to and From Investments/Other assets and liabilities
In 2016 transfers included EUR 82 million reclassification from Available-for-sale equity securities to associates and EUR –7 million reclassification from/to other assets and other liabilities.

Revaluations
In 2016, revaluations as presented in the table above of EUR 38 million includes, EUR 54 million relating to TMB, EUR 17 million relating to Equens SE, and EUR –31 million is due to other revaluations.

Share of results
In 2016, Share of results from associates and joint ventures of EUR 88 million as presented in the statement of profit or loss, includes:
- Share of results, as presented in the table above of EUR 91 million mainly attributable to results of TMB amounting to EUR 68 million and a gain of EUR 21 million on disposal of shares held in VISA Europe Limited; and
- Impairments of investments in associates and joint ventures of EUR –3 million.

In 2015, Share of results from associates and joint ventures of EUR 492 million as presented in the statement of profit or loss, included:
- Share of results, as presented in the table above, of EUR 110 million mainly attributable to results of TMB amounting to EUR 75 million and gain on disposal of Ivy Retail SRL and Ontwikkelingscombinatie Overhoeks C.V. amounting to EUR 10 million and EUR 5 million respectively;
- A net gain on Investments in associates held for sale of EUR 382 million, which comprised EUR 367 million from the merger of ING Vysya with Kotak and EUR 15 million on the sale of ING Nationale Nederlanden PTE Polska, S.A.; and
- Impairments on investments in associates and joint ventures of nil.

Disposals
In 2016, Disposals of EUR 54 million is mainly attributable to the sale of Enterprise Center of EUR 40 million and capital repayment CBRE Asia Value Fund of EUR 10 million.

In 2015, Disposals of EUR 125 million was mainly attributable to sale of Ivy Retail SRL and Ontwikkelingscombinatie Overhoeks C.V. as referred to above.

Exchange rate differences
In 2016, Exchange rate differences includes EUR 20 million, of which 28 million relates to TMB and EUR –9 million relates to Appia Group (2015: EUR 11 million related to TMB).

8 Property and equipment

Property and equipment by type	2016	2015
Property in own use	881	982
Equipment	1,015	971
Assets under operating leases	106	74
	2,002	**2,027**

ING uses external valuers to value property in own use. All properties are typically appraised by external valuers once every five years.

Changes in property in own use	2016	2015
Opening balance	982	1,020
Additions	9	10
Reclassifications		
- Transfers to and from Investment properties	8	1
- Transfers to and from Other assets		4
	8	5
Amounts recognised in the statement of profit or loss for the year		
- Depreciation	–15	–16
- Impairments	–64	–17
- Reversal of impairments	5	14
	–74	–19
Revaluations recognised in equity during the year	11	32
Disposals	–38	–60
Exchange rate differences	–17	–6
Closing balance	**881**	**982**
Gross carrying amount as at 31 December	1,656	1,823
Accumulated depreciation as at 31 December	–504	–635
Accumulated impairments as at 31 December	–271	–206
Net carrying value as at 31 December	**881**	**982**
Revaluation surplus		
Opening balance	273	219
Revaluation in the year	–17	54
Closing balance	**256**	**273**

The cost or the purchase price amounted to EUR 1,400 million (2015: EUR 1,551 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 625 million (2015: EUR 710 million) had property in own use been valued at cost instead of at fair value.

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2016	2015	2016	2015	2016	2015
Opening balance	263	265	708	733	971	998
Additions	161	140	181	176	342	316
Disposals	-5	-6	-20	-7	-25	-13
Depreciation	-137	-125	-178	-186	-315	-311
Exchange rate differences	-5	-4	-5	-1	-10	-5
Changes in the composition of the group and other changes	46	-7	6	-7	52	-14
Closing balance	**323**	**263**	**692**	**708**	**1,015**	**971**
Gross carrying amount as at 31 December	1,274	1,092	2,432	2,482	3,706	3,574
Accumulated depreciation as at 31 December	-950	-828	-1,740	-1,774	-2,690	-2,602
Accumulated impairments as at 31 December	-1	-1			-1	-1
Net carrying value as at 31 December	**323**	**263**	**692**	**708**	**1,015**	**971**

9 Intangible assets

Changes in intangible assets

	Goodwill		Software		Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Opening balance	985	1,061	567	574	15	20	1,567	1,655
Additions			93	134			93	134
Capitalised expenses			195	122			195	122
Amortisation			-182	-265	-5	-5	-187	-270
Impairments			-45	-15			-45	-15
Exchange rate differences	-82	-70	-1			-1	-83	-71
Disposals			-9	-1			-9	-1
Changes in the composition of the group and other changes		-6	-47	18		1	-47	13
Closing balance	**903**	**985**	**571**	**567**	**10**	**15**	**1,484**	**1,567**
Gross carrying amount as at 31 December	903	985	1,756	1,706	29	29	2,688	2,720
Accumulated amortisation as at 31 December			-1,147	-1,128	-17	-12	-1,164	-1,140
Accumulated impairments as at 31 December			-38	-11	-2	-2	-40	-13
Net carrying value as at 31 December	**903**	**985**	**571**	**567**	**10**	**15**	**1,484**	**1,567**

Goodwill

Goodwill is allocated to groups of CGUs as follows:

Goodwill allocation to group of CGUs

Group of CGU's	Method used for recoverable amount	Discount rate	Long term growth rate	Goodwill 2016	Goodwill 2015
Retail Belgium	Values in use	8.64%	0.45%	50	50
Retail Germany	Values in use	7.74%	0.45%	349	349
Retail Growth Markets[1, 2]	Fair value less cost of disposal	12.48%	3.19%	375	427
Wholesale Banking[2]	Values in use	8.80%	0.96%	129	159
				903	**985**

1 As of 2016, the group of CGUs Retail Central Europe is renamed to Retail Growth and enhanced with Asian stakes to align with segment reporting. This change has no impact on goodwill allocated to this group of CGUs in 2016 and 2015.

2 Goodwill related to Growth Countries is allocated across two groups of CGUs EUR 375 million to Retail Growth and EUR 109 million to Wholesale Banking.

No goodwill impairment was recognised in 2016 (2015: nil). Changes in the goodwill per group of CGUs in 2016 is due to changes in currency exchange rates.

Goodwill impairment testing

Impairment reviews with respect to goodwill are performed at least annually and more frequently if events indicate that impairments may have occurred. Goodwill is tested for impairment at the lowest level at which it is monitored for internal management purposes and is referred to as a Cash Generating Unit (CGU), or group of CGUs. Goodwill is tested for impairment by comparing the carrying value of the group of CGUs (that is, the group of cash generating units or CGUs) to the best estimate of the recoverable amount of that group of CGUs. In compliance with IAS 36 'Impairment of assets', the carrying value is determined on a basis that is consistent with the way in which the recoverable amount of the CGU is determined. The actual IFRS capital is the basis for allocation of carrying value to CGUs, adjusted for Retail/Wholesale split using a solvency allocation key which is based on the CGUs share of risk-weighted assets.

Methodology

Several methodologies are applied to arrive at the best estimate of the recoverable amount. In line with IFRS, the recoverable amount is determined as the higher of the fair value less costs of disposal and Value in Use (VIU). Fair value less costs of disposal is based on observable share prices (Level 1 inputs in the fair value hierarchy), observable Price-to-Book multiples of relevant peer banks (Level 2), or based on a discounted free cash flow model (Level 3). The VIU calculation is based on a Dividend Discount model using five year management approved plans. When estimating the VIU of a CGU, local conditions and requirements determine the capital requirements, discount rates, and terminal growth rates. These local conditions and requirements determine the ability to upstream excess capital and profits to ING Group. The discount rate calculation includes other inputs such as equity market premium, country risk premium, and long term inflation which are based on market sources and management's judgement. The long term growth rate for EU-countries is based on long-term risk-free rate by reference to the yield of a composite index consisting of Euro generic government bonds, with a maturity of 30 years. For other countries, the growth rate includes long term inflation rate obtained from market sources.

The carrying value of the CGUs exceeds the recoverable amount for 2016 and 2015 and therefore no impairment is required.

Sensitivity of key assumptions

Key assumptions in the goodwill impairment test model are the Price to Book ratios, share price of listed subsidiaries and the local parameters for CET1, discount rate, and long term growth rates. The model was tested for sensitivity by changing the key parameters in the model to more conservative values. The sensitivity analysis did not trigger additional impairment considerations.

Software

Software, includes internally developed software amounting to EUR 395 million (2015: EUR 319 million).

As of 2016, the amortisation period for capitalised software is changed from three to five years. The change is applied prospectively. The change results in a lower charge to the statement of profit or loss for the year. The change has no significant impact on the statement of profit or loss for the year ended 31 December 2016 and is not expected to have a significant impact on the statement of profit or loss of ING Group in future years. Amortisation of software and other intangible assets is included in the statement of profit or loss in other operating expenses. Reference is made to Note 27 'Other operating expenses'.

10 Other assets

Other assets by type	2016	2015
Net defined benefit assets	609	643
Investment properties	65	77
Property development and obtained from foreclosures	184	212
Accrued interest and rents	5,588	6,228
Other accrued assets	884	717
Amounts to be settled	4,815	2,087
Other	2,577	2,297
	14,722	**12,261**

Disclosures in respect of Net defined benefit assets are provided in Note 35 'Pension and other post-employment benefits'.

Property development and obtained from foreclosures

Property development and obtained from foreclosures	2016	2015
Property developed	109	141
Property obtained from foreclosures	75	71
	184	**212**
Gross carrying amount as at 31 December	469	531
Accumulated impairments as at 31 December	–285	–319
Net carrying value	**184**	**212**

Accrued interest and rents

As at 31 December 2016, the line item includes accrued interest of EUR 1,939 million (2015: EUR 2,290 million) on trading derivative assets and EUR 2,773 million (2015: EUR 2,895 million) on loans and available-for-sale bonds. Accrued interest on trading derivative assets should be considered together with accrued interest on trading derivative liabilities as included in Other liabilities. Reference is made to Note 16 'Other liabilities'. The remainder of the balance relates mainly to accrued interest on cash flow hedges, fair value hedges and other non-trading derivatives.

Other accrued assets

In 2016, Other accrued assets increased by EUR 167 million, mainly due to card transactions.

Amounts to be settled

Amounts to be settled are primarily transactions not settled at the balance sheet date. They are short term in nature and are expected to settle shortly after the balance sheet date. The increase in 2016 is partly attributable to the reclassification of Items to be settled in respect of securities transactions. Items to be settled in respect of securities transactions of nil, at 31 December 2016 (31 December 2015: EUR 1,499 million), were previously reported under Loans and advances to customers and Loans and advances to banks. On the basis of materiality, comparative amounts as at 31 December 2015 have not been adjusted. Furthermore, the increased balance, as at 31 December 2016, is due to higher market activity compared to year end.

Other

Other assets - Other relates mainly to other receivables in the normal course of business.

11 Assets held for sale

As at 31 December 2015, Assets held for sale related to the investment of 25.75% in the associate NN Group which amounted to EUR 2,153 million.

During 2016, ING Group sold its remaining shares in NN Group resulting in a net profit of EUR 448 million which is recognised in the statement of profit or loss in the line 'Net result from disposal of discontinued operations'.

Reference is made to Note 28 'Discontinued operations' and Note 51 'Other events'.

Liabilities

12 Deposits from banks

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

Deposits from banks by type

	Netherlands		International		Total	
	2016	2015	2016	2015	2016	2015
Non-interest bearing		1,304	449	1,063	449	2,367
Interest bearing	13,778	12,331	17,737	19,115	31,515	31,446
	13,778	**13,635**	**18,186**	**20,178**	**31,964**	**33,813**

In 2016, ING participated in the new targeted longer-term refinancing operations (TLTRO II) of EUR 10.7 billion and early redeemed the old TLTRO I tranches for EUR 8.7 billion.

The TLTRO aims to stimulate lending to the real economy in the Eurozone. The interest rate on the TLTRO's is fixed over the life of each operation at the benchmark rate of the European Central Bank.

Reference is made to Note 42 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

13 Customer deposits

Customer deposits

	2016	2015
Savings accounts	315,697	305,941
Credit balances on customer accounts[1]	173,230	316,717
Corporate deposits	32,687	40,244
Other	1,328	1,339
	522,942	**664,241**

1 The comparative amounts, as at 31 December 2015, are adjusted as a result of a change in accounting policies. Total Customer deposits, as at 31 December 2015, increased by EUR 163.5 billion from EUR 500.8 billion to EUR 664.2 billion as a result of an increase in Credit balances on customer accounts. Reference is made to Note 1 'Accounting policies' – Change in accounting policies and presentation in 2016.

Customer deposits by type

	Netherlands[1]		International		Total	
	2016	2015	2016	2015	2016	2015
Non-interest bearing	13,536	12,360	16,911	13,367	30,447	25,727
Interest bearing[1]	151,446	310,950	341,049	327,564	492,495	638,514
	164,982	**323,310**	**357,960**	**340,931**	**522,942**	**664,241**

1 The comparative amounts, as at 31 December 2015, are adjusted as a result of a change in accounting policies. Total Customer deposits, as at 31 December 2015, increased by EUR 163.5 billion from EUR 500.8 billion to EUR 664.2 billion. Reference is made to Note 1 'Accounting policies' – Change in accounting policies in 2016.

Savings accounts relate to the balances on savings accounts, savings books, savings deposits, and time deposits of personal customers. The interest payable on savings accounts, which is contractually added to the accounts, is also included.

Reference is made to Note 42 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

14 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss	2016	2015
Trading liabilities	83,167	88,807
Non-trading derivatives	3,541	4,257
Designated at fair value through profit or loss	12,266	12,616
	98,974	**105,680**

Trading liabilities

Trading liabilities by type	2016	2015
Equity securities	1,975	3,773
Debt securities	4,146	5,342
Funds on deposit	37,753	38,789
Derivatives	39,293	40,903
	83,167	**88,807**

The decrease in the trading liabilities is mainly due to a reduction of short positions, expiring contracts, and changes in fair value resulting from market interest rates and exchange rates. Reference is made to Note 4 'Financial assets at fair value through profit or loss' for information on trading assets.

Reference is made to Note 42 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Non-trading derivatives

Non-trading derivatives by type	2016	2015
Derivatives used in:		
– fair value hedges	1,888	2,411
– cash flow hedges	671	1,167
– hedges of net investments in foreign operations	33	52
Other non-trading derivatives	949	627
	3,541	**4,257**

Other non-trading derivatives mainly includes interest rate swaps and foreign currency swaps for which no hedge accounting is applied.

Designated as at fair value through profit or loss

Designated as at fair value through profit or loss by type	2016	2015
Debt securities	10,736	11,623
Funds entrusted	969	407
Subordinated liabilities	561	586
	12,266	**12,616**

In 2016, the change in the fair value of financial liabilities designated at fair value through profit or loss attributable to changes in credit risk is EUR 50 million (2015: EUR –163 million) and EUR 170 million (2015: EUR 119 million) on a cumulative basis. This change has been determined as the amount of change in fair value of the financial liability that is not attributable to changes in market conditions that gave rise to market risk (i.e. mainly interest rate risk based on yield curves).

The amount that ING Group is contractually required to pay at maturity to the holders of financial liabilities designated as at fair value through profit or loss is EUR 11,720 million (2015: EUR 12,220 million).

15 Provisions

Provisions by type

	2016	2015
Reorganisation provisions	1,482	670
Other provisions	546	294
	2,028	**964**

Reorganisation provisions

Changes in reorganisation provisions

	2016	2015
Opening balance	670	728
Additions	1,202	180
Unused amounts reversed	–13	–15
Utilised	–365	–226
Exchange rate differences	–5	5
Changes in the composition of the group and other changes	–7	–2
Closing balance	**1,482**	**670**

In 2016, ING Group recognised an additional reorganisation provision of EUR 1,032 million, for the intended workforce reductions per the intended digital transformation programmes as announced on ING's Investor Day on 3 October. The intended initiatives are expected to result in a reduction of ING's workforce mainly in Belgium and the Netherlands during 2016 to 2021.

In 2015, Additions to reorganisation provisions was mainly attributable to existing reorganisation initiatives in Retail Netherlands and Belgium.

These initiatives are implemented over a period of several years and the estimate of the reorganisation provisions is inherently uncertain. The provision at the balance sheet date represents the best estimate of the expected redundancy costs and are expected to be sufficient to cover these costs.

Other provisions

Changes in other provisions

	Litigation		Other		Total	
	2016	2015	2016	2015	2016	2015
Opening balance	187	190	107	99	294	289
Additions	235	105	120	8	355	113
Unused amounts reversed	–46	–81	–6	–24	–52	–105
Utilised	–28	–17	–19	–2	–47	–19
Exchange rate differences	–1	–2	–1	–1	–2	–3
Changes in the composition of the group and other changes	6	–8	–8	27	–2	19
Closing balance	**353**	**187**	**193**	**107**	**546**	**294**

In 2016, Other provisions – other changes include amounts related to Letters of Credit / Guarantees of EUR 119 million. In general, Other provisions are of a short-term nature. As at 31 December 2016, amounts expected to be settled within twelve months, amount to EUR 322 million. The amounts included in other provisions are based on best estimates with regard to amounts and timing of cash flows required to settle the obligation.

Included in Other provisions – Litigation in 2016 and 2015, is a provision related to floating interest rate derivatives that were sold in the Netherlands. Reference is made to Note 27 'Other operating expenses' and Note 45 'Legal proceedings'.

Included in Other provisions – Litigation in 2016, is a provision related to medical insurance plan damages for retired employees of ING Belgium. Reference is made to Note 27 'Other operating expenses' and Note 45 'Legal proceedings'.

16 Other liabilities

Other liabilities by type

	2016	2015
Net defined benefit liability	521	498
Other post-employment benefits	87	98
Other staff-related liabilities	498	349
Other taxation and social security contributions	495	565
Accrued interest	4,394	5,156
Costs payable	2,242	1,874
Share-based payment plan liabilities	26	26
Amounts to be settled	6,391	2,390
Other	2,198	2,176
	16,852	**13,132**

Disclosures in respect of Net defined benefit liabilities are provided in Note 35 'Pension and other post-employment benefits'.

Other staff-related liabilities

Other staff-related liabilities includes vacation leave provisions, variable compensation provisions, jubilee provisions, and disability/illness provisions.

Amounts to be settled

Amounts to be settled increased compared to 31 December 2015 as a result of reclassification of Items to be settled in respect of securities transactions. The items to be settled in respect of securities transactions of EUR 3,571 million, at 31 December 2016 (31 December 2015: EUR 2,257 million), were previously reported under Customer deposits and Deposits from banks. On the basis of materiality, comparative amounts as at 31 December 2015, have not been adjusted. Furthermore, the remaining increase, as at 31 December 2016, is due to higher market activity compared to year end.

Other

Other liabilities – Other relates mainly to year-end accruals. Included in Other liabilities - Other, are accruals related to ING's contributions to the Deposit Guarantee Scheme (DGS) and the Single Resolution Fund (SRF).

17 Debt securities in issue

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

Debt securities in issue – maturities

	2016	2015
Fixed rate debt securities		
Within 1 year	27,208	40,728
More than 1 year but less than 2 years	12,151	7,807
More than 2 years but less than 3 years	7,365	11,192
More than 3 years but less than 4 years	7,893	6,068
More than 4 years but less than 5 years	8,674	7,845
More than 5 years	14,716	20,415
Total fixed rate debt securities	**78,007**	**94,055**
Floating rate debt securities		
Within 1 year	13,278	10,483
More than 1 year but less than 2 years	2,724	6,056
More than 2 years but less than 3 years	4,168	1,958
More than 3 years but less than 4 years	793	2,827
More than 4 years but less than 5 years	320	476
More than 5 years	3,944	5,434
Total floating rate debt securities	**25,227**	**27,234**
Total debt securities	**103,234**	**121,289**

In 2016, the decrease in Debt securities in issue of EUR 18.1 billion is mainly attributable to a decrease in long term maturity bonds of EUR 9.1 billion, a decrease of EUR 6.5 billion in certificates of deposit, decrease of EUR 2.9 billion covered bonds, decrease in other debt securities in issue EUR 2.1 billion, partially offset by an increase in commerical paper of EUR 2.5 billion.

As at 31 December 2016, ING Group has unused lines of credit available including the payment of commercial paper borrowings relating to debt securities in issue of EUR 12,015 million (2015: EUR 14,646 million).

18 Subordinated loans

Subordinated loans by group companies

	2016	2015
ING Groep N.V.	7,203	7,265
ING Group companies	10,020	9,146
	17,223	**16,411**

Subordinated loans issued by ING Groep N.V. have been issued to raise Tier 1 capital for ING Bank N.V. Under IFRS these bonds are classified as liabilities and for regulatory purposes, they are considered capital. Subordinated loans issued by ING Group companies comprise, for the most part, subordinated loans which are subordinated to all current and future liabilities of ING Bank N.V.

Changes in subordinated loans

	2016	2015
Opening balance	16,411	18,158
New issuances	2,070	3,159
Repayments	–1,252	–6,092
Exchange rate differences and other	–6	1,186
Closing balance	**17,223**	**16,411**

In April 2016, ING Bank N.V. issued EUR 1,000 million CRD IV-eligible Tier-2 instruments. The transaction had an issuer substitution option which gives ING the right to exchange these for subordinated Tier-2 notes issued by ING Groep N.V. ING has classified this instrument as a financial liability because of the contractual interest payments and fixed maturity date.

In November 2016, ING Groep N.V. issued USD 1,000 million securities that qualify as Additional Tier 1 capital under CRR/CRD IV. The issuance was in the form of 5 Year Callable USD denominated Perpetual Additional Tier 1 Contingent Convertible Securities, with coupon 6.875%. The securities are subject to full conversion into ordinary shares of ING Groep N.V. in the event that ING's phased-in CET1 ratio would fall below 7%. ING has classified this instrument as a financial liability because ING is obliged to deliver cash or another financial asset, or to otherwise settle the instrument in such a way that it would be a financial liability (e.g. by delivering a variable number of shares) upon the occurrence of an uncertain future event (i.e. a trigger event) that is beyond the control of both the issuer and the holder.

In February, March, and September 2016 respectively, ING Groep N.V. redeemed the final tranche of subordinated loans from the Anchor investors (EUR 338 million), GBP 66 million 5.14% Bond and the USD 800 million 7.05% ING Perpetual Debt Securities.

The average interest rate on subordinated loans is 4.94% (2015: 4.89%). The interest expense during the year 2016 was EUR 816 million (2015: EUR 901 million).

For additional information, reference is made to the Parent company annual accounts, Note 5 'Subordinated loans'.

ING Groep N.V. - Anchor investors
Subordinated loans issued by ING Groep N.V. include subordinated notes issued by the Anchor investors amounting to nil (2015: EUR 337.5 million).

In 2014, EUR 1,125 million was received from three external investors (Asian-based investment firms RRJ Capital, Temasek and Sea Town Holdings International) in relation to the IPO of NN Group. This funding, which bears a 4% interest rate, was to be repaid in three tranches of NN Group shares. The number of shares in the repayment was variable, such that the fair value of the shares at repayment date equalled the notional repayment amount, taking into account a discount in the range of 1.5% to 3% of the market price.

In July 2014, a first tranche of EUR 450 million of the mandatorily exchangeable subordinated notes was exchanged into NN Group shares. In June 2015, a second tranche of EUR 337.5 million of the mandatorily exchangeable subordinated notes was exchanged into 13.6 million NN Group ordinary shares and comprised a non-cash transaction. In February 2016, the remaining tranche, of EUR 337.5 million, was mandatorily exchanged. For further information, reference is made to Note 51 'Other events'.

Equity
19 Equity

Total equity

	2016	2015	2014
Share capital and share premium			
- Share capital	39	928	925
- Share premium	16,950	16,054	16,046
	16,989	**16,982**	**16,971**
Other reserves			
- Revaluation reserve: Available-for-sale and other	3,830	3,896	6,838
- Revaluation reserve: Cash flow hedge	777	666	3,877
- Revaluation reserve: Property in own use	204	326	306
- Net defined benefit asset/liability remeasurement reserve	–371	–306	–504
- Currency translation reserve	–770	–538	–741
- Share of associates, joint ventures and other reserves	2,235	1,733	1,483
- Treasury shares	–8	–18	–46
	5,897	**5,759**	**11,213**
Retained earnings	**26,907**	**25,091**	**23,160**
Shareholders' equity (parent)	**49,793**	**47,832**	**51,344**
Non-controlling interests	606	638	8,072
Total equity	**50,399**	**48,470**	**59,416**

Share capital and share premium
Share capital

Share capital

	Ordinary shares (par value EUR 0.01)					
	Number x 1,000			Amount		
	2016	2015	2014	2016	2015	2014
Authorised share capital	14,729,000	14,500,000	14,500,000	147	3,480	3,480
Unissued share capital	10,850,516	10,629,817	10,641,138	108	2,552	2,555
Issued share capital	**3,878,484**	**3,870,183**	**3,858,862**	**39**	**928**	**925**

Changes in issued share capital

	Ordinary shares (par value EUR 0.01)	
	Number x 1,000	Amount
Issued share capital as at 1 January 2014	3,840,894	921
Issue of shares	17,968	4
Issued share capital as at 31 December 2014	**3,858,862**	**925**
Issue of shares	11,321	3
Issued share capital as at 31 December 2015	**3,870,183**	**928**
Issue of shares	8,301	2
Transfer to share premium		–891
Issued share capital as at 31 December 2016	**3,878,484**	**39**

In 2016, ING Groep N.V. issued 8.3 million depositary receipts for ordinary shares (converted into ordinary shares per 26 July 2016) (2015: 11.3 million and 2014: 18.0 million: depositary receipts for ordinary shares). These issues were made in order to fund obligations arising from share-based employee incentive programmes.

During the Annual General Meeting of Shareholders, held on 25 April 2016, it was decided to reduce the par value per ordinary share from EUR 0.24 (2015 and 2014) to EUR 0.01. As a result of this, EUR 891 million is attributed to the Share premium. For further information, reference is made to the section 'Depository receipts for ordinary shares', below.

In 2016 and 2015 respectively, ING Groep N.V. issued USD 1,000 million and USD 2,250 million Perpetual Additional Tier 1 Contingent Convertible Capital Securities which can, in accordance with their terms and conditions, convert by operation of law into ordinary shares if the conditions to such conversion are fulfilled. As a result of this conversion, the issued share capital can increase by no more than 111 million and 250 million ordinary shares, respectively. Reference is made to Note 18 'Subordinated loans' and to the Parent company annual accounts, Note 5 'Subordinated loans'.

Ordinary shares
All ordinary shares are in registered form. No share certificates have been issued. Ordinary shares may be transferred by means of a deed of transfer. A transfer of ordinary shares requires written acknowledgement by ING Groep N.V. Ordinary shares are listed on various stock exchanges. The par value of ordinary shares is EUR 0.01 as of 26 July 2016, the date of amendment of the Articles of Association of ING Groep N.V. (2015 and 2014: EUR 0.24). The authorised ordinary share capital of ING Groep N.V. currently consists of 14,729 million ordinary shares. As at 31 December 2016, 3,878 million ordinary shares were issued and fully paid.

Depositary receipts for ordinary shares
In 2016, ING Group proposed to the Annual General Meeting of Shareholders to amend the Articles of Association, which included the abolishment of the depositary receipt structure via Stichting Aandelen (ING Trust Office).

Following the adoption of the amendments to the Articles of Association, by the Annual General Meeting on 25 April 2016, the depositary receipt structure was abolished on 26 July 2016. As a result of the amendments to the Articles of Association, a holder of a depositary receipt became entitled to ordinary shares in ING in exchange for depositary receipts previously held.

The conversion of ING Groep N.V. depositary receipts for shares into ING Groep N.V. ordinary shares took place on 26 July 2016. On the same date, the related changes to the Articles of Association, including the reduction of the nominal value of the shares from EUR 0.24 to EUR 0.01, were implemented.

ING's American Depositary Receipts (ADR's), which are traded on the New York Stock Exchange, remain in place. Similarly, the separate arrangement with the ING Continuity Foundation, regarding its call option to acquire preference shares in ING Group under certain circumstances, remains in place.

As per 26 July 2016, more than 99.9% of the issued ordinary shares were held by Stichting ING Aandelen (ING Trust Office). In exchange for these shares, ING Trust Office issued depositary receipts. These depositary receipts were listed on various stock exchanges. Depositary receipts could be exchanged upon request of the holders of depositary receipts for (non-listed) ordinary shares without any restriction, other than payment of an administrative fee of EUR 0.01 per depositary receipt with a minimum of EUR 25 per exchange transaction.

The holder of a depositary receipt was entitled to receive from ING Trust Office payment of dividends and distributions corresponding to the dividends and distributions received by ING Trust Office on an ordinary share.

Ordinary shares held by ING Group (Treasury shares)
As at 31 December 2016, 0.0 million ordinary shares (2015: 1.5 million and 2014: 4.3 million - depositary receipts for ordinary shares) of ING Groep N.V. with a par value of EUR 0.01 (2015 and 2014: EUR 0.24) are held by ING Groep N.V. or its subsidiaries. The obligations with regard to the existing stock option plan and the share plans will be funded either by cash or by newly issued shares at the discretion of ING Group.

Share premium

Share premium	2016	2015	2014
Opening balance	16,054	16,046	16,038
Issue of shares	5	8	8
Transfer from issued share capital	891		
Closing balance	**16,950**	**16,054**	**16,046**

The increase in share premium, as a result of the issue of ordinary shares, is related to share-based employee incentive programmes.

In 2016, the share premium increased by EUR 896 million, mainly as a result of a transfer from issued share capital as described above.

Other reserves

Revaluation reserve: Available-for-sale and other

Changes in revaluation reserve: Available-for-sale and other	2016	2015	2014
Opening balance	3,896	6,838	3,344
Unrealised revaluations	80	1,188	7,656
Realised gains/losses transferred to the statement of profit or loss	–146	–94	–133
Transfer to insurance liabilities/DAC		–254	–2,658
Impact of deconsolidation of NN Group		–2,940	
Impact of partial divestment of NN Group		–855	
Impact of IPO NN Group			–874
Changes in composition of the group and other changes		13	–497
Closing balance	**3,830**	**3,896**	**6,838**

In 2016, the available-for-sale revaluation reserve decreased by EUR 154 million related to the release of previously recognised revaluation reserves, included in the line Unrealised revaluations in 2015, on shares held in VISA Europe Limited. Reference is made to Note 5 'Investments', Note 37 'Fair value of assets and liabilities' and Note 51 'Other events.

In 2015 and 2014, Transfer to insurance liabilities/DAC comprised the change in insurance liabilities related to NN Group and Voya, until deconsolidation at the end of May 2015 and the end of March 2014 respectively.

In 2014, Changes in composition of the group and other changes included EUR –502 million related to the deconsolidation of Voya. Reference is made to Note 51 'Other events'.

Revaluation reserve: Cash flow hedge

Changes in revaluation reserve: Cash flow hedge	2016	2015	2014
Opening balance	666	3,877	1,879
Realised gains/losses transferred to the statement of profit or loss			–4
Changes in cash flow hedge reserve	111	–65	3,105
Impact of deconsolidation of NN Group		–2,507	
Impact of partial divestment of NN Group		–649	
Impact of IPO NN Group			–1,100
Changes in composition of the group and other changes		10	–3
Closing balance	**777**	**666**	**3,877**

Revaluation reserve: Property in own use

Changes in revaluation reserve: Property in own use

	2016	2015	2014
Opening balance	326	306	334
Unrealised revaluations	5	38	–28
Impact of deconsolidation of NN Group		–9	
Impact of partial divestment of NN Group		–3	
Impact of IPO NN Group			–2
Changes in composition of the group and other changes	–127	–6	2
Closing balance	**204**	**326**	**306**

In 2016, the EUR –127 million is a transfer of revaluation reserve to retained earnings.

Reference is made to Note 51 'Other events', for further information on NN Group divestment transactions.

Net defined benefit asset/liability remeasurement reserve
Reference is made to Note 35 'Pension and other post-employment benefits'.

Currency translation reserve

Changes in currency translation reserve

	2016	2015	2014
Opening balance	–538	–741	–2,161
Unrealised revaluations	–76	–263	–53
Realised gains/losses transferred to the statement of profit or loss			481
Impact of deconsolidation of NN Group		26	
Impact of partial divestment of NN Group		8	
Impact of IPO NN Group			52
Exchange rate differences	–156	432	940
Closing balance	**–770**	**–538**	**–741**

Unrealised revaluations relates to changes in the value of hedging instruments that are designated as net investment hedges.

In 2014, Realised gains/losses transferred to the statement of profit or loss related to the deconsolidation of Voya at the end of March 2014.

Reference is made to Note 51 'Other events', for further information on NN Group divestment transactions.

Share of associates, joint ventures and other reserves

Changes in share of associates, joint ventures and other reserves

	2016	2015	2014
Opening balance	1,733	1,483	1,644
Result for the year	124	131	83
Transfer to/from retained earnings	265		–161
Changes in composition of the group and other changes	113	119	–83
Closing balance	**2,235**	**1,733**	**1,483**

Treasury shares

Changes in treasury shares

	Amount			Number		
	2016	2015	2014	2016	2015	2014
Opening balance	–18	–46	–32	1,464,025	4,302,122	3,994,055
Purchased/sold	10	28	–6	–863,391	–2,810,775	351,252
Share-based payments					–27,322	–43,185
Other			–8			
Closing balance	**–8**	**–18**	**–46**	**600,634**	**1,464,025**	**4,302,122**

Retained earnings

Changes in retained earnings

	2016	2015	2014
Opening balance	25,091	23,160	27,575
Transfer to/from share of associates and joint ventures reserves	–265		161
Result for the year	4,527	3,879	1,168
Impact of partial divestment of NN Group		–270	
Dividend	–2,521	–1,393	
Coupon on Undated subordinated notes issued by NN Group		–19	
Repurchase premium			–750
Impact of IPO NN Group			–1,327
Employee stock options and share plans	75	105	87
Changes in composition of the group and other changes		–371	–3,754
Closing balance	**26,907**	**25,091**	**23,160**

In 2016, a cash dividend of EUR 2,521 million was paid to the shareholders of ING Group.

In 2015, a cash dividend of EUR 1,393 million was paid to the shareholders of ING Group.

In 2015, the coupon on Undated subordinated notes issued by NN Group comprised coupon payments for the five months, until deconsolidation of NN Group at the end of May 2015.

In 2014, the repurchase premium of EUR 750 million was paid in relation to the repayment of the EUR 1,500 million non-voting equity securities to the Dutch State.

In 2014, Impact of IPO NN Group related to the IPO of NN Group in July 2014.

In 2014, Changes in composition of the group and other changes included a decrease of EUR 3,279 million in Retained earnings as result of the transfer of part of the Net defined benefit asset/liability remeasurement reserve due to the financial independence of the Dutch ING Pension Fund. Furthermore, Changes in composition of the group and other changes also included EUR 87 million related to the deconsolidation of Voya.

For further information, reference is made to Note 30 'Dividend per ordinary share' and Note 51 'Other events'.

Non-controlling interests

In 2015, Non-controlling interests decreased with EUR 7,434 million and was mainly related to the deconsolidation of NN Group. Reference is made to Note 51 'Other events'.

Ordinary shares - Restrictions with respect to dividend and repayment of capital

The following equity components cannot be freely distributed: Revaluation reserves (being Available for-sale and other, Cash flow hedge, and Property in own use), Currency translation reserve, Share of associates and joint ventures reserve, and the part of the Retained earnings that relate to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN.

As at 31 December 2016, an amount of EUR 1,325 million (2015: EUR 1,201 million; 2014: EUR 1,070 million) related to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN is included.

ING Groep N.V. is subject to legal restrictions regarding the amount of dividends it can pay to the holders of its ordinary shares. Pursuant to the Dutch Civil Code, dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital, and reserves required by law.

Moreover, ING Groep N.V.'s ability to pay dividends is dependent on the dividend payment ability of its subsidiaries, associates and joint ventures. ING Groep N.V. is legally required to create a non-distributable reserve insofar as profits of its subsidiaries, associates and joint ventures are subject to dividend payment restrictions which apply to those subsidiaries, associates and joint ventures themselves. Such restrictions may among others be of a similar nature as the restrictions which apply to ING Groep N.V., including minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries, associates and joint ventures operate, or other limitations which may exist in certain countries.

Legally distributable reserves, determined in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code, from ING Group's subsidiaries, associates and joint ventures are as follows:

Legally distributable reserves

2016	ING Bank	Other	Total
Equity invested	43,540	171	43,711
Non-distributable reserves	7,310	69	7,379
Legally distributable reserves	36,230	**102**	**36,332**

Legally distributable reserves

2015	ING Bank	Other	Total
Equity invested	40,857	160	41,017
Non-distributable reserves	6,824		6,824
Legally distributable reserves	**34,033**	**160**	**34,193**

Legally distributable reserves

2014	ING Bank	NN Group	Other	Total
Equity invested	38,064	13,549	122	51,735
Non-distributable reserves	7,411	6,134		13,545
Legally distributable reserves	**30,653**	**7,415**	**122**	**38,190**

Furthermore there are restrictions to the ability of subsidiaries, associates and joint ventures to distribute reserves to ING Groep N.V. as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate.

Minimum capital requirements for ING Group's subsidiaries, associates and joint ventures are as follows:

Minimum capital requirements – subsidiaries, associates and joint ventures

2016	ING Bank	Other	Total
Equity invested	43,540	171	43,711
Total regulatory capital	54,362		
Required minimum total regulatory capital*	30,664		
	23,698	–	–

* Requirement is based on Pillar I only.

Minimum capital requirements – subsidiaries, associates and joint ventures

2015	ING Bank	Other	Total
Equity invested	40,857	160	41,017
Total regulatory capital	51,052		
Required minimum total regulatory capital*	29,243		
	21,809	–	–

* Requirement is based on Pillar I only.

Minimum capital requirements – subsidiaries, associates and joint ventures

2014	ING Bank	NN Group	Other	Total
Equity invested	38,064	13,549	122	51,735
Total regulatory capital	46,015	14,173		
Required minimum total regulatory capital*	27,501	4,683		
	18,514	**9,490**	–	–

* Requirement is based on Pillar I only.

In addition to the legal and regulatory restrictions on distributing dividends from subsidiaries, associates and joint ventures to ING Groep N.V. there are various other considerations and limitations that are taken into account in determining the appropriate levels of equity in the Group's subsidiaries, associates and joint ventures. These considerations and limitations include, but are not restricted to, rating agency and regulatory views, which can change over time; it is not possible to disclose a reliable quantification of these limitations. Reference is also made to the 'Capital Management' section.

Without prejudice to the authority of the Executive Board to allocate profits to reserves and to the fact that the ordinary shares are the most junior securities issued by ING Groep N.V., no specific dividend payment restrictions with respect to ordinary shares exist.

Furthermore, ING Groep N.V. is subject to legal restrictions with respect to repayment of capital to holders of ordinary shares. Capital may be repaid to the holders of ordinary shares pursuant to an amendment of ING Groep N.V.'s Articles of Association whereby the ordinary shares are written down.

Pursuant to the Dutch Civil Code, capital may only be repaid if none of ING Groep N.V.'s creditors opposes such a repayment within two months following the announcement of a resolution to that effect.

Cumulative preference shares (not issued)

Pursuant to the Articles of Association of ING Groep N.V. the authorised cumulative preference share capital consists of 4.6 billion cumulative preference shares, of which none have been issued. The par value of these cumulative preference shares is EUR 0.01.

The cumulative preference shares rank before the ordinary shares in entitlement to dividend and to distributions upon liquidation of ING Groep N.V.

The dividend on the cumulative preference shares will be equal to a percentage, calculated on the amount compulsorily paid up or yet to be paid up. This percentage shall be equal to the average of the Euro OverNight Index Average (EONIA) as calculated by the European Central Bank during the financial year for which the distribution is made; this percentage being weighted on the basis of the number of days for which it applies, and increased by 2.5 percentage points.

If and to the extent that the profit available for distribution is not sufficient to pay the dividend referred to above in full, the shortfall will be made up from the reserves insofar as possible. If, and to the extent that, the dividend distribution cannot be made from the reserves, the profits earned in subsequent years shall first be used to make up the shortfall before any distribution may be made on shares of any other category.

ING Groep N.V.'s Articles of Association make provision for the cancellation of cumulative preference shares. Upon cancellation of cumulative preference shares and upon liquidation of ING Groep N.V., the amount paid up on the cumulative preference shares will be repaid together with the accrued dividend as well as any dividend shortfall in preceding years, insofar as this shortfall has not yet been made up.

Cumulative preference shares - Restrictions with respect to dividend and repayment of capital

ING Groep N.V. is subject to legal restrictions regarding the amount of dividends it can pay to the holders of its cumulative preference shares, when issued. Pursuant to the Dutch Civil Code, dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital, and reserves required by law.

Moreover, ING Groep N.V.'s ability to pay dividends is dependent on the dividend payment ability of its subsidiaries, associates and joint ventures. ING Groep N.V. is legally required to create a non-distributable reserve insofar as profits of its subsidiaries, associates and joint ventures are subject to dividend payment restrictions which apply to those subsidiaries, associates and joint ventures themselves. Such restrictions may among others be of a similar nature as the restrictions which apply to ING Groep N.V., including minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries, associates and joint ventures operate, or other limitations which may exist in certain countries.

No specific dividend payment restrictions with respect to the cumulative preference shares exist.

Furthermore, ING Groep N.V. is subject to legal restrictions with respect to repayment of capital to holders of cumulative preference shares. Capital may be repaid to the holders of cumulative preference shares pursuant to (i) an amendment of ING Groep N.V.'s Articles of Association whereby the cumulative preference shares are written-down or (ii) a resolution to redeem and cancel the cumulative preference shares.

Pursuant to the Dutch Civil Code, capital may only be repaid if none of ING Groep N.V.'s creditors opposes such a repayment within two months following the announcement of a resolution to that effect.

Notes to the Consolidated statement of profit or loss

20 Net interest income

Net interest income	2016	2015	2014
Interest income on loans	18,407	19,185	20,131
Interest income on impaired loans	69	42	56
Negative interest on liabilities	175	64	6
Total interest income on loans	**18,651**	**19,291**	**20,193**
Interest income on available-for-sale securities	1,659	1,785	2,008
Interest income on held-to-maturity securities	97	101	83
Interest income on trading derivatives	16,081	17,130	17,476
Interest income on other trading portfolio	728	677	851
Interest income on non-trading derivatives (no hedge accounting)	623	788	1,520
Interest income on non-trading derivatives (hedge accounting)	6,213	6,394	5,977
Other interest income	130	155	61
Interest income	**44,182**	**46,321**	**48,169**
Interest expense on deposits from banks	283	302	338
Interest expense on customer deposits	3,160	4,177	5,361
Interest expense on debt securities	2,290	2,535	2,503
Interest expense on subordinated loans	816	901	1,185
Interest expense on trading derivatives	16,263	17,405	17,381
Interest expense on other trading liabilities	210	207	329
Interest expense on non-trading derivatives (no hedge accounting)	652	652	1,255
Interest expense on non-trading derivatives (hedge accounting)	6,720	7,181	7,123
Other interest expense	363	360	390
Negative interest on assets	184	40	
Interest expense	**30,941**	**33,760**	**35,865**
Net interest income	**13,241**	**12,561**	**12,304**

In 2016, the increase in total average assets (with the cash pool balances still calculated on a net basis in order to provide consistent information), combined with an improvement of the net interest margin, lead to an increase of EUR 680 million in net interest income. The increase in total average assets was mainly attributable to an increase in customer lending, partly offset by a decline in financial assets at fair value through profit or loss.

In 2015, the increase in total average assets (excluding Assets held for sale), combined with a decline in the net interest margin lead to an increase of EUR 257 million in net interest income. The increase in total average assets (with the cash pool balances still calculated on a net basis) was partly attributable to an increase in customer lending.

In 2014, the decrease in total average assets, combined with an improvement in the net interest margin lead to an increase of EUR 603 million in net interest income. The decrease in total average assets (with the cash pool balances still calculated on a net basis) was partly attributable to the deconsolidation of ING Vysya and the additional transfers of assets of WestlandUtrecht Bank to NN Group.

In 2016, total interest income and total interest expense for non-trading derivatives used in hedge accounting and items not valued at fair value through profit or loss amounts to EUR 26,652 million and EUR 13,498 million respectively (2015: EUR 27,682 million and EUR 15,207 million; 2014: EUR 28,270 million and EUR 16,569 million).

21 Net commission income

Fee and commission income	2016	2015	2014
Funds transfer	1,103	1,014	1,006
Securities business	497	570	538
Insurance broking	181	185	172
Asset management fees	91	74	158
Brokerage and advisory fees	477	436	370
Other	1,232	1,132	1,053
	3,581	**3,411**	**3,297**

Included in Other, are commission fees of EUR 202 million (2015: EUR 171 million; 2014: EUR 163 million) in respect of bank guarantees, commission fees of EUR 44 million (2015: EUR 30 million; 2014: EUR 23 million) in respect of underwriting syndication loans, structured finance fees of EUR 110 million (2015: EUR 87 million; 2014: EUR 89 million), and collective instruments distributed but not managed by ING of EUR 145 million (2015: EUR 145 million; 2014: EUR 19 million).

Fee and commission expenses	2016	2015	2014
Funds transfer	403	385	355
Securities business	166	158	151
Insurance broking	8	18	14
Asset management fees	5	2	–10
Brokerage and advisory fees	166	140	87
Other	400	390	407
	1,148	**1,093**	**1,004**

22 Valuation results and net trading income

Valuation results and net trading income	2016	2015	2014
Securities trading results	–369	1,352	673
Derivatives trading results	706	600	386
Change in fair value of derivatives relating to			
– fair value hedges	241	1,243	–486
– cash flow hedges (ineffective portion)	–16	31	35
– other non-trading derivatives	1,692	–332	203
Change in fair value of assets and liabilities (hedged items)	–167	–1,229	536
Valuation results on assets and liabilities designated at fair value through profit or loss (excluding trading)	–79	372	–583
Foreign exchange transactions results	–898	–820	–452
Other	24	66	–15
	1,134	**1,283**	**297**

Securities trading results includes the results of market making in instruments such as government securities, equity securities, corporate debt securities, money-market instruments, and interest rate derivatives such as swaps, options, futures, and forward contracts. Foreign exchange transactions results include gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities.

The portion of trading gains and losses relating to trading securities still held as at 31 December 2016 amounts to EUR –232 million (2015: EUR 147 million; 2014: EUR –18 million).

Net trading income relates to trading assets and trading liabilities which include assets and liabilities that are classified under IFRS as Trading but are closely related to servicing the needs of the clients of ING. ING offers products that are traded on the financial markets to institutional clients, corporate clients, and governments. A significant part of the derivatives in the trading portfolio are related to servicing corporate clients in their risk management to hedge for example currency or interest rate exposures. In addition, ING provides its customers access to equity and debt markets for issuing their own equity or debt securities (securities underwriting). Although these are presented as Trading under IFRS, these are directly related to services to ING's customers. Loans and receivables in the trading portfolio mainly relate to (reverse) repurchase agreements, which are comparable to collateralised borrowing (lending). These products are used by ING as part of its own regular treasury activities, but also relate to the role that ING plays as intermediary between different professional customers. Trading assets and liabilities held for ING's own risk are very limited. From a risk perspective, the gross amount of trading assets must be considered together with the gross amount of trading liabilities, which are presented separately on the statement of financial position. However, IFRS does not allow netting of these positions in the statement of financial position. Reference is made to Note 4 'Financial assets at fair value through profit or loss' and Note 14 'Financial liabilities at fair value through profit or loss' for information on trading liabilities.

The majority of the risks involved in security and currency trading is economically hedged with derivatives. The securities trading results are partly offset by results on these derivatives. The result of these derivatives is included in Derivatives trading results.

ING Group's trading books are managed based on internal limits and comprise a mix of products with results which could be offset. The results are presented in various lines within the statement of profit or loss. Reference is made to Note 20 'Net interest income'.

In 2016, Derivatives trading results includes EUR 36 million CVA/DVA adjustments on trading derivatives, compared with EUR 98 million CVA/DVA adjustment in 2015 (2014: EUR –205 million).

Valuation results and net trading income includes the fair value movements on derivatives (used for both hedge accounting and economically hedging exposures) as well as the changes in the fair value of assets and liabilities included in hedging relationships as hedged items. In addition, Valuation results and net trading income includes the results on assets and liabilities designated at fair value through profit or loss.

Included in the Valuation results and net trading income are the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. The fair value movements on the derivatives are influenced by changes in the market conditions, such as stock prices, interest rates and currency exchange rates.

Valuation results and net trading income are reflected in the Consolidated statement of cash flows in the line Result before tax - Adjusted for: other.

The Valuation results on assets and liabilities designated as at fair value through profit or loss includes fair value changes on certain issued debt securities. Valuation results on assets and liabilities designated at fair value through profit or loss were mainly due to changes in the fair value of financial liabilities driven by changes in market conditions and changes in own credit risk as disclosed in Note 14 'Financial liabilities at fair value through profit or loss'. Market conditions include in particular credit spread developments.

In 2016, Valuation results on assets and liabilities designated at fair value through profit or loss (excluding trading) includes fair value adjustments on own issued notes amounting to EUR –70 million (2015: EUR 404 million; 2014: EUR –632 million), of which DVA adjustment on own issued notes in 2016 amounted to EUR –50 million (2015: EUR 163 million; 2014: EUR –98 million).

In 2016, Valuation results and net trading income includes EUR 33 million related to warrants on the shares of Voya and NN Group (2015: EUR –19 million on Voya and NN Group; 2014: EUR 180 million on Voya). Reference is made to Note 4 'Financial assets at fair value through profit or loss'.

23 Investment income

Investment income	2016	2015	2014
Dividend income	87	63	36
Realised gains/losses on disposal of debt securities	107	123	142
Impairments of available-for-sale debt securities		–17	
Reversal of impairments of available-for-sale debt securities			1
Realised gains/losses and impairments of debt securities	**107**	**106**	**143**
Realised gains/losses on disposal of equity securities	236	67	62
Impairments of available-for-sale equity securities	–13	–117	–14
Realised gains/losses and impairments of equity securities	**223**	**–50**	**48**
Income from and fair value gains/losses on investment properties	4	4	9
Investment income	**421**	**123**	**236**

In 2016, Dividend income includes EUR 16 million received as a result of the merger between Equens SE and Worldline. Reference is made to Note 5 'Investments'.

In 2016, Realised gains/losses on disposal of equity securities includes mainly EUR 163 million comprising the gain on disposal of the shares held in VISA Europe Limited. For further information on the disposal of shares held in VISA Europe Limited, reference is made to Note 51 'Other events'.

Impairments and reversals of impairments on investments are presented within Investment income, which is part of Total income.

Impairments and reversals of impairment on investments per segment	Impairments			Reversal of impairments		
	2016	2015	2014	2016	2015	2014
Retail Belgium		–5				
Wholesale Banking	–8	–129	–14			1
Corporate Line Banking	–5					
	–13	**–134**	**–14**	**–**	**–**	**1**

24 Result on disposal of group companies

Result on disposal of group companies	2016	2015	2014
Baring Private Equity Partners	1	7	
ING Lease UK		–5	
ING Vysya			202
Other			–7
	1	**2**	**195**

In 2015, the Result on disposal of group companies included EUR 7 million realised deferred profits on divestments in prior periods related to Baring Private Equity Partners and a release of goodwill related to the disposal of the remaining portfolios of ING Lease (UK). Reference is made to Note 9 'Intangible assets'.

In 2016, 2015, and 2014 the result on divestments of NN Group and the divestment of Voya was not included above but included in Net result from disposal of discontinued operations. Reference is made to Note 28 'Discontinued operations', Note 46 'Consolidated companies and businesses acquired and divested' and Note 51 'Other events'.

In 2014, Result on disposal of group companies included EUR 202 million profit on the deconsolidation of ING Vysya. Reference is made to Note 7 ‘Investments in associates and joint ventures’, Note 33 ‘Segments’, Note 34 ‘Information on geographical areas’, Note 49 ‘Related parties’.

25 Other income

Other income	2016	2015	2014
Net operating lease income	2	2	5
Income from investment property development projects	1	8	
Other	170	56	92
	173	**66**	**97**

Net operating lease income comprises income of EUR 21 million (2015: EUR 19 million; 2014: EUR 23 million) and depreciation of EUR 19 million (2015: EUR 17 million; 2014: EUR 18 million).

In 2016, Other income – Other includes EUR 16 million related to the disposal of shares held in VISA Europe Limited. For further information on the VISA transaction, reference is made to Note 51 ‘Other events’. The remainder of the Other income - Other is made up of a number of small items, which are individually insignificant.

In 2015, Other income – Other was mainly impacted by positive results on the sale of loans and property, partly offset by non-recurring charges related to increased prepayments and renegotiations of mortgages.

26 Staff expenses

Staff expenses	2016	2015	2014
Salaries	3,224	3,221	3,149
Pension costs and other staff-related benefit costs	344	275	1,218
Social security costs	512	514	514
Share-based compensation arrangements	75	76	60
External employees	636	634	623
Education	70	68	57
Other staff costs	178	184	167
	5,039	**4,972**	**5,788**

In 2015, there was a new collective labour agreement in the Netherlands resulting in reduced rights to future benefits. The impact of this was included in Pension and other staff-related benefits costs.

In 2014, a charge of EUR 871 million was recognised in Pensions costs related to the Dutch defined benefit plan settlement which resulted in the ING Pension Fund being financially independent from ING. Reference is made to Note 35 ‘Pension and other post-employment benefits’ for information on pensions.

Number of employees

	Netherlands			International			Total		
	2016	2015[1]	2014	2016	2015[1]	2014	2016	2015[1]	2014
Continuing operations - average number of employees at full time equivalent basis	13,660	14,586	15,209	38,283	38,134	40,736	51,943	52,720	55,945
Discontinued operations - average number of employees at full time equivalent basis		2,652	6,851		2,181	5,635		4,833	12,486
Total average number of employees at full time equivalent basis	**13,660**	**17,238**	**22,060**	**38,283**	**40,315**	**46,371**	**51,943**	**57,553**	**68,431**

1 The average number of employees includes, on an average basis, employees of the discontinued operations of NN Group. NN Group was deconsolidated from ING Group at the end of May 2015. Staff expenses, for the five months ended May 2015 was included in the Consolidated statement of profit or loss of ING Group in the line item Net result from discontinued operations. Reference is made to Note 28 'Discontinued operations'.

The decrease in the number of employees in 2016, compared to 2015, is mainly as a result of the deconsolidation of NN Group at the end of May 2015 and reorganisations.

Share-based compensation arrangements include EUR 69 million (2015: EUR 63 million; 2014: EUR 57 million) relating to equity-settled share-based payment arrangements and EUR 6 million (2015: EUR 13 million; 2014: EUR 3 million) relating to cash-settled share-based payment arrangements.

Remuneration of senior management, Executive Board and Supervisory Board

Reference is made to Note 49 'Related parties'.

Stock option and share plans

ING Groep N.V. has granted option rights on ING Groep N.V. shares and conditional rights on shares to a number of senior executives (members of the Executive Board, general managers and other officers nominated by the Executive Board), and to a considerable number of employees of ING Group. The purpose of the option and share schemes, apart from promoting a lasting growth of ING Group, is to attract, retain and motivate senior executives and staff.

ING grants three types of share awards, deferred shares, performance shares, and upfront shares. The entitlement to the share awards is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. In addition to the employment condition, the performance shares contain a performance condition. The number of ING shares that would ultimately be granted at the end of a performance period is dependent on ING's performance over that period. Upfront and deferred shares, with retention periods as soon as it becomes unconditional, were awarded to the Management Board members of ING Bank and NN Group (in periods prior to 2015), as well as identified staff. ING has the authority to apply a hold back to awarded but unvested shares and a claw-back to vested shares.

The information presented below on stock options and share plans on ING Groep N.V. shares includes personnel employed by entities that are presented as continuing operations as well as held for sale and discontinued operations.

In 2016, 61,532 share awards (2015: nil; 2014: nil) were granted to the members of the Executive Board of ING Groep N.V., 170,749 share awards (2015: 106,013; 2014: 206,650 including NN Group) were granted to the Management Board of ING Bank. To senior management and other employees 6,590,039 share awards (2015: 6,088,240; 2014: 6,814,308 including NN Group) were granted. In 2014, all outstanding ING Groep N.V. share awards held by the Management Board, senior management and other employees of NN Group N.V. were converted into awards on NN Group N.V. shares. The conversion was performed at an exchange factor such that the fair value of the outstanding awards was unchanged. The outstanding option awards on ING Groep N.V. shares which are fully vested, remained unchanged. As of 2014, new awards to the Management Board, senior management and other employees of NN Group are all based on NN Group N.V. shares.

Every year, the ING Group Executive Board decides whether the option and share schemes are to be continued and, if so, to what extent. In 2010, the Group Executive Board decided not to continue the option scheme as from 2011. The existing option schemes, up and until 2010, will be run off in the coming years.

The option rights are valid for a period of ten years. Option rights that are not exercised within this period, lapse. Option rights granted will remain valid until the expiry date, even if the option scheme is discontinued. The option rights are subject to certain conditions, including a pre-determined continuous period of service. The exercise prices of the options are the same as the quoted prices of ING Groep N.V. shares at the date on which the options are granted.

The obligations with regard to the existing stock option plan and the share plans will be funded either by cash or by newly issued shares at the discretion of ING Group.

Changes in option rights outstanding

	Options outstanding (in numbers)			Weighted average exercise price (in euros)		
	2016	2015	2014	2016	2015	2014
Opening balance	37,311,131	52,559,607	68,292,442	17.54	16.95	16.02
Exercised	–1,583,072	–3,251,420	–4,796,012	5.40	5.97	5.97
Forfeited	–244,959	–410,847	–610,095	16.89	18.05	15.91
Expired	–9,908,188	–11,586,209	–10,326,728	24.67	18.13	16.35
Closing balance	**25,574,912**	**37,311,131**	**52,559,607**	15.53	17.54	16.95

As per 31 December 2016, total options outstanding consists of 16,861,694 options (2015: 27,657,794; 2014: 41,685,852) relating to equity-settled share-based payment arrangements and 8,713,218 options (2015: 9,653,337; 2014: 10,873,755) relating to cash-settled share-based payment arrangements.

The weighted average share price at the date of exercise for options exercised during 2016 is EUR 10.43 (2015: 13.62; 2014: EUR 10.60).

All option rights are vested

Summary of stock options outstanding and exercisable

	Options outstanding and exercisable as at 31 December			Weighted average remaining contractual life			Weighted average exercise price		
Range of exercise price in euros	2016	2015	2014	2016	2015	2014	2016	2015	2014
0.00 – 5.00	3,086,449	3,817,765	4,893,647	2.21	3.22	3.76	2.88	2.89	2.88
5.00 – 10.00	5,248,657	6,213,999	8,527,415	3.21	4.21	5.21	7.37	7.37	7.38
10.00 – 15.00	137,706	139,841	145,974	1.71	2.72	3.71	14.35	14.35	14.35
15.00 – 20.00	9,460,529	10,061,265	21,003,814	1.21	2.21	1.54	16.83	16.87	17.33
20.00 – 25.00	7,295,027	7,608,639	8,117,391	0.23	1.24	1.79	24.62	24.62	24.57
25.00 – 30.00	346,544	9,469,622	9,871,366	0.38	0.30	1.29	25.42	25.17	25.18
	25,574,912	**37,311,131**	**52,559,607**						

All options outstanding are exercisable. As at 31 December 2016, the aggregate intrinsic value of options outstanding and exercisable is EUR 64 million (2015: EUR 68 million; 2014: EUR 68 million).

Cash received from stock option exercises for the year ended 31 December 2016 is EUR 7 million (2015: EUR 16 million; 2014: EUR 24 million).

The fair value of options granted is recognised as an expense under staff expenses and is allocated over the vesting period of the options. The fair values of the option awards have been determined using a European Black Scholes formula. This model takes the risk free interest rate into account (2.02% to 4.62%), as well as the lifetime of the options granted (5 to 9 years), the exercise price, the current share price (EUR 2.90 – EUR 25.42), the expected volatility of the certificates of ING Groep N.V. shares (25% – 84%) and the expected dividend yield (0.94% to 8.99%). The source for implied volatilities used for the valuation of the stock options is ING's trading system. The implied volatilities in this system are determined by ING's traders and are based on market data implied volatilities not on historical volatilities.

Changes in share awards

	Share awards (in numbers)			Weighted average grant date fair value (in euros)		
	2016	2015	2014	2016	2015	2014
Opening balance	8,737,014	12,706,264	25,059,992	10.04	7.37	7.23
Granted	6,822,320	6,194,253	7,020,958	10.20	13.00	9.78
Performance effect	543,891	453,699	1,003,576	8.68	6.40	6.02
Vested	–7,569,972	–10,374,131	–19,444,374	9.65	8.38	8.01
Forfeited	–150,290	–243,071	–933,888	10.58	8.91	6.83
Closing balance	**8,382,963**	**8,737,014**	**12,706,264**	10.44	10.04	7.37

In July 2014, 2.8 million share awards of ING Group were converted in NN Group share awards, these are presented in the line Vested.

As at 31 December 2016 the share awards consists of 7,294,633 share awards (2015: 7,485,634; 2014: 11,282,373) relating to equity-settled share-based payment arrangements and 1,088,330 share awards (2015: 1,251,380; 2014: 1,423,891) relating to cash-settled share-based payment arrangements.

The fair value of share awards granted is recognised as an expense under staff expenses and is allocated over the vesting period of the share awards. As of 2015, ING Group no longer has share awards containing a market based performance condition. Previously, the fair values of share awards containing a market based performance condition have been determined using a Monte Carlo simulation based valuation model. The model takes into account the risk free interest rate, the current stock prices, expected volatilities and current dividend yields of the performance peer group used to determine ING's Total Shareholder Return (TSR) ranking.

As at 31 December 2016, total unrecognised compensation costs related to share awards amount to EUR 41 million (2015: EUR 45 million; 2014: EUR 36 million). These costs are expected to be recognised over a weighted average period of 1.4 years (2015: 1.4 years; 2014: 1.3 years).

27 Other operating expenses

Other operating expenses

	2016	2015	2014
Depreciation of property and equipment	330	327	326
Computer costs	740	753	705
Office expenses	580	618	620
Travel and accommodation expenses	169	166	140
Advertising and public relations	404	418	405
External advisory fees	320	246	212
Audit and non-audit services	19	18	18
Postal charges	48	56	59
Regulatory costs	845	620	712
Addition/(unused amounts reversed) of provision for reorganisations and relocations	1,189	165	469
Intangible amortisation and (reversals of) impairments	294	298	325
Other	637	669	480
	5,575	**4,354**	**4,471**

Other operating expenses include lease and sublease payments in respect of operating leases of EUR 310 million (2015: EUR 281 million; 2014: EUR 239 million) in which ING Group is the lessee. No individual operating lease has terms and conditions that significantly affect the amount, timing and certainty of the consolidated cash flows of the Group.

Audit and non-audit services
Audit and non-audit services include fees for services provided by the Group's auditors.

Fees of Group's auditors

	2016	2015[1]	2014[1]
Audit fees	15	16	16
Audit related fees	1	1	1
Tax fees		1	1
Total[2]	**16**	**18**	**18**

1 Total Group's auditors fees for 2015, including charges related to NN Group until deconsolidation at the end of May 2015, amounted to EUR 24 million (2014: EUR 32 million).
2 The Group auditors did not provide any non-audit services except tax.

Fees as disclosed in the table above relate to the network of the Group's auditors and are the amounts related to the respective years, i.e. on an accrual basis. The amounts exclude Group's auditors fees for entities presented as held for sale and discontinued operations.

Regulatory costs

Regulatory costs represent contributions to the Deposit Guarantee Schemes (DGS), The Single Resolution Fund (SRF) and local bank taxes. As of 1 January 2016, the new ex-ante DGS in the Netherlands and the SRF came into effect resulting in increased Regulatory costs for the period. Included in Regulatory costs for 2016, are contributions to DGS of EUR 316 million (2015: EUR 233 million; 2014: EUR 159 million) mainly related to the Netherlands, Germany, Belgium, Poland, Turkey and Spain and contributions to the SRF of EUR 176 million (2015: EUR 143 million related to National Resolution Funds; 2014: nil).

In 2016 local bank taxes increased by EUR 108 million from EUR 243 million to EUR 351 million mainly due to a new Polish bank tax and higher taxes in Belgium.

The nationalisation of SNS Reaal in 2013 had as a consequence, a one-time bank tax of EUR 1 billion to be paid by ING Bank and other Dutch banks. In accordance with the relevant legislation, the bank tax was charged in three equal instalments. For ING, this resulted in a charge of EUR 304 million in 2014.

Addition/(unused amounts reversed) of provision for reorganisations and relocations

Included in Addition/(unused amounts reversed) of provision for reorganisations and relocations in 2016, is an amount of EUR 1,032 million comprising a pre-tax redundancy provision for the intended workforce reductions related to the intended digital transformation programmes as announced on ING's Investor Day on 3 October 2016. For further information on Addition/(unused amounts reversed) of provision for reorganisations and relocations, reference is made to the disclosure on the reorganisation provision in Note 15 'Provisions'.

Intangible amortisation and (reversals of) impairments

Intangible amortisation and (reversals of) impairments

	Impairment losses			Reversals of impairments			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Property and equipment	65	17	43	–5	–14	–5	60	3	38
Property development	3	9	36				3	9	36
Software and other intangible assets	44	15	1				44	15	1
(Reversals of) other impairments	**112**	**41**	**80**	**–5**	**–14**	**–5**	**107**	**27**	**75**
Amortisation of software and other intangible assets							187	271	250
							294	**298**	**325**

As of 2016, the amortisation period for capitalised software is changed from three to five years. The change is applied prospectively. The change results in a lower charge to the statement of profit or loss. The change has no significant impact on the statement of profit or loss for the year ended 31 December 2016 and is not expected to have a significant impact on the statement of profit or loss of ING Group in future years. Reference is made to Note 9 'Intangible assets'.

In 2016, impairment losses on software and other intangible assets mainly include software that was impaired to its Value In Use, related to the announcements on ING's Investor Day on 3 October 2016.

Other

Included in Other operating expenses – Other in 2016, is a net charge amounting to EUR 114 million (2015: EUR 76 million) for the provision recognised in relation to floating interest rate derivatives that were sold in the Netherlands. Also included in this line, is a charge related to the provision recognised for medical insurance plan damages for retired employees of ING Belgium. Reference is made to Note 15 'Provisions' and Note 45 'Legal proceedings'.

28 Discontinued operations

Total net result from discontinued operations comprises the results from NN Group and Voya.

Total net result from discontinued operations

	2016	2015	2014
NN Group		793	608
Voya			138
Net result from discontinued operations	–	**793**	**746**
NN Group		3	–470
Net result from classification as discontinued operations	–	**3**	**–470**
NN Group	441	–1,241	–26
Voya		323	–1,546
Net result from disposal of discontinued operations[1]	**441**	**–918**	**–1,572**
NN Group	441	–445	112
Voya		323	–1,408
Total net result from discontinued operations (before non-controlling interests)	**441**	**–122**	**–1,296**

1 The tax effect on the result on disposal of discontinued operations in 2016 is EUR 2 million (2015: nil; 2014: EUR 114 million).

Net result from discontinued operations

Net result from discontinued operations comprises the total net result (after tax) of the businesses classified as discontinued operations and is presented separately in the statement of profit or loss.

In 2015, the statement of profit or loss of ING Group included, in the line Net result from discontinued operations, the net result of NN Group until deconsolidation at the end of May 2015 and a dividend of EUR 59 million received from NN Group.

In 2014, included in this line was the net result of NN Group and the net result of Voya until the deconsolidation at the end of March 2014.

For further information, reference is made to Note 51 'Other events'.

Net result from discontinued operations

	2016	2015[1]	2014[2]
Total income		6,815	14,359
Total expenses		5,879	13,456
Result before tax from discontinued operations	-	**936**	**903**
Taxation		143	157
Net result from discontinued operations	-	**793**	**746**

1 NN Group.
2 NN Group and Voya.

Net result from classification as discontinued operations
In 2015, Net result from classification as discontinued operations comprised the impact on the statement of profit or loss of the change in non-current non-financial assets of NN Group presented as assets and liabilities held for sale, prior to deconsolidation at the end of May 2015.

In 2014, goodwill and certain other non-current non-financial assets of EUR 103 million and EUR 367 million respectively were written-off as the sale of NN Group was expected to be below the carrying value.

For further information, reference is made to Note 51 ‘Other events’.

Net result from disposal of discontinued operations
In 2016, ING Group sold its remaining shares in NN Group resulting in a net profit of EUR 448 million which is recognised in the statement of profit or loss in the line Net result from disposal of discontinued operations. Also included in this line, are deferred losses related to former insurance activities.

In 2015, Net result from disposal of discontinued operations included mainly a profit of EUR 323 million on the sale of the last Voya shares in March 2015 to reduce ING Group’s stake in Voya from 18.9% (at 31 December 2014) to zero, a loss of EUR 1,224 million as a result of the further sale and deconsolidation of NN Group at the end of May 2015 and a loss of EUR 15 million on the further divestments of ING Group’s interest in NN Group in September 2015.

In 2014, Net result from disposal of discontinued operations mainly included the total net divestment loss of EUR –1,546 million on the further sale of Voya.

Reference is made to Note 46 ‘Consolidated companies and businesses acquired and divested’ and Note 51 ‘Other events’.

Net cash flows from discontinued operations
The table below represents the net cash flows from businesses classified as discontinued operations, as included in the Consolidated statement of cash flows, until deconsolidation of the respective businesses:

Net cash flows from discontinued operations

	2016	2015[1]	2014[2]
Operating cash flow		–1,409	–4,006
Investing cash flow		2,619	1,295
Financing cash flow		526	3,834
Net cash flow	-	**1,736**	**1,123**

1 NN Group.
2 NN Group and Voya.

Proportional interest held and key information
The proportional interest held and key information on NN Group, until deconsolidation at the end of May 2015, are included in the tables below.

NN Group N.V. – Statement of profit or loss

2015	Interest held (%)	Total income from continuing operations	Total expenses from continuing operations	Net result from dis-continued operations	Net result[3]	Non-controlling interests
NN Group - total[1]	100.00	6,764	6,041	–	723	–
ING Group's share[2]	54.77				390	333

1 NN Group statement of profit or loss, until deconsolidation at the end of May 2015.
2 ING Group’s share of NN Group statement of profit or loss, until deconsolidation at the end of May 2015.
3 Net result, excluding NN Group’s non-controlling interest.

NN Group N.V. - Comprehensive income

2015	Interest held (%)	Compre-hensive income	Non-controlling interests
NN Group - total[1]	100.00	1,718	–
ING Group's share[2]	54.77	941	777

1 NN Group's comprehensive income, until deconsolidation at the end of May 2015.
2 ING Group's share of NN Group comprehensive income, until deconsolidation at the end of May 2015.

NN Group N.V. – Statement of financial position

2014	Interest held (%)	Total assets	Total liabilities	Total equity	Non-controlling interests
NN Group – total	100.00	165,481	144,064	21,417	–
ING Group's share	68.14			13,870	7,547

NN Group N.V. – Statement of profit or loss

2014	Interest held (%)	Total income from continuing operations	Total expenses from continuing operations	Net result from dis-continued operations	Net result[1]	Non-controlling interests
NN Group – total	100.00	13,545	12,918	–16	611	–
ING Group's share	68.14				416	195

1 Net result, excluding NN Group's non-controlling interest.

NN Group N.V. - Comprehensive income

2014	Interest held (%)	Compre-hensive income	Non-controlling interests
NN Group – total	100.00	5,698	–
ING Group's share	68.14	3,883	1,815

In 2015 and 2014, Total income and Total expenses of NN Group, to which the non-controlling interest in NN Group related, were all presented in the Consolidated statement of profit or loss in the line 'Net result from discontinued operations'.

As per 31 December 2014, Total assets and Total liabilities of NN Group as presented above, to which the minority interest in NN Group related, are all presented in the Consolidated statement of financial position in Assets held for sale and Liabilities held for sale, respectively.

29 Earnings per ordinary share

Earnings per ordinary share

	Amount (in EUR million)			Weighted average number of ordinary shares outstanding during the period (in millions)			Per ordinary share (in EUR)		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Net result	4,651	4,010	1,251	3,875.0	3,864.8	3,849.7			
Attribution to non-voting equity securities[1]			–750						
Basic earnings	**4,651**	**4,010**	**501**	**3,875.0**	**3,864.8**	**3,849.7**	**1.20**	**1.04**	**0.13**
Effect of dilutive instruments:									
Stock option and share plans				3.5	5.5	6.3			
				3.5	**5.5**	**6.3**			
Diluted earnings	**4,651**	**4,010**	**501**	**3,878.5**	**3,870.3**	**3,856.0**	**1.20**	**1.03**	**0.13**

1 Until the repayment of the final tranche in November 2014, the 'Attribution to non-voting equity securities' represented the amount that would be payable on the non-voting equity securities if and when the entire net result for the period would be distributed as dividend. This amount was only included for the purpose of determining earnings per share under IFRS and did not represent a payment (neither actual nor proposed) to the holders of the non-voting equity securities.

Dilutive instruments

Diluted earnings per share is calculated as if the stock options and share plans outstanding at the end of the period had been exercised at the beginning of the period and assuming that the cash received from exercised stock options and share plans is used to buy own shares against the average market price during the period. The net increase in the number of shares resulting from exercising stock options and share plans is added to the average number of shares used for the calculation of diluted earnings per share.

In 2014, the potential conversion of the non-voting equity securities had an anti-dilutive effect on the earnings per share calculation (the diluted earnings per share becoming higher or less negative than the basic earnings per share). Therefore, the potential conversion was not taken into account in the calculation of diluted earnings per share.

Earnings per ordinary share from continuing operations

	Amount (in EUR million)			Weighted average number of ordinary shares outstanding during the period (in millions)			Per ordinary share (in EUR)		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Basic earnings	4,651	4,010	501	3,875.0	3,864.8	3,849.7			
Less: Total net result from discontinued operations	441	–456	–1,406						
Basic earnings from continuing operations	**4,210**	**4,466**	**1,907**	**3,875.0**	**3,864.8**	**3,849.7**	**1.09**	**1.16**	**0.50**
Effect of dilutive instruments:									
Stock option and share plans				3.5	5.5	6.3			
				3.5	**5.5**	**6.3**			
Diluted earnings from continuing operations	**4,210**	**4,466**	**1,907**	**3,878.5**	**3,870.3**	**3,856.0**	**1.09**	**1.15**	**0.49**

Earnings per ordinary share from discontinued operations

	Amount (in EUR million)			Weighted average number of ordinary shares outstanding during the period (in millions)			Per ordinary share (in EUR)		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Net result from discontinued operations		460	478						
Net result from classification as discontinued operations		2	–320						
Net result from disposal of discontinued operations	441	–918	–1,564						
Total net result from discontinued operations	**441**	**–456**	**–1,406**	3,875.0	3,864.8	3,849.7			
Basic earnings from discontinued operations	**441**	**–456**	**–1,406**	**3,875.0**	**3,864.8**	**3,849.7**	**0.11**	**–0.12**	**–0.37**
Effect of dilutive instruments:									
Stock option and share plans				3.5	5.5	6.3			
				3.5	**5.5**	**6.3**			
Diluted earnings from discontinued operations	**441**	**–456**	**–1,406**	**3,878.5**	**3,870.3**	**3,856.0**	**0.11**	**–0.12**	**–0.36**

30 Dividend per ordinary share

Dividends to shareholders of the parent

	Per ordinary share (in EUR)	Total (in EUR million)
Dividends on ordinary shares:		
In respect of 2014		
– Final dividend, paid in cash in May 2015	0.12	464
In respect of 2015		
– Interim dividend, paid in cash in August 2015	0.24	929
– Final dividend, paid in cash in May 2016	0.41	1,590
Total dividend in respect of 2015	**0.65**	**2,519**
In respect of 2016		
– Interim dividend, paid in cash in August 2016	0.24	931
– Final dividend	0.42	1,629
Total dividend in respect of 2016	**0.66**	**2,560**

ING Groep N.V. is required to withhold tax of 15% on dividends paid.

No dividend was paid in 2014.

Notes to the consolidated statement of cash flows

31 Net cash flow from investing activities

Information on the impact of companies acquired or disposed is presented in Note 46 ‘Consolidated companies and businesses acquired and divested’.

32 Cash and cash equivalents

Cash and cash equivalents	2016	2015	2014
Treasury bills and other eligible bills	512	363	677
Deposits from banks/Loans and advances to banks	–2,492	–1,442	–2,036
Cash and balances with central banks	18,144	21,458	12,233
Cash and cash equivalents classified as Assets held for sale			6,239
Cash and cash equivalents at end of year	**16,164**	**20,379**	**17,113**

Treasury bills and other eligible bills included in cash and cash equivalents	2016	2015	2014
Treasury bills and other eligible bills included in trading assets	126	228	457
Treasury bills and other eligible bills included in available-for-sale investments	386	135	220
	512	**363**	**677**

Deposits from banks/Loans and advances to banks	2016	2015	2014
Included in cash and cash equivalents:			
– deposits from banks	–9,809	–10,312	–11,825
– loans and advances to banks	7,317	8,870	9,789
	–2,492	**–1,442**	**–2,036**
Not included in cash and cash equivalents:			
– deposits from banks	–22,155	–23,501	–18,174
– loans and advances to banks	21,541	21,118	27,330
	–614	**–2,383**	**9,156**
Total as included in the statement of financial position:			
– deposits from banks	–31,964	–33,813	–29,999
– loans and advances to banks	28,858	29,988	37,119
	–3,106	**–3,825**	**7,120**

Cash and cash equivalents includes deposits from banks and loans and advances to banks that are on demand.

Included in Cash and cash equivalents, are minimum mandatory reserve deposits to be held with various central banks. Reference is made to Note 41 ‘Assets not freely disposable’ for restrictions on Cash and balances with central banks.

ING Group’s risk management (including liquidity) is explained in the section ‘Risk management – Funding and liquidity risk’.

Segment reporting

33 Segments

a. General

ING Group’s segments are based on the internal reporting structures by lines of business.

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

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

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

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

Segments of the Banking results by line of business	Main source of income
Retail Netherlands *(Market Leaders)*	Income from retail and private banking activities in the Netherlands, including the SME and mid-corporate segments. The main products offered are current and savings accounts, business lending, mortgages and other consumer lending in the Netherlands.
Retail Belgium *(Market Leaders)*	Income from retail and private banking activities in Belgium, including the SME and mid-corporate segments. The main products offered are similar to those in the Netherlands.
Retail Germany *(Challengers and Growth Markets)*	Income from retail and private banking activities in Germany. The main products offered are current and savings accounts, mortgages and other customer lending.
Retail Other *(Challengers and Growth Markets)*	Income from retail banking activities in the rest of the world, including the SME and mid-corporate segments in specific countries. The main products offered are similar to those in the Netherlands.
Wholesale Banking	Income from wholesale banking activities (a full range of products is offered from cash management to corporate finance), real estate and lease.

As of 1 January 2016, Czech Republic, previously fully reported within Wholesale Banking is now segmented to both Retail and Wholesale Banking. The presentation of previously reported underlying profit or loss amounts has been adjusted to reflect this change.

The geographical segments for the Banking results are presented on page 189.

Specification of geographical segments

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

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 allows investors to understand the primary method used by management to evaluate the Group's operating performance and make decisions about allocating resources. In addition, ING Group believes that the presentation of underlying net result helps investors compare its segment performance on a meaningful basis by highlighting result before tax attributable to ongoing operations and the underlying profitability of the segment businesses. Underlying result is derived by excluding from IFRS the following: special items; the impact of divestments and Legacy Insurance.

Special items include items of income or expense that are significant and arise from events or transactions that are clearly distinct from the regular operating activities. Disclosures on comparative periods also reflect the impact of current period's divestments. Legacy Insurance consists of the intercompany eliminations between ING Bank and NN Group until deconsolidation at the end of May 2015, the results from Insurance Other and the results from discontinued operations. Insurance Other reflects (former) insurance related activities that are not part of the discontinued operations.

In addition to the segments by business line as described above, ING Group reconciles the total segment results to the total result of Banking using Corporate Line Banking. The Corporate Line Banking is a reflection of capital management activities and certain expenses that are not allocated to the banking businesses. ING Group applies a system of capital charging for its banking operations in order to create a comparable basis for the results of business units globally, irrespective of the business units' book equity and the currency they operate in.

Underlying result as presented below is a non-GAAP financial measure and is not a measure of financial performance under IFRS. Because underlying result is not determined in accordance with IFRS, underlying result as presented by ING may not be comparable to other similarly titled measures of performance of other companies. The underlying result of ING's segments is reconciled to the Net result as reported in the IFRS Consolidated statement of profit or loss below. The information presented in this note is in line with the information presented to the Executive Board and Management Board of ING Bank N.V.

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

b. ING Group

ING Group Total

2016	ING Bank N.V.	Other Banking[1]	Total Banking	Legacy Insurance	Total
Underlying income					
– Net interest income	13,317	–76	13,241		13,241
– Net commission income	2,434		2,433		2,433
– Total investment and other income	1,763	21	1,785		1,785
Total underlying income	**17,514**	**–56**	**17,458**		**17,458**
Underlying expenditure					
– Operating expenses	9,445	11	9,456		9,456
– Additions to loan loss provision	974		974		974
Total underlying expenses	**10,419**	**11**	**10,430**		**10,430**
Underlying result before taxation	**7,095**	**–67**	**7,028**		**7,028**
Taxation	1,993	–17	1,977		1,977
Non-controlling interests	75		75		75
Underlying net result	**5,026**	**–50**	**4,976**		**4,976**
Divestments					
Special items[2]	–799		–799		–799
Insurance Other[3]				33	33
Net result IFRS (continuing operations)	**4,227**	**–50**	**4,177**	**33**	**4,210**
Total net result from discontinued operations NN Group				441	441
Net result IFRS attributable to equity holder of the parent	**4,227**	**–50**	**4,177**	**474**	**4,651**

1 Comprises for the most part the funding charges of ING Groep N.V. (Holding).
2 Special items in 2016 primarily comprise restructuring charges and impairments related to the intended digital transformation programmes as announced on ING's Investor Day on 3 October 2016.
3 Insurance Other comprises mainly the net result relating to warrants on the shares of Voya Financial and NN Group.

Reconciliation between Underlying and IFRS income, expenses and net result

2016	Income	Expenses	Taxation	Non-Controlling interests	Net result[1]
Underlying	17,458	10,430	1,977	75	4,976
Special items		1,157	–358		–799
Insurance Other	33				33
IFRS (continuing operations)	**17,491**	**11,588**	**1,618**	**75**	**4,210**
Total net result from discontinued operations					441
Net result IFRS attributable to equity holder of the parent					**4,651**

1 Net result, after tax and non-controlling interests.

For information on discontinued operations, reference is made to Note 28 'Discontinued operations'.

ING Group Total

2015	ING Bank N.V.	Other Banking[1]	Total Banking	Legacy Insurance	Total
Underlying income					
– Net interest income	12,744	–154	12,590		12,590
– Net commission income	2,320		2,320		2,320
– Total investment and other income	1,639	3	1,642		1,642
Total underlying income	**16,703**	**–151**	**16,552**		**16,552**
Underlying expenditure					
– Operating expenses	9,231	15	9,246		9,246
– Additions to loan loss provision	1,347		1,347		1,347
Total underlying expenses	**10,578**	**15**	**10,593**		**10,593**
Underlying result before taxation	**6,125**	**–166**	**5,959**		**5,959**
Taxation	1,703	–35	1,668		1,668
Non-controlling interests	72		72		72
Underlying net result	**4,350**	**–131**	**4,219**		**4,219**
Divestments[2]	367		367		367
Special items[3]	–58		–58		–58
Intercompany eliminations between ING Bank and NN Group[4]				–20	–20
Insurance Other[5]				–42	–42
Net result IFRS (continuing operations)	**4,659**	**–131**	**4,528**	**–63**	**4,466**
Total net result from discontinued operations NN Group				–779	–779
Total net result from discontinued operations Voya				323	323
Net result IFRS attributable to equity holder of the parent	**4,659**	**–131**	**4,528**	**–518**	**4,010**

1 Comprised for the most part the funding charges of ING Groep N.V. (Holding).
2 Divestments in 2015 reflected the result from the merger between ING Vysya and Kotak Mahindra Bank.
3 Special items in 2015 comprised additional charges related to previously announced restructuring programmes in Retail Netherlands.
4 Intercompany eliminations between ING Bank and NN Group, prior to deconsolidation at the end of May 2015.
5 Insurance Other comprised mainly the net result relating to warrants on the shares of Voya Financial and NN Group.

Reconciliation between Underlying and IFRS income, expenses and net result

2015	Income	Expenses	Taxation	Non-Controlling interests	Net result[1]
Underlying	16,552	10,593	1,668	72	4,219
Divestments	367				367
Special items		77	–19		–58
Intercompany eliminations between ING Bank and NN Group	–28	–1	–7		–20
Insurance Other	–45	4	–5	–2	–42
IFRS (continuing operations)	**16,845**	**10,673**	**1,637**	**70**	**4,466**
Total net result from discontinued operations					–456
Net result IFRS attributable to equity holder of the parent					**4,010**

1 Net result, after tax and non-controlling interests.

For information on discontinued operations, reference is made to Note 28 'Discontinued operations'.

ING Group Total

2014	ING Bank N.V.	Other Banking[1]	Total Banking	Legacy Insurance	Total
Underlying income					
– Net interest income	12,606	–230	12,376		12,376
– Net commission income	2,290		2,290		2,290
– Total investment and other income	574	56	630		630
Total underlying income	**15,471**	**–175**	**15,296**		**15,296**
Underlying expenditure					
– Operating expenses	8,965	14	8,979		8,979
– Additions to loan loss provision	1,594		1,594		1,594
Total underlying expenses	**10,559**	**14**	**10,573**		**10,573**
Underlying result before taxation	**4,912**	**–189**	**4,724**		**4,724**
Taxation	1,271	–50	1,221		1,221
Non-controlling interests	79		79		79
Underlying net result	**3,562**	**–138**	**3,424**		**3,424**
Divestments[2]	202		202		202
Special items[3]	–1,021		–1,021		–1,021
Intercompany eliminations between ING Bank and NN Group				–55	–55
Insurance Other[4]				107	107
Net result IFRS (continuing operations)	**2,744**	**–138**	**2,606**	**52**	**2,657**
Total net result from discontinued operations NN Group				65	65
Total net result from discontinued operations Voya				–1,471	–1,471
Net result IFRS attributable to equity holder of the parent	**2,744**	**–138**	**2,606**	**–1,354**	**1,251**

1 Comprised for the most part the funding charges of ING Groep N.V. (Holding).
2 Divestments in 2014 reflected the result on the deconsolidation of ING Vysya following changes to the governance structure.
3 Special items in 2014 included the impact (after tax) of the charges for making the Dutch Defined Benefit pension fund financially independent, the bank tax related to the SNS Reaal nationalisation and additional charges related to the restructuring programmes in Retail Netherlands announced before 2013.
4 Insurance Other comprised mainly the net result relating to warrants on the shares of Voya Financial and the net result on the sale of SulAmérica S.A.

Reconciliation between Underlying and IFRS income, expenses and net result

2014	Income	Expenses	Taxation	Non-Controlling interests	Net result[1]
Underlying	15,296	10,573	1,221	79	3,424
Divestments	202				202
Special items		1,259	–239		–1,021
Intercompany eliminations between ING Bank and NN Group	–70				–70
Insurance Other	132	21	–11		121
IFRS (continuing operations)	**15,560**	**11,853**	**971**	**79**	**2,657**
Total net result from discontinued operations					–1,406
Net result IFRS attributable to equity holder of the parent					**1,251**

1 Net result, after tax and non-controlling interests.

For information on discontinued operations, reference is made to Note 28 'Discontinued operations'.

c. Banking activities

Segments Banking by line of business

2016	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Other	Wholesale Banking	Corporate Line Banking	Total Banking
Underlying income							
– Net interest income	3,653	1,936	1,689	2,107	3,750	106	13,241
– Net commission income	546	385	183	320	1,003	–3	2,433
– Total investment and other income	237	253	51	432	855	–44	1,785
Total underlying income	**4,436**	**2,573**	**1,923**	**2,859**	**5,608**	**59**	**17,458**
Underlying expenditure							
– Operating expenses	2,560	1,438	886	1,723	2,572	278	9,456
– Additions to loan loss provision	171	175	–18	278	368		974
Total underlying expenses	**2,731**	**1,613**	**868**	**2,001**	**2,940**	**278**	**10,430**
Underlying result before taxation	**1,705**	**961**	**1,055**	**858**	**2,668**	**–219**	**7,028**
Taxation	422	306	315	178	753	2	1,977
Non-controlling interests		1	2	60	11		75
Underlying net result	**1,282**	**653**	**738**	**620**	**1,903**	**–221**	**4,976**
Special items	–192	–418		–12	–149	–27	–799
Net result IFRS	**1,090**	**235**	**738**	**608**	**1,754**	**–248**	**4,177**

Segments Banking by line of business

2015	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Other[1]	Wholesale Banking[1]	Corporate Line Banking	Total Banking
Underlying income							
– Net interest income	3,683	1,953	1,634	1,935	3,538	–153	12,590
– Net commission income	515	397	172	278	962	–4	2,320
– Total investment and other income	205	195	104	195	1,070	–127	1,642
Total underlying income	**4,403**	**2,546**	**1,910**	**2,408**	**5,570**	**–285**	**16,552**

Underlying expenditure							
– Operating expenses	2,475	1,532	842	1,594	2,559	245	9,246
– Additions to loan loss provision	433	169	57	210	478		1,347
Total underlying expenses	**2,908**	**1,701**	**899**	**1,804**	**3,036**	**245**	**10,593**
Underlying result before taxation	**1,495**	**845**	**1,012**	**604**	**2,533**	**–530**	**5,959**
Taxation	391	255	328	142	676	–125	1,668
Non-controlling interests		6	2	48	16		72
Underlying net result	**1,104**	**583**	**681**	**414**	**1,841**	**–404**	**4,219**
Divestments				367			367
Special items	–58						–58
Net result IFRS	**1,046**	**583**	**681**	**781**	**1,841**	**–404**	**4,528**

1 Amounts are adjusted for comparison purposes. Czech Republic, previously fully reported within Wholesale Banking is now segmented to both Retail and Wholesale Banking.

Segments Banking by line of business

2014	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Other[1]	Wholesale Banking[1]	Corporate Line Banking	Total Banking
Underlying income							
– Net interest income	3,778	1,998	1,500	1,832	3,508	–240	12,376
– Net commission income	464	376	143	331	979	–2	2,290
– Total investment and other income	87	243	–27	197	383	–253	630
Total underlying income	**4,330**	**2,617**	**1,615**	**2,359**	**4,870**	**–496**	**15,296**
Underlying expenditure							
– Operating expenses	2,678	1,524	773	1,496	2,392	116	8,979
– Additions to loan loss provision	714	142	72	165	500		1,594
Total underlying expenses	**3,392**	**1,667**	**845**	**1,661**	**2,893**	**116**	**10,573**
Underlying result before taxation	**938**	**951**	**771**	**698**	**1,978**	**–611**	**4,724**
Taxation	243	256	230	140	469	–117	1,221
Non-controlling interests		1	1	51	26		79
Underlying net result	**694**	**693**	**540**	**508**	**1,483**	**–494**	**3,424**
Divestments				202			202
Special items	–63					–957	–1,021
Net result IFRS	**631**	**693**	**540**	**710**	**1,483**	**–1,451**	**2,606**

1 Amounts are adjusted for comparison purposes. Czech Republic, previously fully reported within Wholesale Banking is now segmented to both Retail and Wholesale Banking.

Notes to the Consolidated annual accounts of ING Group - continued

Geographical segments Banking

2016	Nether-lands	Belgium	Germany	Other Challen-gers	Growth Markets	Wholesale Banking Rest of World	Other	Total Banking
Underlying income								
– Net interest income	4,699	2,183	2,025	1,373	1,274	1,579	107	13,241
– Net commission income	779	482	241	171	309	452	–2	2,433
– Total investment and other income	367	559	75	133	460	202	–12	1,785
Total underlying income	**5,845**	**3,225**	**2,340**	**1,677**	**2,043**	**2,233**	**94**	**17,458**
Underlying expenditure								
– Operating expenses	3,301	1,796	987	951	1,103	1,029	290	9,456
– Additions to loan loss provision	310	215	–13	120	240	103		974
Total underlying expenses	**3,610**	**2,010**	**973**	**1,071**	**1,343**	**1,132**	**290**	**10,430**
Underlying result before taxation	**2,235**	**1,215**	**1,367**	**607**	**700**	**1,101**	**–197**	**7,028**
Taxation	555	353	426	173	125	335	10	1,977
Non-controlling interests		1	2		71			75
Underlying net result	**1,680**	**860**	**939**	**433**	**504**	**766**	**–207**	**4,976**
Special items	–268	–491		–13			–27	–799
Net result IFRS	**1,412**	**369**	**939**	**420**	**504**	**766**	**–234**	**4,177**

Geographical segments Banking

2015	Nether-lands	Belgium	Germany	Other Challen-gers[1]	Growth Markets	Wholesale Banking Rest of World[1]	Other	Total Banking
Underlying income								
– Net interest income	4,677	2,287	1,812	1,268	1,147	1,551	–153	12,590
– Net commission income	754	497	215	156	267	435	–4	2,320
– Total investment and other income	187	434	120	25	330	580	–33	1,642
Total underlying income	**5,619**	**3,217**	**2,146**	**1,449**	**1,743**	**2,566**	**–189**	**16,552**
Underlying expenditure								
– Operating expenses	3,220	1,943	917	840	1,061	1,003	262	9,246
– Additions to loan loss provision	654	166	77	99	176	175		1,347
Total underlying expenses	**3,875**	**2,109**	**994**	**938**	**1,237**	**1,178**	**262**	**10,593**
Underlying result before taxation	**1,744**	**1,108**	**1,152**	**511**	**506**	**1,388**	**–451**	**5,959**
Taxation	469	315	382	174	79	367	–117	1,668
Non-controlling interests		6	2		64			72
Underlying net result	**1,276**	**787**	**768**	**337**	**363**	**1,021**	**–334**	**4,219**
Divestments					367			367
Special items	–58							–58
Net result IFRS	**1,218**	**787**	**768**	**337**	**730**	**1,021**	**–334**	**4,528**

1 Amounts are adjusted for comparison purposes. Czech Republic, previously fully reported within Wholesale Banking Rest of the World is now reported under Other Challengers.

Geographical segments Banking

2014	Netherlands	Belgium	Germany	Other Challengers[1]	Growth Markets	Wholesale Banking Rest of World[1]	Other	Total Banking
Underlying income								
– Net interest income	4,699	2,447	1,616	1,187	1,072	1,596	–241	12,376
– Net commission income	730	464	171	149	333	444	–1	2,290
– Total investment and other income	164	288	–17	52	266	115	–238	630
Total underlying income	**5,593**	**3,198**	**1,770**	**1,388**	**1,671**	**2,155**	**–479**	**15,296**
Underlying expenditure								
– Operating expenses	3,403	1,931	837	735	1,018	893	161	8,979
– Additions to loan loss provision	947	146	67	185	125	123		1,594
Total underlying expenses	**4,350**	**2,078**	**904**	**920**	**1,143**	**1,016**	**161**	**10,573**
Underlying result before taxation	**1,243**	**1,120**	**866**	**468**	**528**	**1,139**	**–641**	**4,724**
Taxation	308	277	266	131	96	275	–133	1,221
Non-controlling interests		2	1		77			79
Underlying net result	**935**	**841**	**599**	**337**	**356**	**864**	**–508**	**3,424**
Divestments				–2	204			202
Special items	–63						–957	–1,021
Net result IFRS	**872**	**841**	**599**	**335**	**560**	**864**	**–1,465**	**2,606**

1 Amounts are adjusted for comparison purposes. Czech Republic, previously fully reported within Wholesale Banking Rest of the World is now reported under Other Challengers.

IFRS statements of financial position by segment are not reported internally to, and not managed by, the chief operating decision maker.

34 Information on geographical areas

ING Group's business lines operate in seven main geographical areas: the Netherlands, Belgium, Rest of Europe, North America, Latin America, Asia and Australia. A geographical area is a distinguishable component of the Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of geographical areas operating in other economic environments. The geographical analyses are based on the location of the office from which the transactions are originated. The Netherlands is ING Group's country of domicile.
The tables below provide additional information, for the years 2016 and 2015 respectively, on names of principal subsidiaries and branches, nature of main activities and average number of employees on a full time equivalent basis by country.

Notes to the Consolidated annual accounts of ING Group - continued

Additional information by country

2016

Geographical area	Country	Name of principal subsidiary	Main activity	Average number of employees at full time equivalent basis	Total Income	Total assets	Result before tax	Taxation
Netherlands	Netherlands	ING Bank N.V.	Wholesale banking/Retail banking	13,660	5,767	295,120	1,341	343
Belgium	Belgium	ING België N.V.	Wholesale banking/Retail banking	9,348	3,154	131,431	554	143
	Luxembourg	ING Luxembourg S.A.	Wholesale banking/Retail banking	793	274	10,783	138	32
Rest of Europe	Poland	ING Bank Slaski S.A.	Wholesale banking/Retail banking	8,735	992	26,581	379	90
	Germany	ING DiBa A.G.	Wholesale banking/Retail banking	4,341	2,212	134,902	1,282	407
	Romania	Branch of ING Bank N.V.	Wholesale banking/Retail banking	1,806	288	5,456	123	21
	Spain	Branch of ING Bank N.V.	Wholesale banking/Retail banking	1,116	498	23,309	197	51
	Italy	Branch of ING Bank N.V.	Wholesale banking/Retail banking	833	376	15,920	100	33
	UK	Branch of ING Bank N.V.	Wholesale banking	599	504	29,830	290	154
	France[1]	Branch of ING Bank N.V.	Wholesale banking/Retail banking	613	280	8,614	56	18
	Russia	ING Bank (Eurasia) Z.A.O.	Wholesale banking	276	118	2,008	69	7
	Czech Republic	Branch of ING Bank N.V.	Wholesale banking/Retail banking	220	74	3,653	37	7
	Hungary	Branch of ING Bank N.V.	Wholesale banking	152	37	1,358	–1	3
	Slovakia	Branch of ING Bank N.V.	Wholesale banking	400	14	715	3	1
	Ukraine	PJSC ING Bank Ukraine	Wholesale banking	111	59	622	47	7
	Austria	Branch of ING DiBa A.G.	Wholesale banking/Retail banking	196	86	360	37	–4
	Bulgaria	Branch of ING Bank N.V.	Wholesale banking	76	9	274	–	–
	Ireland	Branch of ING Bank N.V.	Wholesale banking	42	53	1,910	54	7
	Portugal	Branch of ING Bank N.V.	Wholesale banking	11	14	642	10	3
	Switzerland	Branch of ING België N.V.	Wholesale banking	192	187	9,150	122	33
North America	Canada	Belgian Overseas Agencies Ltd.	Wholesale banking	–	–	1	–	–
	USA	ING Financial Holdings	Wholesale banking	519	732	42,571	377	110
Latin America	Brazil	Branch of ING Bank N.V.	Wholesale banking	70	43	2,097	13	–
	Colombia	ING Capital Colombia S.A.S.	Wholesale banking	2	–	1	–	–
	Mexico	ING Consulting, S.A. de C.V.	Wholesale banking	7	1	2	–1	–
Asia	China	Branch of ING Bank N.V.	Wholesale banking	72	36	2,049	7	–2
	Japan	Branch of ING Bank N.V.	Wholesale banking	33	36	3,702	22	9
	Singapore	Branch of ING Bank N.V.	Wholesale banking	502	194	25,780	22	5
	Hong Kong	Branch of ING Bank N.V.	Wholesale banking	106	80	5,964	40	7
	Philippines	Branch of ING Bank N.V.	Wholesale banking	423	17	402	4	–2
	South Korea	Branch of ING Bank N.V.	Wholesale banking	87	46	4,107	14	–1
	Taiwan	Branch of ING Bank N.V.	Wholesale banking	32	15	2,484	3	1
	Indonesia	PT ING Securities Indonesia	Wholesale banking	5	1	7	–	–
	Malaysia	Branch of ING Bank N.V.	Wholesale banking	5	–	3	–	–
	India	Branch of ING Bank N.V.	Wholesale banking	–	–	2	–	–
	Turkey	ING Bank A.S.	Wholesale banking/Retail banking	5,497	757	15,864	225	45
	United Arab Emirates	Branch of ING Bank N.V.	Wholesale banking	10	–	1	–2	–
Australia	Australia	ING Bank (Australia) Ltd.	Retail banking	1,053	505	36,691	309	90
Other	Mauritius	ING Mauritius	Investment management	–	32	715	32	–
Total				**51,943**	**17,491**	**845,081**	**5,903**	**1,618**

1 Public subsidies received, as defined in article 89 of the CRD IV, amounts to EUR 1 million (2015: EUR 3 million; 2014: EUR 2 million).

The UK has a high tax charge due to changes in tax law and prior year adjustments.
Russia, China, Philippines and South Korea all have lower tax charges due to prior year adjustments.
Austria has an inverse tax charge due to the recognition of a tax asset for previously unrecognised tax losses.
Brazil has a low tax charge due to the combination of relatively high exempt income with a decreased profit.
Mauritius has no tax charge as the partial sale of Kotak Mahindra Bank shares in September 2016 was tax exempt.

Additional information by country

2015

Geographical area	Country	Name of principal subsidiary	Main activity	Average number of employees at full time equivalent basis	Total Income	Total assets[2,3]	Result before tax	Taxation
Netherlands	Netherlands[2,3]	ING Bank N.V.	Wholesale banking/Retail banking	14,586	5,185	471,510	818	365
Belgium	Belgium	ING België N.V.	Wholesale banking/Retail banking	9,645	3,123	130,916	1,142	341
	Luxembourg	ING Luxembourg S.A.	Wholesale banking/Retail banking	774	298	9,331	166	35
Rest of Europe	Poland	ING Bank Slaski S.A.	Wholesale banking/Retail banking	8,713	903	25,666	317	60
	Germany	ING DiBa A.G.	Wholesale banking/Retail banking	4,052	2,037	126,171	1,081	363
	Romania	Branch of ING Bank N.V.	Wholesale banking/Retail banking	1,596	221	4,685	78	13
	Spain	Branch of ING Bank N.V.	Wholesale banking/Retail banking	1,076	423	24,457	144	52
	Italy	Branch of ING Bank N.V.	Wholesale banking/Retail banking	824	202	15,828	–87	–15
	UK	Branch of ING Bank N.V.	Wholesale banking	642	556	32,156	362	–19
	France[1]	Branch of ING Bank N.V.	Wholesale banking/Retail banking	625	256	7,489	67	23
	Russia	ING Bank (Eurasia) Z.A.O.	Wholesale banking	288	185	2,520	131	32
	Czech Republic	Branch of ING Bank N.V.	Wholesale banking/Retail banking	211	75	2,519	41	8
	Hungary	Branch of ING Bank N.V.	Wholesale banking	162	46	1,129	13	5
	Slovakia	Branch of ING Bank N.V.	Wholesale banking	265	13	573	8	2
	Ukraine	PJSC ING Bank Ukraine	Wholesale banking	120	46	616	27	5
	Austria	Branch of ING DiBa A.G.	Retail banking	169	93	321	51	9
	Bulgaria	Branch of ING Bank N.V.	Wholesale banking	76	10	267	–2	–
	Ireland	Branch of ING Bank N.V.	Wholesale banking	39	64	1,697	36	5
	Portugal	Branch of ING Bank N.V.	Wholesale banking	2	3	616	3	1
	Switzerland	Branch of ING België N.V.	Wholesale banking	177	187	6,927	105	30
North America	Canada	Belgian Overseas Agencies Ltd.	Wholesale banking	–	–	–	–	–
	USA	ING Financial Holdings	Wholesale banking	492	720	47,784	423	122
Latin America	Brazil	Branch of ING Bank N.V.	Wholesale banking	56	48	1,496	32	12
	Mexico	ING Consulting, S.A. de C.V.	Wholesale banking	8	–	1	–	–
Asia	China	Branch of ING Bank N.V.	Wholesale banking	59	39	1,551	16	10
	Japan	Branch of ING Bank N.V.	Wholesale banking	30	31	6,772	20	9
	Singapore	Branch of ING Bank N.V.	Wholesale banking	472	386	19,111	230	30
	Hong Kong	Branch of ING Bank N.V.	Wholesale banking	103	85	5,052	49	1
	Philippines	Branch of ING Bank N.V.	Wholesale banking	249	22	436	5	3
	South Korea	Branch of ING Bank N.V.	Wholesale banking	68	53	3,642	23	6
	Taiwan	Branch of ING Bank N.V.	Wholesale banking	34	23	1,744	12	1
	Indonesia	PT ING Securities Indonesia	Wholesale banking	5	1	7	–	–
	Malaysia	Branch of ING Bank N.V.	Wholesale banking	4	–	4	–	–
	India	Branch of ING Bank N.V.	Wholesale banking	–	–	2	–	–
	Turkey	ING Bank A.S.	Wholesale banking/Retail banking	6,070	641	17,544	155	34
	United Arab Emirates	Branch of ING Bank N.V.	Wholesale banking	7	–	–	–1	–
Australia	Australia	ING Bank (Australia) Ltd.	Retail banking	1,021	490	33,507	328	92
Other	Mauritius	ING Mauritius	Investment management	–	380	1,186	380	–
Total				**52,720**	**16,845**	**1,005,233**	**6,172**	**1,637**

1 Public subsidies received, as defined in article 89 of the CRD IV, amounted to EUR 3 million in 2015.(2014: EUR 2 million).
2 Included in Total assets – Netherlands, is EUR 2,153 million related to the Investment in associate held for sale, NN Group.
3 Total assets, as at 31 December 2015, is adjusted as a result of a change in accounting policies. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies in 2016.

The Netherlands has a high tax charge, partly due to the non-deductible Dutch bank tax and partly due to the recognition of a deferred tax liability regarding previously deducted (UK) branch losses.
The UK has a low tax charge due to the recognition of previously unrecognised tax losses carried forward.
Mauritius has no tax charge, due to an unrealised tax exempt result, following the merger of ING Vysya with Kotak in April 2015.

Additional notes to the Consolidated annual accounts

35 Pension and other post-employment benefits

ING Group maintains defined contribution and defined benefit plans. In 2016 and 2015, the defined benefit plans of the Group are mainly within the United Kingdom and Belgium.

Statement of financial position - Net defined benefit asset/liability

Summary of net defined benefit asset/liability

	2016	2015
Fair value of plan assets	3,337	3,141
Defined benefit obligation	3,249	2,996
Funded status (Net defined benefit asset/(liability))	**88**	**145**
Presented as:		
– Other assets	609	643
– Other liabilities	–521	–498
	88	**145**

ING Group maintains defined benefit retirement plans in some countries. These plans provide benefits that are related to the remuneration and service of employees upon retirement. The benefits in some of these plans are subject to various forms of indexation. The indexation is, in some cases, at the discretion of management; in other cases it is dependent upon the sufficiency of plan assets.

Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local legal requirements. Plans in all countries comply with applicable local regulations governing investments and funding levels.

ING Group provides other post-employment employee benefits to certain employees and former employees. These are primarily post-employment healthcare benefits and discounts on ING products provided to employees and former employees.

The most recent (actuarial) valuations of the plan assets and the present value of the defined benefit obligation were carried out as at 31 December 2016. The present value of the defined benefit obligation, and the related current service cost and past service cost, were determined using the projected unit credit method.

Changes in the fair value of plan assets for the period were as follows:

Changes in fair value of plan assets

	2016	2015
Opening balance	3,141	2,703
Interest income	87	93
Remeasurements: Return on plan assets excluding amounts included in interest income	467	333
Employer's contribution	76	34
Participants contributions	2	13
Benefits paid	–137	–170
Exchange rate differences	–299	135
Closing balance	**3,337**	**3,141**

Other

The actual return on the plan assets amounts to EUR 554 million (2015: EUR 426 million).

No plan assets are expected to be returned to ING Group during 2017.

Changes in the present value of the defined benefit obligation and other post-employment benefits for the period were as follows:

Changes in defined benefit obligation and other post-employment benefits

	Defined benefit obligation		Other post-employment benefits	
	2016	2015	2016	2015
Opening balance	2,996	2,790	**98**	101
Current service cost	32	34	**–25**	–7
Interest cost	79	84	**3**	1
Remeasurements: Actuarial gains and losses arising from changes in demographic assumptions	–17	–55	**10**	8
Remeasurements: Actuarial gains and losses arising from changes in financial assumptions	498	218		
Participants' contributions	1	1		2
Benefits paid	–148	–175	**–1**	–2
Past service cost	2	–11		
Effect of curtailment or settlement	–2	–3		–9
Exchange rate differences	–192	111	**2**	4
Changes in the composition of the group and other changes		2		
Closing balance	**3,249**	**2,996**	**87**	**98**

Amounts recognised directly in Other comprehensive income (equity) were as follows:

Changes in the net defined benefit assets/liability remeasurement reserve

	2016	2015
Opening balance	–306	–515
Remeasurement of plan assets	467	–119
Actuarial gains and losses arising from changes in demographic assumptions	17	59
Actuarial gains and losses arising from changes in financial assumptions	–498	86
Transfer to Other reserves		16
Taxation	–51	–18
Total Other comprehensive income movement for the year	**–65**	**24**
Changes in the composition of the group and other changes		185
Closing balance	**–371**	**–306**

The change in the remeasurement of the net defined benefit asset/liability in 2015 is mainly as a result of deconsolidation of NN Group and an increase in discount rates.

In 2016, EUR 467 million Remeasurement of plan assets and EUR –498 million Actuarial gains and losses arising from changes in financial assumptions are mainly due to a decrease in discount rates.

The accumulated amount of remeasurements recognised directly in Other comprehensive income (equity) is EUR –483 million (EUR –371 million after tax) as at 31 December 2016 (2015: EUR –507 million, EUR –306 million after tax).

Information on plan assets and defined benefit obligation per country

The defined benefit obligation per country and the plan assets per country can be specified as follows:

Plan assets and defined benefit obligation per country

	Plan assets		Defined benefit obligation	
	2016	2015	2016	2015
The Netherlands	414	373	**576**	516
United States	182	132	**243**	212
United Kingdom	1,983	1,906	**1,377**	1,265
Belgium	641	601	**776**	731
Other countries	117	129	**277**	272
	3,337	**3,141**	**3,249**	**2,996**

As at 31 December 2016 the various defined benefit plans did not hold any direct investments in ING Groep N.V. (2015: nil).

Determination of the net defined benefit asset/liability

The table provides the key assumptions used in the determination of the Net defined benefit asset/liability and the Other post-employment benefits.

Weighted averages of basic actuarial assumptions in annual % as at 31 December

	Net defined benefit asset/liability		Other post-employment benefits	
	2016	2015	2016	2015
Discount rates	2.10	3.00	3.50	3.20
Mortality rates	0.90	0.80	0.70	0.80
Expected rates of salary increases (excluding promotion increases)	3.40	3.70		
Indexation	2.50	2.60	2.00	2.00

The assumptions above are weighted by defined benefit obligations. The rates used for salary developments, interest discount factors, and other adjustments reflect country-specific conditions.

The discount rate is the weighted average of the discount rates that are applied in different regions where the Group has defined benefit pension plans. The discount rate is based on a methodology that uses market yields on high quality corporate bonds of the specific regions with durations matching the pension liabilities as key input. Market yields of high quality corporate bonds reflect the yield on corporate bonds with an AA rating for durations where such yields are available. An extrapolation is applied in order to determine the yield to the longer durations for which no AA-rated corporate bonds are available. As a result of the limited availability of long-duration AA-rated corporate bonds, extrapolation is an important element of the determination of the discount rate.

The discount rate is approximately 2.1% on 31 December 2016 (2015: 3.0%). The discount rate used by ING is based on AA-rated corporate bonds. Discussions were ongoing, both in the industry and at the IASB, on the definition of the discount rate for defined benefit pension liabilities and ING would reconsider the methodology for setting the discount rate if and when appropriate.

As at 31 December 2016, the actuarial assumption for Indexation for inflation is 2.5% (2015: 2.6%). The percentage for 2016 was mainly based on the expected inflation and the best estimate assumption for future indexation in the pension plans in the United Kingdom, Belgium, the Netherlands, the United States, and Germany.

Sensitivity analysis of key assumptions

The sensitivity analysis of the most significant assumptions has been determined based on changes of the assumptions occurring at the end of the reporting period that are deemed reasonably possible.

The table discloses the financial impact on the defined benefit obligation if the weighted averages of each significant actuarial assumption would increase or decrease if all other assumptions were held constant. In practice, this is unlikely to occur, and some changes of the assumptions may be correlated.

Sensitivity analysis – financial impact of changes in significant actuarial assumptions on the defined benefit obligation

	Financial impact of increase		Financial impact of decrease	
	2016	2015	2016	2015
Discount rates – increase/decrease of 1%	–506	–451	662	554
Mortality – increase/decrease of 1 year	102	82	–103	–82
Expected rates of salary increases (excluding promotion increases) – increase/decrease of 0.25%	24	25	–23	–23
Indexation – increase/decrease 0.25%	79	75	–85	–74

Expected cash flows

Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local legal requirements. Plans in all countries comply with applicable local regulations governing investments and funding levels. ING Group's subsidiaries should fund the cost of the entitlements expected to be earned on a yearly basis.

For 2017 the expected contributions to pension plans are EUR 71 million.

The following benefit payments, which reflect expected future service as appropriate, are expected to be made by the plan:

Benefit payments

	Defined benefit obligation	Other post-employment benefits
2017	102	4
2018	105	4
2019	108	4
2020	123	4
2021	128	4
Years 2022 – 2026	448	18

The average duration of the benefit obligation at the end of the reporting period is 17 years (2015: 17 years). This number can be subdivided into the duration related to:

- active members: 16 years (2015: 15 years);
- inactive members: 24 years (2015: 23 years); and
- retired members: 13 years (2015: 13 years).

Statement of profit or loss – Pension and other staff-related benefit costs

Pension and other staff-related benefit costs

	Net defined benefit asset/liability			Other post-employment benefits			Other			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Current service cost	32	34	36	–25	–7	–6	11	–8	20	18	19	50
Past service cost	2	–11	–3							2	–11	–3
Net Interest cost	–8	–9	3	3	1	3	2	2	4	–3	–6	10
Effect of curtailment or settlement	–2	–3	871		–9			–52		–2	–64	871
Other								13	–12		13	–12
Defined benefit plans	**24**	**11**	**907**	**–22**	**–15**	**–3**	**13**	**–45**	**12**	**15**	**–49**	**916**
Defined contribution plans										329	324	302
										344	**275**	**1,218**

Defined benefit plans

In 2014, a charge of EUR 871 million was recognised in Effect of curtailment or settlement related to the Dutch defined benefit plan settlement which resulted in the ING Pension Fund being financially independent from ING.

Defined contribution plans

Most group companies sponsor defined contribution pension plans. The assets of all ING Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of remuneration. For the defined contribution scheme in the Netherlands, the premium paid is also dependant on the interest rate developments and DNB's methodology for determining the ultimate forward rate. These plans do not give rise to provisions in the statement of financial position, other than relating to short-term timing differences included in other assets/liabilities.

36 Taxation

Statement of financial position – Deferred tax

Deferred taxes are recognised on all temporary differences under the liability method using tax rates applicable in the jurisdictions in which ING Group is subject to taxation.

Changes in deferred tax

2016	Net liability (-) Net asset (+) 2015	Change through equity	Change through net result	Exchange rate differences	Changes in the composi-tion of the group and other changes	Net liability (-) Net asset (+) 2016
Investments	–780	74	–82	–10	–1	–799
Investment properties	–2		–3			–5
Financial assets and liabilities at fair value through profit or loss	739		–58	16		697
Depreciation	–46		13			–33
Cash flow hedges	–192	–51		4	1	–238
Pension and post-employment benefits	201	–20	–84	15		112
Other provisions	24		228	2	1	255
Receivables	441		120	9		570
Loans and advances to customers	–235		–166	–8		–409
Unused tax losses carried forward	118		–34	–24	–3	57
Other	–97	–1	–27	–1		–126
	171	**2**	**–93**	**3**	**–2**	**81**
Presented in the statement of financial position as:						
– deferred tax liabilities	–643					–919
– deferred tax assets	814					1,000
	171					**81**

Changes in deferred tax

2015	Net liability (-) Net asset (+) 2014	Change through equity	Change through net result	Exchange rate differences	Changes in the composi-tion of the group and other changes	Net liability (-) Net asset (+) 2015
Investments	–1,064	111	152	3	18	–780
Investment properties	–2					–2
Financial assets and liabilities at fair value through profit or loss	1,112		–373			739
Depreciation	–46		4	–4		–46
Cash flow hedges	–233	24		17		–192
Pension and post-employment benefits	213	–13	–5	6		201
Other provisions	42		–22	4		24
Receivables	258		180	3		441
Loans and advances to customers	–136		–100	1		–235
Unused tax losses carried forward	330		–215	3		118
Other	–189	–7	113	–2	–12	–97
	285	**115**	**–266**	**31**	**6**	**171**
Presented in the statement of financial position as:						
– deferred tax liabilities	–860					–643
– deferred tax assets	1,145					814
	285					**171**

Deferred tax in connection with unused tax losses carried forward

	2016	2015
Total unused tax losses carried forward	1,292	1,560
Unused tax losses carried forward not recognised as a deferred tax asset	973	969
Unused tax losses carried forward recognised as a deferred tax asset	**319**	**591**
Average tax rate	17.8%	20.0%
Deferred tax asset	57	118

The following tax losses carried forward and tax credits will expire as follows as at 31 December:

Total unused tax losses carried forward analysed by expiry terms

	No deferred tax asset recognised		Deferred tax asset recognised	
	2016	2015	2016	2015
Within 1 year	2	41	2	
More than 1 year but less than 5 years	383	190	56	7
More than 5 years but less than 10 years	30	118		1
More than 10 years but less than 20 years	18	34		
Unlimited	540	586	261	583
	973	**969**	**319**	**591**

Deferred tax assets are recognised for temporary deductible differences, for tax losses carried forward and unused tax credits only to the extent that realisation of the related tax benefit is probable.

Breakdown of certain net deferred tax asset positions by jurisdiction

	2016	2015
Luxembourg		8
Netherlands		132
Italy	113	129
	113	**269**

The table above includes a breakdown of certain net deferred tax asset positions by jurisdiction for which the utilisation is dependent on future taxable profits whilst the related entities have incurred losses in either the current or the preceding year. In 2016, the aggregate amount for the most significant entities is EUR 113 million (2015: EUR 269 million).

Recognition is based on the fact that it is probable that the entity will have taxable profits and/or can utilise tax planning opportunities before expiration of the deferred tax assets. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets.

As at 31 December 2016 and 31 December 2015, ING Group N.V. had no significant temporary differences associated with the parent company's investments in subsidiaries as any economic benefit from those investments will not be taxable at parent company level.

Statement of profit or loss – Taxation

Taxation by type

	Netherlands			International			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Current taxation	150	–42	–58	1,375	1,413	1,099	1,525	1,371	1,041
Deferred taxation	193	407	–127	–100	–141	57	93	266	–70
	343	**365**	**–185**	**1,275**	**1,272**	**1,156**	**1,618**	**1,637**	**971**

The deferred tax charge in 2016 in the Netherlands has decreased and the current tax charge has increased as a result of the full utilisation of prior year tax losses.

Reconciliation of the weighted average statutory income tax rate to ING Group's effective income tax rate

	2016	2015	2014
Result before tax from continuing operations	5,903	6,172	3,707
Weighted average statutory tax rate	27.5%	27.3%	29.5%
Weighted average statutory tax amount	**1,621**	**1,688**	**1,095**
Participation exemption	–72	–34	–70
Other income not subject to tax	–123	–162	–169
Expenses not deductible for tax purposes	177	154	187
Impact on deferred tax from change in tax rates	–1	12	–2
Deferred tax benefit from previously unrecognised amounts	–18	54	38
Current tax benefit from previously unrecognised amounts	–22	–63	–58
Write-off/reversal of deferred tax assets	33	18	1
Adjustment to prior periods	23	–30	–51
Effective tax amount	**1,618**	**1,637**	**971**
Effective tax rate	**27.4%**	**26.5%**	**26.2%**

The weighted average statutory tax rate in 2016 does not significantly differ compared to 2015.

The weighted average statutory tax rate in 2015 was lower compared to 2014. This was mainly caused by the increase in the result in 2015 in the Netherlands.

The effective tax rate in 2016 is 27.4%.

The effective tax rate in 2016 is almost equal to the weighted average statutory tax rate. This is mainly caused by the fact the non-taxable income and the recognition of tax benefits from previously unrecognised amounts are almost fully offset by non-deductible expenses, the write-off of deferred tax assets and the adjustments to prior periods.

The effective tax rate in 2015 was lower than the weighted average statutory tax rate. This was mainly caused by non-taxable income, the recognition of tax benefits from previously unrecognised amounts and prior year adjustments which were only partly offset by non-deductible items.

The effective tax rate in 2014 was lower than the weighted average statutory tax rate. This was mainly caused by non-taxable income, the recognition of tax benefits from previously unrecognised amounts and prior year adjustments which were only partly offset by non-deductible items.

Tax exempt income (participation exemption) mainly includes non-taxable income on divestments, tax exempt share in result from associates and joint ventures and tax exempt gains on financial assets.

Equity – Other comprehensive income

Income tax related to components of other comprehensive income

	2016	2015	2014
Unrealised revaluations available-for-sale investments and other revaluations	17	111	–1,719
Realised gains/losses transferred to the statement of profit or loss (reclassifications from equity to profit or loss)	57	39	49
Changes in cash flow hedge reserve	–51	24	–910
Remeasurement of the net defined benefit asset/liability	–20	–13	137
Exchange rate differences and other		–46	644
Changes in composition of the group and other changes	–1		
Total income tax related to components of other comprehensive income	**2**	**115**	**–1,799**

Tax Contingency

The contingent liability in connection with taxation in the Netherlands refers to a possible obligation arising from the deduction from Dutch taxable profit of losses incurred by ING Bank in the United Kingdom in previous years. The existence of this obligation will be confirmed only by the occurrence of future profits in the United Kingdom.

37 Fair value of assets and liabilities

a) Financial assets and liabilities

The following table presents the estimated fair values of ING Group's financial assets and liabilities. Certain items per the statement of financial position are not included in the table, as they do not meet the definition of a financial asset or liability. The aggregation of the fair values presented below does not represent, and should not be construed as representing, the underlying value of ING Group.

Fair value of financial assets and liabilities

	Estimated fair value		Statement of financial position value	
	2016	2015	2016	2015
Financial assets				
Cash and balances with central banks	18,144	21,458	18,144	21,458
Loans and advances to banks[1]	28,940	30,132	28,858	29,988
Financial assets at fair value through profit or loss				
– trading assets	114,504	131,467	114,504	131,467
– non-trading derivatives	2,490	3,347	2,490	3,347
– designated as at fair value through profit or loss	5,099	3,234	5,099	3,234
Investments				
– available-for-sale	82,912	87,000	82,912	87,000
– held-to-maturity	8,809	7,855	8,751	7,826
Loans and advances to customers[1]	578,596	711,771	563,660	700,807
Other assets[1,2]	13,709	11,329	13,709	11,329
	853,203	**1,007,593**	**838,127**	**996,456**
Financial liabilities				
Deposits from banks[1]	32,352	34,334	31,964	33,813
Customer deposits[1]	523,850	664,833	522,942	664,241
Financial liabilities at fair value through profit or loss				
– trading liabilities	83,167	88,807	83,167	88,807
– non-trading derivatives	3,541	4,257	3,541	4,257
– designated as at fair value through profit or loss	12,266	12,616	12,266	12,616
Other liabilities[1,3]	15,247	11,622	15,247	11,622
Debt securities in issue	103,559	121,770	103,234	121,289
Subordinated loans	17,253	16,267	17,223	16,411
	791,235	**954,506**	**789,584**	**953,056**

1 Loans and advances to customers and Customer deposits, as at 31 December 2015, are adjusted as a result of a changes in accounting policies. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies and Changes in presentation in 2016.
2 Other assets do not include, among others: net defined benefit asset.
3 Other liabilities do not include, among others: net defined benefit and related employee benefit liabilities, and other taxation and social security contributions.

Valuation Methods

The estimated fair values represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a market-based measurement, which is based on assumptions that market participants would use and takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability. Fair values of financial assets and liabilities are based on quoted prices in active market where available. When such quoted prices are not available, the fair value is determined by using valuation techniques.

ING uses unadjusted quotes where available. Unadjusted quoted prices are primarily obtained from exchange prices for listed financial instruments. Where an exchange price is not available, quoted market prices in active markets may be obtained from independent market vendors, brokers, or market makers. In general, positions are valued at the bid price for a long position and at the offer price for a short position or are valued at the price within the bid-offer spread that is most representative of fair value at the date of valuation.

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to various valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings), and customer behaviour are taken into account. ING maximises the use of market observable inputs and minimises the use of unobservable input in determining the fair value. The fair value can be subjective dependent on the significance of the unobservable input to the overall valuation. All valuation techniques used are subject to internal review and approval. Most data used in these valuation techniques are validated on a daily basis.

When a group of financial assets and financial liabilities are managed on the basis of their net risk exposures, it measures the fair value of a group of financial assets and liabilities on net portfolio basis.

Control framework
To determine whether the valuations based upon data inputs have led to an appropriate fair and prudent value, the process of independent price verification ('IPV') or price testing is applied. This is done to ensure the appropriate reflection of these valuations in balance sheet and the profit and loss accounts. IPV tests and confirms the reliability of the market data used in these valuations and can lead to adjustments in valuation where data is found to be unreliable. The IPV process is performed at least monthly or more frequently depending on the nature of the market or trading activity. Multiple data sources are used to the extent that such prices are available and taking into account cost-benefit ratio of retrieving such prices. Valuation differences between primary and secondary source data are assessed. When differences resulting from price testing exceed pre-approved thresholds, adjustments to the profit and loss shall be made. Differences and adjustments must be assessed individually, approved by the Local Parameter Committee, and reported back in the meeting minutes. In case a material difference in value is found through the IPV process, it must be fully understood what the underlying cause is for the difference, and if a systematic change is required (e.g. change of source). Pricing and price testing is applied at individual trade level and is organised at a desk level.

Valuation processes are governed by various governance bodies, which include Local Parameter Committees (LPC), Global Price Testing Committee (GP&IC), Market Data Committee (MDC), Trading Pricing Model Committee (TPMC) and others. All relevant committees meet on a quarterly basis or more frequent as required. Key valuation controls including product approval, IPV, valuation adjustments, and model use is monitored on a monthly basis

The Global Price Testing Committee is responsible for the use of appropriate models and inputs related to fair valued positions. It oversees the quality and coherence of valuation methodologies and processes. Local Parameter Committees monitor the appropriateness of (quoted) pricing, any other relevant market info, as well as that of pricing models themselves related to the fair valued positions to which they are applied. LPC executes valuation methodology and processes at a local level. Global Price Testing Committee oversees market data sources and market data set up / points used for official valuation of positions for fair value. Trading Pricing Model Committee approve and review all pricing models and methodologies for the calculation of market parameters.

Valuation Adjustments
Valuation adjustments are integral part of the fair value. They are included as part of the fair value to provide better estimation of market exit value on measurement date. ING applies various valuation adjustments including Bid-Offer adjustments, Credit Valuation Adjustments (CVA), Debt Valuation Adjustments (DVA), Model Risk Valuation Adjustments, Collateral Valuation Adjustment (CollVA) and Funding Valuation Adjustment (FVA). The combination of Credit Valuation adjustments is called Bilateral Valuation Adjustment (BVA).

- Bid-Offer adjustments are required to adjust mid-market values to appropriate bid or offer value in order to best represent the exit value, and therefore fair value. It is applicable to financial assets and liabilities that are valued at mid-price initially. If financial assets or liabilities have been quoted at bid and offer price, then no Bid-Offer adjustment is necessary. In practice this adjustment accounts for the difference in valuation from mid to bid and mid to offer for long and short exposures respectively. In principle assets are valued at the bid prices and liabilities are valued at the offer price. For certain assets or liabilities, where market quoted price is not available, the price within the bid-offer spread that is most representative of fair value is used.
- Credit Valuation Adjustment (CVA) is the valuation component for counterparty credit risk of the derivative contracts. It has bilateral nature, where both counterparty's credit risk and ING own credit risks are taken into account. The calculation is based on the estimation of the expected exposure, counterparties' risk of default, and taking into account the collateral agreements as well as netting agreements. The counterparties' risk of default is measured by probability of default and expected loss given default, which is based on market information including credit default swap (CDS) spread. Where counterparty CDS spreads are not available, relevant proxy spreads are used. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty deteriorates) and right-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty improves) are included in the adjustment.
- ING applies Debt Valuation Adjustment (DVA) to own issued financial liabilities that are measured at fair value through profit or loss, if the credit risk component has not been included in the prices. In the DVA calculation, the default probability of the institution are estimated based on the ING Funding spread.
- Model risk occurs in a valuation model when the model does not produce the correct valuation due to mis-specification, mis-application, or incorrect implemention of the model. Potential adjustments are determined during new product approval or model review process.
- Collateral Valuation Adjustment (CollVA) is a derivative valuation adjustment capturing specific features of CSA (Credit Swap Annex) with a counterparty that the regular OIS (Overnight Index Swap) discounting framework does not capture. Non-standard CSA features may include deviations in relation to the currency in which ING posts or receives collateral, deviations in remuneration rate on collateral which may pay lower or higher rate than overnight rate or even no interest at all. Other deviations can be posting securities rather than cash as collateral.

- ING applies an additional ‘funding valuation adjustment’ (FVA) to address the funding costs associated with the collateral funding asymmetry on uncollateralized or partially collateralized derivatives in the portfolio. This adjustment is based on the expected exposure profiles of the uncollateralized or partially collateralized OTC derivatives and market-based funding spreads.

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

a.1) Financial assets

Cash and balances with central banks

The carrying amount of cash approximates its fair value.

Loans and advances to banks

The fair values of receivables from banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates including appropriate spreads offered for receivables with similar characteristics, similar to Loans and advances to customers described below.

Financial assets at fair value through profit or loss and Investments

Derivatives

Derivatives contracts can either be exchange-traded or over the counter (OTC). The fair value of exchange-traded derivatives is determined using quoted market prices in an active market and those derivatives are classified in Level 1 of the fair value hierarchy. For those instruments not actively traded, fair values are estimated based on valuation techniques. OTC derivatives and derivatives trading in an inactive market are valued using valuation techniques because quoted market prices in an active market are not available for such instruments. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instruments. The principal techniques used to value these instruments are based on discounted cash flows, Black-Scholes option models and Monte Carlo simulation. These valuation models calculate the present value of expected future cash flows, based on ‘no-arbitrage’ principles. These models are commonly used in the financial industry. Inputs to valuation models are determined from observable market data where possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices via valuation model calibration procedures. The inputs used include prices available from exchanges, dealers, brokers or providers of pricing, yield curves, credit spreads, default rates, recovery rates, dividend rates, volatility of underlying interest rates, equity prices, and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data, where available.

For uncollateralised OTC derivatives, ING applies Credit Valuation Adjustment to correctly reflect the counterparty credit risk in the valuation. The technique for calculating CVA is based on Monte Carlo simulation and uses various input including counterparty credit spread, market interest rates, and market exchanges rates. The counterparty credit spreads are based on counterparty CDS spread where available. Otherwise, the indexed proxy CDS spreads are used.

Equity securities

The fair values of publicly traded equity securities are based on quoted market prices when available. Where no quoted market prices are available, fair value is determined based on quoted prices for similar securities or other valuation techniques.

The fair value of private equity is based on quoted market prices, if available. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee’s financial position and results, risk profile, prospects, price, earnings comparisons and revenue multiples, and by reference to market valuations for similar entities quoted in an active market.

Debt securities

Fair values for debt securities are based on quoted market prices, where available. Quoted market prices may be obtained from an exchange, dealer, broker, industry group, pricing service, or regulatory service. The quoted prices from non-exchange sources are assessed to determine if they are tradable prices or consensus prices derived from in-house models utilising a variety of inputs. This distinction determines where it falls in the fair value hierarchy.

If quoted prices in an active market are not available, fair value is based on an analysis of available market inputs, which may include values obtained from one or more pricing services or by a valuation technique that discounts expected future cash flows using a market interest rate curves, referenced credit spreads, maturity of the investment, and estimated prepayment rates where applicable.

Loans and receivables

Reference is made to Loans and advances to customers below.

Loans and advances to customers
For loans and advances that are repriced frequently and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of the fair value. The fair value of other loans is estimated by discounting expected future cash flows using a discount rate that reflects credit risk, liquidity, and other current market conditions. The fair value of mortgage loans is estimated by taking into account prepayment behaviour. Loans with similar characteristics are aggregated for calculation purposes.

Other assets
The other assets are stated at their carrying value which is not significantly different from their fair value.

a.2) Financial liabilities
Deposits from banks
The fair values of payables to banks are generally based on quoted market prices or, if not available, on estimates based on discounting future cash flows using available market interest rates and credit spreads for payables to banks with similar characteristics.

Customer deposits
The carrying values of customer deposits with an immediate on demand features approximate their fair values. The fair values of deposits with fixed contractual terms have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities.

Financial liabilities at fair value through profit or loss
The fair values of securities in the trading portfolio and other liabilities at fair value through profit or loss are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated based on internal discounted cash flow valuation techniques using interest rates and credit spreads that apply to similar instruments. Reference is made to Financial assets at fair value through profit or loss above.

Other liabilities
The other liabilities are stated at their carrying value which is not significantly different from their fair value.

Debt securities in issue
The fair value of debt securities in issue is generally based on quoted market prices, or if not available, on estimated prices by discounting expected future cash flows using a current market interest rate and credit spreads applicable to the yield, credit quality and maturity.

Subordinated loans
The fair value of publicly traded subordinated loans are based on quoted market prices when available. Where no quoted market prices are available, fair value of the subordinated loans is estimated using discounted cash flows based on interest rates and credit spreads that apply to similar instruments.

a.3) Fair value hierarchy
ING Group has categorised its financial instruments that are either measured in the statement of financial position at fair value or of which the fair value is disclosed, into a three level hierarchy based on the priority of the inputs to the valuation. The fair value hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques supported by unobservable inputs. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide reliable pricing information on an ongoing basis. The fair value hierarchy consists of three levels, depending upon whether fair values were determined based on (unadjusted) quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument (Level 3). Financial assets in Level 3 include for example illiquid debt securities, complex derivatives, certain complex loans (for which current market information about similar assets to use as observable, corroborated data for all significant inputs into a valuation model is not available), and asset backed securities for which there is no active market and a wide dispersion in quoted prices.

Observable inputs reflect market data obtained from independent sources. Unobservable inputs are inputs which are based on the Group's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the market. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates, and certain credit spreads. Transfers into and transfers out of fair value hierarchy levels are recognised as of the date of the event or change in circumstances that caused the transfer.

Level 1 – (Unadjusted) quoted prices in active markets
This category includes financial instruments whose fair value is determined directly by reference to (unadjusted) quoted prices in an active market that ING Group can access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer markets, brokered markets, or principal to principal markets. Those prices represent actual and regularly occurring market transactions with sufficient frequency and volume to provide pricing information on an ongoing basis. Transfers out of Level 1 into Level 2 or Level 3 occur when ING Group establishes that markets are no longer active and therefore (unadjusted) quoted prices no longer provide reliable pricing information.

Level 2 – Valuation technique supported by observable inputs
This category includes financial instruments whose fair value is based on market observables other than (unadjusted) quoted prices. The fair value for financial instruments in this category can be determined by reference to quoted prices for similar instruments in active markets, but for which the prices are modified based on other market observable external data or reference to quoted prices for identical or similar instruments in markets that are not active. These prices can be obtained from a third party pricing service. ING analyses how the prices are derived and determines whether the prices are liquid tradable prices or model based consensus prices taking various data as inputs.

For financial instruments that do not have a reference price available, fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable, such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads.

If certain inputs in the model are unobservable, the instrument is still classified in this category, provided that the impact of those unobservable inputs on the overall valuation is insignificant. The notion of significant is particularly relevant for the distinction between Level 2 and Level 3 assets and liabilities. ING Group has chosen to align the definition of significant with the 90% confidence range as captured in the prudent value definition by EBA. Unobservable parameters are shifted down and upwards to reach this 90% confidence range. The same 90% confidence range is applied to model uncertainty. If the combined change in asset value resulting from the shift of the unobservable parameters and the model uncertainty exceeds the threshold, the asset is classified as Level 3. A value change below the threshold results in a Level 2 classification.

Valuation techniques used for Level 2 assets and liabilities range from discounting of cash flows to various industry standard valuation models such as option pricing model and Monte Carlo simulation model, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations, and credit ratings), and customer behaviour are taken into account.

Level 3 – Valuation technique supported by unobservable inputs
This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model) for which more than an insignificant part of the inputs in terms of the overall valuation are not market observable. This category also includes financial assets and liabilities whose fair value is determined by reference to price quotes but for which the market is considered inactive. Level 3 Trading assets, Non-trading derivatives, Assets designated at fair value through profit or loss, and Level 3 Financial liabilities at fair value through profit or loss include financial instruments with different characteristics and nature, which are valued on the basis of valuation techniques that feature one or more significant inputs that are unobservable. An instrument in its entirety is classified as Level 3 if a significant portion of the instrument's fair value is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which to derive a price that an unrelated, informed buyer would purchase the asset or liability at.

Financial instruments at fair value

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

Methods applied in determining fair values of financial assets and liabilities (carried at fair value)				
2016	Level 1	Level 2	Level 3	Total
Financial Assets				
Trading assets	17,652	95,629	1,223	114,504
Non-trading derivatives	3	2,231	256	2,490
Financial assets designated as at fair value through profit or loss	502	4,141	456	5,099
Available-for-sale investments	76,238	6,153	521	82,912
	94,395	**108,154**	**2,456**	**205,005**
Financial liabilities				
Trading liabilities	6,139	75,650	1,378	83,167
Non-trading derivatives		3,517	24	3,541
Financial liabilities designated as at fair value through profit or loss	1,348	10,795	123	12,266
	7,487	**89,962**	**1,525**	**98,974**

Main changes in fair value hierarchy in 2016

In 2016, the decrease in Level 2 financial assets and liabilities is mainly due to decreased (reverse) repo balances.

There were no significant transfers between Level 1 and Level 2.

There were no changes in the valuation techniques during the year.

Methods applied in determining fair values of financial assets and liabilities (carried at fair value)				
2015	Level 1	Level 2	Level 3	Total
Financial Assets				
Trading assets	27,126	103,195	1,146	131,467
Non-trading derivatives	4	3,175	168	3,347
Financial assets designated as at fair value through profit or loss	242	2,654	338	3,234
Available-for-sale investments	81,640	4,667	693	87,000
	109,012	**113,691**	**2,345**	**225,048**
Financial liabilities				
Trading liabilities	9,037	78,531	1,239	88,807
Non-trading derivatives		4,256	1	4,257
Financial liabilities designated as at fair value through profit or loss	1,578	10,840	198	12,616
	10,615	**93,627**	**1,438**	**105,680**

Main changes in fair value hierarchy in 2015

There were no significant transfers between Level 1 and Level 2.

In 2015, there were changes in the valuation techniques driven by current market conditions, with LIBOR being negative.

Changes in Level 3 Financial assets

2016	Trading assets	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale invest-ments	Total
Opening balance	1,146	168	338	693	2,345
Amounts recognised in the statement of profit or loss during the year	226	–34	76	200	468
Revaluation recognised in equity during the year				–144	–144
Purchase of assets	77	5	193	68	343
Sale of assets	–71	–4	–76	–183	–334
Maturity/settlement	–135			–9	–144
Reclassifications				–92	–92
Transfers into Level 3	21	62		5	88
Transfers out of Level 3	–43		–75		–118
Exchange rate differences	3			8	11
Changes in the composition of the group and other changes	–1	59		–25	33
Closing balance	**1,223**	**256**	**456**	**521**	**2,456**

In 2016, financial assets were transferred out of Level 3 on the basis that the valuation is not significantly impacted by unobservable inputs.

Included in 'Amounts recognised in the statement of profit or loss during the year, is EUR 163 million related to the release of revaluation reserves on shares held in VISA Europe Limited. For further information on the VISA transaction, reference is made to Note 51 'Other events'.

Changes in Level 3 Financial assets

2015	Trading assets	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale invest-ments	Total
Opening balance	810	310	90	573	1,783
Amounts recognised in the statement of profit or loss during the year	146	–163	–55	30	–42
Revaluation recognised in equity during the year				171	171
Purchase of assets	356	4	467	125	952
Sale of assets	–76		–148	–209	–433
Maturity/settlement	–46	–1	–16	–5	–68
Transfers into Level 3	11				11
Transfers out of Level 3	–61				–61
Exchange rate differences	6	18		23	47
Changes in the composition of the group and other changes				–15	–15
Closing balance	**1,146**	**168**	**338**	**693**	**2,345**

In 2015, there were no significant transfers into or out of Level 3.

Included in 'Revaluation recognised in equity during the year', was an amount of EUR 154 million related to available-for-sale equity securities held in VISA Europe Limited. References is made to Note 5 'Investments', Note 19 'Equity and Note 51 'Other events'.

Changes in Level 3 Financial liabilities

2016	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit or loss	Total
Opening balance	1,239	1	198	1,438
Amounts recognised in the statement of profit or loss during the year	277	12	–3	286
Issue of liabilities	53	11	4	68
Early repayment of liabilities	–62	–11	–13	–86
Maturity/settlement	–62			–62
Transfers into Level 3	16	11		27
Transfers out of Level 3	–86		–63	–149
Exchange rate differences	6			6
Changes in the composition of the group and other changes	–3			–3
Closing balance	**1,378**	**24**	**123**	**1,525**

In 2016, financial liabilities were transferred out of Level 3 mainly due to the valuation not being significantly impacted by unobservable inputs.

Changes in Level 3 Financial liabilities

2015	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit or loss	Total
Opening balance	997	16	323	1,336
Amounts recognised in the statement of profit or loss during the year	120	–15	–83	22
Issue of liabilities	244		121	365
Early repayment of liabilities	–54		–31	–85
Maturity/settlement	–24		–15	–39
Transfers into Level 3	12			12
Transfers out of Level 3	–65		–117	–182
Exchange rate differences	9			9
Closing balance	**1,239**	**1**	**198**	**1,438**

In 2015, financial liabilities of EUR 182 million were transferred out of Level 3 mainly due to the valuation not being significantly impacted by unobservable inputs.

Amounts recognised in the statement of profit or loss during the year (Level 3)

2016	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	226		226
Non-trading derivatives	–34		–34
Financial assets designated as at fair value through profit or loss	76		76
Available-for-sale investments	–3	203	200
	265	**203**	**468**
Financial liabilities			
Trading liabilities	277		277
Non-trading derivatives	12		12
Financial liabilities designated as at fair value through profit or loss	–3		–3
	286	**–**	**286**

Amounts recognised in the statement of profit or loss during the year (Level 3)

2015	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	146		146
Non-trading derivatives	–163		–163
Financial assets designated as at fair value through profit or loss	–55		–55
Available-for-sale investments	–34	64	30
	–106	**64**	**–42**
Financial liabilities			
Trading liabilities	120		120
Non-trading derivatives	–15		–15
Financial liabilities designated as at fair value through profit or loss	–83		–83
	22	**–**	**22**

Recognition of unrealised gains and losses in Level 3

Amounts recognised in the statement of profit or loss relating to unrealised gains and losses during the year that relates to Level 3 assets and liabilities are included in the statement of profit or loss as follows:

- Results on trading assets and trading liabilities are included in Valuation results and net trading income;
- Non-trading derivatives are included in Valuation results and net trading income; and
- Financial assets and liabilities designated at fair value through profit or loss are included in Valuation results and net trading income - Valuation results on assets and liabilities designated at fair value through profit or loss (excluding trading).

Unrealised gains and losses that relate to Available-for-sale investments recognised in Other comprehensive income are included in the Revaluation reserve – Available-for-sale reserve and other.

Level 3 Financial assets and liabilities

Financial assets measured at fair value in the statement of financial position as at 31 December 2016 of EUR 205 billion includes an amount of EUR 2.5 billion (1.2%) which is classified as Level 3 (31 December 2015: EUR 2.3 billion, being 1.0%). Changes in Level 3 from 31 December 2015 to 31 December 2016 are disclosed above in the table Changes in Level 3 Financial assets.

Financial liabilities measured at fair value in the statement of financial position as at 31 December 2016 of EUR 99 billion includes an amount of EUR 1.5 billion (1.5%) which is classified as Level 3 (31 December 2015: EUR 1.4 billion, being 1.3%). Changes in Level 3 from 31 December 2015 to 31 December 2016 are disclosed above in the table 'Changes in Level 3 Financial liabilities'.

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

Of the total amount of financial assets classified as Level 3 as at 31 December 2016 of EUR 2.5 billion (31 December 2015: EUR 2.3 billion), an amount of EUR 1.0 billion (42%) (31 December 2015: EUR 0.9 billion, being 39%) is based on unadjusted quoted prices in inactive markets. As ING does not generally adjust quoted prices using its own inputs, there is no significant sensitivity to ING's own unobservable inputs.

Furthermore, Level 3 financial assets includes approximately EUR 0.5 billion (31 December 2015: EUR 0.3 billion) which relates to financial assets that are part of structures that are designed to be fully neutral in terms of market risk. Such structures include various financial assets and liabilities for which the overall sensitivity to market risk is insignificant. Whereas the fair value of individual components of these structures may be determined using different techniques and the fair value of each of the components of these structures may be sensitive to unobservable inputs, the overall sensitivity is by design not significant.

The remaining EUR 1.0 billion (31 December 2015: EUR 1.1 billion) of the fair value classified in Level 3 financial assets is established using valuation techniques that incorporates certain inputs that are unobservable. This relates mainly to assets that are classified as Available-for-sale investments, for which changes in fair value are recognised in shareholders' equity and do not directly impact profit or loss.

Of the total amount of financial liabilities classified as Level 3 as at 31 December 2016 of EUR 1.5 billion (31 December 2015: EUR 1.4 billion), an amount of EUR 0.9 billion (59%) (31 December 2015: EUR 0.7 billion, being 50%) is based on unadjusted quoted prices in inactive markets. As ING does not generally adjust quoted prices using its own inputs, there is no significant sensitivity to ING's own unobservable inputs.

Furthermore, Level 3 financial liabilities includes approximately EUR 0.1 billion (31 December 2015: EUR 0.2 billion) which relates to financial liabilities that are part of structures that are designed to be fully neutral in terms of market risk. As explained above, the fair value of each of the components of these structures may be sensitive to unobservable inputs, but the overall sensitivity is by design not significant.

The remaining EUR 0.5 billion (31 December 2015: EUR 0.5 billion) of the fair value classified in Level 3 financial liabilities is established using valuation techniques that incorporates certain inputs that are unobservable.

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

Valuation techniques and range of unobservable inputs (Level 3)

2016	Assets	Liabilities	Valuation techniques	Significant unobservable inputs	Lower range	Upper range
At fair value through profit or loss						
Debt securities	180		Price based	Price (%)	0%	122%
			Net asset value	Price (%)	10%	19%
Equity securities	4		Price based	Price (%)	0%	0%
Loans and advances	326	3	Price based	Price (%)	60%	101%
			Present value techniques	Credit spread (bps)	130	150
Structured notes	6	125	Price based	Price (%)	52%	111%
			Net asset value	Price (%)	19%	19%
			Option pricing model	Equity volatility (%)	16%	34%
				Equity/Equity correlation	0.0	0.8
				Equity/FX correlation	-0.4	0.1
				Dividend yield (%)	1%	5%
				Interest rate volatility (%)	n.a	n.a
			Present value techniques	Implied correlation	0.7	0.7
Derivatives						
– Rates	486	457	Option pricing model	Interest rate volatility (bps)	22	300
				Interest rate correlation	n.a	n.a.
				IR/INF correlation	0.5	0.5
			Present value techniques	Reset spread (%)	2%	2%
				Prepayment rate (%)	5%	10%
				Inflation rate (%)	2%	4%
– FX	642	688	Present value techniques	Inflation rate (%)	2%	3%
– Credit	33	43	Present value techniques	Credit spread (bps)	0	1,596
				Implied correlation	0.7	1.0
				Jump rate (%)	12%	12%
			Price based	Price (%)	99%	99%
– Equity	258	208	Option pricing model	Equity volatility (%)	0%	140%
				Equity/Equity correlation	-0.1	1.0
				Equity/FX correlation	-0.9	0.6
				Dividend yield (%)	0%	13%
– Other		1	Option pricing model	Commodity volatility (%)	13%	55%
				Com/Com correlation	0.0	0.9
				Com/FX correlation	-0.5	0.0
Available for sale						
– Debt	55		Price based	Price (%)	0%	99%
			Present value techniques	Credit spread (bps)	339	400
				Weighted average life (yr)	1.6	3.2
– Equity	466		Discounted cash flow	Financial Statements	n.a	n.a
			Multiplier method	Observable market factors	n.a	n.a
			Comparable transactions		n.a	n.a
Total	**2,456**	**1,525**				

Valuation techniques and range of unobservable inputs (Level 3)

2015	Assets	Liabilities	Valuation techniques	Significant unobservable inputs	Lower range	Upper range
At fair value through profit or loss						
Debt securities	72		Price based	Price (%)	1%	115%
			Net asset value	Price (%)	15%	33%
Loans and advances	356	7	Price based	Price (%)	0%	100%
			Present value techniques	Credit spread (bps)	130	135
Structured notes		198	Price based	Price (%)	0%	111%
			Net asset value	Price (%)	33%	33%
			Option pricing model	Equity volatility (%)	10%	109%
				Equity/Equity correlation	0.6	0.9
				Equity/FX correlation	-0.5	0.3
				Dividend yield (%)	1%	5%
				Interest rate volatility (%)	n.a	n.a
			Present value techniques	Implied correlation	0.7	0.9
Derivatives						
– Rates	480	602	Option pricing model	Interest rate volatility (bps)	21	93
				Interest rate correlation	0.9	0.9
				IR/INF correlation	0.5	0.5
			Present value techniques	Reset spread (%)	3%	3%
				Prepayment rate (%)	5%	5%
				Inflation rate (%)	2%	4%
– FX	412	359	Present value techniques	Inflation rate (%)	1%	3%
– Credit	42	50	Present value techniques	Credit spread (bps)	3	16,704
				Implied correlation	0.6	1.0
				Jump rate (%)	12%	12%
– Equity	289	222	Option pricing model	Equity volatility (%)	0%	136%
				Equity/Equity correlation	-0.1	1.0
				Equity/FX correlation	-1.0	1.0
				Dividend yield (%)	0%	13%
– Other	1		Option pricing model	Commodity volatility (%)	17%	82%
				Com/Com correlation	0.3	1.0
				Com/FX correlation	-0.8	0.6
Available for sale						
– Debt	63		Price based	Price (%)	0%	98%
			Present value techniques	Credit spread (bps)	204	400
				Weighted average life (yr)	1.6	3.3
– Equity	630		Discounted cash flow	Financial Statements	n.a	n.a
			Multiplier method	Observable market factors	n.a	n.a
			Comparable transactions		n.a	n.a
Total	**2,345**	**1,438**				

Non-listed equity investments
Level 3 equity securities mainly include corporate investments, fund investments, real estate positions, and other equity securities which are not traded in active markets. In the absence of an active market, fair values are estimated on the basis of the analysis of fund managers reports, company's financial position, future prospects, and other factors, considering valuations of similar positions or by the reference to acquisition cost of the position. For equity securities best market practice will be applied using the most relevant valuation method.

All non-listed equity investments, including investments in private equity funds, are subject to a standard review framework which ensures that valuations reflect fair values.

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

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

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

Correlation
Correlation is a measure of dependence between two underlying references which is relevant for valuing derivatives and other instruments which have more than one underlying reference. For example, correlation between underlying equity names may be a relevant input parameter for basket equity option pricing models. High positive correlation (close to 1) indicates strong positive (statistical) relationship between underlyings, implying they typically move in the same direction. High negative correlation, on the other hand, implies that underlyings typically move in opposite directions.

Interest rates
Prepayment rate and reset spread are key inputs to mortgage linked prepayment swaps valuation. Prepayment rate is the estimated rate at which mortgage borrowers will repay their mortgages early, e.g. 5% per year. Reset spread is the future spread at which mortgages will re-price at interest rate reset dates.

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

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

Sensitivity analysis of unobservable inputs (Level 3)
Where the fair value of a financial instrument is determined using inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument, the actual value of those inputs at the balance date may be drawn from a range of reasonably possible alternatives. In line with market practice the upper and lower bounds of the range of alternative input values reflect a 90% level of valuation certainty. The actual levels chosen for the unobservable inputs in preparing the financial statements are consistent with the valuation methodology used for fair valued financial instruments.

If ING had used input values from the upper and lower bound of this range of reasonable possible alternative input values when valuing these instruments as of 31 December 2016, then the impact would have been higher or lower as indicated below. The purpose of this disclosure is to present the possible impact of a change of unobservable inputs in the fair value of financial instruments where unobservable inputs are significant to the valuation.

As ING has chosen to apply a 90% confidence level already for its IFRS valuation of fair valued financial instruments as of end of 2014, the downward valuation uncertainty has become immaterial, whereas the potential upward valuation uncertainty, reflecting a potential profit, has increased. Specifically for the AFS Debt positions the upward valuation uncertainty decreased.

For more detail on the valuation of fair valued instruments, refer to the section 'Risk Management – Market risk', paragraph 'Fair values of financial assets and liabilities' in this document.

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

Because of the approach taken, the valuation uncertainty in the table below is broken down by related risk class rather than by product.

In reality some valuation inputs are interrelated and it would be unlikely that all unobservable inputs would ever be simultaneously at the limits of their respective ranges of reasonably possible alternatives. Therefore it can be assumed that the estimates in the table below show a greater fair value uncertainty than the realistic position at year end assuming normal circumstances/normal markets.

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

Sensitivity analysis of Level 3 instruments

2016	Positive fair value movements from using reasonable possible alternatives	Negative fair value movements from using reasonable possible alternatives
Fair value through profit or loss		
Equity (equity derivatives, structured notes)	262	
Interest rates (Rates derivatives, FX derivatives)	80	
Credit (Debt securities, Loans, structured notes, credit derivatives)	33	
Available-for-sale		
Equity	8	14
Debt	2	
	385	**14**

Sensitivity analysis of Level 3 instruments

2015	Positive fair value movements from using reasonable possible alternatives	Negative fair value movements from using reasonable possible alternatives
Fair value through profit or loss		
Equity (equity derivatives, structured notes)	246	
Interest rates (Rates derivatives, FX derivatives)	83	
Credit (Debt securities, Loans, structured notes, credit derivatives)	39	
Available-for-sale		
Equity	9	14
Debt	15	
	392	**14**

Other financial instruments

The fair values of the financial instruments carried at amortised cost in the statement of financial position, but for which fair values are disclosed are determined as follows:

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

2016	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to banks	3,534	11,135	14,271	28,940
Held-to-maturity investments	6,983	1,749	77	8,809
Loans and advances to customers	5,121	21,611	551,864	578,596
	15,638	**34,495**	**566,212**	**616,345**
Financial liabilities				
Deposits from banks[1]		14,447	8,096	22,543
Customer deposits[1]		5,876	58,872	64,748
Debt securities in issue	41,145	48,097	14,317	103,559
Subordinated loans	14,967	2,188	98	17,253
	56,112	**70,608**	**81,383**	**208,103**

1 Financial assets and liabilities that are on demand are excluded from the fair value hierarchy as their fair value approximates the carrying value.

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

2015	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to banks[1]	5,197	12,572	12,363	30,132
Held-to-maturity investments	5,739	1,951	165	7,855
Loans and advances to customers[1]	4,793	16,703	526,811	548,307
	15,729	**31,226**	**539,339**	**586,294**
Financial liabilities				
Deposits from banks[1,2]		15,984	8,038	24,022
Customer deposits[1,2]		23,439	55,947	79,386
Debt securities in issue	56,768	51,443	13,559	121,770
Subordinated loans	15,737	183	347	16,267
	72,505	**91,049**	**77,891**	**241,445**

1 Loans and advances to customers and Customer deposits, as at 31 December 2015, are adjusted as a result of a changes in accounting policies. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies and Changes in presentation in 2016.
2 Financial assets and liabilities that are on demand are excluded from the fair value hierarchy as their fair value approximates the carrying value, comparative figures have been restated.

b) Non-financial assets and liabilities

ING Group's non-financial assets comprise Investments in associates and joint ventures, Property in own use, and Investment properties as included in the Statement of financial position in the line items Investments in associates and joint ventures, Property and equipment, and Other assets respectively.

Investments in associates and joint ventures are accounted for using the equity method. For further information, reference is made to Note 7 'Investments in associates and joint ventures'.

Other non-financial assets are recognised at fair value at the balance sheet date. For the methods and assumptions used by ING Group to estimate the fair value of these non-financial assets, reference is made to Note 1 'Accounting policies', sections 'Property in own use' and 'Investment properties'.

As at 31 December 2016, the estimated fair value of Property in own use and Investment properties amounts to EUR 881.0 million (2015: 982 million) and EUR 65 million (2015: EUR 77 million) respectively and is categorised as Level 3 (2015: Level 3) of the fair value hierarchy on the basis of methods applied in determining the fair values.

Amounts recognised in the statement of profit or loss relating to unrealised gains and losses during the year that relate to Level 3 assets and liabilities are included in the statement of profit or loss as follows:

- Impairments on Property in own use are included in Other operating expenses - Intangible amortisation and (reversals) of impairments; and
- Changes in the fair value of Investment properties are included in Investment income.

Unrealised gains and losses on Property in own use are included in the Revaluation reserve – Property in own use reserve.

For amounts recognised in the Statement of profit or loss and other changes in non-financial assets during the year, reference is made to Note 8 'Property and equipment' and Note 10 'Other assets'.

As at 31 December 2016, ING Group has no non-financial liabilities (2015: none).

38 Derivatives and hedge accounting

Use of derivatives and hedge accounting

As described in the sections 'Risk management – Credit risk and Market risk', ING Group uses derivatives (principally interest rate swaps and cross currency interest rate swaps) for economic hedging purposes in the management of its asset and liability portfolios and structural positions. The objective of economic hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure. The objective of ING Group's hedging activities is to optimise the overall cost to the Group of accessing debt capital markets and to mitigate the market risk which would otherwise arise from structural imbalances in the duration and other profiles of its assets and liabilities. In addition, hedging activities are undertaken to hedge against the interest rate risk in the mortgage offer period in relation to retail mortgages and to lock in the interest margin in relation to interest bearing assets and the related funding.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS hedge accounting rules. Derivatives that qualify for hedge accounting under IFRS are classified and accounted for in accordance with the nature of the instrument hedged and the type of IFRS hedge model that is applicable. The three models applicable under IFRS are: fair value hedge accounting, cash flow hedge accounting, and net investment hedge accounting. These are described under the relevant headings below. The company's detailed accounting policies for these three hedge models are set out in Note 1 'Accounting policies' in the section 'Principles of valuation and determination of results'.

To qualify for hedge accounting under IFRS, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the statement of profit or loss. However, in certain cases, the Group mitigates the statement of profit or loss volatility by designating hedged assets and liabilities at fair value through profit or loss. If hedge accounting is applied under IFRS, it is possible that during the hedge a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the statement of profit or loss may be higher than would be expected from an economic point of view.

With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; however they do not represent amounts at risk. ING Group uses credit derivatives to manage its exposure to credit risk, including total return swaps and credit default swaps, to sell or buy protection for credit risk exposures in the loan, investment, and trading portfolios. Hedge accounting is not applied in relation to credit derivatives.

Fair value hedge accounting

ING Group's fair value hedges principally consist of interest rate swaps and cross-currency interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates.

Gains and losses on derivatives designated under fair value hedge accounting are recognised in the statement of profit or loss. The effective portion of the fair value change on the hedged item is also recognised in the statement of profit or loss. As a result, only the net accounting ineffectiveness has an impact on the net result.

Statement of profit or loss – Valuation results and net trading income

Fair value changes on derivatives designated under fair value hedge accounting	2016	2015
Change in fair value of derivatives	241	1,243
Change in fair value of assets and liabilities (hedged items)	–167	–1,229
Net accounting ineffectiveness recognised in the Statement of profit or loss	**74**	**14**

The fluctuation in balances between 2015 and 2016 relate to the volatility in interest rate movements.

Statement of financial position – Financial assets and liabilities at fair value through profit or loss

Fair values of outstanding derivatives designated under fair value hedge accounting	2016	2015
Positive fair values outstanding (Non-trading derivative assets)	1,012	1,010
Negative fair values outstanding (Non-trading derivative liabilities)	–1,888	–2,411
	–876	**–1,401**

ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU carve out of IFRS. The EU 'carve-out' for macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the EU carve-out, hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. ING Group applies the EU carve-out to its retail operations in which the net exposure of retail funding (savings and current accounts) and retail lending (mortgages) is hedged. The hedging activities are designated under a portfolio fair value hedge on the mortgages, using the IFRS provisions.

Cash flow hedge accounting

ING Group's cash flow hedges principally consist of (forward) interest rate swaps and cross-currency interest rate swaps that are used to protect against its exposure to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows for the respective portfolios form the basis for identifying the notional amount subject to interest rate risk that is designated under cash flow hedge accounting.

Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recognised in Shareholders' equity. Interest cash flows on these derivatives are recognised in the statement of profit or loss in net interest income consistent with the manner in which the forecast cash flows affect net result. The gains and losses on ineffective portions of such derivatives are recognised immediately in the statement of profit or loss.

Statement of changes in equity – Cash flow hedge reserve

Cash flow hedge reserve	2016	2015
Effective portion of fair value changes on derivatives under cash flow hedges, after tax	111	–65
Cash flow hedge reserve as at 31 December, gross	1,015	859
Cash flow hedge reserve as at 31 December, after deferred tax	777	666

This cash flow hedge reserve will fluctuate with the fair value changes of the underlying derivatives and will be reflected in the statement of profit or loss under Interest income/expense over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities, up to 28 years, with the largest concentrations in the range of 3 to 4 years.

Statement of financial position – Financial assets and liabilities at fair value through profit or loss

Fair values of outstanding derivatives designated under cash flow hedge accounting	2016	2015
Positive fair values outstanding (Non-trading derivative assets)	438	917
Negative fair values outstanding (Non-trading derivative liabilities)	–671	–1,167
	–233	**–250**

As at 31 December 2016, the fair value of outstanding non-derivatives designated as hedging instruments for cash flow hedge accounting purposes was EUR 0 million (2015: nil).

Statement of profit or loss – Net interest income

Net interest income on cash flow hedge derivatives	2016	2015
Interest income on cash flow hedge derivatives	2,654	2,876
Interest expense on cash flow hedge derivatives	–2,181	–2,475
	473	**401**

Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a loss of EUR 16 million (2015: EUR 31 million gain) which was recognised in the statement of profit or loss, in the line Valuation results and net trading income.

Hedges of net investments in foreign operations

ING Group's net investment hedges principally consist of derivatives (including currency forwards and swaps) and non-derivative financial instruments such as foreign currency denominated funding that are used to protect against foreign currency exposures on foreign subsidiaries.

Gains and losses on the effective portions of derivatives designated under net investment hedge accounting are recognised in Shareholders' equity. The balance in equity is recognised in the statement of profit or loss when the related foreign subsidiary is disposed. The gains and losses on ineffective portions are recognised immediately in the statement of profit or loss.

Statement of financial position – Financial assets and liabilities at fair value through profit or loss

Fair values of outstanding derivatives designated under net investment hedge accounting	2016	2015
Positive fair values outstanding (Non-trading derivative assets)	73	72
Negative fair values outstanding (Non-trading derivative liabilities)	–33	–52
	40	**20**

As at 31 December 2016, the fair value of outstanding non-derivatives designated under net investment hedge accounting was EUR 0 million (2015: EUR 1,288 million).

Accounting ineffectiveness recognised in the statement of profit or loss for the year ended 31 December 2016 on derivatives and non-derivatives designated under net investment hedge accounting was EUR 0 million (2015: nil).

39 Assets by contractual maturity

Amounts presented in these tables by contractual maturity are the amounts as presented in the statement of financial position and are discounted cash flows. Reference is made to the section 'Risk Management – Funding and liquidity risk'.

Assets by contractual maturity

2016	Less than 1 month[1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	18,144						18,144
Loans and advances to banks	14,638	4,373	5,414	3,779	654		28,858
Financial assets at fair value through profit or loss							
– trading assets	47,218	19,236	13,722	16,967	17,361		114,504
– non-trading derivatives	28	29	85	793	1,555		2,490
– designated as at fair value through profit or loss	326	1,440	1,996	769	568		5,099
Investments							
– available-for-sale	2,713	3,543	6,020	36,838	29,775	4,023	82,912
– held-to-maturity		166	2,374	3,360	2,851		8,751
Loans and advances to customers	56,151	17,187	42,515	162,805	285,002		563,660
Intangible assets			145	290		1,049	1,484
Other assets[2]	9,939	1,671	2,721	855	850		16,036
Remaining assets (for which maturities are not applicable)[3]						3,143	3,143
Total assets	**149,157**	**47,645**	**74,992**	**226,456**	**338,616**	**8,215**	**845,081**

1 Includes assets on demand.
2 Includes Other assets and Current and Deferred tax assets as presented in the Consolidated statement of financial position.
3 Included in remaining assets for which maturities are not applicable are property and equipment, and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Assets by contractual maturity

2015	Less than 1 month[1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	21,458						21,458
Loans and advances to banks	16,228	4,141	5,152	3,502	965		29,988
Financial assets at fair value through profit or loss							
– trading assets	53,181	19,042	17,244	19,845	22,155		131,467
– non-trading derivatives	7	63	253	787	2,237		3,347
– designated as at fair value through profit or loss	256	963	1,112	540	363		3,234
Investments							
– available-for-sale	1,187	1,532	7,622	37,648	34,577	4,434	87,000
– held-to-maturity	1	249	12	5,456	2,108		7,826
Loans and advances to customers[2]	219,782	14,457	37,665	153,002	275,901		700,807
Intangible assets			189	378		1,000	1,567
Other assets[3]	7,025	1,802	2,714	337	1,442		13,320
Assets held for sale[4]						2,153	2,153
Remaining assets (for which maturities are not applicable)[5]						3,066	3,066
Total assets	**319,125**	**42,249**	**71,963**	**221,495**	**339,748**	**10,653**	**1,005,233**

1 Includes assets on demand.
2 Loans and advances to customers, as at 31 December 2015, is adjusted as a result of a changes in accounting policies. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies and Changes in presentation in 2016.
3 Includes Other assets and Current and Deferred tax assets as presented in the Consolidated statement of financial position.
4 Assets held for sale consist of the assets of the disposal groups classified as held for sale as disclosed in Note 11 'Assets held for sale'. For these assets, the underlying contractual maturities are no longer relevant for ING. For businesses for which a binding sale agreement exists, all related assets held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets held for sale are included in Maturity not applicable.
5 Included in remaining assets for which maturities are not applicable are property and equipment, investment properties, and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

40 Liabilities by maturity

The tables below include all financial liabilities by maturity based on contractual, undiscounted cash flows. Furthermore, the undiscounted future coupon interest on financial liabilities payable is included in a separate line and in the relevant maturity bucket. Derivative liabilities are included on a net basis if cash flows are settled net. For other derivative liabilities the contractual gross cash flow payable is included.

Non-financial liabilities are included based on a breakdown of the amounts per the statement of financial position, by expected maturity. Reference is made to the liquidity risk paragraph in the section 'Risk Management – Funding and liquidity risk' for a description on how liquidity risk is managed.

Liabilities by maturity

2016	Less than 1 month[1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjust-ment[2]	Total
Deposits from banks	11,874	506	2,060	14,324	3,200			31,964
Customer deposits	476,373	16,521	20,698	6,720	2,617		13	522,942
Financial liabilities at fair value through profit or loss								
– other trading liabilities	26,101	12,334	1,096	1,910	1,908		525	43,874
– trading derivatives	3,172	3,153	7,495	13,785	11,602		86	39,293
– non-trading derivatives	378	192	700	1,844	1,478		–1,051	3,541
– designated at fair value through profit or loss	381	505	1,627	4,485	5,170		98	12,266
Debt securities in issue	3,171	14,965	22,350	44,089	20,522		–1,863	103,234
Subordinated loans		1,043	749	2,010	5,985	7,204	232	17,223
Financial liabilities	**521,450**	**49,219**	**56,775**	**89,167**	**52,482**	**7,204**	**–1,960**	**774,337**
Other liabilities[3]	10,403	1,943	4,428	2,201	1,370			20,345
Non-financial liabilities	**10,403**	**1,943**	**4,428**	**2,201**	**1,370**	**–**	**–**	**20,345**
Total liabilities	**531,853**	**51,162**	**61,203**	**91,368**	**53,852**	**7,204**	**–1,960**	**794,682**
Coupon interest due on financial liabilities	1,081	1,160	3,355	10,948	5,818			22,362

1 Includes liabilities on demand.
2 This column reconciles the contractual undiscounted cash flows on financial liabilities to the statement of financial position values. The adjustments mainly relate to the impact of discounting, and for derivatives, to the fact the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
3 Includes Other liabilities, Current and deferred tax liabilities, and Provisions as presented in the Consolidated statement of financial position.

Liabilities by maturity

2015	Less than 1 month[1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjust-ment[2]	Total
Deposits from banks[3]	14,840	1,094	2,370	11,021	4,488			33,813
Customer deposits[3]	607,885	23,375	21,600	8,892	2,462		27	664,241
Financial liabilities at fair value through profit or loss								
– other trading liabilities	35,168	6,806	800	1,645	2,703		782	47,904
– trading derivatives	2,471	2,580	7,983	16,314	17,232		–5,677	40,903
– non-trading derivatives	431	129	808	2,151	134		604	4,257
– designated as at fair value through profit or loss	207	452	1,374	4,835	6,089		–341	12,616
Debt securities in issue	8,772	25,308	17,133	44,228	22,927		2,921	121,289
Subordinated loans			338	117	8,602	6,927	427	16,411
Financial liabilities	**669,774**	**59,744**	**52,406**	**89,203**	**64,637**	**6,927**	**–1,257**	**941,434**
Other liabilities[3,4]	6,815	2,030	4,591	730	1,163			15,329
Non-financial liabilities	**6,815**	**2,030**	**4,591**	**730**	**1,163**	**–**	**–**	**15,329**
Total liabilities	**676,589**	**61,774**	**56,997**	**89,933**	**65,800**	**6,927**	**–1,257**	**956,763**
Coupon interest due on financial liabilities	3,033	1,482	4,595	13,892	8,798			31,800

1 Includes liabilities on demand.
2 This column reconciles the contractual undiscounted cash flows on financial liabilities to the statement of financial position values. The adjustments mainly relate to the impact of discounting, and for derivatives, to the fact the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
3 Customer deposits, as at 31 December 2015, is adjusted as a result of a changes in accounting policies. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies and Changes in presentation in 2016.
4 Includes Other liabilities, Current and deferred tax liabilities and Provisions as presented in the Consolidated statement of financial position.

41 Assets not freely disposable

The assets not freely disposable consist primarily of Loans and advances to customers pledged to secure Debt securities in issue, deposits from De Nederlandsche Bank (the Dutch Central Bank) and other banks and serve to secure margin accounts and are used for other purposes required by law. The assets not freely disposable are as follows:

Assets not freely disposable

	2016	2015[1]
Banks		
– Cash and balances with central banks	1,353	1,899
– Loans and advances to banks	6,054	7,806
Financial assets at fair value through profit or loss	447	550
Investments	825	726
Loans and advances to customers	70,457	74,506
Other assets	935	675
	80,071	**86,162**

1 Excludes assets classified as held for sale.

In some jurisdictions ING Bank N.V. has an obligation to maintain a reserve with central banks. As at 31 December 2016, the minimum mandatory reserve deposits with various central banks amount to EUR 9,055 million (2015: EUR 8,929 million).

Loans and advances to customers that have been pledged as collateral for Debt securities in issue and for liquidity purposes, amount in the Netherlands to EUR 49 billion (2015: EUR 53 billion), in Germany to EUR 12 billion (2015: EUR 13 billion), in Belgium EUR 5 billion (2015: EUR 5 billion), in Australia to EUR 2 billion (2015: EUR 3 billion) and in the United States to EUR 1 billion (2015: nil).

The table does not include assets relating to securities lending as well as sale and repurchase transactions. Reference is made to Note 42 'Transfer of financial assets'.

42 Transfer of financial assets

The majority of ING's financial assets that have been transferred, but do not qualify for derecognition are debt instruments used in securities lending or sale and repurchase transactions. Reference is made to Note 48 'Structured entities'.

Transfer of financial assets not qualifying for derecognition

	Securities lending		Sale and repurchase	
2016	Equity	Debt	Equity	Debt
Transferred assets at carrying amount				
Financial assets at fair value through profit or loss	1,428		4,106	8,965
Investments	2			1,427
Loans and advances to customers				25
Associated liabilities at carrying amount				
Deposits from banks	n.a	n.a		
Customer deposits	n.a	n.a		
Financial liabilities at fair value through profit or loss	1,443		4,635	4,280

Transfer of financial assets not qualifying for derecognition

	Securities lending		Sale and repurchase	
2015	Equity	Debt	Equity	Debt
Transferred assets at carrying amount				
Loans and advances to banks				18
Financial assets at fair value through profit or loss			4,339	7,892
Investments				2,502
Associated liabilities at carrying amount				
Deposits from banks	n.a	n.a		
Customer deposits	n.a	n.a		
Financial liabilities at fair value through profit or loss			4,384	3,966

The tables above include the associated liabilities which are reported after offsetting, compared to the gross positions of the encumbered assets.

Included in the tables above, are the carrying amounts of transferred assets under repurchase agreements, and securities lending that do not qualify for derecognition.

The tables above do not include assets transferred to consolidated securitisation entities as the related assets remain recognised in the consolidated statement of financial position.

43 Offsetting financial assets and liabilities

The following tables include information about rights to offset and the related arrangements. The amounts included consist of all recognised financial instruments that are presented net in the statement of financial position under the IFRS offsetting requirements (legal right to offset and intention to net settle) and amounts presented gross in the statement of financial position but subject to enforceable master netting arrangements or similar arrangement.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

					Related amounts not offset in the statement of financial position		
2016		Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash and financial instruments received as collateral	Net amount
Statement of financial position line item	**Financial instrument**						
Loans and advances to banks	Reverse repurchase, securities borrowing and similar agreements	173	–95	78		78	
	Other	3	–3				
		176	**–98**	**78**	**–**	**78**	**–**
Financial assets at fair value through profit or loss							
Trading assets	Derivatives	28,511	–913	27,598	25,532	147	1,919
	Reverse repurchase, securities borrowing and similar agreements	61,245	–19,413	41,832	36	41,555	241
		89,756	**–20,326**	**69,430**	**25,568**	**41,702**	**2,160**
Non-trading derivatives	Derivatives	57,384	–55,687	1,697	1,499	–5	203
		57,384	**–55,687**	**1,697**	**1,499**	**–5**	**203**
Loans and advances to customers	Other	191,453	–186,963	4,490		387	4,103
		191,453	**–186,963**	**4,490**	**–**	**387**	**4,103**
Other items where offsetting is applied in the statement of financial position		6,326	–5,846	480	15		465
Impact of enforceable master netting arrangements or similar arrangements[1]	Derivatives				–7,300	4,743	2,557
		–	**–**	**–**	**–7,300**	**4,743**	**2,557**
Total financial assets		**345,095**	**–268,920**	**76,175**	**19,782**	**46,905**	**9,488**

1 The line 'Impact of enforceable master netting agreements or similar arrangements' contains derivative positions under the same master netting arrangements being presented in different statement of financial position line items.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

2015		Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash and financial instruments received as collateral	Net amount
Statement of financial position line item	**Financial instrument**						
Loans and advances to banks	Reverse repurchase, securities borrowing and similar agreements	151		151		151	
	Other	3	–3				
		154	**–3**	**151**	**–**	**151**	**–**
Financial assets at fair value through profit or loss							
Trading assets	Derivatives	28,362	–815	27,547	25,204	104	2,239
	Reverse repurchase, securities borrowing and similar agreements	65,854	–22,569	43,285	242	42,597	446
		94,216	**–23,384**	**70,832**	**25,446**	**42,701**	**2,685**
Non-trading derivatives	Derivatives	70,226	–67,843	2,383	2,138	–3	248
		70,226	**–67,843**	**2,383**	**2,138**	**–3**	**248**
Loans and advances to customers[1]	Reverse repurchase, securities borrowing and similar agreements	74		74	74		
	Other	172,530	–2,873	169,657	163,464	397	5,796
		172,604	**–2,873**	**169,731**	**163,538**	**397**	**5,796**
Other items where offsetting is applied in the statement of financial position		3,576	–3,477	99	4		95
Impact of enforceable master netting arrangements or similar arrangements[2]	Derivatives				–7,104	3,791	3,313
		–	**–**	**–**	**–7,104**	**3,791**	**3,313**
Total financial assets		**340,776**	**–97,580**	**243,196**	**184,022**	**47,037**	**12,137**

1 Loans and advances to customers, as at 31 December 2015, is adjusted as a result of a change in accounting policies. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies in 2016.

2 The line 'Impact of enforceable master netting agreements or similar arrangements' contains derivative positions under the same master netting arrangements being presented in different statement of financial position line items.

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2016		Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash and financial instruments pledged as collateral	Net amount
Statement of financial position line item	**Financial instrument**						
Deposits from banks	Repurchase, securities lending and similar agreements	102	–95	7			7
	Other	23	–3	20			20
		125	**–98**	**27**	**–**	**–**	**27**
Customer deposits	Repurchase, securities lending and similar agreements	36		36	36		
	Corporate deposits	11,773	–8,595	3,178			3,178
	Other	189,496	–178,368	11,128			11,128
		201,305	**–186,963**	**14,342**	**36**	**–**	**14,306**
Financial liabilities at fair value through profit or loss							
Trading liabilities	Derivatives	30,102	–997	29,105	27,852	146	1,107
	Repurchase, securities lending and similar agreements	46,695	–19,415	27,280	36	27,102	142
		76,797	**–20,412**	**56,385**	**27,888**	**27,248**	**1,249**
Non-trading derivatives	Derivatives	59,510	–56,975	2,535	2,343	–153	345
Other items where offsetting is applied in the statement of financial position		5,041	–4,472	569	28		541
Impact of enforceable master netting arrangements or similar arrangements[1]	Derivatives				–10,513	8,047	2,466
		–	**–**	**–**	**–10,513**	**8,047**	**2,466**
Total financial liabilities		**342,778**	**–268,920**	**73,858**	**19,782**	**35,142**	**18,934**

1 The line 'Impact of enforceable master netting agreements or similar arrangements' contains derivative positions under the same master netting arrangements being presented in different statement of financial position line items.

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2015		Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash and financial instruments pledged as collateral	Net amount
Statement of financial position line item	**Financial instrument**						
Deposits from banks	Repurchase, securities lending and similar agreements	678		678		677	1
	Other	3	–3				
		681	**–3**	**678**	**–**	**677**	**1**
Customer deposits [1]	Repurchase, securities lending and similar agreements	301		301	74	227	
	Corporate deposits	14,761	–10,486	4,275			4,275
	Other	166,768	7,613	174,381	163,464		10,917
		181,830	**–2,873**	**178,957**	**163,538**	**227**	**15,192**
Financial liabilities at fair value through profit or loss							
Trading liabilities	Derivatives	31,317	–930	30,387	30,153	104	130
	Repurchase, securities lending and similar agreements	53,508	–22,569	30,939	242	30,570	127
		84,825	**–23,499**	**61,326**	**30,395**	**30,674**	**257**
Non-trading derivatives	Derivatives	72,562	–69,031	3,531	3,307	–236	460
Other items where offsetting is applied in the statement of financial position		2,201	–2,174	27	25		2
Impact of enforceable master netting arrangements or similar arrangements[2]	Derivatives				–13,231	7,457	5,774
	Other				–12		12
		–	**–**	**–**	**–13,243**	**7,457**	**5,786**
Total financial liabilities		**342,099**	**–97,580**	**244,519**	**184,022**	**38,799**	**21,698**

1 Customer deposits, as at 31 December 2015, is adjusted as a result of a change in accounting policies. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies in 2016.
2 The line 'Impact of enforceable master netting agreements or similar arrangements' contains derivative positions under the same master netting arrangements being presented in different statement of financial position line items.

44 Contingent liabilities and commitments

In the normal course of business, ING Group is party to activities where risks are not reflected in whole or in part in the consolidated financial statements. In response to the needs of its customers, the Group offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Contingent liabilities and commitments

2016	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Contingent liabilities in respect of							
– discounted bills			1				1
– guarantees	18,536	677	965	1,167	3,526		24,871
– irrevocable letters of credit	6,583	5,973	824	154	12		13,546
– other	39				309		348
	25,158	**6,650**	**1,790**	**1,321**	**3,847**	**–**	**38,766**
Guarantees issued by ING Groep N.V.					404		404
Irrevocable facilities	59,214	2,587	4,832	22,606	9,315		98,554
	84,372	**9,237**	**6,622**	**23,927**	**13,566**	**–**	**137,724**

Contingent liabilities and commitments

2015[1]	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Contingent liabilities in respect of							
– guarantees	16,813	494	465	1,121	3,736		22,629
– irrevocable letters of credit	7,447	2,065	1,393	251	6		11,162
– other	244						244
	24,504	**2,559**	**1,858**	**1,372**	**3,742**	**–**	**34,035**
Guarantees issued by ING Groep N.V.					436		436
Irrevocable facilities	49,133	1,458	6,407	36,255	5,125		98,378
	73,637	**4,017**	**8,265**	**37,627**	**9,303**	**–**	**132,849**

1 Excludes commitments and contingent liabilities related to assets classified as held for sale, being NN Group.

Guarantees relate both to credit and non-credit substitute guarantees. Credit substitute guarantees are guarantees given by ING Group in respect of credit granted to customers by a third party. Many of them are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows. In addition to the items included in contingent liabilities, ING Group has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes which apply in different countries.

Irrevocable letters of credit mainly secure payments to third parties for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. ING Group's credit risk in these transactions is limited since these transactions are collateralised by the commodity shipped and are of a short duration.

Other contingent liabilities include acceptances of bills and are of a short-term nature. Other contingent liabilities also include contingent liabilities resulting from the operations of the Real Estate business including obligations under development and construction contracts. Furthermore other contingent liabilities include a contingent liability in connection with a possible Dutch tax obligation that relates to the deduction from Dutch taxable profit of losses incurred by ING Bank in the United Kingdom in previous years. The existence of this obligation will be confirmed only by the occurrence of future profits in the United Kingdom.

Reference is made to Parent company annual accounts – Notes to the parent company annual accounts, Note 13 'Other' for further information on Guarantees issued by ING Groep N.V.

Irrevocable facilities mainly constitute unused portions of irrevocable credit facilities granted to corporate clients. Many of these facilities are for a fixed duration and bear interest at a floating rate. ING Group's credit risk and interest rate risk in these transactions is limited. The unused portion of irrevocable credit facilities is partly secured by customers' assets or counter-guarantees by the central governments and exempted bodies under the regulatory requirements. Irrevocable facilities also include commitments made to purchase securities to be issued by governments and private issuers.

Furthermore, ING Group leases assets from third parties under operating leases as lessee. The future rental commitments to be paid under non-cancellable operating leases are as follows:

Future rental commitments for operating lease contracts

	2016	2015[1]
2016		310
2017	307	160
2018	179	143
2019	151	122
2020	129	109
Years after 2020	476	404

1 Excludes future rental commitments related to businesses classified as held for sale.

45 Legal proceedings

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

Because of the geographic spread of its business, ING may be subject to tax audits, investigations and procedures in numerous jurisdictions at any point in time. Although ING believes that it has adequately provided for all its tax positions, the ultimate resolution of these audits, investigations and procedures may result in liabilities which are different from the amounts recognised. ING has also recently identified issues in connection with its US tax information reporting and withholding obligations in respect of prior periods. A review of such issues is ongoing, and at this time it is not possible to estimate any financial or other consequences thereof.

Proceedings in which ING is involved include complaints and lawsuits concerning the performance of certain interest sensitive products that were sold by a former subsidiary of ING in Mexico. Further, a complaint has been filed against ING Bank in January 2015 in the New York District Court by Alfredo and Gustavo Villoldo and the executor of their father's estate (Villoldo). Villoldo holds two judgments against the Cuban government and other Cuban entities in the aggregate amount of USD 2.9 billion. Those judgments remain outstanding and uncollected. The complaint against ING Bank alleges that if ING Bank had complied with the applicable US sanction laws, Cuban assets would have been frozen by OFAC and available for execution and seizure by Villoldo. The complaint alleges that the acts set out in ING's settlement with OFAC in 2012 constitute wire fraud, money laundering, and fraudulent transfer and that Villoldo is therefore entitled to actual damages in the amount to be believed no less than USD 1.654 billion and treble damages of not less than USD 4.962 billion. In July 2015 the New York District Court dismissed all claims with prejudice. The Court of Appeals affirmed this judgment in April 2016. This judgement is now final.

In July 2016, investors in derivatives tied to the Singapore Interbank Offer Rate (SIBOR) filed a U.S. class action complaint in the New York District Court alleging that several banks, including ING, conspired to rig the prices of derivatives tied to SIBOR and the Singapore Swap Offer Rate (SOR). The lawsuit refers to investigations by the Monetary Authority of Singapore (MAS) and other regulators, including the U.S. Commodity Futures Trading Commission (CFTC), in relation to rigging prices of SIBOR and SOR-based derivatives. Currently, it is not possible to provide an estimate of the (potential) financial effect of this claim.

ING Bank Turkey has received various claims from (former) customers of legal predecessors of ING Bank Turkey. The claims are based on offshore accounts held with these banks, which banks were seized by the Savings Deposit Insurance Fund (SDIF) prior to the acquisition of ING Bank Turkey in 2007 from Oyak. SDIF has also filed various lawsuits against ING Bank Turkey to claim compensation from ING Bank Turkey, with respect to amounts paid out to offshore account holders so far. ING Bank N.V. has initiated an arbitration procedure against OYAK in which ING Bank seeks to be held harmless for these claims. At this moment it is not possible to assess the outcome of these procedures nor to provide an estimate of the (potential) financial effect of these claims.

In January 2011, the Dutch Association of Stockholders (*Vereniging van Effectenbezitters*, 'VEB') issued a writ alleging that investors were misled by the prospectus that was issued with respect to the September 2007 rights issue of Fortis N.V. (now Ageas N.V.) against Ageas N.V., the underwriters of such rights issue, including ING Bank N.V., and former directors of Fortis N.V. According to the VEB the prospectus shows substantive incorrect and misleading information. The VEB stated that the impact and the risks of the sub-prime crisis for Fortis and Fortis' liquidity position were reflected incorrectly in the prospectus. The VEB requested a declaratory decision stating that the summoned parties acted wrongfully and are therefore responsible for the damages suffered by the investors in Fortis. In March 2016, Ageas, VEB and certain other claimants announced that the claim in relation to Fortis has been settled. Ageas has agreed to pay €1.2 billion to investors as compensation, provided that the Amsterdam Court of Appeal declares the settlement to be binding. According to the settlement documentation, as filed by Ageas with the Court of Appeal in May 2016, the settlement agreement contains a third-party clause by which the banks will also be released from the claims made by VEB and certain other claimants, if the settlement becomes unconditional.

A number of retired employees of ING Belgium have initiated legal proceedings against ASCEL (a non-profit organisation established by ING Belgium that provided medical insurance coverage to current and retired employees till the beginning of 2015 via a subdivision of ASCEL: FMC) and ING Belgium following the decision to externalise this medical insurance coverage which resulted in an increase of premium. Following a summary proceedings in which the initial claim of the retired employees was rejected, proceedings at the Court of first instance have been initiated aiming to either uphold the former insurance coverage or reimburse the increase of premium. In a decision of September 2016, the Court has considered that FMC has validly been closed but that, as the medical coverage qualifies as an insurance contract not linked with the professional activity of the claimants, ING could not unilaterally terminate the agreement between FMC and the pensioners. The Court has yet to determine the amount of damages. The Court decision is subject to appeal. A provision has been taken.

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

As requested by the AFM, ING has reviewed a significant part of the files of clients who bought interest rate derivatives. In December 2015, the AFM concluded that Dutch banks had to re-assess certain client files, potentially including derivative contracts that were terminated prior to April 2014 or other client files. As advised by the AFM, the Minister of Finance appointed a Committee of independent experts (the Committee) which has established a uniform recovery framework for Dutch SME clients with interest rate derivatives. ING has adopted this recovery framework and will reassess individual files against this framework. ING has taken an additional provision for the financial consequences of the recovery framework.

ING Bank is the subject of criminal investigations by Dutch authorities regarding various requirements related to the on-boarding of clients, money laundering, and corrupt practices. ING Groep has also received related information requests from U.S. authorities. ING Groep and ING Bank are cooperating with such ongoing investigations and requests. It is currently not feasible to determine how the ongoing investigations and requests may be resolved or the timing of any such resolution, nor to estimate reliably the possible timing, scope or amounts of any resulting fines, penalties and/or other outcome, which could be significant.

46 Consolidated companies and business acquired and divested

Acquisitions

There were no significant acquisitions in 2016, 2015 and 2014.

Divestments effective in 2016

There were no significant divestments, of consolidated companies, in 2016.

Other

For information on transactions related to ING Group's shareholding in NN Group, reference is made to Note 11 'Assets held for sale', Note 28 'Discontinued operations', Note 49 'Related parties' and Note 51 'Other events'.

Divestments effective in 2015

NN Group

A number of divestment transactions resulted in a further decrease in the ownership of ING Group in NN Group to 25.75% from 68.14% at 31 December 2014. NN Group was deconsolidated and accounted for as an Investment in associate held for sale. Reference is made to Note 28 'Discontinued operations and Note 51 'Other events'.

Other

For details on the transactions in 2015 with regard to ING's interest in ING Vysya, reference is made to Note 7 'Investments in associates and joint ventures', Note 49 'Related parties'.

Divestments effective in 2014

Asia - ING's Taiwanese investment management business

In January 2014, ING agreed to sell ING Investment Management (IM) Taiwan, its Taiwanese asset management business, to Japan-based Nomura Asset Management in partnership with a group of investors. The transaction did not have a significant impact on ING Group results. The transaction closed on 18 April 2014.

Asia - Joint venture ING-BOB Life

In July 2013, the 50% interest in the Chinese insurance joint venture ING-BOB Life Insurance Company was agreed to be sold to BNP Paribas Cardif, the insurance arm of BNP Paribas. The transaction closed on 30 December 2014 and did not have a significant impact on the NN Group or ING Group results.

Voya

In 2014, ING Group reduced its' stake in Voya from 56.5% at 31 December 2013 to 18.9% at 31 December 2014 through a number of transactions during the year. Voya was deconsolidated at the end of March 2014 and was accounted for as an available-for-sale investment held for sale as at 31 December 2014. Reference is made to Note 51 'Other events'.

NN Group

Following the IPO of NN Group in July 2014, ING Group's stake reduced to 68.14% . As from 30 September 2014, NN Group was presented as Assets and liabilities held for sale and discontinued operations. Reference is made to Note 51 'Other events'.

In addition to the above mentioned transactions, the interest in the joint venture ING Financial Services Private Limited was sold to Hathaway investments.

Most significant companies divested in 2015 and 2014[1]

	2015	2014
	NN Group	Voya
General		
Primary line of business	Insurance	Insurance
Sales proceeds		
Cash proceeds[2]	1,148	950
Investment retained in NN Group and Voya respectively[3]	3,612	2,914
Sales proceeds	**4,760**	**3,864**
Assets		
Cash and cash equivalents	9,238	1,901
Financial assets at fair value through profit or loss	46,425	79,339
Available-for-sale investments	76,529	54,250
Loans and advances to customers	28,713	8,245
Reinsurance contracts	266	4,359
Intangible assets	177	727
Deferred acquisition costs	1,509	4,211
Miscellaneous other assets	6,204	2,667
Liabilities		
Insurance and investment contracts	121,721	135,971
Financial liabilities at fair value through profit or loss	2,105	2,280
Miscellaneous other liabilities	24,159	7,288
Net assets	**21,076**	**10,160**
% disposed[3]	54.8%	56.5%
Net assets disposed	**11,543**	**5,740**
Loss on disposal[4,5]	–1,224	–2,005

1 This table includes the disposal transactions that resulted in the loss of control of NN Group and Voya which took place in May 2015 and March 2014 respectively. Reference is made to Note 51 ‘Other events’ for the earlier and subsequent transactions related to NN Group and Voya.
2 Cash outflow/inflow on group companies in the cash flow statement included, in addition to the cash amounts in this table, also cash outflows/inflows on individually insignificant disposals.
3 IFRS required the derecognition of the subsidiary and the recognition of the respective retained investments in NN Group of 42.43% and Voya of 43.2% at the fair value on the date of disposal.
4 The loss on disposal only reflects the impact on the statement of profit or loss of the transaction that resulted in derecognition of the company and includes the sales proceeds, the net assets disposed, the expenses directly related to the disposal and the realisation of unrealised reserves.
5 The portion of the loss attributable to measuring the retained investment in NN Group and Voya at its fair value amounted to EUR –5,412 million and EUR –1,467 million respectively.

47 Principal subsidiaries, investments in associates and joint ventures

For the majority of ING’s principal subsidiaries, ING Bank N.V. has control because it either directly or indirectly owns more than half of the voting power. For subsidiaries in which the interest held is below 50%, control exists based on the combination of ING’s financial interest and its rights from other contractual arrangements which result in control over the operating and financial policies of the entity.

For each of the subsidiaries listed, the voting rights held equal the proportion of ownership interest and consolidation by ING is based on the majority of ownership.

For the principal investments in associates ING Group has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also is the ability to participate in the financial and operating policies through situations including, but not limited to one or more of the following:

- Representation on the board of directors;
- Participation in the policymaking process; and
- Interchange of managerial personnel.

The principal subsidiaries, investments in associates and joint ventures of ING Groep N.V. and their statutory place of incorporation or primary place of business are as follows:

Principal subsidiaries, investments in associates and joint ventures

			Proportion of ownership and interest held by the Group	
			2016	2015
Subsidiary	**Statutory place of Incorporation**	**Country of operation**		
ING Bank N.V.	Amsterdam	The Netherlands	100%	100%
Bank Mendes Gans N.V.	Amsterdam	The Netherlands	100%	100%
ING Lease (Nederland) B.V.	Amsterdam	The Netherlands	100%	100%
ING Corporate Investments B.V.	Amsterdam	The Netherlands	100%	100%
ING België N.V.	Brussels	Belgium	100%	100%
ING Luxembourg S.A.	Luxembourg City	Luxembourg	100%	100%
ING-DiBa AG	Frankfurt am Main	Germany	100%	100%
ING Bank Slaski S.A.	Katowice	Poland	75%	75%
ING Financial Holdings Corporation	Delaware	United States of America	100%	100%
ING Bank A.S.	Istanbul	Turkey	100%	100%
ING Bank (Australia) Ltd	Sydney	Australia	100%	100%
ING Bank (Eurasia) Joint stock company	Moscow	Russia	100%	100%
Investments in associates				
TMB Public Company Limited	Bangkok	Thailand	30%	30%

48 Structured entities

ING Group's activities involve transactions with various structured entities (SE) in the normal course of its business. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. ING Group's involvement in these entities varies and includes both debt financing and equity financing of these entities as well as other relationships. Based on its accounting policies, as disclosed in the section Principles of valuation and determination of results of these financial statements, ING establishes whether these involvements result in no significant influence, significant influence, joint control or control over the structured entity.

The structured entities over which ING can exercise control are consolidated. ING may provide support to these consolidated structured entities as and when appropriate. However, this is fully reflected in the consolidated financial statements of ING Group as all assets and liabilities of these entities are included and off-balance sheet commitments are disclosed.

ING's activities involving structured entities are explained below in the following categories:

1. Consolidated ING originated Liquidity management securitisation programmes (Lions);
2. Consolidated ING originated Covered bond programme (CBC);
3. Consolidated ING sponsored Securitisation programme (Mont Blanc);
4. Unconsolidated Securitisation programme; and
5. Other structured entities.

1. Consolidated ING originated Liquidity management securitisation programmes (Lions)
ING Group enters into liquidity management securitisation programmes in order to obtain funding and improve liquidity. Within the programme ING Group sells ING originated assets to a structured entity. The underlying exposures include residential mortgages in the Netherlands, Germany, Belgium, Spain, Italy, and Australia.

The structured entity issues securitised notes (traditional securitisations) which are eligible collateral for central bank liquidity purposes. In most programmes ING Group acts as investor of the securitised notes. ING Group continues to consolidate these structured entities if it is deemed to control the entities.

The structured entity issues securitisation notes in two tranches, one subordinated tranche and one senior tranche, rated AAA by a rating agency. The AAA tranche can subsequently be used by ING Group as collateral in the money market for secured borrowings.

ING Bank originated various securitisations with, at 31 December 2016, approximately EUR 77.0 billion (2015: EUR 78.5 billion) of AAA rated notes and subordinated notes, of which approximately EUR 7.2 billion (2015: EUR 7.4 billion) are held by third parties. The underlying exposures are residential mortgages and SME loans. Apart from the third party funding, these securitisations did not impact ING Bank's consolidated statement of financial position and profit or loss.

In 2016, there are no non-controlling interests as part of the securitisation structured entities that are significant to ING Group. ING Group for the majority of the securitisation vehicles provides the funding for the entity except for EUR 7.2 billion (2015: EUR 7.4 billion) which are funded by third parties.

2. Consolidated ING originated Covered bond programme (CBC)
ING Group has entered into a covered bond programme. Under the covered bond programme ING issues bonds. The payment of interest and principal is guaranteed by an ING administered structured entity, Covered Bond Company B.V. (CBC). In order for CBC to fulfil its guarantee, ING legally transfers mainly Dutch mortgage loans originated by ING to CBC. Furthermore ING offers CBC protection against deterioration of the mortgage loans. CBC is consolidated by ING Group.

Covered bond programme

	Fair value pledged mortgage loans		Cash balance structured entity	
	2016	2015	2016	2015
ING Covered Bond Company B.V. ('CBC')	43,931	43,684	39	754
	43,931	**43,684**	**39**	**754**

In general, the third-party investors in securities issued by the structured entity have recourse only to the assets of the entity and not to the assets of ING Group.

3. Consolidated ING sponsored Securitisation programme (Mont Blanc)
In the normal course of business, ING Group structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling (also referred to as factoring) the clients' receivables or other financial assets to an ING sponsored SPE.

The transactions are funded by the ING Group administered multi seller Asset Backed Commercial Paper (ABCP) conduit Mont Blanc Capital Corporation (Mont Blanc), which funds itself in the ABCP market. Mont Blanc does not have non-controlling interests that are significant to ING Group. ING Group facilitates these transactions by providing structuring, accounting, funding and operations services.

The types of assets currently in Mont Blanc include trade receivables, consumer finance receivables, credit card receivables, motor vehicle loans, and residential mortgage backed securities (RMBS).

ING Group supports the commercial paper programmes by providing the SPE with short-term liquidity facilities. These liquidity facilities primarily cover temporary disruptions in the commercial paper market. Once drawn these facilities bear normal credit risk. A number of programmes are supported by granting structured liquidity facilities to the SPE, in which ING Group covers at least some of the credit risk incorporated in these programmes itself (in addition to normal liquidity facilities), and might suffer credit losses as a consequence. Furthermore, under a Programme Wide Credit Enhancement ING Group guarantees to a limited amount all remaining losses incorporated in the SPE to the commercial paper investors.

The liquidity facilities, including programme wide enhancements, provided to Mont Blanc are EUR 812.0 million (2015: EUR 1,072 million). The drawn liquidity amount is EUR 0.0 million as at 31 December 2016 (2015: EUR 276 million).

The normal non-structured standby liquidity facilities and the structured facilities are reported under irrevocable facilities. All facilities, which vary in risk profile, are granted to the SPE subject to normal ING Group credit and liquidity risk analysis procedures. The fees received for services provided and for facilities are charged subject to market conditions.

4. Unconsolidated Securitisation programme

In 2013 ING transferred financial assets (mortgages loans) for an amount of approximately EUR 2 billion to a newly established special purpose entity (SPE). The transaction resulted in full derecognition of the financial assets from ING's statement of financial position. The derecognition did not have a significant impact on net result. Following this transfer ING continues to have two types of on-going involvement in the transferred assets: as counterparty to the SPE of a non-standard interest rate swap and as servicer of the transferred assets. ING has an option to unwind the transaction by redeeming all notes at their principal outstanding amount, in the unlikely event of changes in accounting and/or regulatory requirements that significantly impact the transaction. The fair value of the swap as at 31 December 2016 amounted to EUR –4.6 million (2015: EUR 1.3 million); fair value changes on this swap recognised in the statement of profit or loss in 2016 were EUR –5.9 million (2015: EUR –32.4 million). Fee income recognised in the statement of profit or loss in 2016 amounted to EUR 0.0 million (2015: nil).

5. Other structured entities

In the normal course of business, ING Group enters into transactions with structured entities as counterparty. Predominantly in its structured finance operations, ING can be instrumental in facilitating the creation of these structured entity counterparties. These entities are generally not included in the consolidated financial statements of ING Group, as ING facilitates these transactions as administrative agent by providing structuring, accounting, funding, lending, and operation services.

ING Bank offers various investment fund products to its clients. ING Bank does not invest in these investment funds for its own account nor acts as the fund manager.

49 Related parties

In the normal course of business, ING Group enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of ING Group include, among others, its subsidiaries, associates, joint ventures, key management personnel, and various defined benefit and contribution plans. Transactions between related parties include rendering or receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

Subsidiaries

Transactions with ING Group's main subsidiaries

	ING Bank N.V.		NN Group N.V.	
	2016	2015	2016	2015[1]
Assets	14,903	15,608		
Liabilities	70	286		
Income received	384	297		28
Expenses paid				8

1 Transactions with NN Group until deconsolidation at the end of May 2015.

Transactions between ING Groep N.V. and its subsidiaries are eliminated on consolidation. Reference is made to Note 47 'Principal subsidiaries' for a list of principal subsidiaries and their statutory place of incorporation.

In 2015, a number of divestment transactions reduced ING Group's interest in NN Group, resulting in ING Group losing control over NN Group. NN Group was deconsolidated at the end of May 2015 and accounted for as an Investment in associate held for sale. For further information on transactions with NN Group, reference is made to Associates and joint ventures below and Note 51 'Other events'.

Assets from ING Bank N.V. mainly comprise long-term funding. Liabilities to ING Bank N.V. mainly comprise short-term deposits.

Associates and joint ventures

Transactions with ING Group's main associates and joint ventures

	Associates		Joint ventures	
	2016[1]	2015[2]	2016	2015
Assets	27	2,629	12	5
Liabilities	16	616	59	
Off-balance sheet commitments	34	66	2	
Income received	9	–199		
Expenses paid	1			

1 Includes transactions with NN Group until we lost significant influence in January 2016.
2 Includes transactions with ING Vysya until the merger with Kotak Mahindra Bank ('Kotak') in April 2015 and transactions with NN Group after deconsolidation at the end of May 2015.

Assets, liabilities, commitments, and income related to Associates and joint ventures result from transactions which are executed as part of the normal Banking business.

In January 2016, ING Group sold shares in NN Group and lost significant influence resulting in NN Group no longer being a related party of ING Group. Prior to this sale, since deconsolidation at the end of May 2015, NN Group was accounted for as an Investment in associate held for sale and transactions with ING Group were included as Associates in the table above.

In 2015, Assets to Associates included Subordinated loans receivable from NN Group N.V. and amounted to EUR 823 million.

In 2015, included in off-balance sheet commitments, is a EUR 63 million facility to NN Bank which allows NN Bank an unconditional right to draw down additional Tier 1 capital at prevailing market terms, until 31 December 2018.

For further information on the NN Group divestment transactions, reference is made to Note 51 'Other events'.

In April 2015, the merger between ING Vysya and Kotak was completed and the legal entity ING Vysya Bank ceased to exist. As a result of this transaction, ING holds a stake in the combined company, which operates under the Kotak brand. As of April 2015, ING Vysya was no longer a related party of ING Group. Reference is made to Note 7 'Investments in associates and joint ventures'.

Key management personnel compensation

Transactions with key management personnel (Executive Board, Management Board and Supervisory Board) and post-employment benefit plans are transactions with related parties. These transactions are disclosed in more detail as required by Part 9 Book 2 of the Dutch Civil Code in the remuneration report included in the annual report. The relevant sections of the remuneration report therefore form part of the annual accounts. For post-employment benefit plans, reference is made to Note 35 'Pension and other postemployment benefits'.

In 2016 and 2015, three members of the Executive Board of ING Groep N.V. were also members of the Management Board Banking. The members of the Management Board Banking are considered to be key management personnel and their compensation is therefore included in the tables below.

Key management personnel compensation (Executive Board and Management Board)

2016 in EUR thousands	Executive Board of ING Groep N.V.[1]	Management Board of ING Bank N.V.[1,2,3]	Total
Fixed Compensation			
– Base salary	4,070	4,111	8,181
– Collective fixed allowances[4]	1,167	1,167	2,334
– Pension costs	78	108	186
– Severance benefits	–	918	918
Variable compensation			
– Upfront cash	–	485	485
– Upfront shares	300	572	872
– Deferred cash	–	727	727
– Deferred shares	449	857	1,306
– Other	–	1,184	1,184
Total compensation	**6,064**	**10,129**	**16,193**

1 Includes their compensation earned in the capacity as Board members.
2 Excluding members that are also members of the Executive Board of ING Groep N.V.
3 In 2016, one new member joined and one member retired
4 The collective fixed allowances consist of two savings allowances applicable to employees in the Netherlands; an individual savings allowance of 3.5% and a collective savings allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 101,519.

Key management personnel compensation (Executive Board and Management Board)

2015 in EUR thousands	Executive Board of ING Groep N.V.[1]	Management Board of ING Bank N.V.[1,2,3]	Total
Fixed Compensation			
– Base salary	3,990	3,505	7,495
– Collective fixed allowances[4]	1,115	1,045	2,160
– Pension costs	75	90	165
Variable compensation			
– Upfront cash	–	390	390
– Upfront shares	254	466	720
– Deferred cash	–	585	585
– Deferred shares	382	698	1,080
– Other	–	830	830
Total compensation	**5,816**	**7,609**	**13,425**

1 Included their compensation earned in the capacity as Board members.
2 Excluded members that are also members of the Executive Board of ING Groep N.V.
3 In 2015, one new member joined.
4 The collective fixed allowances consisted of two savings allowances applicable to employees in the Netherlands; an individual savings allowance of 3.5% and a collective savings allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 100,000.

Key management personnel compensation (Supervisory Board)

in EUR thousands	2016	2015
Total compensation	1,088	835

The table above shows the fixed remuneration, expense allowances and attendance fees for the Supervisory Board for 2016 and 2015.

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate[1]		Repayments	
in EUR thousands	2016	2015	2016	2015	2016	2015
Executive Board members	2,849	2,999	2.6%	2.4%	150	0
Management Board members of ING Bank N.V.	532	532	3.8%	2.6%	–	68
Supervisory Board members	–	–	–	–	–	–
Total	**3,381**	**3,531**			**150**	**68**

1 Dutch legislation changed in 2016. Employee mortgage interest rate discount is no longer deducted from the interest rate but compensated via base salary compensation.

Number of ING Groep N.V. shares and stock options to key management personnel

	ING Groep N.V. shares		Stock options on ING Groep N.V. shares	
in numbers	2016	2015	2016	2015
Executive Board members	261,684	244,973	95,921	116,146
Management Board members of ING Bank N.V.	120,646	216,211	123,237	216,568
Supervisory Board members	172,734	172,734	226,864	319,848
Total number of shares and stock options	**555,064**	**633,918**	**446,022**	**652,562**

Key management personnel compensation is generally included in Staff expenses in the statement of profit or loss, except for key management personnel employed by entities that are presented as held for sale and discontinued operations in which case their compensation is included in the Total net result from discontinued operations.

Remuneration of the Executive Board and Management Board Bank is recognised in the statement of profit or loss in Staff expenses as part of Total expenses. The total remuneration of the Executive Board and Management Board Bank as disclosed in the table above includes all variable remuneration related to the performance year 2016. Under IFRS, certain components of variable remuneration are not recognised in the statement of profit or loss directly, but are allocated over the vesting period of the award. The comparable amount recognised in Staff expenses in 2016 and included in Total expenses in 2016, relating to the fixed expenses of 2016 and the vesting of variable remuneration of earlier performance years, is EUR 16 million. Remuneration in respect of NN Group is reflected in Net result from discontinued operations and does not impact the Total expenses. Total compensation of the Supervisory and Management Boards of NN Group, for the period until deconsolidation at the end of May 2015, amounted to EUR 3.0 million. These amounts are included in the 2015 statement of profit or loss of ING Group in the line item Net result from discontinued operations.

Relationship agreement and other agreements NN Group N.V.
In 2014, in connection with the initial public offering of NN Group N.V., ING Groep N.V. and NN Group N.V. entered into a Relationship Agreement. The Relationship Agreement contains certain arrangements regarding the continuing relationship between ING Groep N.V. and NN Group N.V. In addition, ING Groep N.V. entered into several other agreements with NN Group N.V. such as a transitional intellectual property license agreement, a joinder agreement, an equity administration agreement, an indemnification and allocation agreement and a Risk Management Programme (RMP) indemnity agreement. In addition, ING Groep N.V. and ING Bank N.V. entered into a Settlement Agreement and an Outsourcing Agreement with NN Re (Netherlands) N.V., a subsidiary of NN Group N.V.

Master claim agreement
In 2012, ING Groep N.V., Voya Financial Inc. (formerly ING U.S., Inc.) and ING Insurance Eurasia N.V. entered into a master claim agreement to a) allocate existing claims between these three parties and b) agree on criteria for how to allocate future claims between the three parties. The master claim agreement contains further details on claim handling, conduct of litigation and dispute resolution.

Indemnification and allocation agreement with NN Group N.V.
ING Groep N.V. and NN Group N.V. have entered into an indemnification and allocation agreement, in which ING Group has agreed to indemnify NN Group N.V. for certain liabilities that relate to the business of or control over certain (former) U.S. and Latin American subsidiaries of the Company in the period until 30 September 2013 or, if the relevant subsidiary was divested by NN Group N.V. after 30 September 2013, such later date of divestment. These liabilities mainly include contingent liabilities that may arise as a result of the initial public offering of Voya Financial Inc. (such as prospectus liability) and the sales of the Latin American businesses (such as claims under warranties and other buyer protection clauses).

Risk Management Programme (RMP) Agreement
The RMP Agreement has been in operation since 2003. RMP means the self-insured risk management program of ING Group encompassing professional liability, fidelity/crime, and employment practices liability exposures. Local insurance policies have been issued by a third party insurer to the subsidiaries of ING Groep N.V., which provide coverage for professional liability, fidelity/crime, and employment practices liability risks. The third party insurer has transferred 100% of the RMP liabilities to the reinsurer NN Re (Netherlands) N.V. In 2011, the RMP was split into the RMP Insurance (including the former subsidiaries Voya Financial, Inc. and the LatAm subsidiaries) and the RMP Bank. As of the initial public offering of NN Group N.V. has been responsible for administering the RMP Insurance, excluding Voya Financial, Inc. and the LatAm subsidiaries, for NN Group N.V. pursuant to the Relationship Agreement. The exposures with respect to and arising from the RMP Insurance, excluding Voya and the LatAm Entities, have stayed within NN Re (Netherlands) N.V. and have not be transferred to or taken over by ING Groep N.V.. As ING Groep N.V. has exposure, arising under the Indemnity Agreement agreed upon with the third party insurer, to certain claims under the RMP relating to NN Group Entities, ING Groep N.V. and NN Group N.V. have agreed to enter into this RMP Indemnity Agreement in respect of those claims.

Risk Management Programme (RMP) Settlement Agreement and Outsourcing Agreement
ING Groep N.V. and ING Bank N.V. and NN Re (Netherlands) N.V. have entered into an RMP Settlement Agreement which has a purpose to remove from the reinsurer its economic exposure to losses resulting from the RMP claims of the RMP Bank, Voya Financial, Inc. and the LatAm subsidiaries. The Reinsurer and ING Groep N.V. agreed on the Outsourcing Agreement to provide claims handling services in connection with the claims relating to the Voya Entities, the LatAm Entities and RMP Bank. The reinsurer and ING Groep N.V. have agreed that ING Bank N.V. handles the relevant claims on the terms set out in this RMP Settlement Agreement. The terms and conditions for this claims handling have been included in the Outsourcing Agreement.

50 The European Commission Restructuring Plan
ING's Restructuring, which began in 2009, has come to an end with the sale of the company's remaining stake in NN Group on 14 April 2016. Due to the restructuring ING's has transformed from a diversified financial services company into a standalone, leading European bank.

ING's Restructuring
2008 – 2016
In 2008 and 2009, as a consequence of the financial crisis, ING Group, like other major financial institutions in Europe, received state aid from the Dutch State. In order to receive approval from the European Commission (EC) for the Dutch State aid, ING Group together with the Dutch State were required in 2009 to develop and submit a restructuring plan to the EC that included the divestment of ING Group's insurance and investment management businesses across the world. The sale of ING Direct USA was also included in the package of restructuring measures. This Restructuring Plan was initially approved by the EC in November 2009. Subsequently, the insurance and investment management businesses of ING Group were operationally separated from ING as of 31 December 2010 for the purpose of divesting it. The Restructuring Plan was amended and re-approved by the EC in 2012 and 2013.

In line with the Restructuring Plan, ING Group divested a number of businesses around the world from 2011 to 2013, including divestments of insurance and investment management businesses in the United States, Latin America and Asia/Pacific (other than Japan). ING Group had indicated in 2012 that the intended base case for divestment of its European insurance and investment management businesses was through an Initial Public Offering (IPO), while keeping all other options open. In November 2013, ING Group expanded the scope of this intended base case IPO with the inclusion of the Japan Life and Japan Closed Block VA businesses.

On the banking front, ING Direct USA was sold in 2012, meeting a key requirement of the EC Restructuring Plan.

In the course of the continued streamlining of the company's business portfolio, ING also made other major divestments including ING Direct Canada (2012), ING Direct UK (2012) and ING Car Lease (2011).

In May 2013, ING listed its US insurance and investment management business, Voya Financial, on the New York Stock Exchange and divested 25% of its stake. Following a number of follow-on transactions, the remaining stake was sold by March 2015. Following this transaction, ING Group had effectively eliminated its core debt (group leverage), meeting one of our key commitments in the EC Restructuring Plan.

In July 2014, NN Group, ING's former European/Japanese insurance and investment management business, was listed on the Euronext Amsterdam stock exchange. Through the listing, ING's stake in NN Group was reduced to 68.1%. Through a series of follow-on transactions, ING reduced its shareholding to 25.8% by 30 June 2015. ING's minority stake was deconsolidated in line with IFRS accounting rules. With the divestment of more than 50% of its stake in NN Group and its deconsolidation, ING achieved compliance with the EC divestment conditions before the committed deadline of year-end 2015. In addition, after the deconsolidation of NN Group, the restrictions on acquisitions and on price leadership from the original 2009 Restructuring Plan, and amended in a restructuring agreement with the EC in 2012, no longer applied.

ING announced the sale of its remaining 14.1% stake in NN Group on 14 April 2016, fulfilling the terms of the revised restructuring agreement with the EC as amended in 2012, whereby ING was required to fully divest its shareholding in NN Group before the end of 2016. In the course of 2016, the European Commission confirmed that ING's Restructuring was completed.

State Aid

ING's total State aid was repaid in a number of tranches between 2009 and 2014.

On 7 November 2014, ING made the final repayment. This was achieved six months ahead of the repayment schedule agreed with the European Commission in 2012. Total repayments on the aid amounted to EUR 13.5 billion, resulting in an annualised return of 12.7% for the Dutch State.

In 2009, ING agreed to transfer/sell a portfolio of US mortgage securities to the Dutch State. The unwinding of this facility, also known as the Illiquid Assets Back-up Facility (IABF), was completed in early 2014, when the Dutch State sold the remaining securities in the market. This generated a EUR 1.4 billion cash profit for the Dutch State.

Also, in 2009 ING issued Government Guaranteed Notes, which all have been redeemed in full and for which ING paid a total of EUR 0.4 billion in fees to the Dutch State.

The total gross financial benefit to the Dutch State for ING's support was approximately EUR 5.3 billion.

51 Other events

NN Group

Summary of NN Group divestment transactions

Date	Interest % held before trans-action	Portion of interest (change)	Interest % held after trans-action	Price per share in EUR	Gross trans-action value EUR millions	Impact on Share-holders' equity	Impact on Non-controlling interest	Impact on Total equity	Impact on profit (+) or loss (-)
July 2014[1]	100.00%	–31.86%	68.14%	20.00	2,197	–3,251	5,397	2,146	–
February 2015[2]	68.14%	–13.56%	54.58%	24.00	1,240	–1,769	3,042	1,273	–
May 2015[3]	54.58%	0.19%	54.77%	26.16	–57	–	–	–	–
May 2015[4]	54.77%	–12.34%	42.43%	25.46	1,148	–5,345	–10,801	–16,146	–1,224
June 2015[5]	42.43%	–4.20%	38.23%	24.78	352	–	–	–	1
June 2015[6]	38.23%	–0.62%	37.61%	24.95	53	–	–	–	–
September 2015[6]	37.61%	–0.49%	37.12%	26.78	45	–	–	–	2
September 2015[7]	37.12%	–11.36%	25.76%	25.00	1,000	–	–	–	–17
January 2016[8,9]	25.75%	–9.53%	16.22%	31.00	1,030	–	–	–	522
February 2016[10]	16.22%	–2.13%	14.09%	30.34	210	–	–	–	–8
April 2016[11,9]	14.08%	–14.08%	0%	30.15	1,406	–	–	–	–66

1 Initial public offering (IPO).
2 Further divestment of NN Group.
3 Capital injection into NN Group.
4 Deconsolidation of NN Group; remaining investment in NN Group accounted for as an Investment in associate held for sale.
5 Second tranche exchange of subordinated notes: Anchor investors.
6 NN Group share repurchase.
7 Further divestment of NN Group in September 2015.
8 Loss of significant influence over NN Group.
9 The dilution of ING Group's ownership in NN Group, to 25.75% and 14.08% respectively, was as a result of shares issued by NN Group as part of its internal stock options and share plans.
10 Final tranche exchange of subordinated notes: Anchor investors.
11 Divestment of remaining shareholding in NN Group.

July 2014 – Initial public offering (IPO)
On 2 July 2014, ING sold 77 million existing ordinary shares in the initial public offering of NN Group at EUR 20.00 per share. On 10 July 2014, the joint global coordinators, on behalf of the underwriters, exercised an over-allotment option to purchase 11.55 million of additional existing shares in NN Group at the same price. At the time of the IPO, a first tranche of EUR 450 million of the mandatorily exchangeable subordinated notes (the pre-IPO investments from the three Asian-based investment firms RRJ Capital, Temasek and SeaTown Holdings International) was exchanged into NN Group shares. The remaining two tranches (each for an aggregate amount of EUR 337.5 million) were mandatorily exchangeable into NN Group shares from 2015 onwards.

Total gross proceeds from the NN Group IPO, including the exchange of the first tranche of subordinated notes into NN Group shares and the over-allotment option, amounted to EUR 2.2 billion.

As a result of the above, ING's ownership in NN Group declined from 100% to 68.14% in 2014. This transaction did not impact the statement of profit or loss of ING Group, as NN Group continued to be fully consolidated by ING Group. In 2014, the transactions had a negative impact on shareholders' equity of ING Group of EUR 3,251 million. This amount included:
- EUR 2,590 million, being the difference between the net proceeds of the IPO to ING and the IFRS carrying value of the stake in NN Group divested in the IPO (including the exercise of the over-allotment option); and
- EUR 661 million, being the difference between the market value of the NN Group shares exchanged for the first tranche of the mandatorily exchangeable subordinated notes and the related IFRS carrying value.

In September 2014, NN Group was classified as held for sale and discontinued operations. Upon classification, the carrying amount of the disposal group (or group of assets) was compared to NN Group's fair value less cost to sell. The fair value less cost to sell was lower than the carrying value of the disposal group and as a result goodwill and certain other non-current non-financial assets totalling EUR 470 million were written-off in 2014 and recognised in the statement of profit or loss in the line Net result from classification as discontinued operations. As at 31 December 2014, the subsidiary NN Group was presented as Assets and liabilities held for sale and discontinued operations.

February 2015 – Further divestment of NN Group
In February 2015, ING Group sold 52 million ordinary shares of NN Group. As part of the transaction, NN Group repurchased 8.3 million ordinary shares. The gross proceeds to ING Group from the offering, including the repurchase by NN Group, amounted to EUR 1.2 billion. The transaction reduced the ownership of ING in NN Group from 68.14% (at 31 December 2014) to 54.58%. The transaction did not impact the statement of profit or loss of ING Group as NN Group continued to be fully consolidated. The transaction had a negative impact of EUR 1,769 million on the shareholder's equity of ING Group, being the difference between the net proceeds of the transaction and the IFRS carrying value per the transaction date of the equity stake sold.

May 2015 – Capital injection into NN Group
In May 2015, in order to fulfil its commitment to the European Commission (EC), ING Group made a capital injection into NN Group by subscribing for newly issued shares for an aggregate amount of EUR 57 million. The transaction increased the ownership of ING in NN Group from 54.58% to 54.77%. As part of this transaction, ING provided a EUR 63 million facility to NN Bank which allows NN Bank an unconditional right to draw down additional Tier 1 capital at prevailing market terms, until 31 December 2018. With this provision of capital, ING Group fulfilled its commitment to the EC pertaining to the capitalisation of NN Bank, per the EC decision of 16 November 2012. These transactions had no material impact on the capital position of ING Group and no impact on the capital position of ING Bank.

May 2015 – Deconsolidation of NN Group
On 26 May 2015, ING Group announced a further sale of 45 million ordinary shares of NN Group. As part of the transaction, NN Group repurchased 5.9 million ordinary shares. The gross proceeds to ING Group from the offering, including the repurchase by NN Group, amounted to EUR 1.1 billion. This transaction reduced the ownership of ING in NN Group to 42.43%, resulting in ING Group losing control over NN Group. The share sale and deconsolidation of NN Group resulted in an after tax loss of EUR 1,224 million in 2015 and was recognised in the statement of profit or loss in the line Net result from disposal of discontinued operations. The transaction had a negative impact of EUR 6,569 million, including the aforementioned loss, on the shareholder's equity of ING Group. The statement of profit or loss of ING Group included, in the line 'Net result from discontinued operations', the result of NN Group until deconsolidation at the end of May 2015.

With deconsolidation of NN Group, ING Group fulfilled its commitment to the EC pertaining to the divestment of NN Group, per the EC decision of 16 November 2012. The restrictions from this decision regarding acquisition and price leadership no longer applied to ING Group.

June 2015 - Second tranche exchange of subordinated notes: Anchor investors
On 10 June 2015, ING announced the exchange of the second tranche of EUR 337.5 million mandatorily exchangeable subordinated notes into 13.6 million NN Group ordinary shares. The exchange price was set at a 3% discount to the NN Group closing price on 4 June 2015, resulting in an exchange price of EUR 24.78 per share. Accrued interest on these notes of approximately EUR 14.6 million were settled in an additional 0.6 million NN Group ordinary shares as per the terms of the investment. The transaction was settled on 15 June 2015 and resulted in a further decrease of the ownership of ING in NN Group from 42.43% to 38.23%. The transaction did not have a material impact on the statement of profit or loss of ING Group. Reference is made to Note 18 'Subordinated loans'.

June 2015 – NN Group share repurchase
On 30 June 2015, NN Group repurchased 2.1 million ordinary shares from ING Group. This transaction reduced ING Group's remaining interest in NN Group to 37.61%.

September 2015 – NN Group share repurchase
In September 2015, NN Group repurchased 1.7 million ordinary shares from ING Group. This transaction reduced ING's remaining interest in NN Group to 37.12%.

September 2015 – Further divestment of NN Group
On 30 September 2015, ING Group sold 40 million ordinary shares of NN Group. As part of the transaction, NN Group repurchased 6 million ordinary shares. The gross proceeds to ING Group, including the repurchase by NN Group, amounted to EUR 1 billion. The transaction reduced ING's interest in NN Group to 25.76%. The transaction resulted in a loss of EUR 17 million in 2015 and was recognised in the statement of profit or loss in the line Net result from disposal of discontinued operations. The transaction was settled on 5 October 2015.

As at 31 December 2015, ING Group no longer had nominees in the Supervisory Board of NN Group. As at 31 December 2015, the remaining interest in NN Group of 25.75% was recognised as an Investment in associate held for sale at EUR 2,153 million.

January 2016 – Loss of significant influence over NN Group
On 5 January 2016, ING sold a further 33 million ordinary shares of NN Group. As part of the transaction, NN Group repurchased 8 million ordinary shares. The gross proceeds to ING Group from the offering, including the repurchase by NN Group, amounted to EUR 1 billion. The transaction reduced the ownership of ING in NN Group from 25.75% (as at 31 December 2015) to 16.22%. As a result of the transaction, together with ING Group no longer having any nominees on NN Group's Supervisory Board as of 14 December 2015, ING Group no longer had significant influence over NN Group and accounted for its remaining stake in NN Group as an available-for-sale investment. The sale transaction, together with the revaluation of the remaining stake, resulted in a net profit of EUR 522 million and is recognised in the statement of profit or loss in the line Net result from disposal of discontinued operations.

February 2016 – Final tranche exchange of subordinated notes: Anchor investors
On 2 February 2016, ING settled the exchange of the third and final tranche of EUR 337.5 million mandatory exchangeable subordinated notes which were issued in 2014 as part of the Anchor investment in NN Group. EUR 210 million of the notes were exchanged into 6.9 million NN Group ordinary shares with the three Anchor investors. EUR 128 million of notes were settled in cash with RRJ Capital. This transaction reduced ING's remaining stake in NN Group from 16.22% to 14.09%. The transaction did not have a material impact on the shareholder's equity or the statement of profit or loss of ING Group.

April 2016 – Divestment of remaining shareholding in NN Group
On 14 April 2016, ING Group sold its remaining shares in NN Group. The transaction involved the sale of 45.7 million ordinary shares of NN Group at gross proceeds of EUR 1,406 million and resulted in a net loss of EUR 66 million which is recognised in the statement of profit or loss, in the line 'Net result from disposal of discontinued operations'.

Reference is made to Note 4 'Financial assets at fair value through profit or loss', Note 11 'Assets held for sale', Note 19 'Equity', Note 28 'Discontinued operations' and Note 49 'Related parties'.

Reference is made to Note 50 'The European Commission Restructuring Plan' for an overview of ING's restructuring.

In 2016, the combined profit related to the sale of NN Group shares amounted to EUR 448 million.

VISA
In 2015, VISA announced a definitive agreement for VISA Inc. to acquire VISA Europe. This announcement, together with letters received by ING Bank and its subsidiaries from VISA which detailed ING's share in the transfer proceeds, provided the basis for reassessment of the fair value of shares held by ING Bank and its subsidiaries. The shares are recognised as Investment in available-for-sale equity securities. The fair value of the shares, EUR 154 million as at 31 December 2015, was determined by taking into account the upfront consideration, consisting of cash and preferred shares, the earn-out consideration and any uncertain factors that could affect the upfront and earn-out consideration. The increase in fair value of EUR 154 million was recognised in Equity in 2015. The transaction was subject to regulatory approvals.

Following an amendment to the agreement in April 2016, the transaction closed on 21 June 2016. The available-for-sale equity securities are derecognised from the statement of financial position with a corresponding release of the revaluation reserve recognised in Equity. The transaction resulted in a net profit of EUR 200 million and is recognised in the statement of profit or loss, in the line items Investment income, Share of results of associates and joint ventures and Other income. Reference is made to Note 5 'Investments', Note 7 'Share of results of associates and joint ventures', Note 19 'Equity', Note 23 'Investment income', Note 25 'Other income' and Note 37 'Fair value of financial assets and liabilities'.

Voya

The table below provides a summary of the various Voya divestment transactions which occurred in 2013, 2014 and 2015:

Summary of Voya divestment transactions

Date	Interest % held before trans-action	Portion of interest sold	Interest % held after trans-action	Price per share in USD	Gross Sales proceeds EUR millions	Impact on Share-holders' equity	Impact in Non-controlling interest	Impact on Total equity	Impact on profit (+) or loss (-)
May 2013	100.0%	–28.8%	71.2%	19.50	1,061	–1,894	2,954	1,060	–
October 2013	71.2%	–14.6%	56.5%	29.50	786	–632	1,394	762	–
March 2014[1]	56.5%	–13.3%	43.2%	35.23	950	87	–5,100	–5,013	–2,005
September 2014	43.2%	–10.8%	32.5%	38.85	888	–	–	–	40
November 2014[2]	32.5%	–13.5%	18.9%	39.15	1,068	–	–	–	418
March 2015	18.9%	–18.9%	0%	44.20	1,802	–77	–	–77	323

1 Deconsolidation of Voya; remaining investment in Voya accounted for as an Investment in associate held for sale at fair value of EUR 2,914 million.
2 Loss of significant influence over Voya; remaining investment accounted for as an available-for-sale equity investment held for sale.

In March 2015, ING Group sold 45.6 million ordinary shares of Voya. ING Group sold 32 million Voya shares in the public offering and in addition to this, ING Group sold 13.6 million shares to Voya. The gross proceeds to ING Group from the public offering and the concurrent repurchase by Voya amounted to EUR 1.8 billion (USD 2.0 billion).

The sale of the total 45.6 million shares from the combined transactions reduced ING Group's stake in Voya from 18.9% (at 31 December 2014) to zero. The transactions resulted in a profit of EUR 323 million as was recognised in the statement of profit or loss in the line Net result from disposal of discontinued operations.

Reference is made to Note 4 'Financial assets at fair value through profit or loss' and Note 28 'Discontinued operations'.

52 Subsequent events

There are no subsequent events to report.

Risk management

amounts in millions of euros, unless stated otherwise

ING Group Risk Management

Taking measured risks is the core of ING Group's business. As a global financial institution with a strong European base, offering banking services, ING Group is exposed to a variety of risks. ING Group operates through a comprehensive risk management framework and integrates risk management in its daily business activities and strategic planning. This ensures the identification, measurement and control of risks at all levels of the organisation so that ING Group's financial strength is safeguarded.

Risk management supports the Executive Board in formulating the risk appetite, strategies, policies, limits and provides a review, oversight and support function throughout ING Group on risk-related items. The main financial risks ING Group is exposed to are credit risk (including transfer risk), market risk (including interest rate, equity, real estate, credit spread, and foreign exchange risks), funding & liquidity risk and business risk. Furthermore, ING Group is also exposed to non-financial risks, e.g. operational and compliance risks. The way ING Group manages these risks on a day-to-day basis is described in this Risk Management section. The 'Risk management' section in the Integrated Annual Report is an integral part of the audited consolidated annual accounts.

In line with the Restructuring Plan agreed with the European Commission after the financial crisis, ING Group divested all its insurance and investment management businesses around the world. On 14 April 2016, ING Group announced the sale of its remaining 14.1% stake in NN Group and therefore fulfilling the terms of the European Commission restructuring agreement, whereby ING Group was required to fully divest its shareholding in NN Group before the end of 2016.

The ING Group Chief Risk Officer (CRO) is also the CRO of ING Bank. Therefore, he is responsible for the day-to-day Risk Management of the Group and the Bank. The remaining risk functions and processes that are specific for the Group function have been delegated to ING Bank.

ING Bank risk management

Introduction

The Risk Management section describes the key risks that arise from ING Bank's business model. It explains how the risk management function is embedded within the organisation based on the 'three lines of defence'. This includes front office as 'first line of defence', independent risk management as the 'second line of defence' and the internal audit function as the 'third line of defence'. The key risks resulting from the bank's business model are managed by dedicated and specific risk management departments that each covers its own area of expertise. ING Bank's risk management disclosures provide qualitative and quantitative disclosures about credit, market, liquidity and funding, business and non-financial risks.

The risk management section is in line with the accounting standards relating to the nature and the extent of the risks as required by IFRS7 'Financial Instruments: Disclosures' as adopted by the European Union and covered by an opinion of the External Auditors as part of the notes to the consolidated financial statements.

Navigation map

The index below enables the readers to track the main risk items through the various risk disclosures.

Credit risk

	Subjects	Risk Management	Pillar III
Credit risk is the risk of potential loss due to default by ING Bank's debtors (including bond issuers) or trading counterparties.	Governance and credit risk definitions	261	379, 406
	Credit risk appetite and concentration risk framework	263	
	Environmental and Social Risk Framework	265	
	Credit risk capital and measurement (SA & AIRB)	266	
	RWA comparison	266	378
	Credit risk tools	271	
	Credit risk portfolio	272	380, 407
	Credit risk mitigation	276	413
	Credit quality	283	401
	Securitisations	289	416

Market risk

	Subjects	Risk Management	Pillar III
Market risk is the risk of potential loss due to adverse movements in market variables.	Governance	290	
	RWA comparison		421
	Economic Capital	290	421
	Market risk in banking books	291	
	Market risk in trading books	298	
	Capital at Risk		422

Funding and liquidity risk

	Subjects	Risk Management	Pillar III
Funding and liquidity risk is the risk that ING Bank or one of its subsidiaries cannot meet the financial liabilities when they come due, at reasonable cost and in a timely manner.	Governance	305	
	Management	306	
	Funding and Liquidity profile	308	
	Asset encumbrance		423
	Regulatory developments	309	

Non-financial risk

	Subjects	Risk Management	Pillar III
Operational risk is the risk of direct or indirect loss returning from inadequate or failed internal processes, people and systems or from external events.	Governance	309	
	Framework	309	
Compliance risk is the risk of impairment of ING Bank's integrity, leading to damage to ING's reputation, legal or regulatory sanctions, or financial loss, as a result of failure (or perceived failure) to comply with applicable laws, regulations, ING Bank policies and minimum standards and the ING Values.	Operational risk and main developments	311	424
	Compliance risk and main developments	312	425
	Non-financial risk awareness	314	

Business risk

	Subjects	Risk Management	Pillar III
Business risk is the exposure to value loss due to fluctuations in volumes, margins and costs, as well as customers' behaviour risk.	Analysis business risk	315	
	Governance	315	

Purpose and business model

The purpose of ING Bank's risk management function is to support the ambition of ING Bank to be the primary bank for our customers, empowering the business through an integrated, state of the art, enterprise-wide risk management platform. The following principles support this purpose:

- The risk management function is embedded in all levels of ING Bank's organisation and is part of the daily business activities and strategic planning to have a sustainable competitive advantage;
- Products and portfolios are structured, underwritten, priced, approved and managed properly and compliance with internal and external rules is monitored;
- Delegated authorities are consistent with the overall Bank strategy and risk appetite; and
- Transparent communication to internal and external stakeholders on risk management.

Risk governance

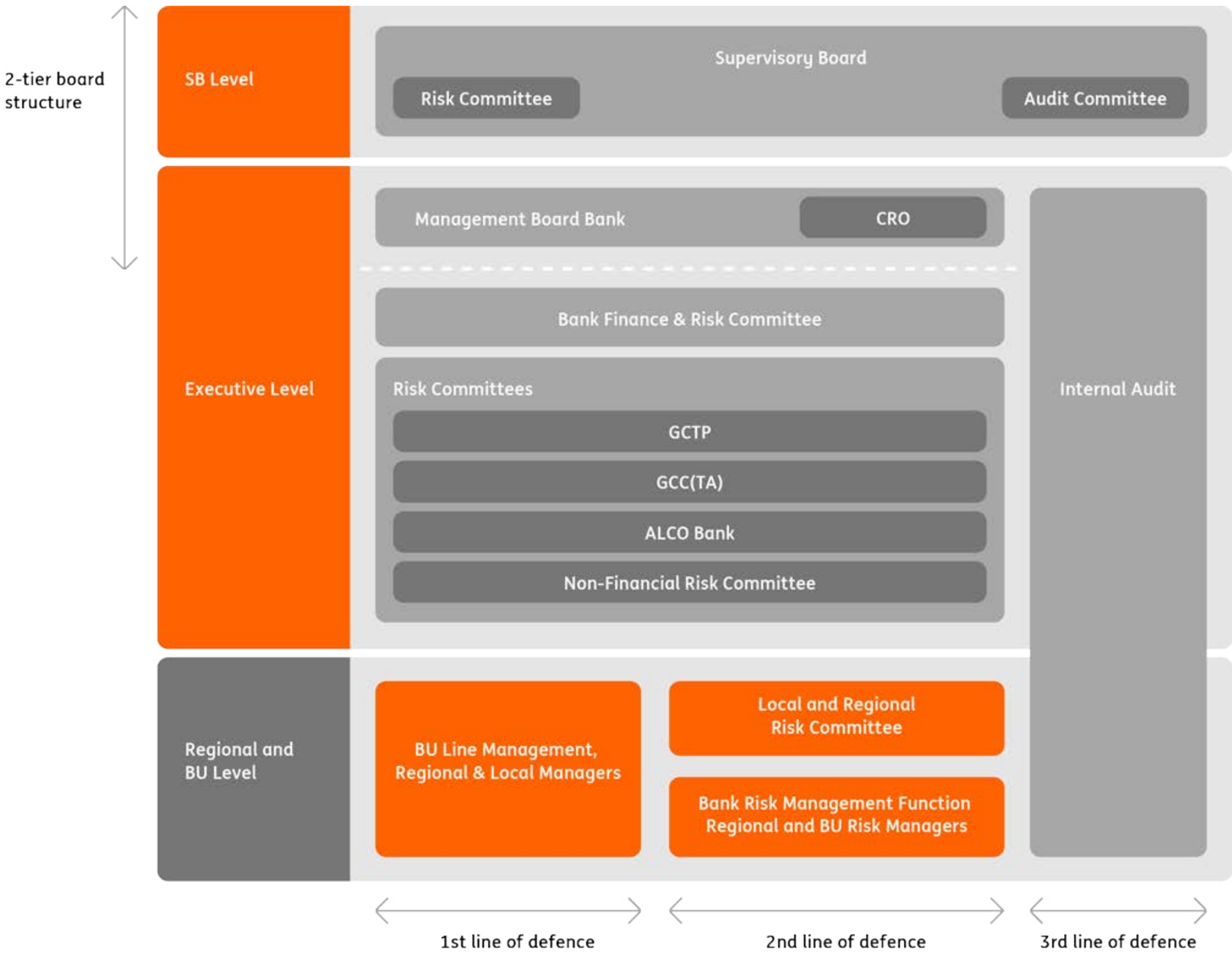
Effective risk management requires a firm-wide risk governance. ING Bank's risk and control structure is based on the 'three lines of defence' governance model, whereby each line has a specific role and defined responsibilities in such a way that the execution of tasks is separated from the control of the same tasks. At the same time, they have to work closely together to identify, assess and mitigate risks. This governance framework ensures that risk is managed in line with the risk appetite as approved by the Management Board Bank (MBB) and the Supervisory Board (SB), and is cascaded throughout ING Bank.

The head of ING's line of business and their delegates form the first line of defence and have primary accountability for the performance, operations, compliance and effective control of risks affecting their respective businesses. They originate loans, deposits and other products within applicable frameworks and limits, they know our customers well and are well-positioned to act in both the customers' and ING's best interest. The COO is responsible and accountable for proper security and controls on global applications and IT-platforms servicing the Bank.

The second line of defence consists of oversight functions with a major role for the risk management organisation headed by the Chief Risk Officer (CRO), the ultimate responsible officer. Risk Management at corporate level is responsible for (i) the development of overall policies and guidance, (ii) objectively challenge the execution, management and control processes and (iii) coordinate the reporting of risks and controls by the first line of defence. It also has an escalation/veto power in relation to business activities that are judged to present unacceptable risks to ING Bank.

The internal audit function forms the third line of defence. It provides an on-going independent (i.e. outside of the businesses and the risk organisation) and objective assessment of the effectiveness of internal controls of the first two lines, including financial and non-financial risk management.

The graph below illustrates the different key senior management level committees in place in the risk governance structure.



Board level risk oversight

ING Bank has a two-tier board structure consisting of the Management Board Banking (MBB) and the Supervisory Board (SB); both tiers play an important role in managing and monitoring the risk management framework.

- The SB is responsible for supervising the policy of the MBB, the general course of affairs of ING Bank and its business (including its financial policies and corporate structure). For risk management purposes the SB is assisted by two sub-committees:
  - The Audit Committee, which assists the SB in monitoring the integrity of the financial statements of ING Bank, in monitoring the compliance with legal and regulatory requirements, and in monitoring the independence and performance of ING's internal and external auditors; and
  - The Risk Committee, which assists and advises the SB in monitoring the risk profile of the company as well as the structure and operation of the internal risk management and control systems.
- The MBB is responsible for managing risks associated with all activities of ING Bank. The MBB's responsibilities include ensuring that internal risk management and control systems are effective and that ING Bank complies with relevant legislation and regulations. On a regular basis, the MBB reports on these issues and discusses the internal risk management and control systems with the SB. On a quarterly basis, the MBB reports on the Bank's risk profile versus its risk appetite to the Risk Committee, explaining changes in the risk profile.

As a member of the MBB, the CRO ensures that risk management issues are heard and discussed at the highest level, thus establishing the appropriate tone at the top. The CRO steers a functional, independent risk organisation both at head-office and business-unit level, which supports the commercial departments in their decision-making, but at the same time has sufficient countervailing power to keep the risk profile within the risk tolerance. Every quarter, the CRO reports to the board committees on ING Bank's risk appetite levels and on ING Bank's risk profile. In addition, the CRO briefs the board committees on developments in internal and external risk related issues and ensures the board committees understand specific risk concepts.

As part of the integration of risk management into the annual strategic planning process, the MBB annually issues a Planning Letter which provides the corporate strategic direction and addresses key risk issues. Based on the Planning Letter, the business lines and business units develop their business plans which align with the Bank's strategic direction. The process includes a qualitative and quantitative assessment of the risks involved. As part of the process, strategic limits and risk appetite levels are explicitly discussed. Based on the business plans, the MBB formulates the Strategic Plan which is submitted to the SB for approval.

Executive level
The ING Bank Finance and Risk Committee (BF&RC) is a platform for the CRO and the Chief Financial Officer (CFO), along with their respective direct reports, to coordinate issues that relate to both the finance and risk domains. On reporting level, BF&RC has the responsibility to coordinate finance and risk decisions that have an impact on internal and/or external reporting.

The key risk committees described below act within the overall risk policy and delegated authorities granted by the MBB:

- Global Credit & Trading Policy Committee (GCTP), former Global Credit Committee Policy or GCC (P): Discusses and approves policies, methodologies and procedures related to credit, trading, country and reputation (ESR) risks within ING Bank. The GCTP meets on a monthly basis;
- Global Credit Committee – Transaction Approval (GCC(TA)): Discusses and approves transactions which entail taking credit risk (including investment risk), country, legal and ESR risk. The GCC(TA) meets twice a week;
- Asset and Liability Committee Bank (ALCO Bank): Discusses and approves on a monthly basis the overall risk profile of all ING Bank's market risks that occur in its activities. ALCO Bank defines the policy regarding funding, liquidity, interest rate mismatch and solvency for ING Bank; and
- Non-Financial Risk Committee Bank (NFRC Bank): Accountable for the design and maintenance of the Non-Financial Risk Management Framework including Operational Risk Management, Compliance and Legal policies, minimum standards, procedures and guidelines; the NFRC structure; development of tools, methods and key parameters (incl. major changes) for risk identification, measurement and monitoring/ reporting. The minimum frequency of the NFRC Bank is at least quarterly.

Regional and business unit level
The CRO is supported by regional and/or business unit CROs focussing on specific risks in the geographical and/or business areas of their responsibilities. ING Bank's regional and/or business unit management have primary responsibility for the management of risks (credit, market, funding and liquidity, operational, legal and compliance risks) that arise in their daily operations. They are accountable for the implementation and execution of appropriate risk frameworks affecting their businesses to ensure compliance with procedures and processes at Corporate level. The implementation is adapted if necessary to local requirements.

The local (regional and BU) CRO is responsible for the analysis, control and management of risks across the whole value chain (from front to back office), based on which a robust control structure is maintained. The regional and business unit CROs report both to the ING Bank's CRO and to the head of their regional area and business unit. This dual reporting system aims to ensure that the local risk management function is independent from the operating functions and that it is aligned with the corporate risk policies and goals.

Risk management function
Organisational structure
Based on the three lines of defence, an independent risk management function has oversight in all levels of ING Bank's organisation. The CRO, a MBB member, bears primary overall responsibility for the risk management function and reports directly to the Chief Executive Officer. The CRO is responsible for the management and control of risk on a consolidated level to ensure that ING Bank's risk profile is consistent with its financial resources and the risk appetite. The CRO is also responsible for establishing and maintaining a robust organisational basis for the management of risk throughout the organisation.

The Global Risk Management function consists further of corporate risk departments headed by General Managers directly reporting to the CRO. The corporate risk departments support the CRO to set the Bank's risk appetite, develop the corporate policies, rules and global procedures and infrastructures. The General Managers bear direct responsibility for risk (mitigating) decisions at Bank level. The General Managers and the CRO are responsible for the harmonisation and standardisation of risk management practices.

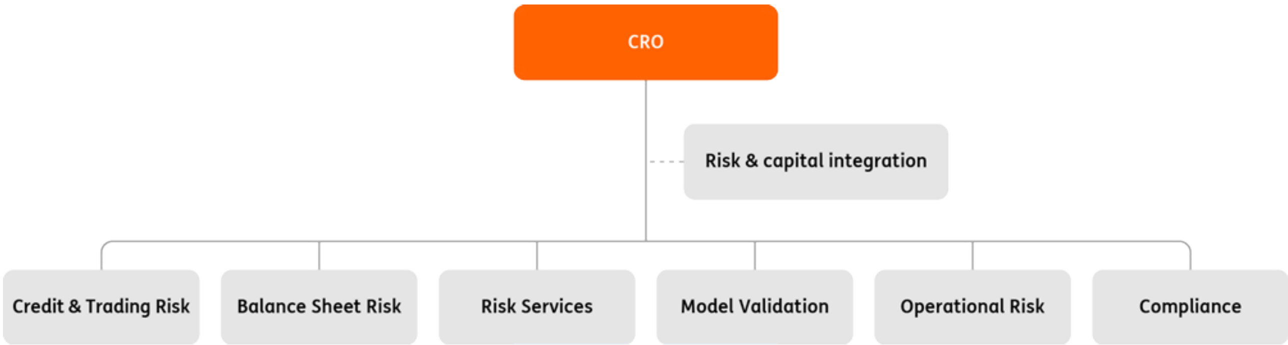
Over the past years, banks have been faced with regulatory and public pressure with regard to their risk management policies, processes and systems. New requirements and regulations have been introduced and implemented. To be able to effectively address these internal and external (market and regulatory) developments and challenges, ING Bank started to redesign the set-up of its risk-management organisation in 2015. This in order to better support the Bank's Think Forward strategy and enhance the interconnection of the business units risk oversight responsibilities on one hand, and the global risk functions on the other hand.

In 2016, the position of Head of NFR cessed to exist resulting in a direct report of the Heads of Corporate Operational Risk Management (CORM) and Bank Compliance Risk Management (BCRM) to the CRO. ING Bank is looking at a new structure for the validation of Risk Models in a broader perspective. Setting up a new Model Risk Management function is of significant strategic importance to the Risk Organisation.

The global Risk function is composed of the following departments: Credit & Trading Risk, Balance Sheet Risk, Corporate Operational Risk, Bank Compliance Risk and Risk Services. In addition, there is one staff department in place:

- Risk & Capital Integration: a staff department that reports functionally to the CRO and is responsible for overarching risk topics as risk appetite, disclosures, recovery and resolution planning and stress testing as well as capital planning. Risk & Capital Integration reports directly to the Head of Capital Management.

The organisation chart below illustrates the current reporting lines within ING Bank global risk organisation:



As announced in October 2016, ING is accelerating its Think Forward strategy. Therefore, ING has introduced a number of initiatives to further improve the customer experience, further grow primary customers and lending, and increase efficiency. For Risk, it has initiated a Target Operating Model (TOM) programme to enable further convergence of our operations, which resulted in a new risk organisation to start on 1 March 2017.

Risk policies, procedures and standards

ING Bank has a framework of risk management policies, procedures and minimum standards in place to create consistency throughout the organisation, and to define requirements that are binding to all business units. The governance framework of the local business units aligns with ING Bank's framework and meets local (regulatory) requirements. Senior management is responsible to ensure policies, procedures and standards are implemented and adhered to. Policies, procedures and standards are regularly reviewed and updated via the relevant risk committees to reflect changes in markets, products and practices.

Risk model governance and validation

Risk models are built according to the internal risk modelling methodology standards and model life cycle, in line with regulatory requirements. After thorough review and documentation of the model by the modelling and Model Validation (MV) departments, specific model risk committees for each risk type approve new models. After approval by the specific risk committee, and where necessary the regulator, a new risk model is implemented and entitled for usage. In addition, MV validates each model on a regular basis. Validation results and its capital impact are reported on a quarterly basis to senior management, the risk committee and to the supervisor.

An independent MV department is one of the cornerstones of ING Bank's risk model governance. It consists of the process of determining that a model is appropriate for its intended use. It is an on-going process whereby the reliability of the model is verified at different stages during its lifecycle: at conception, before approval, periodically after implementation, and when significant changes to the model are made. The validation process contains a mix of developmental evidence, process verification and outcome analysis.

The MV department backtests all existing risk models. In addition to (i) evaluating the underlying model parameters, (ii) ensuring continued applicability of the models for the relevant portfolios, and (iii) discussing the model performance with front office and risk users of the models, MV also (iv) tests the observed performance of a model (and its components) with the predicted level. A model where the observed results deviate from the predicted results becomes a candidate for either re-calibration or re-development.

Risk culture

The risk management framework based on the three lines of defence governance model is effective when a sound and consistent risk culture is present throughout the whole organisation. The reputation and integrity of ING Bank's organisation are considered key requirements to operate successfully in the financial world. It promotes awareness of collectively shared values, ideas and goals but also of potential threats and it ensures alignment of individual performance objectives with the short- and long-term strategy. By making ING's risk responsibilities transparent within the different levels of the organisation and holding every employee accountable for his/her acts, the risk culture and awareness are embedded in the organisation. This leads to effective risk management.

Commonly seen as norms and traditions of behaviour of individuals and of groups within an organisation, risk culture determines the way in which employees identify, understand, discuss, and act on the risks the organisation is confronted with and the risks it takes. This is a continuous long-term commitment and journey. In this respect, The Orange Code has been set as a declaration of who we are. It describes what we can expect from each other when we turn up to work each day. A set of standards that we collectively value, strive to live up to, and invite others to measure us by.

The Orange Code is the sum of two parts, the ING Values and ING Behaviours, with integrity being an important principle. The ING Values (being honest, prudent and responsible) are designed to be non-negotiable promises we make to the world, principles we seek to stick to, no matter what. The ING Behaviours (take it on and make it happen, help others to be successful, and be always a step ahead) represent our way to differentiate ourselves. The Orange Code is embedded in commitments we make to each other and the standards by which we will measure each other's performance.

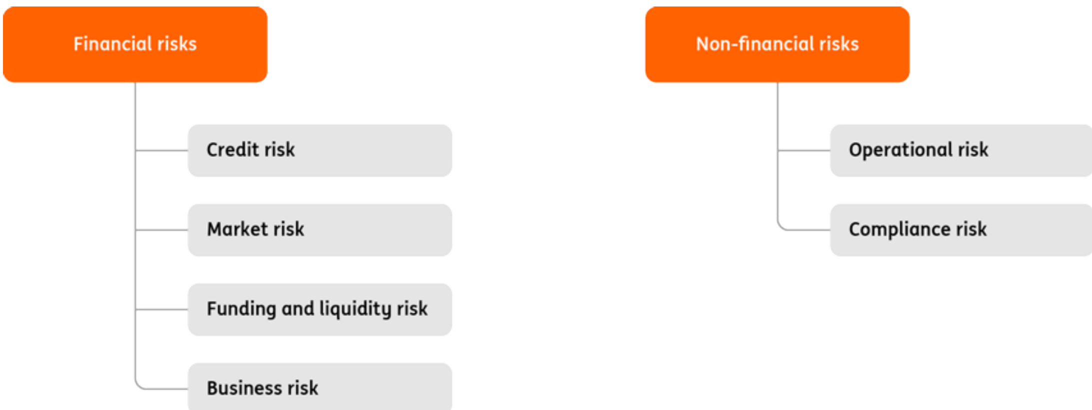
To support the embedding of risk culture into the business practices, ING Bank has initiated different programmes and issued several guidelines. Risk awareness is to be alert on potential threats that can occur during day-to-day business, which can be specific to the sector, the region or the clients ING Bank is doing business with. Part of the training curriculum to increase risk awareness is the Promoting Integrity Programme (PIP), which is a long-term, global, educational and behavioural change programme supported by the MBB for all ING Bank employees. With the programme, ING Bank gains a sound risk culture and ensures that every employee in every part of the organisation understands how his/her actions and behaviour can help earn and retain customer and stakeholder trust. Recently, additional modules with current topics, were added to the programme, among others on integrity and cybersecurity. To enhance risk awareness, these topics are discussed between managers and employees through dialogue sessions that managers organise within their teams to create clear and consistent understanding. The endorsement from the executive level and the emphasis in the communication strengthen the culture.

In the Netherlands, employees of all financial institutions – and that includes ING Bank – are required to take the Banker's Oath. This legal requirement came into force on 1 April 2015 as part of the joint approach from all banks, known as 'Future-oriented Banking'. With the introduction of a social regulation, the revision of the Dutch Banking Code and the implementation of a banker's oath (with the associated rules of conduct and disciplinary law), the banks want to show the society what they stand for and what they can be held accountable for, both as individual banks and the banking sector as a whole.

Lastly, ING Bank makes sure that the remuneration policy is properly aligned with its risk profile and the interests of all stakeholders. For more information on ING's compensation and benefits policies and its relation to the risk taken, please refer to the "Capital Requirements Regulation (CRR) Remuneration disclosure" published on the corporate website ing.com. https://www.ing.com/About-us/Annual-reporting-suite.htm

Risk profile
As a global financial institution with a strong European base offering banking services, ING Bank is exposed, to varying degrees of a variety of risks. The main financial risks ING Bank is exposed to can be divided into credit risk (including transfer risk), market risk (including interest rate, equity, real estate, credit spread, and foreign exchange risks), funding & liquidity risk and business risk. Furthermore, ING Bank is exposed to non-financial risks, e.g. operational and compliance risks.

Key risk categories
The table below presents the key risk categories (financial as well as non-financial risks) that are associated with ING Bank's business activities.



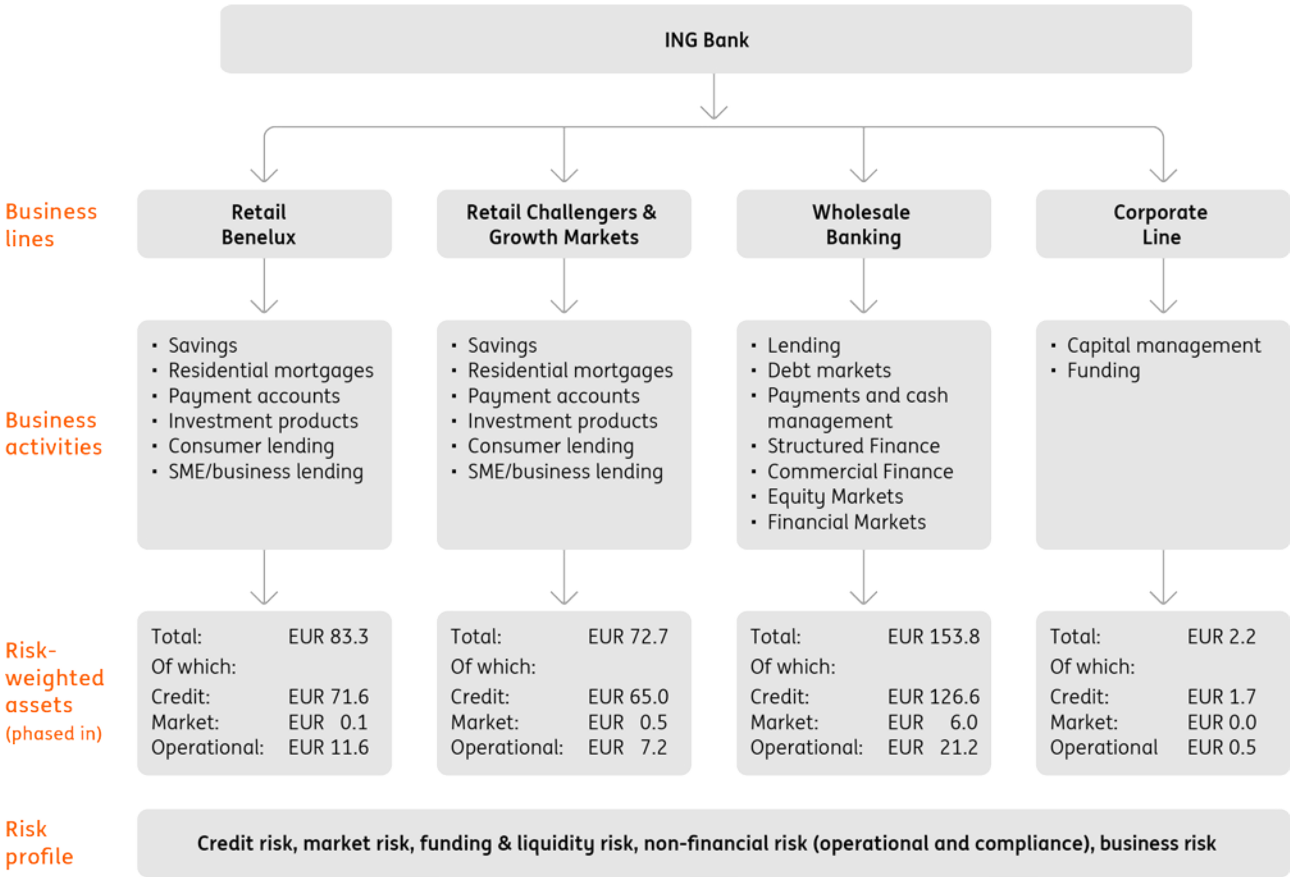
Financial risks:

- Credit risk: the risk of potential loss due to default and/or credit rating deterioration by ING Bank's debtors (including bond issuers) or trading counterparties;
- Market risk: the risk of potential loss due to adverse movements in market variables. Market risks include interest rate, credit spread, equity, real estate and foreign exchange risks;
- Funding and liquidity risk: the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions;
- Business risk: the exposure to value loss due to fluctuations in volumes, margins and expenses, as well as customer behaviour risk. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency, and as such strategic risk is included in business risk.

Non-financial risks:

- Operational risk: the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk, as well as legal risk;
- Compliance risk: the risk of impairment of ING Bank's integrity as a result of failure (or perceived failure) to comply with applicable laws, regulations, ING Bank policies and minimum standards and the ING Values as part of the Orange Code.

The chart below provides, in EUR billion, high level information on the risks arising from the Bank's business activities. The RWAs illustrate the relative size of the risks incurred in respect of each business from a regulatory perspective.



Risk cycle process

ING uses a step-by-step risk management approach to monitor, mitigate and manage its financial and non-financial risks. The approach consists of a cycle of five recurrent activities: risk identification, risk assessment, risk control, risk monitoring and risk reporting. In short, this implies: determine what the risks are, assess which of those risks can really do harm, take mitigating measures to control these risks, monitor the development of the risk and if measures taken are effective and report the findings to management at all relevant levels to enable them to take action when needed.

The recurrence is twofold. One: identification, assessment and review, and update of mitigating measures are done periodically. Two: the periodical monitoring exercise may indicate that new risks are arising, known risks are changing, assessed risk levels are changing, or control measures are not effective enough. Further analyses of these findings may result in renewed and more frequent risk identification, and/or assessment, and/or change of mitigating measures.

Risk identification
Risk identification is a joint effort of the commercial business and the risk management functions. Its goal is to detect potential new risks and determine changes in known risks. Regular risk identification is essential for both the effectiveness and efficiency of risk management. Potential risks that are not identified, will not be controlled and monitored and may lead to surprises later. Known risks may have changed over time and as a consequence the existing mitigating measures and monitoring may be inadequate or obsolete.

Risk identification is performed periodically. In case of material internal or external change, additional ad-hoc risk identification can be performed.

Risk assessment and control
Each identified risk is assessed to determine the importance, or risk level, of the risk for the ING Bank entity in scope. This enables the entity to decide which of the identified risks need control measures and how strict or tolerant these measures must be. Known risks are re-assessed to either confirm the risk level or detect change.

The importance of a risk is assessed based on the likelihood the risk materialises and the subsequent financial or reputational impact should the risk occur. Unlikely risks with a potentially high impact need to be controlled. For a risk that is likely to happen regularly, but is expected to have a modest financial impact, business management may decide to not mitigate and accept the consequences when it happens.

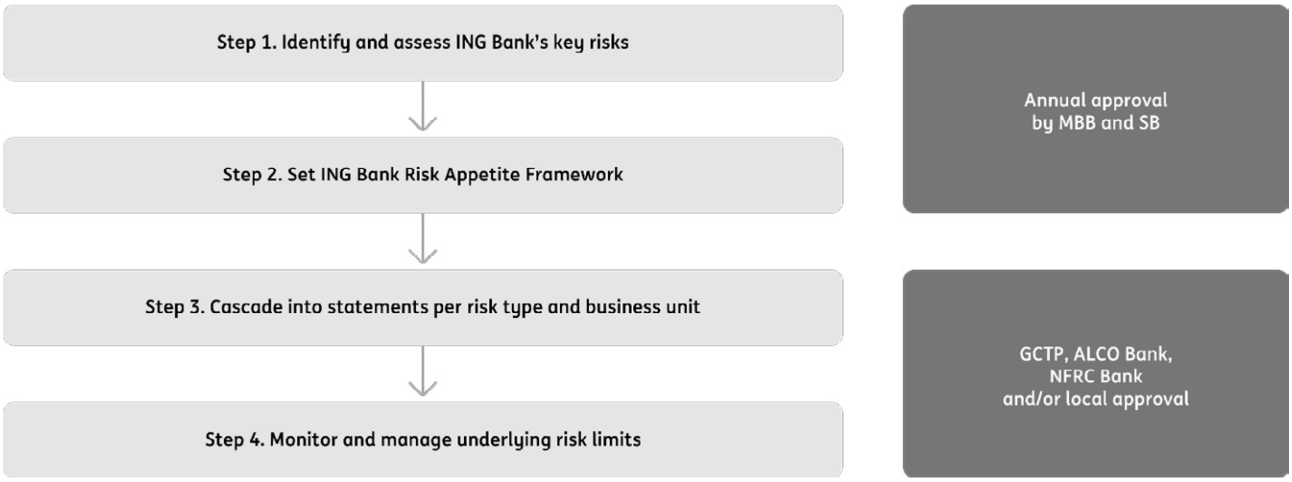
Risks can be controlled by mitigating measures that either lower the likelihood the risk occurs, or measures that lower the impact when they occur. The ultimate measure to lower risk is to stop the activity or service that causes the risk (risk avoidance). Risk controlling/mitigating measures are defined and maintained at both Bank wide and local level.

Monitoring and reporting
With the monitoring of the risk control measures, ING Bank continuously checks if they are executed, complied with, have the expected mitigating effects and follow the development of the risks and their risk levels. Adequate risk reporting provides senior and local management with the information they need to manage risk.

Risk Appetite Framework
ING uses an integrated risk management approach for its banking activities. The MBB uses the Risk Appetite Framework (RAF) to set both boundaries for the Medium Term Plan (MTP) budget process and to monitor and manage the actual risk profile in relation to the risk appetite.

Process

The RAF is focused on setting the risk appetite at the consolidated level and across the different risk categories, and provides the principles for cascading this risk appetite down into the organisation. The RAF is approved by the SB on an annual basis, or more frequently if necessary based on their quarterly review in the MBB and SB. It is therefore essentially a top-down process, which bases itself on the ambition of the bank in terms of its risk profile and is a function of the capital and liquidity levels and ambitions, the regulatory environment and the economic context. The process is set up according to the following steps:



Step 1. Identify & assess ING's key risks

Setting the RAF starts with a multi-dimensional step to identify & assess the risks ING is facing when executing its strategy. This step includes the following actions that are performed on an annual basis:

- detect unidentified risks that are not yet controlled within ING Bank's risk management function & assess their potential impact;
- benchmark current risk framework versus regulatory developments;
- re-assess known risks to confirm risk level or detect potential changes; and
- reflect on the current set of Risk Appetite Statements.

This annual Risk Assessment serves as input when defining the global risk appetite which – in line with its business model and risk ambition – is currently formulated as follows: ING Bank has the ambition to be and remain a strong bank, able to address possible adverse events on its own strengths and resources.

In order to achieve this risk ambition, ING has the following targets:

- Have a rating ambition which is in line with the strongest among its peer group;
- Be able to restore the capital and liquidity position following a stress situation on its own strength;
- Be in a position to meet current and forthcoming regulatory requirements and targets; and
- Have a risk profile that compares favourably to its main banking peers.

Step 2. Set Risk Appetite Framework

Based on ING's risk assessment and risk ambition, specific targets are set for both financial and non-financial risks:

Financial risk

For financial risks, ING expresses its risk appetite as a tolerance allowed to key ratios deviating from their target levels. Therefore, the high level risk ambition is translated into quantitative targets for solvency risk, funding & liquidity risk and for concentration risk.

The **solvency risk appetite** is closely aligned with capital management activities and policies. ING has determined tolerances for its risk-weighted solvency position (CET1 ratio), for non-risk-weighted solvency (leverage ratio) and for a more economic value based solvency (economic capital utilisation expressed via the Overall Supervisory Review and Evaluation Process (SREP) Capital Requirement). These statements are complemented with a specific statement regarding profitability. The CET1 ratio and leverage solvency risk appetite statements as well as profitability statement are not only compared to the actual reported level, but also include the potential impact of a standardised and pre-determined 1-in-10-year stress event (i.e. at a 90% confidence level with a 1-year horizon). Based on this mild stress scenario, the impact on ING Bank's earnings, revaluation reserve and risk-weighted assets (RWA) is calculated (these are labelled earnings-at-risk, revaluation reserve-at-risk and RWA-at-risk). These stressed figures are used as input for a two-year simulation which depicts the developments of ING's solvency level versus its risk appetite.

Funding and liquidity risk management has two dimensions: liquidity risk management focuses on having a sufficient buffer to cope with the short-term situation, funding risk management ensures long-term compliance with both internal and external targets. Managing funding and liquidity risk focuses both on 'business as usual' (based on the run-off profile to show the stickiness of deposits combined with the run-off of assets without new production) and on a stressed situation. For liquidity risk, we use the time to survive under specific scenario, while for funding risk we focus on having a stable funding profile.

The **concentration risk appetite** set at consolidated level are directly translated into corresponding limits in the underlying risk appetite statements for profitability risk, credit risk, market risk and funding & liquidity risk.

Non-financial risk
For non-financial risks, levels are set according to what ING is willing to tolerate in pursuit of the strategic objectives of the bank, to ensure that the organisation's actual risk exposure is commensurate with its strategic objectives and that exposure moving beyond the tolerance risk levels is timely identified and acted upon.

ING measures and monitors its exposure to non-financial risk on an ongoing basis by assessing risks, analysing scenarios and mitigating actions as a result of audit and risk assessment findings. The aggregation of the assessed risk levels is expressed in an expected loss figure on non-financial risk, which is compared to the tolerance levels as captured in the NFR Risk Appetite Statements (RAS) based on a percentage of the operational income. The overall non-financial risk levels and tolerance breaches are periodically reported through the Non-Financial Risk Dashboard (NFRD). The NFRD consists of comprehensive and integrated NFR information on a quarterly basis. Changes in capital are monitored and reported in the NFRD as well. In case risk events cause ING to move towards or beyond the tolerance level, management is required to undertake action.

In particular to **compliance risk**: ING must meet its compliance obligations, seek to adhere to the spirit as well as to the letter of applicable laws and regulations, ING policies and minimum standards, the values and behaviours as defined in the Orange Code, and to act upon identified compliance breaches immediately and diligently.

Step 3. Cascade into statements per risk type and business unit
The risk appetite is translated per risk type, which is further cascaded down into the organisation to the lowest level .The risk appetite statements are then translated into dedicated underlying risk limits which are used for day-to-day monitoring and management of ING Bank's risks.

For financial risks, a sequence of different risk appetite frameworks is implemented to address the most significant risks. This implies that a whole framework of credit risk limits is in place that monitors the overall quality of the ING Bank credit portfolio and that of all the underlying portfolios as well. In addition, specific concentration risk appetites are defined on product level, geographic level and (single name) counterparty level which are cascaded down into the organisation. The risk appetite for the trading book activities within Financial Markets is accompanied by a risk appetite framework for market risks in the banking books. For both types of market risk, limits at Bank level are translated into the organisation. The funding & liquidity risk appetite statements that are defined on ING Bank level are translated into the organisation, taking the funding & liquidity specific situation of each (solo) unit into account. The risk appetite for non-financial risk is cascaded to the divisions and business units through a set of quantitative and qualitative statements. The risk appetite at ING Bank level is applicable to all divisions and business units. The suite of risk appetite statements serves as input for the Medium Term Planning process as well as for the establishment of key performance indicators and targets for senior management.

Step 4. Monitor and manage underlying risk limits
In order to verify that it remains within the risk appetite framework as it is executing its budget, ING reports its risk positions vis-à-vis its limits on a regular basis towards senior management committees. The Risk and Capital Management Report reflecting the exposure of ING against the risk appetite targets is submitted quarterly to the MBB and to the (Risk Committee of the) SB.

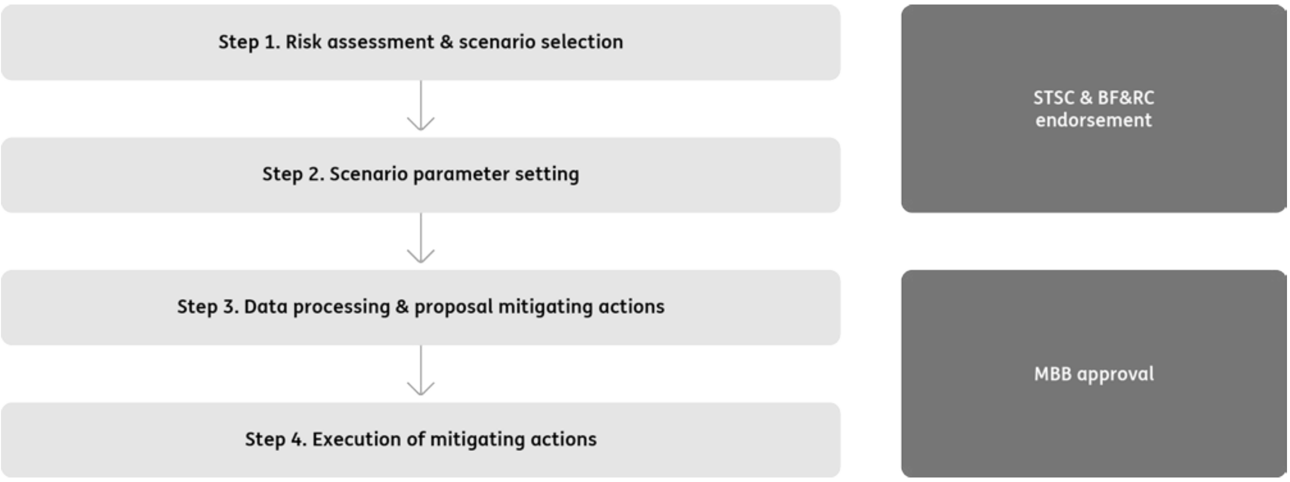
Stress testing
Stress testing is an important risk management tool that provides input for strategic decisions and capital planning. The purpose of stress testing is to assess the impact of plausible but severe stress scenarios on ING's capital and liquidity position. Stress test analyses provide insights in the vulnerabilities of certain portfolios, w.r.t. adverse macroeconomic circumstances, stressed financial markets and changes in the (geo)political climate.

Types of stress tests

Within ING, different types of stress tests are performed. The most comprehensive type of stress tests are the firm-wide scenario analyses, which involve setting scenario assumptions for all the relevant macroeconomic and financial market variables in all countries relevant to ING. These assumptions usually follow a qualitative narrative that provides background to the scenario. In addition to firm-wide scenario analyses, ING executes scenario analyses for a specific country or portfolio. Furthermore, sensitivity analyses are performed, which focus on stressing one or more risk drivers; usually without an underlying scenario narrative. The 1-in-10-year stress scenario used in the risk appetite framework is an example of a sensitivity analysis. Finally, ING performs reverse stress tests, which aim to determine scenarios that could lead to a pre-defined severe adverse outcome.

Process

The stress testing process of ING consists of several stages, which are summarised in below diagram.



Step 1. Risk assessment & scenario selection

ING formally determines its main risks on an annual basis through the execution of a so called risk assessment. Senior management, business representatives and risk specialists are involved in this process which covers risks in the macroeconomic circumstances, political and regulatory developments as well as portfolio specific risks. Based on the risk assessment, scenarios are selected to be evaluated in the remainder of the year The results of the risk assessment and scenario selection are discussed and endorsed in the Stress Testing Steering Committee (STSC). All stakeholders are represented in the STSC, such as representatives of the different Corporate Risk departments, Capital Management, Finance and the Global Research organisation. The STSC submits the results of the risk assessment and scenario selection to the BF&RC for endorsement.

Step 2. Scenario parameter setting

After determination of the high level scenarios, further elaboration of them is necessary. Scope, assumptions and input parameters such as GDP growth, unemployment rates, interest rates and real estate price changes are defined for the countries involved in the exercise. The parameters are discussed and endorsed in the STSC and subsequently in the BF&RC.

Step 3. Data processing & proposal mitigating actions

When the scenario parameters have been finalised, the impact of the scenario on the solvency and liquidity position is determined. Based on the scenario values for the relevant macro-economic and financial market variables, the impact on amongst others P&L, revaluation reserves, RWA and liquidity buffers are calculated. These outcomes are subsequently used to calculate the evolution of relevant solvency and liquidity ratios, such as the common equity Tier-1 (CET1) capital ratio, the leverage ratio and the net liquidity position.

As for the previous steps, the calculated impacts of the scenario are first discussed and endorsed in the STSC followed by the BF&RC. Depending on the outcomes of the stress test and the likelihood of the scenario, mitigating actions may be proposed. Approval of these mitigating actions takes place in the MBB.

Step 4. Execution of mitigating actions
After the MBB has approved the mitigating actions, they need to be executed. Mitigating actions may include, but are not limited to, sales or transfers of assets, reductions of risk limits, intensification of our contacts with regulators or other authorities.

Methodology
For the calculation of the impact of the scenarios on P&L, RWA, revaluation reserves, etc., detailed and comprehensive models are used. In these models, statistical analysis is combined with expert opinion to make sure that the results adequately reflect the scenario assumptions. The methodologies are granular and portfolio-specific and use different macro-economic and market variables as input variables. The stress testing models are subject to a thorough review by the Model Validation department.

Economic and Regulatory Capital
Economic Capital (EC) and Regulatory Capital (RC) are the main sources of capital allocation within ING Bank. Both of these capital metrics are used to determine the amount of capital that a transaction or business unit requires to support the economic and regulatory-based risks it faces. The concept of EC differs from RC in the sense that RC is the mandatory amount of capital that is defined under Pillar I while EC is the best estimate of Pillar II capital that ING Bank uses internally to manage its own risk. EC is a non-accounting measure that is inherently subject to dynamic changes and updated as a result of ING Bank's portfolio mix and general market developments. ING Bank continuously recalibrates the underlying assumptions behind its economic capital model which may have an impact on the values of EC going forward.

EC is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it takes. In general, EC is measured as the unexpected loss above the expected loss at a given confidence level. This economic capital definition is in line with the net market value (or surplus) definition. The EC calculation is used as part of the CRR/CRD IV Pillar II Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) that is performed regularly by the supervisor.

The following fundamental principles and definitions have been established for the model:
- ING Bank uses a one-sided confidence level of 99.95% and a one-year time horizon to calculate EC;
- It is assumed that all currently known measurable sources of risk are included;
- The best estimate risk assumptions are as objective as possible and based on proper analysis of statistical data.;
- The EC calculation is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
- The EC calculations reflect known embedded options and the influence of customer behaviour in banking products;
- The EC calculations are on a before tax basis and do not consider the effect of regulatory accounting and solvency requirements on capital levels; and
- The framework does not include any franchise value of the business, discretionary management intervention or future business volumes and margins.

Regulatory environment
After the turmoil in the financial markets and the subsequent need for governments to provide aid to financial institutions, financial institutions have been under more scrutiny from the public, supervisors and regulators. This has resulted in more stringent regulations intended to avoid future crises in the financial system and taxpayers' aid in the future.

Basel III revisions, CRR/CRD IV and upcoming regulations
On 23 November 2016, the European Commission published legislative proposals to amend and supplement certain provisions of the Capital Requirements Directive (CRD), the Capital Requirements Regulation (CRR), the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (the SRM Regulation). The proposals are wide-ranging and may have significant effects on ING, including with regard to the total loss absorbing capacity (TLAC) or the minimum requirement own funds and eligible liabilities (MREL) it must maintain. It is uncertain when the proposals will come into effect, and if so, whether that will be in their current form.

On Basel III revisions (Basel 3.5), several changes to the regulatory framework are being considered by regulators. These may have an impact on the strategy of ING, especially as they often amplify each other. The proposals and their potential impact are monitored via semi-annual monitoring exercises in which ING Bank participates. As a result of such monitoring exercises and ongoing discussions within the regulatory environment, revisions have been made to the original Basel III proposals as was the case with the revised Liquidity Coverage Ratio in January 2013 and the revised Net Stable Funding Ratio and Leverage Ratio in January 2014. In January 2017, the BCBS announced that it expected to complete finalisation of all revisions to the Basel III framework, including the calibration of an aggregate capital floors framework and a leverage ratio minimum requirement.

Principles for Effective Risk Data Aggregation and Risk Reporting
In January 2013, the Basel Committee published Principles for Effective Risk Data Aggregation and Risk Reporting (also known as BCBS239). BCBS239 consists of fourteen principles to strengthen a bank's risk data aggregation and risk reporting practices. Collectively implementing these principles will enhance risk management and decision-making processes at banks. Banks indicated as G-SIBs – including ING Bank – were required to implement the principles by 2016.

The past years a dedicated team within the risk and finance functions, supported by the CFO and COO domain, has implemented BCBS239 across the key risk types. The implementation has covered all key BCBS239 principles, resulting in improvements across the data management and reporting chain. By incorporating the BCBS239 principles in ING's internal control Framework, the principles have become a key driver of ING's data aggregation and risk reporting practices. Also in today's continuously changing environment, ING will ensure that key risk data aggregation and reporting practices remain aligned with the BCBS239 principles.

Top and emerging risks
The risks listed below are defined as material existing and emerging risks that may have a potentially significant impact on our financial position or our business model. They may have a material impact on the reputation of the company, introduce volatility in future results of operations or impact ING's middle and long-term strategy including the ability to pay dividends, maintain appropriate levels of capital or meet capital and leverage ratio targets. An emerging risk is defined as a risk that has the potential to have a significant negative effect on our performance, but currently difficult to quantify the impact on the organisation than for other risk factors that are not identified as emerging risks.

The topics have emerged either as part of the annual Risk Assessment that is performed as part of the Stress Testing Framework or from the Risk Appetite Framework. The sequence in which the risks are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

During 2016, two changes to our top and emerging risks were made. 'Climate change risk' was added as a new emerging risk, reflecting the impact a deterioration of the climate may have for the reputation of ING. 'Business lending Benelux' was removed as the credit quality improved and the risk costs reduced following the gradual improvement of the economy. Further, 'Impact of low interest rate environment' moved into 'Macroeconomic developments'.

Macroeconomic developments
In 2016, ING Bank's operating environment was characterized by continuously challenging market conditions with amongst others the persistent low interest rates and geopolitical risks.

The sustained low interest rate environment in Europe, where central banks held their rates at very low and even negative levels in some countries, negatively impacted short-term as well as long-term market rates. The typical interest rate position at ING Bank is that the duration of the assets is slightly higher than the duration of the liabilities. Given this mismatch, decreasing interest rates are under normal circumstances favourable for the interest income of ING Bank: liabilities reprice more quickly than assets, and therefore the average interest rates paid on liabilities should adapt more quickly to lower market interest rates.

However, given the current unusual situation with persistent low interest rates, ING Bank actively manages its interest-rate risk exposure and successfully maintained the Net Interest Margin (NIM) on its core lending in 2016. On mortgages, ING is confronted with higher than expected prepayment rates because of the difference between the rates of the existing mortgage portfolio and the prevailing market rates. On savings, NII and NIM are decreasing due to a further decline in yields on assets, while room for further reduction of client rates on savings deposits has diminished.

In June 2016, the United Kingdom's intention to leave the European Union ('Brexit') was a major political and economic event that impacted sentiment. After the announcement, sovereign bond yields dropped as investors fled to safe haven assets due to increased uncertainty and the potential economic fall-out from Brexit. Therefore, the impact was primarily noticeable via a strong increase in volatility in a variety of asset classes, including currencies, equities and bonds. Although ING has activities in the UK through the Wholesale banking business line, no material asset quality deterioration following the Brexit referendum has appeared. But, as the terms of the exit are yet to be negotiated, ING will continuously monitor the developments.

Another element which can affect the real economy and gives rise to geopolitical risk is the instability in international relationships. In this perspective, ING Bank continued to carefully monitor the international developments.

Cybercrime

Cybercrime is a continuous threat to companies in general and to financial institutions specifically. Both the frequency and the intensity of attacks increase on a global scale. Threats from Distributed Denial of Service (DDoS), targeted attacks (also called Advanced Persistent Threats) and Ransomware intensify worldwide. ING Bank builds on its cybercrime resilience, further enhancing the control environment to protect, detect and respond to e-banking fraud, DDoS and targeted attacks. Additional controls continue to be embedded in the organisation as part of the overall internal control framework and are continuously re-assessed against existing and new threats. During 2016 ING did not experience any cyber incident that can be classified as material. ING provides continuous reporting on cyber incidents to the ECB.

ING Bank also works on strengthening its global cybercrime resilience including strong collaboration against cybercrime with the financial industry, law enforcement authorities, government (e.g. National Cyber Security Center) and Internet Service Providers (ISPs).

Climate change risk

The climate is changing and that is an unparalleled challenge for our world. The causes and the solutions to these challenges are complex, but we realise that it is attributed directly or indirectly to human activity that alters the composition of the global atmosphere, in addition to natural climate variability. As a financial institution, we too have a responsibility and it may ultimately affect our results if our customers are affected.

In general, ING has an impact on the environment and society directly through the consumption of natural resources and its relationship with stakeholders, and indirectly through our financing. Therefore, climate change as a risk continues to intensify, looking at the public, regulatory and political concerns around its integration into the financial sector's operations and strategy.

We can play a role in trying to find solutions. We have been climate neutral since 2007, adapting the organisation to the new world and taking effective measures to mitigate our impacts. We are aware that our greatest impact however, is through our financing portfolio. ING's decision to end financing new coal fired power plants and coal mines, and continued reduction of our coal portfolio, demonstrates climate change risk is part of our ESR framework and applies to all financial products and services offered by ING.

Finally, we also participate in a number of climate change initiatives. For instance, we currently participate within the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD), which is developing voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to stakeholders.

Credit risk

Introduction

Credit risk is the risk of loss from the default and/or credit rating deterioration of counterparties. Credit risks arise in ING Bank's lending, financial market and investment activities. The credit risk section provides information on how ING Bank manages, measures and monitors credit risk and gives an insight into the ING Bank portfolio from a credit risk perspective.

Governance

Credit risk within ING Bank is part of the second line of defence (the front office being the first, internal audit the third) and is managed within the Credit & Trading Risk (C&TR) function. C&TR is responsible for reviewing and managing credit risk including environmental and social risk (ESR) for all types of counterparties. It consists of credit risk managers who are responsible for credit approvals and managing the specific credit risks in their portfolios and credit risk experts who provide support by means of credit risk systems, policies, models and reporting. To ensure the independence of the risk function, the C&TR general manager is functionally responsible for the global network of credit risk staff.

ING Bank's credit risk strategy is to maintain an internationally diversified loan and bond portfolio, avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of a top-down risk appetite framework, which sets concentration limits for countries, individual counterparties, counterparty groups and investment activities. The aim is to support relationship-banking activities, while maintaining internal risk/reward guidelines and controls.

Credit analysis at portfolio level is monitored using metrics such as economic capital, regulatory capital, exposure at default (EAD), probability of default (PD) and loss given default (LGD). To ensure efficient use of ING Bank's capital, the risk appetite is monitored and managed at portfolio level by risk and finance together. Credit analysis at transactional level focuses on the risk amount, tenor, structure of the facility and profile of the borrower. ING Bank's credit risk managers make use of publicly available information, information provided by the counterparty, peer group comparisons, industry comparisons and quantitative techniques.

Within ING Bank, the ultimate approval authority for credit proposals resides with the MBB. The MBB has delegated authorities based on amounts, tenors and risk ratings to lower levels in the organisation. Transactions are approved via a dual signatory approval system that requires an individual sign-off from both front office and credit risk management. For larger and higher risk credits a committee structure exists whereby the credit risk chair takes the final decision with support of the respective committee members, thereby ensuring accountability. Retail business units have delegated authority to decide within policies and mandates approved by credit risk. Any decisions outside those policies or above the delegated mandate require a specific credit risk approval.

The credit risk role encompasses the following activities:
- Measuring, monitoring and managing credit risks in the Bank's portfolio;
- Challenging and approving new and modified transactions and borrower reviews;
- Managing the levels of provisioning and risk costs, and advising on impairments; and
- Providing consistent credit risk policies, systems and tools to manage the credit lifecycle of all activities.

The following committees are in place to review and approve transactions and policies from a credit risk point of view:
- The Global Credit Committee for Transaction Approval (GCC(TA)) is mandated to approve transactions with credit risks.
- The Global Credit & Trading Committee Policy (GCTP) which is authorised to approve policies, methodologies and procedures related to credit, trading, country and reputation risks on a high level for ING Bank. GTCP consists of MBB members.
- The Credit & Trading Risk Committee (CTRC) is authorised to approve policies, methodologies and procedures related to credit & trading risk on more detailed and operational level (with the exception of issues which are mandated to GCTP) within ING Bank. CTRC consists of MT members of C&TR, Risk Services and Wholesale Banking Lending Services.
- The Models Development Committee (MDC) serves as a technical advisor to CTRC and is a planning body for future model development. The MDC has a delegated mandate to approve credit risk models which cover smaller portfolios.
- The ING Bank Provisioning Committee (IPC) is the approval authority for loan loss provisions (LLP) for all ING Bank entities.

Credit risk categories

Credit risk uses risk categories to differentiate between the different types of credit risk. All products within ING Bank are aggregated to one of the following risk categories:
- **Pre-settlement (PS) risk**: arises when a counterparty defaults on a transaction before settlement and ING Bank has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk is the (potential or expected risk) cost of ING Bank replacing a trade in the market. This credit risk category is associated with dealing room products such as options, swaps, and securities financing transactions. Where there is a mutual exchange of value, the amount of credit risk outstanding is generally based on the replacement value (mark-to-market) plus a potential future volatility concept, using a 3-7 year historical time horizon and a 97.5% confidence level.
- **Money market (MM) risk**: arises when ING Bank places short-term deposits with a counterparty in order to manage excess liquidity. As such, money market deposits tend to be short-term in nature. In the event of a counterparty default, ING Bank may lose the deposit placed. Money market risk is measured as the accounting value of the deposit, excluding any accrued and unpaid interest or the effect of any impairment.
- **Lending risk**: arises when ING Bank grants a loan to a counterparty, or issues guarantees on behalf of a counterparty. This includes term loans, mortgages, revolving credits, overdrafts, guarantees, letters of credit, etc. The risk is measured as the accounting value of the financial obligation that the counterparty has to repay to ING Bank, excluding any accrued and unpaid interest, discount/premium amortisations or impairments.
- **Investment risk**: is the credit default and risk rating migration risk that is associated with ING Bank's investments in bonds, commercial paper, securitisations, and other similar publicly traded securities. This can be viewed as the worst-case loss that ING Bank may incur as a result of holding a position in underlying securities whose Issuer's credit quality deteriorates or defaults. All investments in the banking book are classified in the investment risk category. The primary purpose of ING Bank's investments in the banking books is for liquidity management.
- **Settlement risk**: is the risk that arises when there is an exchange of value (funds or instruments) for the same value date or different value dates and receipt is not verified or expected until after ING has given irrevocable instructions to pay or has paid or delivered its side of the trade. The risk is that ING Bank delivers but does not receive delivery from its counterparty. ING manages settlement risk in the same way as other risks including a risk limit structure per borrower. Due to the short term nature (1 day), ING Bank does not hold provisions or capital for specific settlement risk. Although a relatively low risk, ING increasingly uses DVP (Delivery versus Payment) and FITO (First In Then Out) payment techniques to reduce settlement risk.

For the reconciliation between credit risk outstanding categories and financial assets we refer to the section 'Credit risk management classification' as included in Note 1 'Accounting policies'.

Credit Risk Appetite and Concentration Risk Framework
The credit risk appetite and concentration risk framework enables ING to prevent undesired high levels of credit risk and credit concentrations within various levels of the ING portfolio. Concentration risk is measured based on the credit risk exposure amount. Credit risk exposure is the total amount of outstanding plus the unused portion of commitments. It can be measured on various levels, such as customer, legal or economic one obligor group, product, portfolio, customer type, industry, and country. Where applicable a level is broken down from the consolidated ING Bank level to a local branch/unit level.

Credit risk appetite statements boundaries and concentration limits are set and reviewed on an annual basis. The bank-wide credit risk boundaries and concentration limits are approved by the Risk Committee of the Supervisory Board and GCTP, respectively.

Credit risk appetite statements
Credit risk appetite is the maximum level of credit risk ING Bank is willing to accept for growth and value creation. This credit risk appetite is linked to the overall Bank-wide risk appetite framework. The credit risk appetite is expressed in quantitative and qualitative measures. Having a credit risk appetite achieves:
- Clarity about the credit risks that ING Bank is prepared to assume, target setting and prudent risk management;
- Consistent communication to different stakeholders;
- Guidelines how to align reporting and monitoring tools with the organisational structure and strategy; and
- Alignment of business strategies and key performance indicators of business units with ING Bank's credit risk appetite by means of the MTP.

Credit risk appetite is present across different levels within ING Bank, at portfolio level as well as transaction level. The various credit risk appetite components at portfolio and transaction level together result in the credit risk appetite framework.

Credit risk appetite statements are defined top-down across the credit risk categories (pre-settlement, money market, lending, investment), and connected to ING Bank high-level risk appetite across all risk types (solvency, credit, liquidity and funding, market, and non-financial risk). They consist of a set of high-level credit risk metrics: expected loss, economic capital, risk-weighted assets (RWA) and exposure at default. For each credit risk metric a boundary is set that is cascaded down and monitored on a monthly basis. The adherence to the boundaries and the pro-active approach to manage the portfolio within the risk appetite boundaries are part of the key performance indicators of the business line managers.

Country risk concentration
Country risk is the risk that arises due to events in a specific country (or group of countries). Country risk is the risk of loss for ING Bank associated with lending, pre-settlement, money market and investment transactions as a result of country risk events. A country risk event can be described as economic, financial and political shocks and transfer or exchange restrictions, affecting all counterparties in a specific country. The occurrence of a country risk event may cause all counterparties in a country to be unable to ensure timely payments, despite their willingness to meet their contractual debt obligations. As such, country risk is an additional factor to be taken into account in the credit approval process of individual customers, as the country risk event probability may impact the default probability of individual counterparties.

For every country where ING has exposure, a country limit is set. Country limits are reviewed monthly and updated when needed. The country limit is a function of various factors including ING's risk appetite for the country, amount of capital consumption, GDP of the country, internal rating, and amount of funds entrusted generated. In case the limit utilisation is above 90%, the respective credit risk manager is expected to take action to bring the utilisation below 90% or to submit to the relevant approval mandate holders a country limit review requesting a higher limit to accommodate the increasing exposure. In case of countries with elevated levels of geo-political or severe economic cycle risk the monitoring is performed on a more frequent basis with strict pipeline and exposure management to protect ING Bank from adverse impacts.

Single name and sector concentration

ING Bank has established a concentration risk framework in order to identify, measure and monitor concentrations at country, portfolio and/or counterparty level. It consists of:

- Single name concentration: losses due to the unexpected default of a single counterparty. These single name concentrations are capped both at individual single name level and aggregated top-5 single name level. The LGD of a single name concentration is measured against a maximum LGD amount. Large Exposures monitoring and reporting is one of the components of the single name framework.
- Sector concentration (systemic risk): substantial increase of the ING Bank risk profile (expressed in risk-weighted assets at risk) due to the joint deterioration of a group of correlated counterparty/transactions, sensitive to the same external (macro-economic) factor(s) related to their geographic location and exposure class.

Scenarios and stress tests

Stress testing evaluates ING Bank's financial stability under severe but plausible stress scenarios and supports in decision-making that assures ING Bank remains a financially-healthy going concern even after a severe event occurs. In addition to the bank-wide stress test framework as described in the Risk Management - Risk profile section, the credit risk department performs stress tests on a monthly basis in order to continually assess the portfolio risks and concentrations. These monthly stress tests are consistent with the stress scenario as established in the ING Bank wide credit risk appetite framework. The monthly stress tests are reviewed in the Risk and Capital Integration team and potential management actions are proposed if necessary.

ING Bank performs periodical stress tests based on a standardised and pre-determined 1-in-10 year-stress event (i.e. at 90% confidence level and 1 year horizon) which is similar to the one applied in the solvency risk appetite. Based on this confidence level, a through the cycle rating migration for the entire portfolio is simulated. For this simulated portfolio, provisions, RWA and Economic Capital are recalculated to assess what the combined impact of such a year would be. The additional CRWA that ING should allocate in such an event is named CRWA-at-Risk.

Next to the periodical pre-determined stress test related to CRWA-at-Risk, credit risk performs ad-hoc stress tests based on severe but plausible scenarios. These stress tests can be for internal purposes or at the request of the regulators and are input for future Credit Risk Appetite setting. Stress testing is used as an additional safety net within credit risk. In addition to the Pillar I and Pillar II capital calculations, based on the results of various stress tests, ING Bank ensures that adequate levels of capital (and liquidity) are available to sustain such severe but plausible scenarios.

Product approvals

Across ING Bank a robust product approval and review process ensures effective management of risks associated with the introduction of new or modified products. It ensures that sound due diligence is performed by relevant stakeholders to ensure that all relevant risks (credit, operational, legal, etc.) are adequately mitigated in the Product Approval and Review Process (PARP).

Risk programs

Within ING Bank, risk programs are detailed analyses of defined products and/or industries that identify the major risk drivers and mitigants, the internal business mandate, and propose the minimum risk (including business) parameters – and potentially the maximum product and/or portfolio limit - to undertake that business. A risk program is always prepared by the front office responsible for the internal business mandate and requires an approval from an approval authority. Risk programs may carry various names and/or may have geographical and/or business limitations (e.g. local vs global).

Reference benchmarks

A reference benchmark is the maximum appetite for credit risk per legal one obligor group. It is expressed as a (benchmark) exposure at the concentration risk level, which corresponds to a (maximum) internal capital consumption for credit risk. It is used as a reference amount in the credit approval process and can be waived on the basis of proper arguments.

Credit approval process

The credit approval process ensures that individual transactions are assessed on a name-by-name basis. For each type of counterparty (corporates, banks/financial institutions, structured products clients) there is a dedicated process with credit risk managers specialised along the business lines of ING Bank. The credit approval process is supported by a risk rating system and exposure monitoring system. Ratings are used to indicate a counterparty's creditworthiness translated into a probability of default and is used as input to determine the maximum risk appetite that ING Bank has for a given type of counterparty (reference benchmark). The determination of the delegated authority (the amount that can be approved at various levels of the organisation) is a function of the risk rating of the client and ING's credit risk exposure on the client.

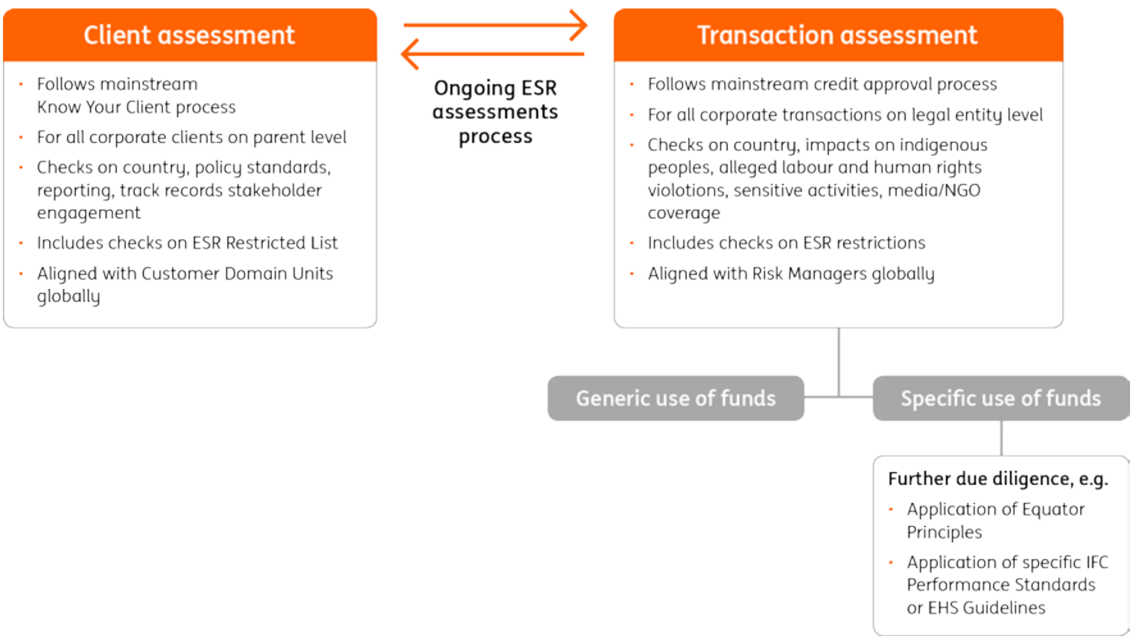
Given the nature of the retail business, roles and responsibilities of the local credit risk policy are delegated to the local retail credit risk management. However, the global head retail risk needs to be informed on all local retail risk policies so as to monitor that the local policies do not conflict with any C&TR policies. This framework serves to ensure more global alignment while preserving existing empowerment of local units. As such, approval authorities differ depending on the materiality of the deviation between the local policy and the global policy.

Environmental and Social Risk Framework

ING Bank makes a positive contribution to global economic growth and more sustainable development by promoting responsible lending and investment practices. The environmental and social risk (ESR) policy framework incorporates assessment tools that are used in ING's mainstream processes and systems. It is therefore fully integrated into regular client and transaction reviews.

The ESR policy framework is reviewed every three years on the basis of significant changes identified in the sectors that are more vulnerable to environmental and social risks and impacts. In addition, environmental and social risks for all lending transactions are reviewed on a yearly basis following annual credit reviews. ESR transactions where funds will be used for asset based finance may require enhanced ESR due diligence e.g. application of the Equator Principles. Such enhanced ESR evaluation is also required for any high-risk transaction, such as those that impact indigenous people etc.

The snapshot of ING's ESR Framework is as follows:



The ESR policy framework is fully embedded in ING mainstream approval processes and requires involvement of the following areas globally:

Client Assessment:
- Customer Domain Units (CDU): verify compliance with the applicable ESR policy. CDUs are responsible to assure that information in the Client ESR Assessment has been duly completed.

Transaction Assessment:
- Front Office: departments that originate transactions and have direct contact with the client or project sponsors;
- Risk Management: departments that provide control over front office activities and generally sign off on the environmental and social impacts for 'Low Risk' or 'Medium Risk' transactions;
- Environmental and social risk department within risk management fully dedicated to assessing environmental and social impacts associated with 'High Risk' transactions. Negative advice from the ESR department can only be waived by ING's highest credit committee or the Managing Board Banking (MBB). In practice such waivers are very exceptional.

ESR Policy Development and Governance:
- MBB/Global Credit Committee: Ultimate approval authority for approving new and updated ESR policies.

As the risk assessment processes are decentralized each front-office team must be highly familiar with ING's environmental and social framework. Hence, ING makes significant investment in internal training programs to help CDUs, front office and risk management staff in assessing the environmental and social risks. In 2016, 545 colleagues have been specifically trained on the ESR policy framework worldwide.

Credit risk capital and measurement

Credit risk capital

Regulatory capital is a law based prudent measure defined by regulators and serves as the minimum amount of common equity Tier-1, additional Tier-1 and Tier-2 capital required to absorb unexpected losses. Regulatory capital is the minimum amount of capital (based on 99.90% confidence level) that ING Bank must hold from a regulatory perspective as a cushion to be able to survive large unexpected losses.

RWA comparison

Comparison of RWA and risk weights across institutions is inherently challenging. Differences in RWA among banks have been classified by the Bank for International Settlements (BIS) in 3 categories:
1. Risk based drivers that stem from the differences in underlying risk at the exposure/portfolio level and in business models/ strategies including asset class mix;
2. Practice-based drivers including approaches to risk management and risk measurement; and
3. Regulatory environment such as supervisory practices, implementing laws and regulations including national discretion and accounting standards.

Risk based drivers

ING Bank's portfolio is dominated by secured lending especially in the areas of residential mortgages, leasing and commercial real estate. Secured lending tends to have a much lower LGD, given the collateral involved, which is a key driver of RWA calculation. Another important element of the ING business model is the focus on retail exposures collateralised by residential property. ING's retail portfolio is mainly comprised of residential mortgages. The regulatory formula for this exposure class tends to result in lower RWA, all other factors being equal.

Practice based drivers

ING Bank has a conservative approach to troubled exposures. Non-performing exposures are recognized early based on unlikely to pay triggers. ING typically classifies default based on a borrower rating and not a facility rating which means that a customer will only have one PD (probability of default) regardless of the type(s) of transactions done with ING Bank. As a consequence, if one facility is in default, usually all facilities of the client are in default. Non-performing clients which were granted forbearance measures need to stay non-performing for a minimum of one year starting from the moment they are classified as forborne. Eligibility for a migration back to performing is possible only after this probation period of one year.

Regulatory environment

ING Bank's primary supervising entity is the ECB, who is supported by many host supervisors. The ECB supervises adherence to the regulatory rules: the regulatory framework defined in CRR/CRDIV, European Bank Authority (EBA) standards and ECB guidance. The ECB requires all 'significant changes' in internal models (PD, LGD and EAD) and policies to be reviewed and approved by the ECB.

Comparing capital levels across banks is a challenging exercise because of different risk profiles, differences in risk based drivers, practice based drivers and regulatory environment (e.g. advanced internal rating based approach or the standardised approach). These factors have a substantial impact on the regulatory capital/RWA of a financial institution. ING Bank continues to work with industry groups and strives to adhere to the latest BCBS and EBA recommendations to improve the transparent reporting of our capital calculations.

Economic capital
Economic capital reflects ING Bank's own view on credit risk, which allows it to be used in decision making processes at transaction level, counterparty level and (sub) portfolio levels. Credit risk and transfer risk capital are calculated on all portfolios which contain credit or transfer risk, including investment portfolios. Economic capital is the minimum amount of capital required to cover unexpected losses within a 99.95% confidence level and a 12 months' time horizon. It is used throughout ING Bank in the decision making process (mainly wholesale banking), in risk adjusted counterparty and portfolio profitability measurement tools (wholesale and retail banking), in investment and divestment decisions, in the country risk framework and in concentration risk management such as risk appetite statements (RAS), single name concentration and the systemic risk reports (sector concentration report).

An important characteristic of the credit risk infrastructure and framework is that models are built for several purposes, including economic capital, regulatory capital and loan loss provision. These rating models are used throughout the ING Bank organisation which is compliant with the Basel Use Test requirement and ensures active feedback on the risk parameters by business units.

Economic capital is calculated using the economic values of rating models (PD, EAD and LGD). In line with regulatory requirements, so-called 'significant changes' to these rating models are communicated to the regulator for approval. Significant changes depend on the impact on credit RWA (Pillar I) or on the significance (size) of the model for the ING Bank portfolio.

Credit risk measurement
There are two ways to measure credit risk within ING Bank's portfolio, depending on whether the exposure is booked under an ING office which is permitted by the ECB to use the advanced internal rating based (AIRB) approach, or if it falls under the standardised approach (SA).

Standardised approach
The standardised approach applies a fixed risk weight to each asset as dictated by the CRR, and is based on the exposure class to which the exposure is assigned. As such, the Standardised Approach is the least sophisticated of the regulatory capital methodologies and is not as sensitive as the risk-based approach. Where external rating agency ratings are available, they may be used as a substitute to using the fixed risk weightings assigned by the Financial Supervisory Authorities. Because the underlying obligors are relatively small for exposures treated under SA, the underlying obligors tend not to have external ratings.

Advanced internal rating based approach
There are five main elements that drive the determination of risk-weighted assets under the AIRB approach.

- **Probability of Default (PD)**: The first is the counterparty's probability of default, which measures a counterparty's creditworthiness in terms of likelihood to go into default. It attempts to measure the senior, unsecured standalone creditworthiness of an organisation without consideration of structural elements of the underlying transactions, such as collateral, pricing, or maturity. Each borrower has a rating which translates into a specific PD.

- **Exposure at Default (EAD)**: The second element is the counterparty's exposure at default. EAD models are intended to estimate the outstanding amount or obligation at the moment of default in the future. Since the fact that a counterparty will go into default is not known, and the level of outstanding that may occur on that date is also not known, ING Bank uses a combination of statistical and hybrid models to estimate the EAD. With the exception of guarantees and letters of credit, the EAD is always equal to or higher than the associated credit risk outstanding, under the assumption that counterparties tend to absorb liquidity from available credit resources before financial problems become apparent to the counterparty's creditors. The EAD is largely a function of the type of credit facility (revolving, overdraft, term) offered to the borrower.

- **Loss Given Default (LGD)**: The third element is the loss given default. LGD models are intended to estimate the amount ING Bank would lose from liquidating collateral pledged in association with a given loan or financial obligation, or alternatively, from liquidating the company as a whole as part of a workout process. LGD models are based on cover types, estimated recovery rates given orderly liquidation, and (in)direct cost of liquidation.

- **Maturity (M)**: The fourth element is the time to the maturity of the underlying financial obligation. Regulatory requirements (CRR/CRDIV) floor the maturity element at one year and cap it at five years.

- **Exposure Class:** The fifth element is the exposure class (a regulatory prescribed grouping of a common obligor type or product type) which is a driver for the correlation factor. To calculate risk-weighted assets the default correlation between a transaction and all other transactions in the portfolio is taken into account. The correlation factor determines which portion of the standalone risk of a transaction is retained when the transaction is included in the portfolio and the portfolio diversification benefits are taken into consideration.

The expected loss (EL) provides a measure of the value of the credit losses that ING Bank may reasonably expect to incur on its portfolio. In its basic form, the expected loss can be represented as:

EL = PD * EAD * LGD

Securitisations
ING Bank has implemented the AIRB approach for credit risk. As a consequence, ING Bank uses the rating based approach (RBA) for investments in tranches of asset-backed securities (ABS) and mortgage-backed securities (MBS) which have been rated by external rating agencies. Rating agencies which are used by ING Bank under the RBA include: Standard & Poor's, Fitch and Moody's.

Under the RBA, the RWA are determined by multiplying the amount of the exposure by the appropriate regulatory risk weights, which depend on:
- The external rating or an available inferred rating;
- The seniority of the position; and
- The granularity of the position.

ING Bank uses the internal assessment approach for the support facilities it provides to asset backed commercial paper (ABCP) conduit Mont Blanc Capital Corp., based on externally published rating agency methodologies.

Credit risk models
Within ING Bank internal Basel compliant models are used to determine the PD, EAD and LGD for regulatory and economic capital. Bank wide, ING Bank has implemented over 80 models, including various sub models that may be applicable for a specific portfolio. There are two main types of modelling which form the foundation of these PD, EAD and LGD models used throughout the Bank:
- **Statistical models** are created where a large set of default or detailed loss data is available. They are characterised by a sufficient number of data points that facilitate meaningful statistical estimation of the model parameters. The model parameters are estimated with statistical techniques based on the data set available;
- **Hybrid models** contain characteristics of statistical models combined with knowledge and experience of experts from both risk management and front office staff and literature from rating agencies, supervisors and academics. These models are especially appropriate for 'Low Default Portfolios', where limited historical defaults exist.

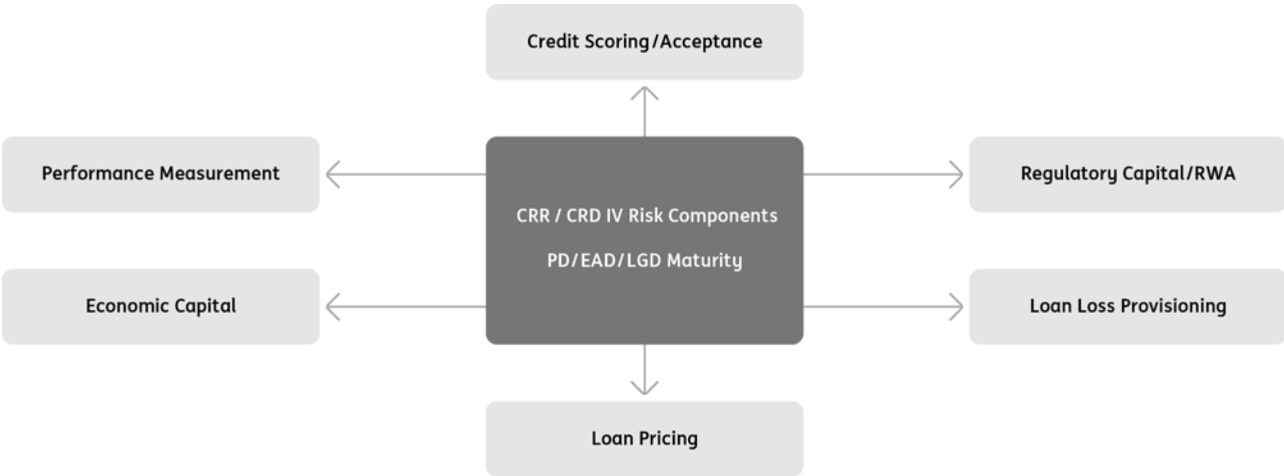
Next to the model choice, the definition of default is an important starting point for model building. ING Bank uses a framework that integrates elements of the regulatory definition of 'Default' and the loan loss provisioning indicators under IAS 39. The rationale is that several indicators are very close to the indications of an obligor's 'unlikeliness to pay' under European regulation (CRR/CRDIV) and similar regulations. Integration of both frameworks further enhances ING Bank's compliance with the CRR/CRDIV 'use test'. Key differences between the parameters used for loan loss provisioning and regulatory capital calculations are that regulatory capital parameters are typically through the cycle while loan loss parameters are more point in time. Additionally, the LGD for regulatory capital calculations is based on a down-turn LGD and a Loss Emergence Period is applied on the 1 year Default Probability to obtain Incurred losses.

Pre-settlement measurement models
For regulatory capital the pre-settlement (PS) exposure is calculated using a marked to market (MtM) plus regulatory-based add-on. Depending on the location and relevant system capabilities, for internal capital purposes ING Bank uses one of the below mentioned methodologies to calculate its PS exposures:

- **MtM plus model based add-on approach**: In this approach, the PS risk is calculated as the sum of the MtM of the trade and a model-based add-on. The MtM fluctuates through the life of the contract. The model-based add-on is product-specific, and takes into account the remaining time to maturity, profiling per time-buckets etc. Add-ons are updated with a frequency that takes into account major market changes. This methodology is used for pre-deal exposure assessment of all ING Bank financial markets products. Furthermore, it is used for post-deal risk calculations in the case of financial markets portfolios that do not justify the computational efforts and costs associated with implementation of a Scenario Simulation approach; and
- **Scenario Simulation approach (Monte Carlo approach)**: Scenario Simulation approach is the most complex of the methods for PS risk calculations. This approach takes into account daily market conditions, including correlations between the risk factors and portfolio benefits. This Monte Carlo approach is currently used in ING Bank for the largest volume of derivative products such as FX and interest rate derivatives.

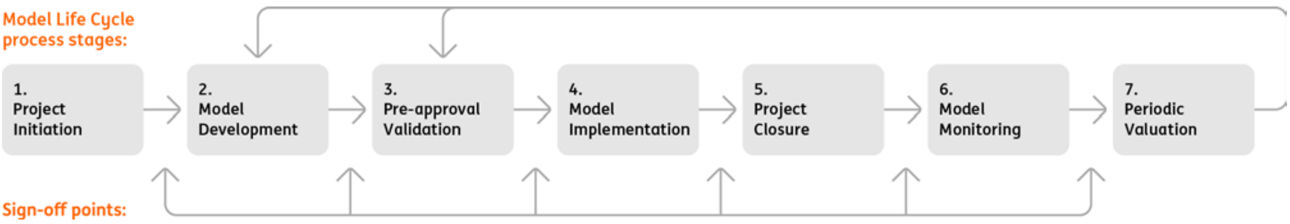
ING recognises that the above approaches are insufficiently accurate for certain trading products such as highly structured or exotic derivative transactions. For the assessment of risk exposures of such complex products a bespoke calculation is made.

The figure below provides a high level summary of the application of model outcomes (PD, EAD and LGD).



Credit risk model governance

All PD, EAD and LGD models are built according to ING Bank's internal credit risk modelling methodology standards and model life cycle. After thorough review of the documentation by the Model Development Committee (MDC) and Model Validation (MV), the Credit & Trading Risk Committee (CTRC) approves the models. For certain local models, the approval authority is delegated by the CTRC to the MDC. Each model has both a credit risk and a front office co-sponsor. Both the MDC and the CTRC have participation from credit risk officers as well as the front office to ensure maximum acceptance by the organisation. The capital impact from the implementation of approved models is reported to the ECB in a quarterly report. In addition, MV validates each model on an annual basis. During such periodical validation the model performance is analysed via amongst others back-testing and performance assessment. A five-grade colour footprint is assigned to each model during this periodical validation. If a model is considered insufficiently robust or if the back-testing indicates insufficient performance, then the model is re-calibrated or re-developed.



Credit risk rating process

In principle all risk ratings are based on a Risk Rating (PD) Model that complies with the minimum requirements detailed in the CRDIV, the ECB Supervisory Rules and EBA guidelines. This concerns all counterparty types and segments, including countries.
ING Bank's PD rating models are based on a 1-22 scale (1=highest rating; 22=lowest rating) referred to as the 'Master scale', which roughly corresponds to the same rating grades that are assigned by external rating agencies, such as Standard & Poor's, Moody's and Fitch. For example, an ING Bank rating of 1 corresponds to an S&P/Fitch rating of AAA and a Moody's rating of Aaa; an ING Bank rating of 2 corresponds to an S&P/Fitch rating of AA+ and a Moody's rating of Aa1, and so on.

The 22 grades are composed of the following categories:
- Investment grade (Risk Rating 1-10);
- Non-investment grade (Risk Rating 11-17);
- Sub-standard (Risk Rating 18-19); and
- Non-performing (Risk Rating 20-22).

The three first categories (1-19) are risk ratings for performing loans. They are calculated in ING Bank IT systems with internally developed models based on data either manually or automatically fed. Under certain conditions, the outcome of a manually fed model can be challenged through a clearly defined rating appeal process. Risk ratings for non-performing individually significant loans (20-22) are set by the global or regional restructuring. For securitisation portfolios, the external ratings of the tranche in which ING Bank has invested are leading.

Risk ratings assigned to counterparties are regularly, at least annually, reviewed, and the performance of the underlying models regularly monitored. Over 95% of ING Bank's credit risks have been rated using one of the in-house developed PD rating models. Within the AIRB Portfolio, the level of Regulatory compliant ratings exceeds 99% coverage by exposure. Some of these models are global in nature, such as models for Large Corporates, Commercial Banks, Insurance Companies, Central Governments, Local Governments, Funds, Fund Managers, Project Finance and Leveraged Companies. While other models are more regional or country specific, such as PD models for Small Medium Enterprise (SME) companies in Central Europe, the Netherlands, Belgium, Luxembourg, as well as residential mortgage and consumer loan models in the various retail markets.

Rating Models for retail counterparties are predominantly statistically driven and automated, such that ratings can be updated on a monthly or bi-monthly basis. Models for SME companies, and larger corporates, institutions and banks are manually updated, and are individually monitored on at least an annual basis.

Exposure classes
The BCBS (Basel Committee) has developed the concept of 'Exposure Classes' which has been transposed into CRR/CRDIV. These are essentially groupings of credit risks associated with a common counterparty type, product type and/or cover type. For the AIRB Approach, most of the exposure classes have subcategories. ING Bank has applied the following definitions to determine Exposure Classes:
- **Sovereigns** include Sovereign Government entities, Central Banks and recognised Local / Regional Authorities as well as Supranational Organisations;
- **Institutions** include Commercial Banks, non-Bank Financial Institutions, such as Funds and Fund Managers, and Insurance Companies, as well as local and regional government entities not classified as governments;
- **Corporates** includes all legal entities, that are not considered to be Governments, Institutions or Retail Other;
- **Retail** includes the following classes:
  - **Retail – Secured by immovable property non-SME** (hereafter **Residential Mortgages**) includes all retail loans which are covered by residential properties
  - **Retail - Secured by immovable property SME** (included in tables with **Other Retail**) includes all retail loans which are covered by commercial properties.
  - **Other Retail** includes all other credit obligations related to Retail SMEs (such as partnerships and one-man businesses) and private individuals (such as consumer loans, car loans and credit cards). Under these exposure class definitions, it is possible for a private individual to be included under both residential mortgages and retail other.
- **Securitisations** include securitisation programs for which ING Bank acts as an investor, sponsor or originator.

Models used for exposure classes
ING Bank has developed PD, EAD and LGD models for Wholesale Banking and Retail Banking portfolios. PD, EAD and LGD models are subject to CTRC (or in some delegated cases: MDC) approval and changes which significantly impact the results require approval from the regulator before implementation. By nature, the above described exposure classes have different, specific characteristics. To capture these specific characteristics and to have suitable valuations and analyses in place, credit risk department is continuously updating and developing models within each exposure class. In total, the credit risk department makes use of over 90 different internal models.

ING distinguishes four types of post default scenarios:
- *No Loss – Cure*: the borrower pays all overdue amounts (to the extent ING Bank is legally entitled to) and the asset becomes non-defaulted again. ING Bank does not experience any loss in the process. The relationship is not terminated and the borrower returns back to performing;
- *No Loss – Exit without loss*: ING Bank (or the borrower) liquidates collaterals and calls guarantees in order to recover the exposure or the borrower fully repays. Thereafter the relationship is terminated. ING Bank does not experience any loss in the process;
- *Loss – Exit with loss*: ING Bank (or the borrower) liquidates collaterals and calls guarantees in order to recover the exposure. Thereafter the relationship is terminated. ING Bank suffers loss in the process; and
- *Loss – Distressed Restructuring*: ING Bank restructures the loan agreement so as to recover the exposure after allowing some discount. The relationship with the borrower continues after the restructuring. ING Bank suffers (some) loss in the process.

Changes in 2016 to credit risk models
Model changes were in 2016 partly driven by regulatory guidance and thereby resulted in a EUR 13 billion increase of RWA. This increase resulted from several changes in different portfolios. An RWA add-on for the SME portfolios in the Netherlands and Belgium was implemented through LGD model updates which increased RWA by EUR 6.1 billion. Further, RWA add-ons were implemented on Belgian mortgages and Small Business Finance (SBF) portfolios through model updates, which increased RWA by EUR 1.9 billion. The RWA impact of all these add-ons were reported as an ONCOA item in 2015. For the Project Finance and ING Direct Spain mortgages LGD models risk-weight multipliers were added, increasing RWA by EUR 4.0 billion and EUR 0.7 billion, respectively. Next to these model updates, the model approach for the Dutch healthcare portfolio changed from AIRB to SA which increased RWA by EUR 1.0 billion.

Credit risk tools

Credit risk policies

ING Bank's credit risk policies provide for generic rules and roles and responsibilities that always prevail within the organisation. While allowance is given for discretionary variation to comply with local regulations, such variations must always comply with the content of a global ING Bank wide credit risk policy and approved by (local) credit risk. All credit risk policies are created according to the policy development standards and reviewed on a regular basis. Each policy has a credit risk sponsor and is created in close consultation with the various stakeholders within credit risk, front office and where applicable other corporate departments. All policies require approval by the Credit & Trading Risk Committee (CTRC) and where applicable by the Global Credit & Trading Policy Committee (GCTP).

Credit risk systems and data standards

The acceptance, maintenance, measurement, management and reporting of credit risks at all levels of ING Bank is accomplished through promotion of single, common credit risk data standards and the integration into common credit risk tools that support standardised and transparent credit risk practices. ING has chosen to develop the credit risk tools centrally. The philosophy is to re-use the same data for all purposes, in an integrated approach that overlaps the three key areas of ING Bank policy, the regulatory environment in which we operate, and the daily processes which are active throughout the group. Overlapping these three areas is the essential requirement to ensure data quality standards and discipline remains high.

The customer-centric data model conforms strongly to the three core business needs of ING Bank:
- To transact efficiently with our counterparties;
- To be compliant with our internal and external obligations; and
- To monitor the risks we undertake.

The customer-centric approach ensures that ING Bank can react quickly to changing regulations, business needs and best practices in our dealings with our clients and prospects.

Data Governance and Data Quality

ING Bank recognises that information and the underlying data are assets that are key (together with people, processes and IT systems) to become the next generation digital bank. Cooperation and mutual agreement on global data management roles and responsibilities in ING are critical success factors to meet this objective. As such ING Bank has embraced multiple data management and governance initiatives triggered by internal and external stakeholders (e.g. Principles for Effective Risk Data Aggregation and Risk Reporting). In the Credit Risk and Risk Services departments, these principles are embedded into the credit risk data management and enshrined within the Data Governance framework. The framework outlines roles and responsibilities relevant for the credit risk lifecycle and data quality assurance.

Credit risk data lifecycle

The credit risk data governance framework used by ING is based on the credit risk data lifecycle. The governance related to the data delivery and exchange is described in various data agreements between data users and data suppliers.
The scope of credit risk data is the data set determined and assigned for the Bank's external and internal reporting requirements and credit risk modelling requirements. Principally, data can be categorised into one of the two following types:
- **Atomic data**: the lowest level of detail and provides the base data for all data transformations. The guiding principles are that each data element is only input once, and have a clear data owner and 'home' system or database which is leading throughout all uses of that data element. From the data 'home', the data may then be redistributed to other systems or databases that may require that data in an automated Straight through Processing (STP) method. Depending on the need, the data may be transferred in real time, near real time, daily, weekly or monthly.
- **Derived data**: data derived from other data elements (atomic or derived) as a result of data transformations such as credit risk models, calculations and aggregation. Derived data is hosted in the central credit risk system (Vortex).

A key component of the credit risk data is that this data is continuously used throughout all the stages of the credit risk management cycle. By using and re-using data, there is, a continuous incentive for all data providers and users to assure up to standard data quality with regards to data delivery and data usage.

The credit risk data lifecycle describes the interlinked stages of the lifecycle from data definition to data usage as shown in the figure below:

- **Data Definitions**: this process step ensures that atomic and derived credit risk data terms have a single definition and definition owner throughout the organization. It also ensures that defined data is fit for the purpose it will be used for.
- **Capture:** ensures that atomic data is captured by business units and is available for exchange according to pre-agreed standards and specifications.
- **Exchange:** ensures data exchange is executed as agreed between data owner and data user.
- **Processing & Calculation:** processes delivered atomic data and uses it to calculate credit risk derived data. The outcome of this stage is used as input for credit risk data aggregation in for example risk reporting.
- **Data Usage:** ensures data aggregation and usage fit for multiple purposes for example modelling, regulatory and statutory reporting. Ensures that data usage or distribution is according to agreed purpose and data confidentiality, protection, security and retention rules.
- **Data Quality Assurance:** establishes data quality management with the primary focus how credit risk data quality is managed throughout the credit risk data lifecycle. It covers the data quality cycle, data quality criteria and relevant activities through the stages.
  The data quality cycle consists of four stages: define, implement, monitor and improve. During the data definitions step, data quality rules are determined. Having set the definitions, local data quality rules are implemented in the source systems, and both successively and simultaneously, data quality rules are implemented in the central credit risk system. The next stage consists of data validations, monitoring and control activities performed early in the data exchange and after data processing and calculations stage. The last stage is the continuous improvement of data quality which can be split into two categories:
  - One off issues and re-occurring issues that are identified, prioritised and subject to solution;
  - The periodical review of the data quality rules and improvements based on lessons learned from solving issues, audits and best practices.

After the last stage, the data quality cycle resumes from the start, ultimately leading to up to standard credit risk data quality.

Credit risk portfolio

ING Bank's credit exposure is mainly related to traditional lending to individuals and businesses followed by investments in bonds and securitised assets. Loans to individuals are mainly mortgage loans secured by residential property. Loans (including guarantees issued) to businesses are often collateralised, but can be unsecured based on internal analysis of the borrowers' creditworthiness. Bonds in the investment portfolio are generally unsecured. Securitised assets such as mortgage backed securities and asset backed securities are secured by the pro rata portion of the underlying diversified pool of assets (commercial or residential mortgages, car loans and/or other assets) held by the security's issuer. The last major credit risk source involves pre-settlement exposures which arise from trading activities, including derivatives, repurchase transactions and securities lending/borrowing and foreign exchange transactions.

The portfolio breakdown of ING Bank per exposure class and per risk category, based on regulatory Exposure at Default (READ) is shown below. The figures shown in the Credit Risk section are including loans to Group, unless stated otherwise:

Exposure classes ING Bank portfolio per risk category, as % of total regulatory EAD

	Lending		Investment		Money Market		Pre-Settlement		Total		Total (ALL)
2016	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB + SA
Sovereigns	2.2%	0.0%	7.9%	0.1%	1.7%	0.2%	0.2%	0.0%	12.0%	0.3%	12.3%
Institutions	3.1%	0.3%	1.8%	0.0%	0.4%	0.0%	4.9%	0.1%	10.2%	0.3%	10.5%
Corporate	32.8%	1.4%	0.4%	0.0%	0.1%	0.0%	1.7%	0.0%	35.0%	1.5%	36.5%
Residential mortgages	33.4%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	33.4%	0.9%	34.3%
Other retail	4.2%	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.2%	1.4%	5.6%
Securitisation	0.1%	0.0%	0.6%	0.0%	0.0%	0.0%	0.1%	0.0%	0.8%	0.0%	0.8%
Total (ALL)	**75.8%**	**4.0%**	**10.8%**	**0.1%**	**2.1%**	**0.2%**	**6.9%**	**0.1%**	**95.6%**	**4.4%**	**100.0%**

Exposure classes ING Bank portfolio per risk category, as % of total regulatory EAD

	Lending		Investment		Money Market		Pre-Settlement		Total		Total (ALL)
2015	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB + SA
Sovereigns	3.5%	0.0%	8.3%	0.1%	1.6%	0.2%	0.3%	0.0%	13.7%	0.3%	14.1%
Institutions	4.1%	0.4%	2.2%	0.0%	0.3%	0.0%	5.6%	0.1%	12.3%	0.5%	12.8%
Corporate	29.5%	1.1%	0.2%	0.0%	0.1%	0.0%	1.3%	0.0%	31.1%	1.1%	32.2%
Residential mortgages	33.3%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	33.3%	0.8%	34.1%
Other retail	4.5%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.5%	1.3%	5.8%
Securitisation	0.2%	0.0%	0.8%	0.0%	0.0%	0.0%	0.1%	0.0%	1.0%	0.0%	1.0%
Total (ALL)	**75.1%**	**3.6%**	**11.5%**	**0.1%**	**2.0%**	**0.3%**	**7.3%**	**0.1%**	**95.9%**	**4.1%**	**100.0%**

The total ING Bank portfolio size increased by 1.0% to EUR 845 billion in terms of READ, which was driven by volume growth and FX changes. The increase related to FX changes was driven by the appreciation of the US Dollar and Australian Dollar against the Euro, and partly offset by the depreciation of the British Pound and Turkish Lira.

The total size of the residential mortgage portfolio grew which was mainly driven by Germany, Australia, Spain and Belgium, while the residential mortgage portfolio in the Netherlands decreased in size. The decrease was driven by the continued transfer of mortgages from WestlandUtrecht (WU) Bank to NN Bank, the run-off of the WU Bank mortgage book and mortgage prepayments.

A concentration increase in the exposure class corporates was mainly observed in the Wholesale Banking business lines: structured finance, corporate & financial institutions (C&FI) lending, trade finance services and real estate finance. This was driven by the implementation of the EU equivalence rule, which resulted in a shift from exposure class institutions to corporates, and by actual lending growth in these portfolios. The lower concentration in exposure class institutions was also driven by a decrease in covered bond investments and pre-settlement exposures. The EU equivalence rule applies to certain countries outside the EU that have supervisory and regulatory arrangements in place that are at least equivalent to those applied in the EU. Since 2016 the EU equivalence indicator, which determines the exposure class allocation and correlation, is based on the combination of country and customer type, while before it was only based on the country.

The lower concentration in sovereigns was caused by decreased deposits at central banks, nostros at the Japanese Central Bank and government bonds. The investment portfolio decreased in proportion as well as in absolute value and was observed in government bonds, covered bonds and securitisations (RMBS) in Germany, Italy and Spain. Along with fulfilling liquidity requirements the investment portfolio remains a source of supporting assets in Retail Challengers & Growth Markets with exposure primarily to European central governments and central banks. The shrinking securitisations portfolio within ING Bank comprised of Investor and sponsor securitisations.

Risk rating buckets per line of business and credit risk types

Risk rating buckets are defined based upon the quality of the exposures in terms of creditworthiness, varying from investment grade to non-performing loan expressed in S&P, Moody's and Fitch equivalents.

Risk classes ING Bank portfolio per line of business, as % of total outstandings[1,2]

	Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Corporate Line		Total ING Bank	
Rating class	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
1 (AAA)	7.1%	9.4%	0.2%	0.1%	7.3%	7.6%	42.7%	40.2%	5.5%	6.5%
2-4 (AA)	11.9%	10.0%	5.7%	5.3%	16.1%	16.9%	0.3%	0.4%	11.0%	10.3%
5-7 (A)	18.9%	22.1%	4.2%	4.4%	15.0%	15.5%	3.9%	11.9%	13.4%	14.8%
8-10 (BBB)	27.0%	25.1%	34.5%	31.0%	32.7%	35.0%	7.5%	6.3%	30.5%	29.3%
11-13 (BB)	26.5%	24.6%	43.2%	46.0%	21.5%	17.5%	42.2%	38.0%	30.3%	29.4%
14-16 (B)	5.5%	5.4%	7.5%	7.7%	5.6%	5.8%	0.0%	0.0%	6.1%	6.1%
17-22 (CCC & NPL)	3.0%	3.4%	4.7%	5.5%	1.8%	1.7%	3.5%	3.2%	3.2%	3.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1 Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities.
2 Covered bonds are presented on the basis of the external credit rating of the issuer in question. Covered bond issues generally possess a better external credit rating than the issuer standalone, given structural features of such covered bonds.

The total ING Bank portfolio outstandings amounted to EUR 775 billion at the end of December 2016. The overall ING Bank exposure increase was concentrated in the BBB and BB rating classes. The risk rating distribution across business lines and credit risk types showed various shifts over the year.

Decreased central bank deposits and the country rating downgrade of Finland to AA+ were the drivers behind the decreased proportion of AAA-rated assets in Wholesale Banking and increased investment concentration in rating class AA. Additional concentration in the Wholesale Banking AA rating class was driven by increased exposures in US government bonds and positive rating migration of one US financial institution which shifted derivatives exposure from rating class A. Next to this, the concentration in the A rating bucket decreased due to lower lending exposures to the Japanese Central Bank and negative rating migration of one German financial institution to bucket BBB, which mainly impacted Wholesale Banking and Corporate Line.

Concentration in the BBB rating class in Retail Challengers & Growth Markets decreased due to reduced Italian government bond exposures, and the country rating downgrade of Turkey which shifted concentration to rating class BB across all risk categories. The risk profile for residential mortgages in Retail Benelux improved due to enhanced arrears management, stricter screening rules and forbearance clients reaching their 1-year minimum default period in the Netherlands. This led to a decreased concentration in the BB and CCC & NPL rating buckets and increased share for the BBB rated category. Additional decreased concentration in the 17-22 (CCC & NPL) bucket was due to write-offs combined with positive rating migration in the commercial property finance portfolio.

Risk classes ING Bank portfolio per credit risk type, as % of total outstandings[1]

	Lending		Investment		Money Market		Pre-settlement		Total ING Bank	
Rating class	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
1 (AAA)	1.9%	3.0%	28.3%	27.9%	14.5%	13.3%	3.4%	2.4%	5.5%	6.5%
2-4 (AA)	5.2%	4.9%	40.4%	36.6%	50.4%	50.9%	14.8%	11.4%	11.0%	10.3%
5-7 (A)	10.1%	11.1%	16.9%	17.8%	14.0%	5.1%	47.5%	52.7%	13.4%	14.8%
8-10 (BBB)	35.3%	33.1%	6.9%	10.5%	4.2%	24.1%	23.3%	23.8%	30.5%	29.3%
11-13 (BB)	36.0%	35.6%	7.2%	6.8%	15.4%	6.0%	9.1%	7.8%	30.3%	29.4%
14-16 (B)	7.5%	7.8%	0.2%	0.1%	1.5%	0.0%	1.5%	1.1%	6.1%	6.1%
17-22 (CCC & NPL)	4.0%	4.5%	0.1%	0.3%	0.0%	0.6%	0.4%	0.8%	3.2%	3.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1 Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities. The ratings reflect probabilities of default and do not take collateral into consideration.

Risk industry concentration

ING Bank uses a common industry classification methodology based on the NAICS system (North American Industry Classification System). This methodology has over 1,500 detailed industry descriptions, which are aggregated into 22 industry classes at the highest level. Certain countries require ING Bank to report locally based on other industry classification methodologies, which are generally derived from the NAICS classifications presented here. Residential mortgages are generally only extended to private individuals.

Risk concentration: ING Bank portfolio per economic sector, as % of total outstandings[1]

	Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Corporate Line		Total ING Bank	
Industry	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Private Individuals	0.0%	0.1%	73.4%	74.0%	68.8%	62.9%	0.0%	0.0%	39.5%	39.4%
Commercial Banks	14.8%	14.3%	0.2%	0.3%	6.5%	7.8%	56.4%	54.6%	8.8%	8.8%
Natural Resources	15.0%	13.0%	0.4%	0.4%	0.7%	0.7%	0.0%	0.0%	6.8%	5.7%
Central Governments	9.9%	10.5%	0.9%	1.2%	5.6%	7.1%	36.3%	34.1%	6.5%	7.0%
Real Estate	10.2%	10.0%	4.7%	4.7%	0.9%	0.8%	0.0%	0.0%	6.0%	5.8%
Non-Bank Financial Institutions	10.4%	11.7%	0.9%	0.8%	3.2%	4.3%	7.3%	11.3%	5.7%	6.4%
Transportation & Logistics	8.0%	7.6%	1.1%	1.1%	0.4%	0.4%	0.0%	0.0%	3.9%	3.6%
Lower Public Administration	1.2%	0.9%	2.8%	2.4%	5.6%	7.0%	0.0%	0.0%	2.8%	3.0%
Central Banks	5.1%	8.4%	0.1%	0.1%	1.6%	1.6%	0.0%	0.0%	2.7%	4.0%
Services	3.2%	3.1%	3.6%	3.6%	0.6%	0.7%	0.0%	0.0%	2.6%	2.5%
Food, Beverages & Personal Care	3.7%	3.8%	2.1%	2.1%	1.3%	1.4%	0.0%	0.0%	2.6%	2.6%
General Industries	3.4%	3.3%	1.5%	1.5%	1.5%	1.7%	0.0%	0.0%	2.3%	2.3%
Chemicals, Health & Pharmaceuticals	2.4%	2.0%	2.8%	2.8%	0.7%	0.8%	0.0%	0.0%	2.1%	1.9%
Other	12.7%	11.3%	5.5%	5.0%	2.6%	2.8%	0.0%	0.0%	7.7%	7.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1 Based on the total amount of credit risk in the respective column using ING Bank's internal credit risk measurement methodologies. Economic sectors below 2% are not shown separately but grouped in Other.

During 2016, the overall portfolio continued to expand, which caused shifts in the concentration per economic sector. ING Bank's main concentration in Private Individuals was related to mortgage lending. Underlying, a decline in mortgage exposure in Retail Benelux was offset by growth in Retail Challengers & Growth Markets. The Central Banks concentration decreased mainly due to lower amount of deposits and the Central Governments concentration decreased due to reduced government bond exposures in Wholesale Banking and Retail Challengers & Growth Markets. Concentration in Natural Resources increased due to growth in structured finance exposure, but also due to the appreciation of the US Dollar. The risk concentration of Non-Bank Financial Institutions declined significantly in Wholesale Banking Belgium and Netherlands due to decreased exposures in interest rate derivatives, exchange traded equity products, nostros and covered bonds.

Country risk

The concentration increase in the portfolio was mainly observed in Germany, Americas, and Australia. The increase in Americas is explained by the continually positive structured finance business momentum. The portfolio growth was further strengthened by the expanded Australian and German mortgage and structured finance portfolios. The Netherlands showed a significant decrease in the Wholesale Banking portfolio due to lower central bank deposits. The decrease in the Netherlands retail portfolio was driven by the continued transfer of mortgages from WestlandUtrecht (WU) Bank to NN Bank, the run-off of the WU Bank mortgage book and mortgage prepayments.

Country risk exposures: ING Bank portfolio, by geographic area[1]

	Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Corporate Line		Total ING Bank	
Region	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Netherlands	14.2%	16.5%	65.5%	67.4%	0.5%	0.5%	50.6%	56.5%	25.7%	27.6%
Germany	5.4%	4.9%	0.2%	0.2%	44.4%	43.7%	0.1%	4.4%	13.3%	13.2%
Belgium	6.2%	7.1%	32.1%	30.4%	0.5%	0.6%	0.0%	0.0%	12.0%	12.0%
Rest of Europe[2]	40.8%	40.5%	2.0%	1.8%	35.5%	37.6%	0.2%	1.5%	28.2%	28.2%
Americas	19.5%	18.1%	0.1%	0.1%	1.5%	1.5%	0.1%	0.2%	9.5%	8.6%
Asia/Pacific	11.6%	11.2%	0.1%	0.1%	0.1%	0.2%	48.8%	37.1%	6.0%	5.6%
Australia	1.3%	0.9%	0.0%	0.0%	17.5%	15.9%	0.2%	0.3%	4.8%	4.4%
Rest of World	1.0%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	0.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1 Geographic areas are based on country of residence, except for private individuals for which the geographic areas are based on the primary country of risk.
2 The top 5 exposures within Rest of Europe are to United Kingdom (4.1%), France (3.4%), Poland (3.3%), Spain (3.2%) and Italy (2.4%).

Credit risk mitigation

ING Bank's lending and investment businesses are subject to credit risk. As such, the creditworthiness of our customers and investments is continually monitored for their ability to meet their financial obligations to ING Bank. In addition to determining the credit quality and creditworthiness of the customer, ING Bank uses various credit risk mitigation techniques and instruments to mitigate the credit risk associated with an exposure and to reduce the losses incurred subsequent to an event of default on an obligation a customer may have towards ING Bank. The most common terminology used in ING Bank for credit risk protection is 'cover'. While a cover can be an important mitigant of credit risk and an alternative source of repayment, generally it is ING Bank's practice to lend on the basis of the customer's creditworthiness rather than exclusively relying on the value of the cover. Within ING Bank, there are two distinct forms of covers: assets and third party obligations.

Cover forms

Assets

The asset that has been pledged to ING Bank as collateral or security gives ING Bank the right to liquidate it in cases where the customer is unable to fulfil its financial obligation. As such, the proceeds can be applied towards full or partial compensation of the customer's outstanding exposure. An asset can be tangible (such as cash, securities, receivables, inventory, plant & machinery and mortgages on real estate properties) or intangible (such as patents, trademarks, contract rights and licenses).

Third party obligation

Third Party Obligation, indemnification or undertaking (either by contract and/or by law) is a legally binding declaration by a third party that gives ING Bank the right to expect and claim from that third party to pay an amount, if the customer fails on its obligations to ING Bank. The most common examples are guarantees (such as parent guarantees and export credit insurances) and letters of comfort.

Cover valuation methodology

General guidelines for cover valuation are established to ensure consistency of the application within ING Bank. These general guidelines also require that the value of the cover needs to be monitored on a regular basis, in principle at least annually. Covers are revalued accordingly and whenever there is reason to believe that the market is subject to significant changes in conditions. The frequency of monitoring and revaluation depends on the type of covers.

The valuation method also depends on the type of covers. For asset collateral, the valuation sources can be the customer's balance sheet (e.g. inventory, machinery, and equipment), nominal value (e.g. cash, receivables), market value (e.g. securities and commodities), independent valuer (commercial real estate) and market indices (residential real estate). For third party obligations, the valuation is based on the value which is attributed to the contract between ING Bank and that third party.

Cover values

This section provides insight on the type of covers and to which extent a loan is collateralised. The cover disclosures are presented by risk category: Lending, Investment, Money-Market and Pre-settlement. The cover amounts are presented by the most relevant collateral forms, being mortgages and financial collateral (cash and securities), and the most relevant third party obligation being guarantees. ING Bank obtains covers which are eligible for credit risk mitigation under CRR/CRDIV, as well as those that are not eligible.

The cover values are presented for the total portfolio of ING Bank. Covers of both AIRB and SA portfolios are presented in detail reflecting ING Bank's complete portfolio. Next to that, detailed information is provided on the cover coverage for the performing and non-performing portfolio. The non-performing loan definition is explained in detail in the section 'Credit Restructuring'. To increase the understanding of the reader on the nature of the collateralised loans, insight is given in the industry and geography breakdown of ING Bank's portfolio as well. For comparability reasons with previous tables, outstandings are used to show ING Bank's portfolio.

Exposures are categorised into different Value to Loan (VTL) buckets that give insight in the level of collateralisation of ING Bank's portfolio. VTL is calculated as the cover value divided by the outstandings at the balance sheet date. The cover values are indexed and exclude any cost of liquidation. Covers can either be valid for all limits, sub-limits or a particular outstanding of a borrower, the latter being the most common. For the purpose of aggregation, the coverage of all outstanding is capped at 100%. Over-collateralisation is ignored in this overview. Each limit is subsequently assigned to one of the six defined VTL buckets: no cover, >0% to 25%, >25% to 50%, >50% to 75%, >75% to <100%, and ≥ 100%. As the nature of the Pre-settlement portfolio determines that collateral is netted, these VTL buckets are not shown.

The first two tables give an overview of the collateralisation of the total portfolio of ING Bank.

Cover values including guarantees received - Total ING Bank – 2016[1,2]

		Cover type					Value to Loan		
	Outstan-dings	Mortgages	Eligible Financial Collateral	Other CRR/CRDIV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	Partially covered	Fully covered
Consumer Lending	304,448	486,156	3,494	391	25,846	34,839	5.6%	14.3%	80.1%
Business Lending	310,395	128,578	17,004	89,204	98,559	132,672	33.6%	28.1%	38.3%
Investment and Money Market	110,218	0	0	0	989	0	99.1%	0.3%	0.6%
Total Lending, Investment and Money Market	**725,061**	**614,734**	**20,498**	**89,595**	**125,395**	**167,511**	**31.8%**	**18.1%**	**50.1%**
Pre-settlement[3]	50,003								
Total Bank	**775,065**	**614,734**	**20,498**	**89,595**	**125,395**	**167,511**	**31.8%**	**18.1%**	**50.1%**

1 Including loans to ING Group.
2 Excluding intercompany positions.
3 More information on the credit risk mitigants of the Pre-settlement exposure can be found in the Pre-settlement section.

Cover values including guarantees received - Total ING Bank – 2015[1,2]

		Cover type					Value to Loan		
	Outstan-dings	Mortgages	Eligible Financial Collateral	Other CRR/CRDIV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	Partially covered	Fully covered
Consumer Lending	297,866	460,892	3,363	475	26,283	35,017	5.3%	18.0%	76.7%
Business Lending	295,987	119,583	16,736	81,729	90,158	130,344	36.8%	27.5%	35.7%
Investment and Money Market	114,116		6		3,113	35	97.5%	1.2%	1.3%
Total Lending, Investment and Money Market	**707,970**	**580,474**	**20,105**	**82,204**	**119,554**	**165,396**	**33.3%**	**19.3%**	**47.4%**
Pre-settlement[3]	52,574								
Total Bank	**760,543**	**580,474**	**20,105**	**82,204**	**119,554**	**165,396**	**33.3%**	**19.3%**	**47.4%**

1 Including loans to ING Group.
2 Excluding intercompany positions.
3 More information on the credit risk mitigants of the Pre-settlement exposure can be found in the Pre-settlement section.

Over the year, the collateralisation level of ING Bank's total portfolio improved. Excluding the pre-settlement portfolio for which covers are netted to derive the outstandings at risk, 50.1% of the total ING Bank's outstandings (from 47.4% as of 2015) were fully collateralised in 2016. Investments decreased in 2016 by EUR 5.3 billion, mainly in Italian government bonds and Spanish covered bonds and securitisations. Since investments traditionally do not require covers, the no covers ratio in this portfolio is close to 100%. However, 93% of the investment outstandings are investment grade. In the Lending portfolio, coverage within consumer lending increased influenced by an improvement in the house price index in the Netherlands. The risk profile of the Real Estate portfolio improved as well, which also positively contributed to the coverage.

The increase in business lending for cover Other CRR/CRDIV eligible was mainly situated in UK and America, while the increase in Guarantees was seen in structured finance and C&FI lending.

Consumer lending portfolio
The consumer lending portfolio comprises of residential mortgage loans (93.4% in 2016 versus 93.9% in 2015) and other consumer lending loans, which mainly comprise credit cards, term loans and revolvers to consumers. As a result, most of the collateral consists of mortgages. The mortgage values are maintained in ING Bank's central database (Vortex) and in most cases external data is used to index the market value. On a quarterly basis, the mortgages value is updated in Vortex using the relevant house price index (the NVM Index in the Netherlands, Level Housing Index in Australia, Crif Real Estate Appraisal Company in Italy and Ministerio de Fomento in Spain).

A significant, but decreasing part of ING Bank's residential mortgage portfolio related to mortgage loans provided in the Netherlands (43.2% in 2016 versus 45.8% in 2015), followed by other main markets such as Germany (23.9%), and Belgium (11.8%). Given the size of the Dutch mortgage portfolio, the valuation methodology employed to determine the cover values for the Dutch residential mortgages is provided below.

Dutch mortgages valuation
When a mortgage loan is granted in the Netherlands, the policy dictates maximum loan to market value (LTMV) for an existing property and for construction property financing of 102% (in 2015: 103%). In 2017 the LMTV will reduce further to 101% and will be 100% in 2018. The cover values are captured in the local systems which are subsequently fed into a central data system (Vortex). All valuations are performed by certified valuators that are registered at one of the ING Bank-accepted organisations. In addition, the valuator must be a member of the NVM (Nederlandse Vereniging van Makelaars – Dutch Association of Real Estate Agents), VBO (Vereniging Bemiddeling Onroerend Goed – Association of Real Estate Brokers), VastgoedPRO (Association of Real Estate Professionals) or NVR (Nederlandse Vereniging van Rentmeesters).

The below tables show the values of different covers and the VTL split between performing and non-performing loans.

Cover values including guarantees received - Consumer lending portfolio – 2016[1]

		Cover type					Value to Loan					
	Out-standings	Mort-gages	Eligible Financial Colla-teral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
Performing												
Residential Mortgages (Private Individuals)	276,412	473,271	2,754	136	24,664	29,421	0.0%	0.1%	0.1%	1.4%	13.4%	85.0%
Residential Mortgages (SME)	4,439	6,911	62	70	145	827	0.0%	0.4%	0.4%	1.3%	8.6%	89.3%
Other Consumer Lending	19,448	1,599	647	167	761	3,939	83.6%	0.3%	0.2%	0.3%	1.0%	14.6%
Total Performing	**300,299**	**481,781**	**3,463**	**373**	**25,570**	**34,187**	**5.4%**	**0.1%**	**0.1%**	**1.3%**	**12.5%**	**80.6%**
Non-performing												
Residential Mortgages (Private Individuals)	3,197	4,097	29	5	255	567	0.5%	0.3%	0.8%	6.1%	27.4%	64.9%
Residential Mortgages (SME)	176	265	1	10	10	25	0.8%	0.3%	1.1%	2.1%	13.4%	82.3%
Other Consumer Lending	776	13	1	3	11	60	94.1%	0.4%	0.2%	0.3%	1.1%	3.9%
Total Non-performing	**4,149**	**4,375**	**31**	**18**	**276**	**652**	**18.0%**	**0.3%**	**0.7%**	**4.8%**	**21.9%**	**54.3%**
Total Consumer Lending	**304,448**	**486,156**	**3,494**	**391**	**25,846**	**34,839**	**5.6%**	**0.1%**	**0.1%**	**1.4%**	**12.7%**	**80.1%**

1 Excluding intercompany positions.

Cover values including guarantees received - Consumer lending portfolio – 2015[1]

		Cover type					Value to Loan					
	Out-standings	Mortgages	Eligible Financial Collateral	Other CRR/CRD IV eligible	Guarantees	Non CRR/CRD IV eligible	No Cover	>0% - 25%	>25%- 50%	>50% - 75%	>75% - <100%	≥ 100%
Performing												
Residential Mortgages (Private Individuals)	270,966	447,613	2,716	154	25,271	29,406	0.1%	0.1%	0.1%	1.5%	17.1%	81.1%
Residential Mortgages (SME)	4,230	6,522	49	98	164	752	0.0%	0.6%	0.6%	1.5%	8.5%	88.8%
Other Consumer Lending	17,357	1,332	554	201	418	4,110	84.9%	0.3%	0.2%	0.3%	1.0%	13.3%
Total Performing	**292,553**	**455,467**	**3,319**	**453**	**25,853**	**34,268**	**5.1%**	**0.1%**	**0.2%**	**1.4%**	**16.0%**	**77.2%**
Non-performing												
Residential Mortgages (Private Individuals)	4,323	5,148	40	5	403	649	0.9%	0.3%	0.9%	7.4%	33.9%	56.6%
Residential Mortgages (SME)	187	274	2	12	13	33	0.4%	0.2%	1.1%	1.5%	16.1%	80.7%
Other Consumer Lending	803	3	2	5	14	67	93.8%	0.3%	0.3%	0.4%	1.4%	3.8%
Total Non-performing	**5,313**	**5,425**	**44**	**22**	**430**	**749**	**14.9%**	**0.3%**	**0.8%**	**6.2%**	**28.4%**	**49.4%**
Total Consumer Lending	**297,866**	**460,892**	**3,363**	**475**	**26,283**	**35,017**	**5.3%**	**0.1%**	**0.2%**	**1.5%**	**16.2%**	**76.7%**

1 Excluding intercompany positions.

The collateralisation of the consumer lending portfolio continued to improve over the year 2016. The rise in collateralisation levels was due to improved housing prices, seen over different mortgage markets, including the Netherlands as main market. In addition, due to stringent policies there has been a reduction in mortgages granted with low VTL's (high loan-to-values).

House prices in the Netherlands continued to show an improvement in 2016. This helped to increase the total residential mortgages cover values whilst overall mortgage outstandings increased, mainly in Germany and Australia, where the coverage ratio is nearly 100%. As the Netherlands is the biggest market for mortgages for ING Bank, this also had a significant impact on the coverage quality of the portfolio. Mortgage portfolio in the Netherlands reduced in outstandings due to run-off and transfer of WestlandUtrecht Bank mortgages to NN Bank. NPLs have shown a big improvement, especially in the Netherlands.

The numbers shown are conservative as the savings pledged to the mortgage product, 'Spaarhypotheek' (or mortgage with external saving account) present in the Dutch mortgage portfolio are not taken into account in the table above. For the residential mortgages portfolio, the guarantees relate to mortgages covered by governmental insurers under the Nationale Hypotheek Garantie (NHG) in the Netherlands. The NHG guarantees the repayment of a loan in case of a forced property sale.

Business lending portfolio

Business lending is an important business of ING Bank, accounting for 40.0% of ING Bank's total outstandings. In line with our objective to give stakeholders insight into the portfolio, we present the business lending portfolio per Industry breakdown in accordance with the NAICS definition and per Region and main market. Business Lending presented in this section does not include Pre-settlement and Investment & Money Market exposures, which are separately exhibited in the next sections.

Business lending per economic sector

Cover values including guarantees received - Business lending portfolio – 2016[1,2]

Industry	Outstandings	Mortgages	Eligible Financial Collateral	Other CRR/CRD IV eligible	Guarantees	Non CRR/CRD IV eligible	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
		Cover type					Value to Loan					
Natural Resources	50,402	3,810	3,399	19,543	20,014	23,022	22.2%	8.7%	15.3%	15.1%	15.5%	23.2%
Real Estate	45,974	72,471	1,685	1,166	7,610	8,534	5.7%	1.5%	1.4%	4.8%	12.5%	74.1%
Transportation & Logistics	28,168	3,336	405	22,486	9,125	8,475	19.0%	3.7%	3.2%	5.6%	14.6%	53.9%
Commercial Banks	22,025	336	220	1,622	1,732	1,039	86.7%	1.9%	1.3%	0.7%	1.4%	8.0%
Services	19,252	9,010	1,389	5,420	6,034	10,369	32.4%	3.4%	5.0%	7.5%	10.9%	40.8%
Food, Beverages & Personal Care	18,158	6,942	611	7,459	6,813	15,678	26.9%	3.4%	5.8%	11.1%	13.3%	39.5%
Non-Bank Financial Institutions	17,211	1,885	6,060	5,338	7,268	9,075	35.5%	8.7%	6.0%	7.0%	6.1%	36.7%
General Industries	17,082	4,988	278	5,852	6,658	11,781	31.5%	3.8%	7.3%	6.8%	9.6%	41.0%
Chemicals, Health & Pharmaceuticals	14,732	7,636	227	3,458	3,342	7,233	34.7%	3.1%	5.6%	10.6%	12.5%	33.5%
Utilities	13,160	1,359	1,167	3,309	4,306	7,354	40.9%	5.8%	2.9%	3.4%	6.1%	40.9%
Others[3]	64,231	16,805	1,563	13,551	25,657	30,112	51.3%	2.5%	5.2%	5.5%	8.3%	27.2%
Total Business Lending	**310,395**	**128,578**	**17,004**	**89,204**	**98,559**	**132,672**	**33.6%**	**4.1%**	**5.9%**	**7.4%**	**10.6%**	**38.3%**
of which Total Non-performing	***9,438***	***4,352***	***293***	***3,210***	***3,961***	***3,705***	***24.1%***	***4.4%***	***6.4%***	***14.2%***	***13.8%***	***37.2%***

1 Including loans to ING Group.
2 Excluding intercompany positions.
3 'Others' comprises industries with outstandings below EUR 13 billion.

Cover values including guarantees received - Business lending portfolio – 2015[1,2]

Industry	Outstandings	Mortgages	Eligible Financial Collateral	Other CRR/CRD IV eligible	Guarantees	Non CRR/CRD IV eligible	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
		Cover type					Value to Loan					
Real Estate	43,129	66,819	1,602	1,080	7,072	6,550	6.8%	1.1%	2.0%	6.8%	17.8%	65.5%
Natural Resources	41,967	4,080	3,927	15,497	21,793	23,362	23.6%	9.4%	11.5%	13.5%	14.1%	27.9%
Transportation & Logistics	24,877	3,575	468	22,224	8,258	8,601	16.0%	5.2%	3.0%	6.2%	11.4%	58.2%
Commercial Banks	22,367	14	267	619	1,195	1,200	89.3%	3.7%	1.4%	0.6%	1.3%	3.7%
Central Banks	21,714	0	1	0	5	0	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Services	18,477	8,197	1,282	4,450	5,586	10,287	30.0%	4.6%	4.1%	9.4%	10.0%	41.9%
Non-Bank Financial Institutions	16,702	2,288	5,022	4,401	4,668	9,370	37.5%	7.6%	5.5%	8.7%	7.1%	33.6%
General Industries	16,661	4,673	671	6,211	5,432	11,913	31.5%	3.4%	8.1%	10.7%	10.2%	36.1%
Food, Beverages & Personal Care	16,458	6,239	550	6,909	7,177	18,213	26.9%	4.5%	7.0%	11.6%	11.5%	38.5%
Chemicals, Health & Pharmaceuticals	13,300	6,937	357	4,803	2,782	6,160	32.5%	4.3%	3.9%	11.8%	14.0%	33.5%
Others[3]	60,335	16,761	2,589	15,535	26,190	34,688	40.5%	5.8%	4.0%	6.6%	9.4%	33.7%
Total Business Lending	**295,987**	**119,583**	**16,736**	**81,729**	**90,158**	**130,344**	**36.8%**	**4.8%**	**4.7%**	**7.7%**	**10.3%**	**35.7%**
of which Total Non-performing	***9,841***	***5,171***	***287***	***2,993***	***3,521***	***4,180***	***24.2%***	***2.9%***	***8.1%***	***15.8%***	***16.2%***	***32.8%***

1 Including loans to ING Group.
2 Excluding intercompany positions.
3 'Others' comprises industries with outstandings below EUR 13 billion in 2015.

Total business lending outstandings increased by EUR 14.4 billion, of which EUR 1.2 billion was FX driven. Largest outstandings increase was seen in the industry Natural Resources (20.1%, mainly in the oil sector. The increase was driven by growth in structured finance trade and commodity financing and the appreciation of the US Dollar. Increases in outstandings were also observed in the lending portfolios of Transportation & Logistics (13.2%) and Real Estate (6.6%).

Similar to the retail lending portfolio, the risk profile of the business lending portfolio continued improving in 2016. Lower NPLs and increased levels of collateralisation contributed to this improvement. The cover values of Real Estate (traditionally a well collateralised sector) improved over 2016. New transactions were done on more conservative collateral terms and improved valuations in real estate markets further helped to boost the total coverage in Real Estate.

The coverage of the non-performing part improved and an overall decrease was seen in the non-performing outstandings. The majority of this was in the Real Estate industry while some increases were observed in Transportation & Logistics and the Telecom sectors.

Business lending per region

Cover values including guarantees received - Business lending portfolio – 2016[1,2]

			Cover type					Value to Loan					
Region		Out-stan-dings	Mort-gages	Eligible Financial Colla-teral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
Africa		2,533	14	158	922	2,142	645	17.5%	10.7%	5.2%	10.8%	22.6%	33.2%
America		40,096	5,484	4,416	21,080	10,090	21,611	35.8%	4.8%	4.8%	6.7%	12.6%	35.3%
Asia		39,455	1,087	1,395	12,182	17,381	9,643	37.2%	7.2%	10.1%	7.9%	9.9%	27.7%
Australia		5,394	3,603	11	947	885	769	24.3%	9.4%	5.6%	1.0%	8.2%	51.5%
Europe	Belgium	44,815	30,807	1,655	6,287	18,249	27,038	28.7%	2.2%	2.9%	4.2%	7.2%	54.8%
	Germany	8,777	1,587	300	688	1,402	3,191	51.8%	2.7%	2.5%	5.2%	1.1%	36.7%
	Netherlands	63,597	47,941	3,007	23,451	7,990	14,849	26.5%	2.2%	4.5%	11.7%	18.0%	37.1%
	Rest of Europe	105,728	38,055	6,062	23,647	40,420	54,926	37.2%	4.3%	7.2%	6.6%	8.0%	36.7%
Total Business Lending		**310,395**	**128,578**	**17,004**	**89,204**	**98,559**	**132,672**	**33.6%**	**4.1%**	**5.9%**	**7.4%**	**10.7%**	**38.3%**
of which Non-performing		***9,438***	***4,352***	***293***	***3,210***	***3,961***	***3,705***	***24.1%***	***4.4%***	***6.4%***	***14.2%***	***13.8%***	***37.1%***

1 Including loans to ING Group.
2 Excluding intercompany positions.

Cover values including guarantees received - Business lending portfolio – 2015[1,2]

			Cover type					Value to Loan					
Region		Out-stan-dings	Mort-gages	Eligible Financial Colla-teral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
Africa		1,898	21	123	620	1,338	793	26.0%	6.6%	7.1%	14.7%	22.0%	23.7%
America		35,127	4,836	4,567	19,050	11,990	23,815	28.3%	5.9%	6.9%	9.8%	10.9%	38.2%
Asia		37,439	1,004	1,174	10,593	15,841	8,321	46.4%	5.9%	5.5%	8.7%	6.4%	27.1%
Australia		3,925	3,225	74	861	592	954	12.7%	18.8%	5.5%	3.6%	8.9%	50.5%
Europe	Belgium	41,378	29,161	1,405	6,348	17,227	30,063	29.6%	2.3%	2.6%	4.6%	7.0%	53.9%
	Germany	8,365	1,651	314	602	1,273	2,535	55.9%	1.7%	1.7%	4.3%	2.6%	33.8%
	Netherlands	71,146	45,085	3,092	24,330	6,865	14,251	35.8%	2.3%	3.3%	10.7%	17.9%	30.0%
	Rest of Europe	96,709	34,600	5,987	19,325	35,032	49,612	39.4%	6.4%	5.6%	5.9%	8.3%	34.4%
Total Business Lending		**295,987**	**119,583**	**16,736**	**81,729**	**90,158**	**130,344**	**36.8%**	**4.8%**	**4.7%**	**7.7%**	**10.3%**	**35.7%**
of which Non-performing		***9,841***	***5,171***	***287***	***2,993***	***3,521***	***4,180***	***24.2%***	***2.9%***	***8.1%***	***15.8%***	***16.2%***	***32.8%***

1 Including loans to ING Group.
2 Excluding intercompany positions.

The two tables above provide the collateralisation of ING Bank's business lending portfolio with a breakdown per geographical region or main market, which are defined based on the residence of the borrowers. The total increase in the business lending portfolio is in line with the increase in covers. This increase in collateralisation is observed in most regions and main countries. The large increase in America was mainly due to growth in the structured finance portfolio and the appreciated US Dollar.

The increase in Belgium was mainly due to growth in the C&FI Lending. The decrease in the Netherlands was due to a large decline in central bank deposits. As these deposits are not collateralised this decline had no influence on the total cover amounts. The increase in the Rest of Europe was mainly observed in the United Kingdom, Luxembourg and Italy.

Investment and Money Market portfolio

Cover values including guarantees received – Investment and Money Market portfolio[1,2]

		2016	Cover type			2015	Cover type		
Region		Out-standings	Eligible Financial Colla-teral	Guaran-tees	Non CRR/CRD IV eligible	Out-standings	Eligible Financial Colla-teral	Guaran-tees	Non CRR/CRD IV eligible
Africa						0			
America		10,296		44		8,860	6	23	35
Asia		8,065				6,079			
Australia		3,695				3,865			
Europe	Belgium	9,282				9,677			
	Germany	20,481				20,914			
	Netherlands	11,586				11,295			
	Rest of Europe	46,813		945		53,426		3,090	
Total Investment and Money Market		**110,218**		**989**		**114,116**	**6**	**3,113**	**35**
of which Non-performing		***10***				***171***			

1 Including loans to ING Group.
2 Excluding intercompany positions.

A key characteristic of the investment and money market business is that typically little cover is given to support these exposures. 99.7% of Money Market and 99.0% of Investment exposure receives no covers. The guarantees listed under Rest of Europe comprised of cedulas and were booked in Spain. The decrease in the guarantees was related to the decreased outstandings in cedulas.

Pre-settlement portfolio

ING Bank uses various market pricing and measurement techniques to determine the amount of credit risk on pre-settlement activities. These techniques estimate ING Bank's potential future exposure on individual and portfolios of trades. Master agreements and collateral agreements are frequently entered into to reduce these credit risks.

ING Bank matches trades with similar characteristics to determine their eligibility for offsetting. This offsetting effect is called 'compensation'. Subsequently, ING Bank reduces the amount by any legal netting that may be permitted under various types of Master Agreements, such as ISDA Master Agreements, Global Master Repurchase Agreements (GMRA), Global Master Securities Lending Agreements (GMSLA), etc. Lastly, the amount is further reduced by any collateral that is held by ING Bank under Credit Support Annexes (CSAs) or other similar agreements.

The use of Central Clearing Parties (CCPs) is becoming more important for the derivatives business and as a consequence the credit risk is shifting from Counterparties to CCPs. In 2016, the notional Pre-Settlement exposure that was cleared via CCPs formed 55.5% of the total notional (51.2% in 2015).

As part of its securities financing business, ING Bank entities actively enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements, buy/sell-back and sell/buyback agreements, and securities borrowing and lending agreements are the most common. As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or re-pledged in other (similar) transactions. ING Bank is obliged to return equivalent securities in such cases.

The table below represents the different types of outstandings in 2016 and 2015.

- The 'Gross MtM before netting and collateral' is the exposure calculated in accordance with the Current Exposure Method (CEM, which in the EU regulation is referred to as the Mark-to-Market method) without accounting for any netting or collateral benefit;
- The 'MtM after netting' is the exposure, according to the CEM, taking into account the benefit of legally enforceable netting agreements (e.g. ISDAs), but without considering the benefit of margin collateral (e.g. CSAs);
- The 'MtM after netting and collateral' is the exposure according to the CEM, taking into account both the benefit of netting and marginal collateral. In other words, the gap between the 'MtM after netting' and 'MtM after netting and collateral' is the liquid collateral (cash and securities); and
- The outstandings column represents CEM exposure (MtM after netting and collateral) plus the Potential Future Exposure (PFE) at a 97.5% confidence level for derivatives and securities.

Pre-settlement portfolio[1,2]

Region		2016 Gross MtM before netting and collateral	2016 MtM after netting	2016 MtM after netting and collateral	2016 Out-standings	2015 Gross MtM before netting and collateral	2015 MtM after netting	2015 MtM after netting and collateral	2015 Out-standings
Africa		84	49	47	89	71	48	46	55
America		20,866	10,891	6,549	9,241	18,648	10,237	7,127	8,734
Asia		8,318	4,743	3,558	3,918	6,598	3,455	2,823	3,242
Australia		537	303	228	492	470	259	236	344
Europe	Belgium	5,463	3,368	2,871	2,455	5,343	3,875	3,360	2,507
	Germany	5,300	2,757	1,842	3,479	7,216	3,783	2,486	5,038
	Netherlands	9,146	5,859	3,741	4,848	10,256	5,842	4,385	5,138
	Rest of Europe	124,173	31,656	26,648	25,481	118,920	34,762	28,212	27,504
Total Pre-settlement		**173,887**	**59,626**	**45,484**	**50,003**	**167,522**	**62,261**	**48,675**	**52,562**
of which Non-performing		***37***	***36***	***36***	***36***	***52***	***52***	***52***	***55***

1 Including transactions with ING Group.
2 Excluding intercompany positions.

During 2016 the pre-settlement portfolio decreased when expressed in outstandings. The MtM before and after netting and collateral increases were observed, especially in Rest of Europe due to increases from exposures to commercial banks and to central clearing houses. Rest of Europe forms majority of the pre-settlement portfolio which was mainly concentrated in UK and where the portfolio consisted of mostly derivatives.

Credit quality

Following, the somewhat higher credit risk levels seen as a result of the financial crisis and economic downturn, the credit quality has been improving since 2014 and also continued the improving trend in 2016.

Credit risk categories

	Regular	Watch List	Restructuring[1]	Non-performing[1]
Possible ratings	1-19	1-19	11-20	20-22
Typical ratings	1-14	15-17	18-20	20-22
Deterioration in risk	Not significant	Significant	Significant	Significant
Significant intervention	Not required	Not required	Required	Required
Includes impairments	No	No	Yes	Yes
Account Ownership	Front Office	Front Office	Front Office	Front Office
Credit Risk Management	Regular	Regular	Credit Restructuring	Credit Restructuring
Primary Manager	Front Office	Front Office	Credit Restructuring	Credit Restructuring
Accounting provisioning	IBNR	IBNR	IBNR/INSFA/ISFA	INSFA/ISFA

1 More information on the Restructuring and Non-performing categories can be found in the Credit restructuring section.

Credit quality: ING Bank portfolio, outstandings	2016	2015
Neither past due nor non-performing	757,498	740,890
Consumer lending past due but performing (1–90 days)	3,970	4,328
Non-performing[1]	13,597	15,325
Total	**775,065**	**760,543**

1 Based on lending and investment activities.

The total ING Bank portfolio increase was driven by both asset origination and FX movements. The credit quality of the ING Bank portfolio improved with lower past due and non-performing assets. Both developments were mainly observed in Dutch mortgages and the commercial property finance portfolio. The improvement in the past due but performing portfolio was largely driven by Retail Benelux resulting from better arrears management. The reduction in the non-performing portfolio was due to write-offs combined with positive rating migration to the performing portfolio and it was partly offset by an increase in non-performing loans in structured finance.

Past-due obligations

Retail Banking continuously measures its portfolio in terms of payment arrears. The retail portfolios are closely monitored on a monthly basis to determine if there are any significant changes in the level of arrears. The methodology is principally extended to loans to private individuals, such as residential mortgage loans, car loans, and other consumer loans. An obligation is considered 'past-due' if a payment of interest or principal is more than one day late. In practice, the first 5-7 days after an obligation becomes past due are frequently operational in nature for retail loans and small businesses portfolios. After this period, letters are sent to the obligor reminding the obligor of its (past due) payment obligations. If the arrears continue to exist, the obligor is transferred to a restructuring unit. The obligor is downgraded to risk rating 20 (non-performing) when the arrears exceed 90 days. The table below captures all past due exposures starting from day 1.

Aging analysis (past due but performing): ING Bank consumer lending portfolio, outstandings[1]	2016	2015
Past due for 1–30 days	3,368	3,593
Past due for 31–60 days	532	652
Past due for 61–90 days	70	83
Total	**3,970**	**4,328**

1 Based on consumer lending. The amount of past due but performing financial assets in respect of non-lending activities was not significant.

The improvement in past due obligations was mainly seen in Retail Benelux, underlying a solid base for ING's primary market. The improved economy and revival of the housing market in the Netherlands were the main drivers. At the same time, local risk management actions targeted at lowering arrears and enhancing the early warning methodology clearly helped to improve the overall portfolio quality.

Wholesale Banking: for business loans (governments, institutions, corporates), ING Bank classifies the relevant obligors as non-performing when any of the below listed default triggers occurs:

- Bankruptcy or financial reorganisation: The borrower has sought or has been placed (or is likely to seek or be placed) in bankruptcy or similar protection, where this would avoid or delay repayment of the financial asset;
- The borrower has failed in the payment of principal or interest/fees and such payment failure has remained unresolved for the following period:
  - Corporates: more than 90 days; and
  - Financial Institutions and Governments: from day 1, however, a research period of 14 calendar days will be observed in order for ING Bank to establish whether the payment default was due to non-operational reasons (i.e. the deteriorated credit quality of the financial institution) or due to operational reasons. The latter does not trigger default.
- ING Bank thinks the borrower is unlikely to pay: The borrower has evidenced significant financial difficulty, to the extent that it will have a negative impact on the future cash flows of the financial asset. The following events could be seen as examples of financial difficulty indicators:
  (1) The borrower (or 3rd party) has started insolvency proceedings.
  (2) NPL status of a group company/co-borrower.
  (3) Significant fraud (affecting the company's ability to service its debt)
  (4) There is doubt as to the borrowers' ability to generate stable and sufficient cash flows to service its debt.
  (5) Restructuring of debt includes a partial (debt waiver) or debt-equity conversion
- ING Bank has granted concessions relating to the borrower's financial difficulty, the effect of which is a reduction in expected future cash flows of the financial asset below current carrying amount.

Wholesale Banking has an individual name approach, using Early Warnings indicators to signal possible future issues in debt service.

Credit restructuring

Global Credit Restructuring (GCR) is the dedicated and independent corporate department that deals with non-performing loans and loans that hold a reasonable probability that ING will end up with a loss, if no specific action is taken. GCR deals with accounts or portfolios requiring an active approach, which may include renegotiation of terms & conditions and business or financial restructuring. The loans are managed by GCR or by the regional restructuring units in the various regions and business units.

ING uses three distinct statuses in categorizing the management of clients with (perceived) deteriorating credit risk profile, i.e. there is doubt as to the performance and the collectability of the client's contractual obligations:

- **Watch List**: Usually, a client is first classified as Watch List when there are concerns of any (potential or material) deterioration in the credit risk profile that might affect the ability of the client to adhere to its debt service obligations or to refinance its existing loans. The Watch List status requires more than usual attention, increased monitoring and quarterly reviews. Some clients with a Watch List status may develop into a Restructuring status or even a Recovery status.
- **Restructuring**: A client is classified as Restructuring when there are concerns about the client's financial stability, credit worthiness and/or its ability to repay, but where the situation does not call for recalling or acceleration of facilities or liquidating the collateral. ING's actions aim to maintain the going concern status of the client by:
  - Restoring the client's financial stability;
  - Supporting the client's turnaround;
  - Restoring the tension between debt and equity; and
  - Restructuring the debt to a sustainable situation.
- **Recovery:** A client is classified as Recovery when ING and/or the client concludes that the client's financial situation cannot be restored and a decision is made to end the (credit) relationship or even to enter into bankruptcy. ING will prefer an amicable exit, but will enforce and liquidate collateral or claim on the guarantees if deemed necessary.

Additionally, ING uses three distinct reporting signs in identifying exposures for clients facing financial difficulties with the notion of:

- **Forbearance**: For clients facing financial difficulties, ING might enter into a forbearance agreement with these clients in order to ease the contractual debt service obligation. All ING Business Units/Lines are required to review the clients with Early Warning Signals, Watch List, Restructuring and Recovery classification, to determine whether Forbearance is applicable. For further details on forbearance we refer to the Forbearance section.
- **Default:** For clients with non-performing loan(s) in accordance with the definition of the regulator (CRR/CRDIV; EBA; ECB); and
- **Impairment**: For clients with impaired loan(s) in accordance with the definition of accounting (IFRS/IAS).

Watch List, Restructuring and Recovery are discussed at least on a quarterly basis between Front Office, respective Credit Risk Management executives and GCR, at which time it may be decided to change the status of an account from Watch List to Restructuring or Recovery or vice versa.

Non-performing loans

The ING Bank loan portfolio is under constant review. Loans with past due financial obligations of more than 90 days are reclassified as non-performing. For the commercial lending portfolios, there generally are reasons for declaring a loan non-performing prior to being 90 days past due. These include, but are not limited to, ING Bank's assessment of the customer's perceived inability to meet its financial obligations, or the customer filing for bankruptcy or bankruptcy protection.

The table below represents the economic sector breakdown of credit risk outstandings for loans and positions that have been classified as non-performing loans.

Non-performing Loans: ING Bank portfolio, outstandings by economic sector[1]

	2016	2015
Private Individuals	4,382	5,580
Real Estate	1,808	2,562
Natural Resources	1,387	1,352
Transportation & Logistics	1,056	793
Builders & Contractors	955	1,037
General Industries	710	694
Food, Beverages & Personal Care	705	710
Services	689	796
Other	1,905	1,801
Total	**13,597**	**15,325**

1 Economic sectors not specified in above overview are grouped in Other.

The overall amount of NPLs decreased in 2016, mainly thanks to Private Individuals and improvements in the Real Estate sectors. The decrease in NPLs for the Private Individuals segment was mainly due to the improved credit quality in the Dutch mortgage portfolio as a result of the improved economic conditions in the Netherlands. The decline in NPLs in the Real Estate sector was observed in Wholesale Banking Netherlands and Spain/ Portugal Real Estate Finance and was driven by both cures and file resolutions or sales. The total decrease in the NPL portfolio outstandings was partly offset by an increase in Shipping Netherlands and UK (part of Transportation & Logistics).

Provisioning

Loan Loss Provisions (LLP) are calculated and accounted for in accordance with IFRS. LLP are reported for financial assets that are measured against amortised costs (loans and receivables, held-to-maturity investments). There are three types of LLP:

- Individually Significant Financial Asset (ISFA) provisions: when there is objective evidence that a financial asset is defaulted as result of one or more prescribed default trigger events. In such cases, ING assigns a risk rating 20, 21 or 22. Specific provisions are calculated if the exposure to a borrower exceeds the threshold amount. The threshold amount varies per business unit, but generally is EUR 1 million. Provisions are calculated based on discounted future cash flows under 1 or more likely scenarios to arrive at a best estimate of future recoveries. Provisions are made on a quarterly basis.
- Individually Not Significant Financial Asset (INSFA) provisions: are made for non-performing loans (ratings 20-22), if the exposure to a borrower is below the threshold amount. A collective model based approach is taken to determine these provisions; and
- Incurred But Not Recognised (IBNR) provisions: are made for the 'performing' loan portfolio as an estimate or proxy for the losses/defaults that may have already occurred in the portfolio. The PD time horizon used in the calculation of IBNR provisions refers to the period during which an asset is impaired (in default), but not yet recognised as such - due to lack of objective evidence – and the moment that objective evidence of impairment occurs and becomes available to ING ('loss emergence period').

ISFA, INSFA and IBNR provisions are reported and calculated by using common standards across ING Bank. In case there is objective evidence that one of the default triggers is applicable, ISFA or INSFA provisions are calculated. An analysis takes place on a quarterly basis in order to determine the appropriate level of LLP and Risk Costs. The ING Bank Provisioning Committee (IPC) discusses and approves the LLP for ING Bank, on the basis of proposals originating from ING Business Units.

At the end of 2016, ING Bank held specific (ISFA) and collective provisions (INSFA) of EUR 3,044 million and EUR 1,443 million, respectively (2015: EUR 3,331 million and EUR 1,686 million respectively), representing the difference between the amortised cost of the portfolio and the estimated recoverable amount discounted at the effective rate of interest. In addition, there is EUR 821 million (2015: EUR 769 million) in provisions (IBNR) against the performing portfolio.

Provisions: ING Bank portfolio[1,2]

	Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Total ING Bank	
	2016	2015	2016	2015	2016	2015	2016	2015
Opening Balance	2,371	2,259	2,199	2,529	1,216	1,207	5,786	5,995
Changes in the composition of the group	0	0	0	0	0	0	0	0
Write-offs	-625	-520	-681	-956	-188	-242	-1,494	-1,718
Recoveries	49	32	38	50	7	9	94	91
Increase/(decrease) in loan loss provision	367	478	347	602	260	267	974	1,347
Exchange rate or other movements	-15	122	-19	-26	-18	-25	-52	71
Closing Balance	**2,147**	**2,371**	**1,884**	**2,199**	**1,277**	**1,216**	**5,308**	**5,786**

1 At the end of 2016, the stock of provisions included provisions for amounts due from banks: EUR 11 million (2015: EUR 14 million).
2 Includes EUR 119 million provisions for contingent liabilities.

The favourable trend in risk costs continued over the year 2016. Compared to 2015-end, risk costs have trended down to 31 basis points (2015: 44 basis points) of average RWA which is below the through-the-cycle range of 40-45 basis points. The improving risk trend caused average quarterly risk costs to remain well below EUR 300 million, causing the total stock of provisions to decline from EUR 5.8 billion to EUR 5.3 billion.

Portfolios in Retail Benelux continued to improve, Wholesale Banking corporate lending was also relatively strong with a few incidental defaults. Challenges continued in industries like Oil & Gas, Shipping and Telecom while on the other hand, improved risk profiles were witnessed in other portfolios of the bank such as in residential mortgages and in commercial property finance. Encouraging signs in the Dutch housing market have helped to reduce the risk costs due to improved house prices and risk profiles. Risk costs in Turkey and Ukraine have trended downwards in 2016.

There was an improvement in the bank coverage ratio to 39.0% (2015: 38.5%) due to improved non-performing loan levels and a comparatively lesser decrease in stock provision level

Large parts of the Investment portfolio are not accounted for at amortised costs (loans & receivables or held-to-maturity) and therefore out of scope for LLP. Instead, these assets are evaluated for impairment. The ING Bank Impairment Meeting is a quarterly process that reviews all assets that are subject to an IFRS-EU impairment test.

Forbearance
Forbearance occurs when a client is considered to be unable to meet its financial commitments under the contract due to financial difficulties and ING decides to grant concessions towards the client. Forborne exposures are exposures in respect of which forbearance measures have been granted. Forbearance measures can be either modifications to existing contractual terms and conditions or total or partial refinancing. Examples include reduction of loan principal and/or interest payments, extended payment terms, debt consolidations and deferral of foreclosures.

To identify forbearance, ING assesses clients with Early Warning Signals, Watch List, Restructuring, Default or Recovery status. ING Bank reviews the performance of forborne exposures at least quarterly, either on a case-by-case (business) or on a portfolio (retail) basis.

For corporate customers, ING Bank applies forbearance measures to support clients with fundamentally sound business models that are experiencing temporary difficulties. The aim is to maximise the repayment ability of the clients.

For ING Bank retail units, clear criteria have been established to determine whether a client is eligible for forbearance – generally as part of an automated process. Specific approval mandates are in place to approve the measures, as well as procedures to manage, monitor and report the forbearance activities.

Exposures with forbearance measures can be either performing (Risk Ratings 1-19) or non-performing (Risk Ratings 20-22). ING applies criteria to move forborne exposures from non-performing to performing as well as criteria to remove the forbearance status that are consistent with the corresponding EBA standards. An exposure is reported as forborne for a minimum of two years, plus a probation period observed for forborne exposures to move from non-performing back to performing.

ING Bank implemented its forbearance policy in 2014. In the course of 2016 based on a detailed re-assessment of the relevant standards set by EBA and subsequent regulatory guidance, ING Bank tightened the definitions under its forbearance policy. Key policy revisions that led to an increase in the scope of forbearance relate to the inclusion of concessions where the risk is significantly mitigated by the client and waivers or modifications of key financial covenants. As a result of these revisions in definition and scope, performing forborne exposure recognised by ING Bank increased significantly as measures taken (in previous periods) were now recognized as forbearance.

ING Bank: Summary Forborne assets[1]

	2016				2015			
Business Line	Forborne assets	Of which: Perfor-ming	Of which: Non-Perfor-ming	% of total portfolio	Forborne assets	Of which: Perfor-ming	Of which: Non-Perfor-ming	% of total portfolio
Wholesale Banking	7,776	3,978	3,799	2.7%	3,655	881	2,774	1.4%
Retail Banking	7,104	3,944	3,159	1.7%	6,982	3,241	3,742	1.6%
Total	**14,880**	**7,922**	**6,958**	**2.1%**	**10,637**	**4,122**	**6,516**	**1.5%**

1 Undrawn commitments are excluded.

ING Bank's forborne assets increased by EUR 4.2 billion (40%) to EUR 14.9 billion per December 2016, mainly driven by Wholesale Banking.

Wholesale Banking
As per December 2016, Wholesale Banking forborne assets amounted to a total of EUR 7.8 billion, which represented 2.7% of the total Wholesale Banking portfolio.

Wholesale Banking: Forborne assets by Geographical Region[1]

Region		2016 Forborne assets	2016 Of which: Performing	2016 Of which: Non-Performing	2015 Forborne assets	2015 Of which: Performing	2015 Of which: Non-Performing
Europe	Netherlands	2,200	1,100	1,100	1,229	406	823
	Belgium	245	103	142	63	17	46
	Germany	41	13	28	5	5	0
	Rest of Europe	3,016	1,496	1,521	1,949	428	1,521
Africa		197	112	85	92	0	92
America		1,387	709	678	237	7	230
Asia		663	445	218	80	18	62
Australia		27	0	27			
Total		**7,776**	**3,978**	**3,799**	**3,655**	**881**	**2,774**

1 Undrawn commitments are excluded.

Wholesale Banking: Forborne assets by Industry[1]

Industry	2016 Forborne assets	2016 Of which: Performing	2016 Of which: Non-Performing	2015 Forborne assets	2015 Of which: Performing	2015 Of which: Non-Performing
Natural Resources	2,385	1,232	1,152	960	26	934
Real Estate	1,775	1,015	759	1,327	383	944
Transportation & Logistics	1,319	685	634	208	55	153
Builders & Contractors	429	269	160	182	113	70
Services	414	198	216	213	125	88
General Industries	411	112	299	316	105	211
Utilities	259	58	201	186	2	184
Food, Beverages & Personal Care	207	141	66	68	37	32
Telecom	152	39	114	38	9	29
Media	120	39	81	27	9	18
Technology	108	87	22	3	3	0
Chemicals, Health & Pharmaceuticals	76	65	11	26	3	22
Other	121	38	84	101	11	89
Total	**7,776**	**3,978**	**3,799**	**3,655**	**881**	**2,774**

1 Undrawn commitments are excluded.

Wholesale Banking forborne assets were mainly concentrated in Natural Resources, Real Estate and Transportation & Logistics. Together they accounted for 70% (2015: 68%) of the total forborne assets and 67% (2015: 73%) of the total non-performing forborne assets.

Wholesale Banking forborne assets increased by EUR 4.1 billion compared to 2015. This was largely driven by the revision of the forbearance policy which resulted in increased forborne assets of EUR 3.1 billion, of which EUR 2.1 billion in the performing portfolio and EUR 1.0 billion in the non-performing portfolio. The main countries impacted were the Netherlands and the United States.

Excluding the policy revision, the forborne assets increased by EUR 1.0 billion mainly visible in Natural Resources (EUR 0.4 billion) and Transportation & Logistics (EUR 0.3 billion), driven by the respective Oil & Gas and Shipping portfolios. The non-performing portfolio in Natural Resources mainly decreased due to the bankruptcy of a large client. The performing Real Estate portfolio increased due to new inflow of clients, while the non-performing Real Estate portfolio mainly decreased due to repayments and write-offs.

Retail Banking

As per end of December, Retail Banking forborne assets amounted to a total of EUR 7.1 billion, which represented 1.7% of the total Retail Banking portfolio.

Retail Banking: Forborne assets by Geographical Region[1]

		2016			2015		
Region		Forborne assets	Of which: Perfor-ming	Of which: Non-Perfor-ming	Forborne assets	Of which: Perfor-ming	Of which: Non-Perfor-ming
Europe	Netherlands	4,301	2,395	1,906	4,262	1,719	2,543
	Belgium	1,139	418	721	1,096	412	684
	Germany	644	511	132	696	547	149
	Rest of Europe	651	335	317	527	259	269
Africa		1	0	1	1	0	1
America		3	0	2	2	0	1
Asia		1	0	1	1	0	1
Australia		364	285	79	397	304	94
Total		**7,104**	**3,944**	**3,159**	**6,982**	**3,241**	**3,742**

1 Undrawn commitments are excluded.

The main concentration of forborne assets was in the Netherlands with 61% of the total forborne assets (2015: 61%) and 60% of the non-performing forborne assets (2015: 68%). Retail Banking forborne assets only increased slightly by EUR 0.1 billion compared to 2015. The policy revision impacted the Retail Banking portfolio to a much lesser extent (increase of EUR 0.4 billion) and was primarily seen in the Dutch business portfolio.

Excluding the policy revision, the forborne assets decreased by EUR 0.3 billion. As the business lending portfolio remained stable, this decrease was attributable to the consumer portfolio and mainly driven by the Dutch residential mortgage portfolio. Additionally, a EUR 0.7 billion move of non-performing to performing forborne assets was observed in the Netherlands, due to clients reaching the one year probation period. Both were the result of a continued improved economic environment, visible by the increasing house prices and improved credit worthiness of our clients.

Securitisations

ING Bank primarily plays three roles in its exposure to securitisations programs which are:

ING Bank as Investor

ING Bank's goal is to maintain a portfolio of high quality liquid assets that meets the regulatory requirements of CRR/CRD IV and the Delegated Act of October 2014 regarding liquidity. ING invests in high quality residential mortgage backed securities (RMBS) and asset backed securities (ABS) keeping close track of the securitisation investment positions via monthly monitoring reports and weekly update calls. Additionally, ING may invest in securitisation positions in order to facilitate client business from its Global Capital Markets Unit

ING Bank as Originator

ING Bank occasionally originates own securitisation transactions for economic and regulatory capital purposes, as well as liquidity and funding purposes. Securitisations originated by a company may only be considered for balance sheet de-recognition when the requirements for significant credit risk transfer have been fulfilled. However, for a securitisation transaction to be recognised as for RWA reduction, risk transfer alone may be insufficient due to the increasing impact of the maturity mismatch formula. As a consequence, the RWA of the retained tranches for one of the transactions would be higher than the total RWA of the underlying pool before securitisation. In such cases the RWA calculation for the transaction is performed as if it was not securitised. ING Bank has done a very limited number of external transactions as originator.

ING Bank as Sponsor

In the normal course of business, ING Bank structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to a special purpose vehicle (SPV). Senior positions in these transactions are often funded by the ING Bank administered multi-seller asset backed commercial paper (ABCP) conduit Mont Blanc Capital Corp. (rated A-1/P-1). Mont Blanc Capital Corp. funds itself externally in the ABCP markets. In its role as administrative agent, ING Bank facilitates these transactions by providing structuring, accounting, funding and operations services. ING Bank also provides support facilities (liquidity facilities) backing the transactions funded by the conduit. Mont Blanc is fully consolidated into the ING Bank financial accounts.

Market risk

Introduction

Market risk is the risk that movements in market variables, such as interest rates, equity prices, foreign exchange rates, credit spreads and real estate prices negatively impact the bank's earnings, capital, market value or liquidity position. Market risk either arises through positions in banking books or trading books. The banking book positions are intended to be held in the long-term (or until maturity) or for the purpose of hedging other banking book positions. The trading book positions are typically held with a short-term trading intent or in order to hedge other positions in the trading book. This means that financial instruments in the trading books should be free of restrictions on their tradability. Policies and processes are in place to monitor inclusion of positions into either a trading or a banking book and transfer of risk from trading to banking book and vice versa.

ING Bank recognises the importance of sound market risk management and follows the approach to identify, assess, control and manage market risks. The approach consists of a cycle of five recurrent activities: risk identification, risk assessment, risk control, risk monitoring and risk reporting.

- Risk identification is a joint effort of the 1st and 2nd line of defence (the 'three lines of defence governance' model is explained in the risk governance paragraph of the general risk management section). Its goal is to detect potential new risks and changes in known risks;
- Identified risks are assessed to determine the importance of the risk for ING Bank and subsequently to identify the control measures needed;
- Control measures used by ING Bank include policies, procedures, minimum standards, limit frameworks, buffers and stress tests;
- An important element of risk management is to continuously check if the implemented risk controls are executed and complied with and monitor that the controls are effective; and
- Results and findings are reported to the governing departments and approval bodies.

Governance

A governance framework has been established defining specific roles and responsibilities of business management, market risk management and internal approval bodies per activity.

Within ING Bank, the overall risk appetite is set by the Supervisory Board. Market risk falls under the supervision of the MBB and is delegated to the ALCO function, where ALCO Bank is the highest approval authority. ALCO Bank monitors adherence to the risk appetite for market risk and sets additional limits where appropriate. These limits are cascaded through the organisation through lower level ALCO's. This ALCO structure within ING Bank facilitates top-down risk management, limit setting and the monitoring and control of market risk.

The Balance Sheet Risk (BSR) department and the Credit & Trading Risk (C&TR) department are the designated independent departments that are responsible for the design and execution of the bank's market risk and counterparty credit risk management functions in support of the ALCO function. Balance Sheet Risk focuses on the market risks in the banking books, Capital Management department and the Bank Treasury department, whereas Credit & Trading Risk is responsible for counterparty credit risk and market risks resulting from the Financial Markets trading books. The organisational structure recognises that risk taking and risk management to a large extent occur at the regional/local level. Bottom-up reporting allows each management level to fully assess the market risk relevant at the respective levels.

BSR and C&TR are responsible for determining adequate policies and procedures for actively managing market risk in banking and trading books and for monitoring the compliance with these guidelines. An important element of the risk management function is the assessment of market risk in new products and businesses. Furthermore the two departments maintain an adequate limit framework in line with ING Bank's Risk Appetite Framework. The businesses are responsible for adhering to limits that ultimately are approved by ALCO Bank. Limit excesses are reported to senior management on a timely basis and the business is required to take appropriate actions to reduce the risk position.

This market risk paragraph elaborates on the various elements of the risk management approach for:
- Market risk economic capital for trading and banking books;
- Market risks in the banking books; and
- Market risks in the trading books.

Economic capital for market risk

Economic capital for market risk is the economic capital necessary to withstand unexpected value movements due to changes in market variables and model risk.

Model disclosure
Economic Capital for market risk is calculated for exposures both in trading portfolios and banking portfolios and includes interest rate risk, equity price risk, foreign exchange rate risk, real estate risk and model risks. Economic capital for market risk is calculated using internally developed methodologies with a 99.95% confidence interval and a horizon of one year.

For the trading books, the linear interest rate risk in the banking books and equity investments, the Value at Risk (VaR) is taken as a starting point for the economic capital calculations for market risk. The VaR is measured at a 99% confidence interval, a one day holding period and under the assumption of an expected value of zero.

To arrive at the economic capital for market risk, a simulation based model is used which includes scaling to the required confidence interval and holding period. In determining this scaling factor, several other factors are also taken into account like the occurrence of large market movements (events) and management interventions.

Embedded options, e.g. the prepayment option and offered rate option in mortgages in the banking books, result in non-linear interest rate risk in the banking books. The embedded options are economically hedged using a delta-hedging methodology, leaving the mortgage portfolio exposed to convexity and volatility risk. For the calculation of economic capital for this non-linear interest rate risk ING Bank performs a Monte Carlo simulation.

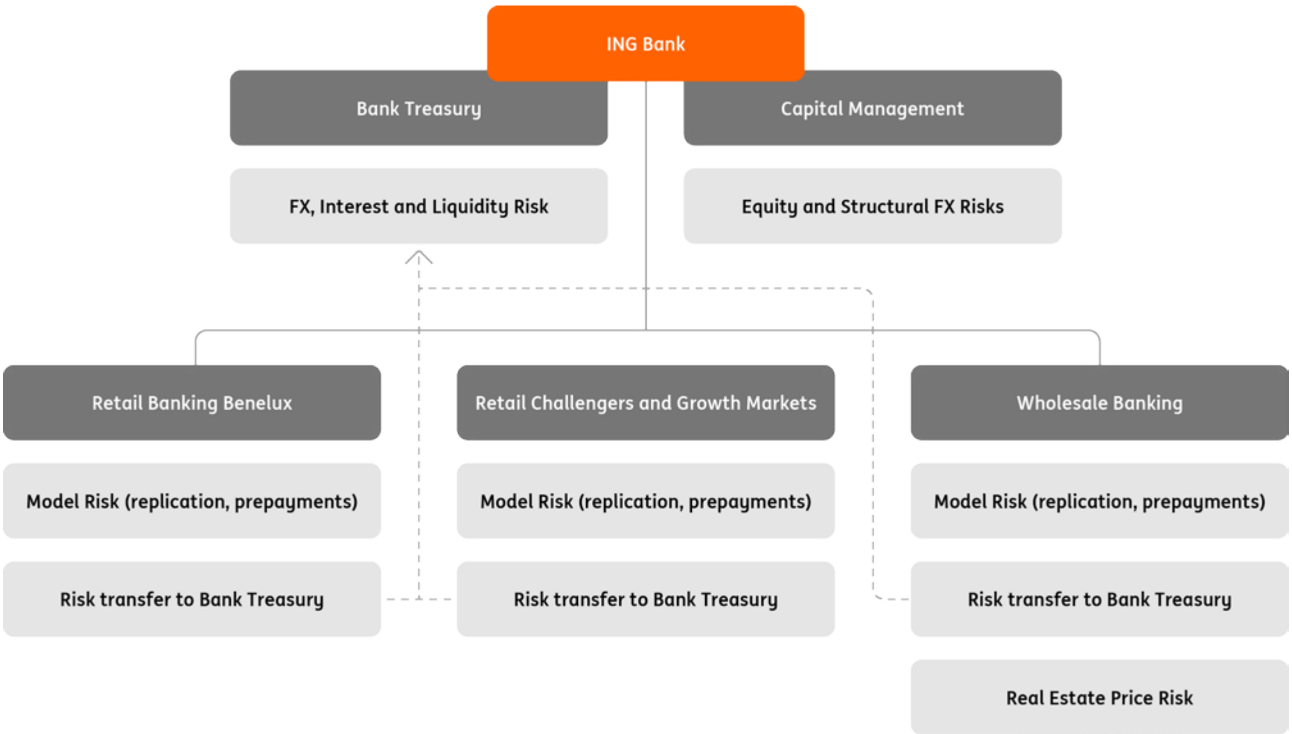
Real estate price risk includes the market risks in both the real estate investment and the development portfolio of ING Wholesale Banking. The economic capital for real estate price risk is calculated by stressing the underlying market variables.

While aggregating the different economic capital market risk figures for the different portfolios, diversification benefits (based on stressed correlations) are taken into account as it is not expected that all extreme market movements will appear at the same moment.

Market risk in banking books
ING Bank makes a distinction between trading and banking (non-trading) books. Positions in banking books originate from the market risks inherent in commercial products that are sold to clients, the Bank Treasury exposures and from the investment of own funds (core capital). Both the commercial products, and the products used to hedge market risk exposures in these products are intended to be held until maturity, or at least for the long-term.

Risk transfer

An important element of the management of market risks in the banking books is the process of risk transfer. In this process the interest rate, FX, funding and liquidity risks are transferred from the commercial books through matched funding to Bank Treasury, where it is centrally managed. The scheme below presents the transfer and management process of market risks in the banking books:



Risk measurement

The main concepts and metrics used for measuring market risk in the banking books are described below per risk type.

Interest rate risk in banking book

Interest rate risk in the banking books is defined as the exposure of a bank's earnings, capital and market value to adverse movements in interest rates originated from positions in the banking books.

Governance

The management of interest rate risk follows the interest rate risk in the banking book framework as approved by ALCO Bank. This framework describes roles and responsibilities, risk metrics, and it defines the policies and procedures related to interest rate risk management. Furthermore, on an overall level, ALCO Bank sets the risk appetite for interest rate risk, which is translated into limits for interest rate risk metrics.

The ING Bank approach to interest rate risk management, as set forth in this framework, is centralisation of risks from commercial books (that capture the products sold to clients) to central interest rate risk books. This enables a clear demarcation between commercial business results and results on unhedged interest rate positions.

ING Bank distinguishes three types of activities that generate interest rate risk in the banking books:
- Investment of own funds (by Capital Management)
- Commercial business (e.g. retail business)
- The strategic interest rate position (Bank Treasury)

Below the three activities are described in more detail:

Capital Management is responsible for managing the investment of own funds (core capital), more information can be found in the Capital Management section. Capital is invested for longer periods, targeting to maximise return, while keeping earnings stable.

The commercial activities can result in linear interest rate risk, for example when re-pricing tenors of assets differ from those of liabilities. Also interest rate risk can arise from customer behaviour depending on the nature of the underlying product characteristics. Customer behaviour risk is defined as the potential future value loss due to deviations in the actual behaviour of clients versus the modelled behaviour towards the embedded options in commercial products. General sources of customer behaviour risk include the state of the economy, competition, changes in regulation, legislation and tax regime, and developments in the housing market. Since these risk factors cannot be (fully) mitigated, ING holds capital to be able to absorb possible losses as a result of changed customer behaviour.

From an interest rate risk perspective the commercial activities can typically be divided into three main product types: savings and demand deposits, mortgages and loans.

- Savings and demand deposits are generally invested with the goal to hedge their value and minimize the sensitivity of the margin to market interest rates. Interest rate risk can arise when there is a lag between savings rate adjustments versus adjustments experienced through market rates.The interest rate risk is modelled based on the stability of the deposit and the pass through rate. This takes into account different elements, such as pricing strategies, volume developments and the level and shape of the yield curve. Savings volumes are typically assumed not to be sensitive to interest rate shocks.
- Interests rate risk for mortgages arises through prepayment behaviour. Interest rate dependent prepayment behaviour is taken into account in the models. Next to dependence on interest rates, modelled prepayment may include other effects such as loan to value, seasonality and age of the loan. In addition, the interest sensitivity of embedded offered rate options is considered.
- Loans are typically hedged from an interest rate risk perspective and consequently do not bear any material remaining interest rate risk as no interest rate dependent prepayment behaviour is observed.

The customer behaviour in relation to mortgages, loans, savings and demand deposits is modelled, based on extensive research. Per business unit and product type, exposures are typically segmented into different portfolios based on expected client behaviour. For each of the segments, model parameters for example for the pass through rate and customer behaviour are determined based on historical data and expert opinion. Models are typically back tested at least semi-annually and updated when deemed necessary. Model parameters and the resulting risk measures are approved by (local) ALCO.

Linear interest rate risk is transferred from the commercial business to the treasury books (Bank Treasury), if necessary using estimations of customer behaviour. The originating commercial business is ultimately responsible for estimating customer behaviour, leaving convexity risk and (unexpected) customer behaviour risk with the commercial business. Risk measurement and the risk transfer process take place on a monthly basis, but more often if deemed necessary, for instance in volatile markets.

The commercial business manages the convexity risk that is the result of products that contain embedded options, like mortgages. Here the convexity risk is defined as the optionality effects in the value due to interest rate changes, excluding the first-order effects. In some cases, convexity risk is transferred from the commercial books to treasury books using cap/floor contracts.

Bank Treasury manages the strategic interest rate position excluding capital investments. The main objective is to maximise the economic value of the book and to generate adequate and stable annual earnings within the risk appetite boundaries set by ALCO Bank.

Risk profile

In the following sections, the interest rate risk exposures in the banking books are presented. ING Bank uses risk measures based on both an earnings and a value perspective. Earnings Sensitivity (ES) is used to provide the earnings perspective and the Net Present Value (NPV)-at-Risk and Basis Point Value (BPV) figures provide the value perspective. Also corrective management actions are not taken into account in these figures.

For Earnings Sensitivity (ES) and Net Present Value (NPV)-at-Risk the downward interest rate scenario contains a floor of 0% on the interest rates, in line with regulatory guidelines. This means that interest rates will not drop below 0% when applying the decreasing rate scenario. In case interest rates were already below zero, they remain at that negative level under this scenario.

Earnings Sensitivity (ES)

Earnings sensitivity is modelled as described above and measures the impact of changing interest rates on (before tax) net interest income of the banking books, this excludes credit spread sensitivity. The Earnings Sensitivity figures in the tables below reflect an instantaneous interest rate shock of 1% and a time horizon of one year. The Earnings Sensitivity asymmetry between the downward floored scenario and a +100 bps shock is primarily caused by the applying the regulatory 0% floor in this scenario.

Earnings Sensitivity banking book per currency (instantaneous parallel shock)

	2016		2015	
	downward floored scenario	+100 bps	downward floored scenario	+100 bps
By currency				
Euro	-54	186	39	173
US Dollar	-14	19	–33	28
Other	8	19	–28	39
Total	**-60**	**224**	**–22**	**240**

Earnings Sensitivity banking books per business (instantaneous parallel shock)

	2016		2015	
	downward floored scenario	+100 bps	downward floored scenario	+100 bps
By business				
Wholesale Banking	-15	138	-2	165
Retail Banking Benelux	-73	-88	9	5
Retail Challengers & Growth Markets	20	58	30	-10
Corporate Line Banking	8	116	–59	80
Total	**-60**	**224**	**–22**	**240**

The Earnings sensitivity is mainly influenced by the sensitivity of savings to interest rate movements due to pass through rate differences between savings rates and investment yields and is partially offset by the sensitivity of mortgages. The investment of own funds only impacts the Earnings sensitivity marginally, as only a relatively small part has to be (re)invested within the 1-year horizon.

Year-on-year variance analysis

In line with previous year, the earnings with a one year horizon as per 2016 year end are relatively insensitive to rate changes, if compared to the net interest income. The earnings sensitivity for an upward shock has a positive impact. Positive earnings sensitivity implies that when rates increase, the positive impact on interest received on assets including hedging derivatives is larger than the negative impact of interest paid on liabilities. The change of the Earnings sensitivity for Retail Banking Benelux is mainly driven by changes to the savings model parameters as a result from changing customer behaviour. The Earnings sensitivity of the +100 bps scenario within Wholesale Banking is mainly the result of investments done by the Bank Treasury function, which is reported under Wholesale Banking. The change of the Earnings sensitivity within Corporate Line Banking is mainly driven by the investments of own funds which were not all re-invested long term.

Net Present Value (NPV) at Risk

NPV-at-Risk measures the impact of changing interest rates on value. For NPV-at-Risk calculations, an instantaneous shock of 1% is applied. The NPV-at-Risk asymmetry between the downward floored scenario and a +100 bps shock is primarily caused by the applying the regulatory 0% floor in this scenario.

The full value impact cannot be directly linked to the balance sheet or profit and loss account, as fair value movements in banking books are not necessarily reported through the profit and loss account or through equity. The value mutations are expected to materialise over time in the profit and loss account, if interest rates develop according to forward rates throughout the remaining maturity of the portfolio.

NPV-at-Risk banking books per currency (instantaneous parallel shock)

	2016		2015	
	downward floored scenario	+100 bps	downward floored scenario	+100 bps
By currency				
Euro	-55	-1,739	-583	-1,855
US Dollar	65	-62	-12	42
Other	51	-125	-58	36
Total	**61**	**-1,926**	**-653**	**-1,777**

NPV-at-Risk banking books per business (instantaneous parallel shock)

	2016		2015	
	downward floored scenario	+100 bps	downward floored scenario	+100 bps
By business				
Wholesale Banking	-157	-19	–76	53
Retail Banking Benelux	-224	-287	–159	–270
Retail Challengers & Growth Markets	328	-435	–640	–274
Corporate Line Banking	115	-1,186	222	–1,286
Total	**61**	**-1,926**	**–653**	**–1,777**

NPV-at-Risk banking books per accounting category (instantaneous parallel shock)

	2016		2015	
	downward floored scenario	+100 bps	downward floored scenario	+100 bps
By accounting category				
Loans and Receivables & Held to Maturity	114	248	-1,019	210
Available for Sale	115	-2,153	800	-2,248
Fair value through profit and loss	-168	-21	-434	261
Total	**61**	**-1,926**	**-653**	**-1,777**

The NPV-at-Risk is dominated by the interest rate sensitive long-term investments of own funds, as the equity itself is not modelled and hence is not presented as an offset for the investments of own funds. The value of these investments is impacted significantly if interest rates move up by 1%. The asymmetry between the NPV-at-Risk for a downward floored scenario and a +100 bps shock is primarily caused by the flooring of interest rates for this scenario. Due to applying this flooring, negative convexity impacts do not materialize significantly in the risk figures of the downward scenario.

Year-on-year variance analysis

NPV-at-Risk for the downward floored scenario changed by EUR 714 million during 2016. The sensitivity for the downward floored scenario has mainly changed as a result of lower rates and is additionally impacted by the regulatory requirement that interest rates on savings have to be floored at zero. NPV-at-Risk for the total +100 bps shock changed during 2016 showing an increase of EUR 149 million. The NPV-at-risk for the +100 bps shock of the Corporate Line decreased due to a lower duration of the long-term investments of own funds. The change in the NPV-at-Risk for the Retail Challengers & Growth Markets is due to changes made to the model as a result of changing customer behaviour.

Basis Point Value (BPV)

BPV measures the impact of a one basis point increase in interest rates on value. To a large extent the BPV and NPV-at-Risk reflect the same risk - the difference being that BPV does not reflect convexity risk, given the small shift in interest rates.

BPV banking books per currency

in EUR thousand	2016	2015
By currency		
Euro	-13,043	–16,563
US Dollar	-550	424
Other	-1,303	357
Total	**-14,896**	**–15,782**

BPV banking books per business

in EUR thousand	2016	2015
By business		
Wholesale Banking	-246	277
Retail Banking Benelux	-345	–448
Retail Challengers & Growth Markets	-2,149	–2,417
Corporate Line	-12,156	–13,194
Total	**-14,896**	**–15,782**

BPV banking books per accounting category		
in EUR thousand	2016	2015
By accounting category		
Loans and Receivables & Held to Maturity	1,907	4,691
Available for Sale	-21,666	-22,798
Fair value through profit and loss	4,863	2,325
Total	**-14,896**	**–15,782**

In line with NPV-at-Risk, the bank's overall BPV position is dominated by the long-term investment of own funds, as the present value of this position is significantly impacted if interest rates move up by one basis point.

Year-on-year variance analysis
The overall BPV decreased in 2016 by EUR 0.9 million. This mainly results from a lower duration of capital investments. The changes in BPV in Retail Banking Benelux and Retail Challengers and Growth Markets reflect volume and duration changes of originating assets and liabilities. Cash flow hedges were executed at the Bank Treasury function to mitigate these changes. The Bank Treasury function for Retail Challengers and Growth Markets is reported under Wholesale Banking business. Besides the change of the overall BPV exposure there is a change in the exposure per accounting category. This is mainly the result of increased volume of both savings and mortgages. This move was mitigated by cash flow hedges, which revaluate through equity, and the lower duration of capital investments.

Foreign exchange (FX) risk in banking books
FX exposures in banking books result from core banking business activities (business units doing business in other currencies than their base currency), foreign currency investments in subsidiaries (including realised net profit and loss) and strategic equity stakes in foreign currencies. The policy regarding these exposures is briefly explained below.

Governance – Core banking business
Every business unit hedges the FX risk resulting from core banking business activities into its base currency. Consequently, assets and liabilities are matched in terms of currency.

Governance – FX translation result
ING Bank's strategy is to keep the target CET1 ratio within a certain range when FX rates fluctuate, whilst limiting the volatility in the profit and loss account. Therefore, hedges are only done to the extent that they can be hedge accounted for against equity. Taking this into account, the CET1 ratio hedge can be achieved by deliberately taking foreign currency positions equal to certain target positions, such that the target CET1 capital and risk-weighted assets are equally sensitive in relative terms to changing FX rates. A selection of emerging market currencies that meet specific requirements do not have a target position, but are allowed to remain open under the policy.

Risk profile – FX translation result
The following table presents the currency exposures in the banking books for the most important currencies for FX translation result. Positive figures indicate long positions in the respective currency. As a result of the strategy to hedge the CET1 ratio a net foreign currency exposure exists.

Net banking currency exposures banking books

	Foreign Investments		Hedges		Net exposures	
	2016	2015	2016	2015	2016	2015
US Dollar	2,852	2,869	280	65	3,133	2,935
Pound Sterling	701	992	-128	–179	573	812
Polish Zloty	1,927	1,881	-584	–854	1,344	1,027
Australian Dollar	3,856	3,662	-3,324	–3,329	532	332
Turkish Lira	2,066	2,186	-3	–3	2,063	2,183
Chinese Yuan	3,012	2,817	-161	–168	2,851	2,649
Korean Won	958	838	-779	–662	179	176
Indian Rupee	714	1,172	-	-	714	1,172
Brazilian Real	253	211	-	-	253	211
Russian Rouble	589	429	-224	–181	364	248
Other currency	2,863	2,615	-1,472	–1,385	1,391	1,230
Total	19,792	19,672	-6,396	–6,696	13,396	12,977

In order to measure the remaining sensitivity of the target CET1 ratio against FX rate fluctuations, the CET1 at Risk (cTaR) measure is used. It measures the drop in the CET1 ratio from the target when stressing a certain FX rate. A negative sign in the stress scenario thus indicates that a depreciation of the corresponding currency against the Euro will result in a drop of the CET1 ratio.

CET1 ratio sensitivity ING Bank

	cTaR		Stress Scenario	
	2016	2015	2016	2015
Currency				
US Dollar	0.18%	0.13%	15%	15%
Pound Sterling	0.01%	0.01%	15%	–15%
Polish Zloty	0.00%	0.00%	-15%	15%
Australian Dollar	0.00%	0.00%	20%	20%
Turkish Lira	0.07%	0.07%	-25%	–25%
Chinese Yuan	0.09%	0.09%	-15%	–15%
Korean Won	0.01%	0.01%	-15%	–15%
Indian Rupee	0.03%	0.05%	-20%	–20%
Brazilian Real	0.01%	0.01%	-25%	–25%
Russian Rouble	0.02%	0.01%	-20%	–20%

The US Dollar is the main currency in terms of Net Exposure as the risk-weighted assets position in US Dollar is most significant besides the Euro.

Year-on-year variance analysis
The INR Foreign Investments have decrease by EUR 458 million to EUR 714 million (vs 2015) as a result of sale of Kotak shares. The increase in US Dollar cTaR is mainly due to appreciation of the US Dollar and an increase in US Dollar RWA.

Equity price risk in banking books

Governance
ING Bank maintains a strategic portfolio with substantial equity exposure in its banking books. Local offices are responsible for the management of the equity investments positions. Market risk is responsible for monitoring and reporting the regulatory capital for Equity Investments on a monthly basis. Market risk acts independently from the management of the equity investments in monitoring and reporting of the equity investments risk.

Risk Profile
Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments whose value reacts similarly to a particular security, a defined basket of securities, or a securities index. ING Bank equity exposure mainly consists of the investments in associates and joint ventures of EUR 1,003 million (2015: EUR 842 million) and equity securities held in the available-for-sale (AFS) portfolio of EUR 4,024 million (2015: EUR 4,434 million). The value of equity securities held in the available-for-sale portfolio is directly linked to equity security prices with increases/decreases being recognised in the revaluation reserve, except in the case of impairment. Investments in associates and joint ventures are measured in accordance with the equity method of accounting and the balance sheet value and therefore not directly linked to equity security prices.

Equities Unrealised Gains and Losses in the AFS portfolio

	2016	2015
Gross unrealised gains	2,675	2,662
Gross unrealised losses	-19	-29
Total	**2,656**	**2,633**

Year-on-year variance analysis
During the year ended 31 December 2016 the revaluation reserve relating to equity securities held in the available-for-sale portfolio fluctuated between a month-end low amount of EUR 2,201 million (2015: EUR 1,931 million) and a high amount of EUR 2,787 million (2015: EUR 2,709 million). The AFS portfolio decreased from EUR 4.4 billion in 2015 to EUR 4.0 billion in 2016, mainly due to the derecognition of Visa Europe shares and the reduction of the stake in Kotak Mahindra Bank, partly offset by an increase in the value of the investment in Bank of Beijing.

Real Estate price risk in banking books
Real Estate price risk arises from the possibility that real estate prices fluctuate. This affects both the value of real estate assets and earnings related to real estate activities.

Governance
Real Estate is a run-off business consisting of Real Estate Development and Real Estate Investment Management activities which are being wound down by sale of assets, strict execution of contract maturity or through portfolio sales.

Risk profile
ING Bank has two main different categories of real estate exposure on its banking books: first, the own buildings ING Bank occupies, and second, development assets, which mostly consists of former Real Estate Development and Real Estate Investment Management activities. The total real estate exposure amounts to EUR 1.1 billion (excluding property from foreclosures and third party interest). ING Bank has EUR 0.1 billion recognised at fair value through profit and loss and EUR 1.0 billion is recognised at cost or revalued through equity (with impairments going through profit and loss). A split on the real estate exposure per continent and sector based on the risk management view is shown below.

Real Estate market risk exposure in banking books (by geographic area and sector type)

	2016	2015		2016	2015
Continent			**Sector**		
Europe	968	1,136	Residential	104	115
Americas	36	45	Office	895	1,045
Australia	0	0	Retail	19	68
Asia	0	35	Industrial	18	16
Other	104	118	Other	72	91
Total	**1,108**	**1,334**	**Total**	**1,108**	**1,334**

Main exposure arises from office buildings in own use located in Netherlands and Belgium (EUR 0.7 billion), as well as retail and residential exposures in Europe (EUR 0.1 billion).

Year-on-year variance analysis
In total, real estate market risk exposure in the banking books decreased by EUR 0.2 billion mainly as a result of divestments. The remainder is due to impairments and fair value changes.

Market risk in trading books
Within the trading portfolios, positions are maintained in the professional financial markets. These positions are often a result of transactions with clients and may serve to benefit from short-term price movements.

Governance

The Financial Markets Risk Committee (FMRC) is the market risk committee that, within the risk appetite set by ALCO Bank, sets market risk limits both on an aggregated level and on a desk level, and approves new products. Credit & Trading Risk advises both the FMRC and ALCO Bank on the market risk appetite of trading activities.

With respect to the trading portfolios, Credit & Trading Risk focuses on the management of market risks of Wholesale Banking (mainly Financial Markets) as this is the only business line within ING Bank where trading activities take place. Trading activities include facilitation of client business and market making. Credit & Trading Risk is responsible for the development and implementation of trading risk policies and risk measurement methodologies, the reporting and monitoring of risk exposures against approved trading limits and the validation of pricing models. Credit & Trading Risk also reviews trading mandates and limits, and performs the gatekeeper role in the product review process. The management of trading market risk is performed at various organisational levels, from Credit & Trading Risk overall down to specific business areas and trading offices.

Fair values of financial assets and liabilities

ING Bank aligns the pricing sources it uses with the Fair Value Hierarchy. The best evidence of Fair value are published price quotations in active markets. Where quoted prices are not available, other pricing sources and valuation techniques are used to determine fair value.

Examples of other pricing sources can be independent market vendors, brokers or market makers, or recent transactions. The range of prices obtained from these pricing sources can diverge. The choice for one or the other pricing source can therefore result in different estimates of fair value. Selecting the most appropriate price within this range requires expertise and judgement. The selection of the pricing sources used is subject to internal approval and review in the Market Data Committee.

Valuation techniques range from discounting of cash flows to valuation models. Such models are based on relevant risk factors such as the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour. Some of these price factors require assumptions which imply that valuation models are subjective by nature. Depending on what valuation technique is used and what assumptions are made, the obtained fair value can be different, hence the implied downward and/or upward uncertainty of the accounting value may vary. For a classification of fair valued exposure to products in accordance with their degree of valuation uncertainty, refer to the section 'Financial instruments at fair value' of Note 37 'Fair value of assets and liabilities'.

All valuation models used are subject to a model governance framework. Model governance refers to a set of policies and procedures that have to be strictly followed and that cover the complete lifecycle of a model, i.e. its development, validation, approval, implementation and maintenance. The pillars of model governance are independent validation and periodic review. Such a review aims to determine whether a model is still appropriate for its intended use. Where models are used for valuation, there can be uncertainty on the assumptions of the underlying models and/or parameters. In those cases where significant uncertainty on assumptions arises, a model risk valuation adjustment is applied.

In general, positions are valued taking the bid price for a long position and the offer price for a short position. In cases where positions are marked at mid-market prices, a fair value adjustment is calculated.

ING Bank has aligned existing fair valuation adjustments with the regulatory standards for fair valued instruments issued by EBA, hence where possible it follows a unified valuation framework which meets both IFRS and CRR requirements. This approach is supported by a bank-wide valuation policy framework. Detailed methodologies for fair valued instruments per product and degree of liquidity are available. These cover among others close out costs and mid-price uncertainty. Benefits of this framework and chosen approach are a significant increase in consistency and transparency of the fair valuation of financial instruments across different locations and books. For compliance with EBA regulatory standards an additional valuation adjustment through capital on the concentrated positions (the Concentration AVA) of EUR 21 million after tax is booked for ING Bank in 2016. On a quarterly basis all valuation adjustments are discussed in the Global Pricing and Impairment Committee (GP&IC). This committee oversees the valuation framework and Independent price verification.

To include credit risk in the fair valuation, ING Bank applies both credit and debit valuation adjustments (hereafter referred to as respectively, CVA and DVA). Own issued debt and structured notes that are valued at fair value are adjusted for credit risk by means of an own credit adjustment. Additionally, derivatives valued at fair value are adjusted for credit risk by a credit valuation adjustment. This credit valuation adjustment is of a bilateral nature; both the credit risks on the counterparty as well as on ING Bank are included in the adjustment. All market data that is used in the determination of the CVA is based on market implied data. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty decreases) and right way risk (when exposure to a counterparty is decreasing and the credit quality of that counterparty decreases) are included in the adjustment. ING Bank applies CVA also for pricing credit risk into new external trades with counterparties. Risk limits and controls are in place to monitor and anticipate CVA risk on a daily basis. The CVA is managed by global risk governance, where the risk limits and controls for CVA are managed and monitored on a global level. Our approach on CVA risk management is driven by increased control, cost efficiency and the global scope of CVA.

ING applies a Funding Valuation Adjustment ('FVA') to address the funding costs associated with the collateral funding asymmetry on uncollateralized or partially collateralized OTC derivatives in the portfolio. This adjustment is based on the expected exposure profiles of the uncollateralized or partially collateralized OTC derivatives and market-based funding spreads.

Credit & Trading Risk has the role to challenge the valuation and pricing sources used in the valuation models by the Front Office. Credit and Trading risk performs independent price verification to ensure that valuations are correct. The independent price verification and valuation adjustments are confirmed in the Local parameter committee. To ensure segregation of duties between Front Office and Credit & Trading Risk, the systems for pricing and price testing are secured in order to prevent unauthorised access.

Risk measurement

ING Bank uses a comprehensive set of methodologies and techniques to measure market risk in trading books.

Basel Committee/CRD IV

ING Bank follows the regulatory framework set out in the Capital Requirements Regulation (CRR/CRD IV) for its regulatory capital calculations. The Basel Committee is performing a Fundamental Review of the Trading Book, which may have a significant impact on the Pillar I calculations. The final guidelines were published in January 2016 and full implementation is not expected before 2019.

Value at Risk

Credit & Trading Risk uses the historical simulation Value at Risk (VaR) methodology as its primary risk measure. The VaR for market risk quantifies, with a one-sided confidence level of 99%, the maximum overnight loss that could occur due to changes in risk factors (e.g. interest rates, equity prices, foreign exchange rates, credit spreads, implied volatilities) if positions remain unchanged for a time period of one day. Next to general market movements in these risk factors, VaR also takes into account market data movements for specific moves in e.g. the underlying issuer of securities. The impact of historical market movements on today's portfolio is estimated, based on equally weighted observed market movements of the previous year. ING Bank uses VaR with a 1-day horizon for internal risk measurement, control and backtesting, and VaR with a 10-day horizon for determining regulatory capital.

Limitations

VaR has some limitations, such as the following: VaR uses historical data to forecast future price behaviour. Future price behaviour could differ substantially from past behaviour. Moreover, the use of a one-day holding period (or ten days for regulatory capital calculations) assumes that all positions in the portfolio can be liquidated or hedged in one day. In periods of illiquidity or market events, this assumption may not hold. Also, the use of 99% confidence level means that VaR does not take into account any losses that occur beyond this confidence level.

Backtesting

Backtesting is a technique for the ongoing monitoring of the plausibility of the VaR model in use. Although VaR models estimate potential future trading results, estimates are based on historical market data. In a backtest, the actual daily trading result (excluding fees and commissions) is compared with the 1-day VaR. In addition to using actual results for backtesting, ING Bank also uses hypothetical results, which measure results excluding the effect of intraday trading, fees and commissions. When the actual or hypothetical loss exceeds the VaR an 'outlier' occurs. Based on ING Bank's one-sided confidence level of 99% an outlier is expected once in every 100 business days. In 2016 there were three occurrences where a hypothetical daily trading loss exceeded the daily consolidated VaR of ING Bank. The three outliers were caused by market movements for modelled risk factors. ING Bank reports the backtesting results on a quarterly basis to ECB.

Stressed VaR

The Stressed VaR (SVaR) is intended to replicate a VaR calculation that would be generated on the bank's current portfolio with inputs calibrated to the historical data from a continuous 12-month period of significant financial stress relevant to the bank's portfolio. To calculate SVaR, ING Bank uses the same model that is used for VaR (historical simulation). The historical data period used includes the height of the credit crisis around the fall of Lehman Brothers, and is reviewed regularly.

Incremental Risk Charge
With the Incremental Risk Charge (IRC) ING Bank calculates an estimate of the default and migration risks for unsecuritised credit products in the trading book over a one-year capital horizon, with a 99.9% confidence level. For the calculation of IRC ING Bank performs a Monte-Carlo simulation based on a Gaussian copula model. The rating change is simulated for all issuers over the different liquidity horizons (i.e. time required to liquidate the position or hedge all significant risks) within one year. The financial impact is then determined for the simulated migration to default, or for the simulated migration to a different rating category, based on LGD or credit spread changes, respectively.

The liquidity horizon has been set to the regulatory minimum of three months for all positions in scope. ING Bank reviews the liquidity horizons regularly based on a structured assessment of the time it takes to liquidate the positions in the trading portfolio.

ING Bank periodically assesses the compliance of the IRC model with the regulatory requirements by performing gap analyses, substantiating the modelling choices and quantifying the impact of alternative approaches.

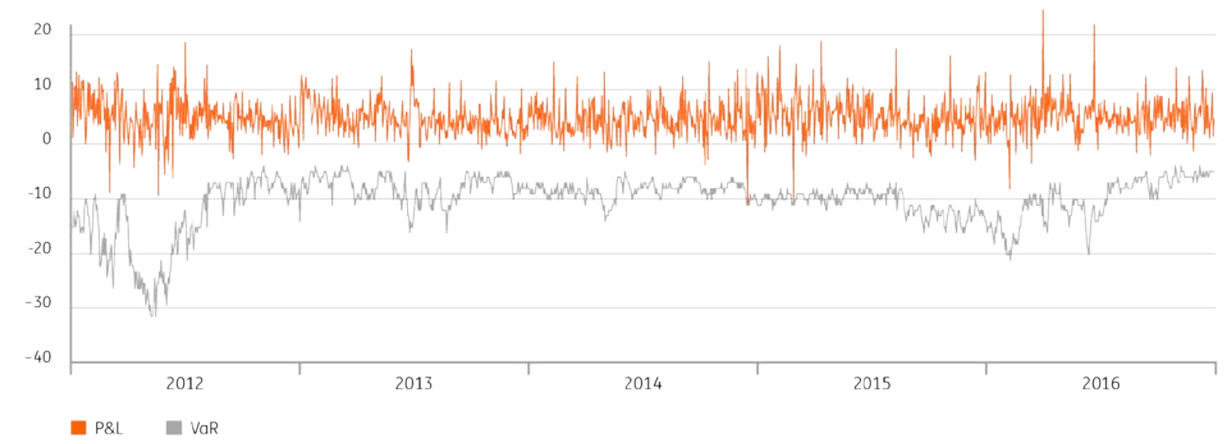
Event Risk
Event Risk is a valuable risk management tool. Event Risk evaluates the bank's financial stability under severe but plausible stress scenarios and assists in decision-making that assures the bank to remain a financially healthy going concern institution after a severe event occurs. In addition to the bank-wide stress test framework as described in the ING Bank risk profile section, Credit & Trading Risk performs separate stressed scenario tests to monitor market risks under extreme market conditions. Since VaR in general does not produce an estimate of the potential losses that can occur as a result of extreme market movements, ING Bank uses structured stressed scenario tests to calculate Event Risk for monitoring the market risk under these extreme conditions. Event Risk is based on historical as well as hypothetical extreme scenarios. The result is an estimate of the profit and loss caused by a potential event and its world-wide impact for ING Bank. The Event Risk number for the ING Bank trading activity is generated on a weekly basis. Like VaR, Event Risk is limited by ALCO Bank.

ING Bank's Event Risk policy is based on a large set of possible stress scenarios per risk type (fixed income, equity, foreign exchange, credit and related derivative markets). For example, for equity products we assume both a crisis scenario (prices decreasing) as well as a bull scenario (prices increasing). Stress parameters are set per country. Scenarios are calculated based on events happening independently, jointly by region, or in all countries simultaneously. This way, for each risk type, a large set of scenarios is calculated. The worst scenarios per market are combined across markets by assessing both independent events per market, and worst events happening in all markets at the same time.

Other trading controls
VaR and Event Risk limits are the most important limits to control the trading portfolios. Additionally, limits have been set on SVaR and IRC. Furthermore, ING Bank uses a variety of other controls to supplement these limits. Position and sensitivity limits are used to prevent large concentrations in specific issuers, sectors or countries. In addition to this, other risk limits are set with respect to the activities in complex derivatives trading. The market risk of these products is controlled by product specific limits and constraints.

Risk profile
The following chart shows the development of the overnight VaR under a 99% confidence interval and a 1-day horizon versus daily trading profits and losses. The overnight VaR is presented for the ING Bank trading portfolio from 2012 to 2016.

Consolidated trading VaR ING Bank 2012 – 2016 [1]



1 CVA risk is not included in VaR.

In 2016 there were two cases with large positive trading results. The first large positive trading result was driven by a combination of position changes; the second large positive result was driven by volatile market moves on the day of Brexit.

The risk figures in the table below only relate to the trading books for which the internal model approach is applied.

1d VaR for Internal Model Approach trading Portfolios[1]

	Minimum		Maximum		Average		Year end	
amounts in millions of euros	2016	2015	2016	2015	2016	2015	2016	2015
Interest rate	3	3	10	8	5	5	5	4
Equity and commodity	2	4	11	10	5	6	4	6
Foreign exchange	1	1	5	4	2	2	2	1
Credit spread	4	7	11	10	6	8	7	9
Diversification[2]					-7	-9	-12	-6
Total VaR	**5**	**8**	**22**	**17**	**11**	**12**	**6**	**14**

1 CVA risk is not included in VaR.
2 The total VaR for the columns Minimum and Maximum cannot be calculated by taking the sum of the individual components since the observations for both the individual markets as well as total VaR may occur on different dates.

In 2016, the average VaR was at a similar level as last year, as notable also in different risk types. The VaR was volatile during the year driven by position changes. Position changes decreased VaR by the end of the year in a response to increased market volatility.

EU MR3: Internal Model Approach values for CAD2 trading portfolios			
amounts in millions of euros		2016	2015
VaR (10 day 99%)			
1	Maximum value	64	64
2	Average value	33	44
3	Minimum value	9	29
4	Period end	36	43
Stressed VaR (10 day 99%)			
5	Maximum value	131	110
6	Average value	72	71
7	Minimum value	40	41
8	Period end	84	78
Incremental Risk Charge (99.9%)			
9	Maximum value	292	482
10	Average value	207	380
11	Minimum value	120	249
12	Period end	120	267
Comprehensive Risk capital charge (99.9%)			
13	Maximum value	n/a	n/a
14	Average value	n/a	n/a
15	Minimum value	n/a	n/a
16	Period end	n/a	n/a

Risk position changes were also reflected in the 10 day VaR and 10 day Stressed VaR statistics. Compared to 10 day VaR in 2015, in 2016 position changes led to lower average, the wider range between a maximum and a minimum and a lower 10 day VaR at year-end. For 10 day Stressed VaR the average was stable compared to the previous year, while maximum and year-end values increased. The overall decrease in IRC in 2016 was largely caused by decreased debt exposures to a number of sovereigns.

Regulatory capital

According to the Capital Requirements Regulation (CRR/CRD IV), regulatory capital for trading portfolios can be calculated using the standardised approach or an internal model approach. ING Bank received regulatory approval to use an internal model to determine the regulatory capital for the market risk in all trading books of ING Bank. Market risk capital of CAD2 trading books is calculated according to the CRR, using internal VaR, Stressed VaR and Incremental Risk Charge models, where diversification is taken into account. On the other hand, market risk capital of CAD1 books is calculated using Standardised Approach with fixed risk weights. In 2016, capital calculations for all trading books are made under the Internal Model Approach. Mismatches in FX risk from the banking books are incorporated under the Standardised Approach. ING Bank does not have a Correlation Trading Portfolio or any other securitisations in the trading book.

Standardised Approach

EU MR1: Market risk under Standardised Approach					
		2016		2015	
amounts in EUR millions		RWA	Capital requirements	RWA	Capital requirements
Outright products					
1	Interest rate risk (general and specific)				
2	Equity risk (general and specific)				
3	Foreign exchange risk	1,081	87	1,328	106
4	Commodity risk				
Options					
5	Simplified approach				
6	Delta-plus method				
7	Scenario approach				
8	Securitisation (specific risk)				
9	**Total**	1,081	87	1,328	106

The Market risk regulatory capital under Standardized Approach is fully driven by the foreign exchange risk in the non-trading portfolio. The decrease in foreign exchange risk in 2016 mainly relates to the decrease in INR (Indian Rupee) currency exposure, caused by the sale of shares in Kotak Mahindra Bank.

Internal Model Approach

EU MR2-A: Market risk under Internal Model Approach

amounts in EUR millions		2016 RWA	2016 Capital requirements	2015 RWA	2015 Capital requirements
1	**VaR (higher of values a and b)**	**1,123**	**90**	**1,797**	**144**
(a)	Previous day's VaR (Article 365(1) (VaRt-1))	449	36	535	43
(b)	Average of the daily VaR (Article 365(1)) on each of the preceding sixty business days (VaRavg) x multiplication factor ((mc) in accordance with Article 366)	1,123	90	1,797	144
2	**SVaR (higher of values a and b)**	**2,546**	**204**	**2,931**	**235**
(a)	Latest SVaR (Article 365(2) (sVaRt-1))	1,054	84	969	78
(b)	Average of the SVaR (Article 365(2) during the preceding sixty business days (sVaRavg) x multiplication factor (ms) (Article 366)	2,546	204	2,931	235
3	**Incremental risk charge -IRC (higher of values a and b)**	**1,910**	**153**	**3,579**	**286**
(a)	Most recent IRC value (incremental default and migration risks section 3 calculated in accordance with Section 3 articles 370/371)	1,500	120	3,339	267
(b)	Average of the IRC number over the preceding 12 weeks	1,910	153	3,579	286
4	**Comprehensive Risk Measure – CRM** (higher of values a, b and c)				
(a)	Most recent risk number for the correlation trading portfolio (article 377)				
(b)	Average of the risk number for the correlation trading portfolio over the preceding 12-weeks				
(c)	8 % of the own funds requirement in SA on most recent risk number for the correlation trading portfolio (Article 338(4))				
5	**Total**	**5,579**	**446**	**8,307**	**665**

The decrease in market risk Regulatory Capital for Trading as of 2015 is mainly due to decrease in exposures to sovereign issuers and as a result a decrease in IRC, and a change in risk positions during 2016 that resulted in decreases in VaR and Stressed VaR. The main changes in risk positions throughout the year were in equity derivatives portfolio and CVA hedge portfolio. The CVA hedges are capitalized under market risk framework, while CVA is capitalized under credit risk framework according to Basel rules.

Sensitivities

As part of the risk monitoring framework, Credit & Trading Risk actively monitors the daily changes of sensitivities of our trading portfolios. The following tables show the five largest trading foreign exchange positions and interest rate and credit spread sensitivities. The credit spread sensitivities are furthermore split in different risk classes and sectors. Due to the nature of the trading portfolios, positions change from day to day.

Most important foreign exchange year-end trading positions

Deltacash amounts in EUR millions	2016		2015
Foreign exchange		Foreign exchange	
US Dollar	201	US Dollar	160
Romanian New Leu	45	Romanian New Leu	57
Chinese Yuan	-40	Chinese Yuan	–42
South Korean Won	-22	South Korean Won	–46
Czech Koruna	21	Swiss Franc	18

Most important interest rate and credit spread sensitivities at year-end

amounts in EUR thousands	2016		2015
Interest Rate (BPV[1])		**Interest Rate (BPV[1])**	
Euro	-119	Euro	–414
South Korean Won	-44	South Korean Won	–52
Polish Zloty	-32	British Pound	45
Indian Rupee	-23	US Dollar	43
Romanian New Leu	22	Japanese Yen	18
Credit Spread (CSO1[2])		**Credit Spread (CSO1[2])**	
United States	333	Netherlands	–289
Germany	173	Germany	–154
Belgium	74	Norway	–110
India	-38	United States	99
Poland	-38	Spain	–89

1 Basis Point Value (BPV) measures the impact on value of a 1 basis point increase in interest rates. The figures Include commodity risk in banking books.
2 Credit Spread Sensitivity (CS01) measures the impact on value of a 1 basis point increase in credit spreads. Exposures to supranational institutions are not assigned to a specific country.

Credit spread sensitivities per risk class and sector at year-end

		2016		2015	
amounts in EUR thousands		Corporate	Financial Institutions	Corporate	Financial Institutions
Credit Spread (CSO1[1])					
Risk classes					
1	(AAA)	-3	-48	0	–60
2–4	(AA)	-21	26	13	–108
5–7	(A)	13	-9	12	–207
8–10	(BBB)	-126	-154	–61	–180
11–13	(BB)	-104	-88	–88	–64
14–16	(B)	0	-9	–3	–2
17–22	(CCC and NPL)	-1	-2	–12	–11
Not rated		1	1	3	1
Total		**-241**	**-283**	**–136**	**–631**

1 Credit Spread Sensitivity (CS01) measures the impact on value of a 1 basis point increase in credit spreads.

According to the Capital Requirements Regulation (CRR/CRD IV) ING Bank monitors and controls its large exposures, including exposures in the trading books. In the course of 2016 there were no exposures in the trading book exceeding the regulatory large exposure limits.

Funding and liquidity risk

Introduction

Funding and liquidity risk is the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions.

ING Bank incorporates funding and liquidity management in its business strategy. In order to optimise its funding and liquidity risk management, ING Bank has developed a funding and liquidity risk framework aimed at maximising liquidity access and minimising funding risks and costs. The main objective of ING's funding and liquidity risk management is to maintain sufficient liquidity to ensure safe and sound operations under normal market circumstances and in times of stress.

Governance

Within ING Bank, the MBB, staff departments from the CRO and CFO domain, Capital Management and Bank Treasury have oversight of and are responsible for managing funding and liquidity risk. The MBB defines the funding and liquidity strategy, target funding and liquidity position and the risk appetite based on recommendations from Bank Treasury, Capital Management, Balance Sheet Risk and Finance.

Liquidity risk management within ING Bank falls under the supervision of the ALCO function, with ALCO Bank as the highest approval authority overseeing the execution of the overall strategy set by the MBB.

ALCO Bank determines the liquidity risk (limit) framework and appetite after which this is cascaded down in the organisation under the responsibility of the lower level ALCOs. ING Bank's liquidity risk framework is based on the three lines of defence concept, whereby risk principles are implemented, monitored and controlled in conjunction with both first and second line functions within the Bank.

Bank Treasury is a 1st line of defence function. Its main funding and liquidity responsibilities are to manage ING's funding gap and ING's (regulatory) liquidity position. Bank Treasury is ING's primary contact to the market for long and short term funding, with exception of capital transactions which are under the responsibility of the Capital Management function and the execution of some specific structured funding products which are executed by Financial Markets under a mandate that provides strict guidance around pricing, volumes, optionalities and tenors.

The 2nd line Balance Sheet Risk function is responsible for defining the governance with regard to funding and liquidity management and facilitates the decision making processes for ALCO Bank regarding this. Next to this, Balance Sheet Risk sets the standards for the funding and liquidity risk approach (identify, assess, control, monitor and report). Furthermore, it determines adequate policies and procedures for managing and monitoring liquidity risk and checks compliance with guidelines and limits.

Management

Framework

ING's liquidity risk management framework incorporates all relevant risk principles with regard to the daily and on-going management of funding and liquidity risk. The framework contains the following key elements:

- *Liquidity risk appetite*: This is set by ALCO Bank (which includes all MBB members) in line with ING's complexity, business mix and liquidity risk profile. The risk appetite is reviewed on an annual basis and forms part of the input of business units in their medium term business plans. The defined risk appetite is allocated to the lower level ALCO's;
- *Funding*: The Bank Treasury function sets and updates the funding strategy and funding planning, taking into account diversification in sources and tenor of funding;
- *Intraday Liquidity Management*: Bank Treasury actively manages its short term liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions;
- *Collateral Position Management*: Bank Treasury actively manages the liquidity risk of its collateral positions to meet ING's collateral needs, and resources, under both normal and stressed conditions and in accordance with all internal and regulatory rules;
- *Liquidity buffers*: ALCO Bank ensures that sufficient liquidity is maintained, in accordance with Bank- and regulatory rules and standards, including a buffer of unencumbered, high quality liquid assets, to withstand stress events, such as those involving the loss or impairment of both unsecured and secured funding sources;
- *Liquidity risk transfer and pricing*: ALCO Bank sets and maintains a Funds Transfer Pricing (FTP) framework that optimises Bank-wide funding and liquidity risk management, whereby all business units must transfer their structural funding and liquidity risks to Bank Treasury whilst managing their own customer behaviour liquidity risk costs. Any negative carry resulting from necessity to keep a buffer of liquid assets as contingent liquidity is not captured in FTP, this negative carry is captured and allocated through a separate contingent liquidity charging (CLC) mechanism;
- *Stress testing*: ALCO ensures that liquidity stress tests are planned, designed, conducted and reviewed, to identify sources of potential liquidity strain, to determine how these can and will be addressed and to ensure that current exposures remain within the established liquidity risk tolerance; and
- *Contingency Funding Plan*: ALCO ensures the design, regular test and maintenance of formal Contingency Funding planning, setting out the strategies for addressing liquidity shortfalls in emergency situations, outlining procedures to manage these situations, establishing clear lines of responsibility, and articulating clear implementation and escalation procedures.

Liquidity risk appetite

ING's liquidity risk appetite expresses the level of liquidity risk ING is willing to take in pursuit of its strategic objectives. The Liquidity Risk Appetite Statements (RAS) are aligned with the ING strategy and are allocated to the ING entities by way of limits, where needed per ING entity. ING's Liquidity RAS is build up of three levels:

- RAS Level 1 are considered in conjunction with each other for the purpose of steering the ING Bank liquidity positions as they differ in assumptions, horizon and scope. The level 1 risk appetite statements (i) assure compliance with regulatory requirements (LCR and NSFR) and (ii) set adequate buffers related to internally defined stress scenarios;
- RAS Level 2 are additional principles that allow assessing different aspects of ING consolidated liquidity position and/or balance sheet (ratios). They can ultimately affect RAS Level 1, or they can be complementary to RAS Level 1 (where the differences lie in either the metrics, the assumption, the data source or both). The level 2 risk appetite statements focus on (i) ING Bank's cash & collateral position, (ii) the asset encumbrance ratio, (iii) assure sufficient levels of funding diversification; and
- RAS Level 3 are additional principles that allow assessing aspects of the consolidated liquidity position that concern certain parts of on- and off- balance sheet items, or represent a further specification of RAS Level 1 or Level 2.

This RAS hierarchy is applied consistently for all currencies and for USD for both the consolidated ING scope and ING Bank N.V. solo. Where relevant the RAS are cascaded down to specific regional and local levels.

Based on the above, ING Bank has defined the following funding and liquidity risk management risk appetite statements:
- Home/host regulatory liquidity limits must be pro-actively complied with;
- The time-to-survive in a funding stress situation must extend over defined period, depending on the level of stress applied;
- Funding of longer-term assets and investments must be done by stable and longer-term liabilities;
- Geographical dependencies with respect to intra-group funding are to be limited; and
- Diversification must be in place of funding profile, across funds providers, instrument types, geographic markets, tenors and currencies.

Funding

In detailing the activities of the bank regarding utilisation of professional market funding sources, the following key principles apply:
- Maintaining adequate market access in both normal and stressed but operable market conditions;
- Managing risk by adhering to internally and externally imposed risk limits and balance sheet ratios; and
- Optimising the cost of funding under the principles above.

With respect to funding sources, ING Bank manages its balance sheet prudently, whereby short-term funding is primarily utilised for funding short-term assets. The bank aims to fund longer term assets and investments by stable and longer term liabilities. Next to this, ING Bank monitors exposures in major currencies such as the USD. Monitoring and control of the USD funding is effectuated through a dedicated USD funding and liquidity risk framework.

ING Bank reviews its funding plan on at least a quarterly basis, assessing market developments and funding requirements.

Intraday liquidity management

The objective of managing intraday liquidity and its risks at ING is twofold: it is focused on preventing damage to the institution's own liquidity position, and, in light of its role in global financial markets, ING also takes into account the potential damage to other parties which can arise through chain effects in payment and securities transactions. Intraday liquidity management is managed through the intraday risk appetite statement, by setting amongst others monitoring metrics and triggers on daily net negative liquidity positions and levels of payments outflows.

Collateral position management

The objective of the Collateral Management is to ascertain that ING Bank can meet collateral requirements for ING's collateral needs. ING Bank maintains a liquidity buffer existing of cash, cash equivalents and other highly liquid unencumbered assets to facilitate this. Tactical (short term) management of the liquidity buffer is performed, by increasing or decreasing the liquidity coverage with collateral transformation by execution of repos, in order to meet internal and regulatory requirements. Reporting and analysis is performed, providing availability of collateral for emergency financing, its eligibility and its route to cash in an efficient manner.

Liquidity buffers

The liquidity buffer ING Bank holds can be seen as the short-term part of the counterbalancing capacity, i.e. the total of available sources and measures within ING to generate liquidity (including also stopping professional lending), and serves as a cushion for liquidity needs under normal and stressed conditions.

The size and composition of the Liquidity buffer depends on ING's risk appetite and regulatory liquidity standards. In the buffer, only assets that are included that are 'unencumbered' and freely available for liquidity purposes. Bank Treasury ensures functional management of all liquidity buffers within ING Bank, both buffers at Bank level and buffers at local business unit level.

The liquidity buffer is held as an insurance against a range of stress scenarios, covering the additional need for liquidity that may arise over a defined short period of time under stress conditions. ING's minimum standards for liquidity buffers are described below:
- When local regulatory rules require so, local liquidity buffers can be established. Although locally established, these buffers must be centrally functionally managed by the Bank Treasury function;
- The buffer must be aligned in relation to the contractual and expected expiry calendars and other expected or planned developments;
- The size of the buffers is supported by estimates of liquidity needs performed under the Bank's or business entity's stress testing and be aligned with the liquidity risk appetite;
- The liquidity buffer is composed of cash and core assets that are eligible for the Liquidity Coverage Ratio (LCR) and/or highly marketable, which are not pledged to payment systems or clearing houses. For longer term buffer purposes, a broader set of liquid assets might be appropriate, subject to the Bank's or entity's ability to generate liquidity from them under stress, within the specified period of time; and
- The location and size of liquidity buffers reflects the Bank's or entity's structure (e.g. legal and geographical) and business activities.

Liquidity risk transfer and pricing

Funds Transfer Pricing (FTP) is an internal measurement and allocation system that assigns a profit contribution to funds raised, lent, or invested. FTP is the pricing mechanism used within ING to transfer interest rate risk, basis risk and liquidity risk positions from commercial units to Bank Treasury. The FTP framework enables local ALCOs to set their local FTP levels and manage these risks for all internal transfers at local level. This means that these risks are transferred from the business to a separate Bank Treasury book where they can be monitored and managed more efficiently and effectively. Any negative carry resulting from necessity to keep a buffer of liquid assets as contingent liquidity is not captured in FTP. This negative carry is captured and allocated through a separate contingent liquidity charging (CLC) mechanism. The liquidity costs, benefits and risks are considered in the product pricing, design and offering and in the Product Approval and Review Process (PARP) or deal approval and other related processes for commercial products by the business units.

Stress testing

Stress testing allows ING to examine the effect of exceptional but plausible future events on the liquidity position of the bank and provides insight into which entities, business lines or portfolios are vulnerable to which type of risks and/or in which type of scenarios. Liquidity stress testing is an important tool in identifying, assessing, measuring and controlling funding and liquidity risks, providing a complementary and forward-looking perspective to other liquidity and funding risk management tools.

In line with SREP and EBA guidance, ING's liquidity position is stress tested on a monthly basis under a particular scenario that is a mix between a market event and an ING specific event. The outcome of stress tests are evaluated and provide input to any follow-up on the need for additional contingency measures.

In addition to the bank-wide stress test framework as described in the ING Bank risk profile section, stress test reports are produced with respect to the funding and liquidity position on a regular basis. Some of these stress tests are regulatory driven, and others are based on internal scenarios. On a weekly basis ING reports an internal net liquidity position metric, this is reported on a consolidated (bank) level for the main entities and split in Euro and US Dollar. On a monthly basis ING Bank reports the Liquidity Coverage Ratio (LCR) and a internally defined stress scenario related to the time-to-survive period. Additionally, on a quarterly basis, ING Bank reports a number of internally defined stress scenarios related to time-to-survive periods.

On ad-hoc basis ING Bank performs additional stress tests related to the funding and liquidity position. Overall, stress testing is an integral part of the liquidity and funding risk management framework and also serves as input for the contingency funding plan. From a currency perspective, stress tests are applied on Euro and US Dollar whilst other currencies are monitored. This aligns with the Basel III and CRR approach with regard to major currencies.

Contingency funding plan

In the contingency funding plan, contingency liquidity risk is addressed which specifically relates to the organisation and planning of liquidity management in time of stress. Within ING Bank, for contingency purposes, a dedicated crisis team – consisting of key MBB members and senior management representatives from e.g. Risk, Finance, Capital Management and Bank Treasury – is responsible for liquidity management in times of crisis. Throughout the organisation contingency funding plans are in place to enable senior management to act effectively and efficiently in times of crisis. The contingency funding plans are developed in line with the ING Recovery Plan and are tested on a regular basis, both centrally and at business unit level.

Funding and Liquidity profile

Funding sources

In 2016, ING Bank had readily access to a large variety of funding sources, both short term and long term. In the table below, the various funding sources are presented in the funding mix:

ING Bank Funding Mix

	2016	2015
Funding type		
Retail deposits	51%	48%
Corporate & other deposits	21%	22%
Interbank (incl. central bank)	5%	5%
Lending/repurchase agreement	5%	5%
Public debt	16%	18%
Subordinated debt	2%	2%
Total	**100%**	**100%**

The funding mix remained well diversified. Retail deposits remained ING Bank's primary sources of funds and slightly increased to 51% of the total funding mix per year end 2016. The Loan-to-Deposit ratio (excluding securities at amortised costs) increased from 1.04 per 2015 year-end to 1.06 per year end 2016.

Regulatory developments

Based on the Delegated Act on the LCR issued by the European Commission in October 2014, the EBA issued Implementing Technical Standards with regard to the reporting of the LCR as per 1 October 2015. The LCR is currently calculated and reported based on this Delegated Act and the corresponding Implementation Technical Standards. A Corrigendum for the LCR Delegated Act is in the making and is expected to be issued later in 2017.

The current implemented additional monitoring metrics will be extended with a maturity ladder template, which was out of scope in the initial implementation.

In November 2016, the EC has submitted a legislative proposal on NSFR to the European Parliament and Council. It is expected that the NSFR will come into force two years after its approval by the European Parliament and Council, with an indicative date of 2019. The NSFR ratio is currently reported on a quarterly basis based on BCBS and EBA guidance.

The European Commission proposal also contains guidance on disclosure. This means that disclosure requirements will come into force after the approval by the European Parliament and Council.

Non-Financial Risk

Introduction

The Non-Financial Risk (NFR) function encompasses the operational and compliance risk management functions. It ensures appropriate risk controls in these functional areas by implementing clear policies and minimum standards which are embedded in ING Bank business processes in all divisions. The necessary infrastructure is in place to enable management to track events and non-financial risk issues. A comprehensive system of internal controls that are reviewed and updated as necessary creates an environment of continuous improvement in managing non-financial risk.

ING Bank believes that fully embedding controls preserves and enhances the trust of its customers, staff and shareholders and is essential to build sustainable businesses. The Orange Code sets the foundation for the high ethical standards ING Bank expects from all its business activities. The Orange Code requires all staff to conduct themselves, not only within the spirit and letter of laws and regulations, but above all, with integrity, whilst being honest, prudent and responsible.

Governance

Non-Financial Risk Committees (NFRCs) and Management Teams (MTs) manage, measure and monitor operational and compliance risks. NFRCs exist at Bank level and at other relevant levels. They are chaired by the first line of defence and steer the risk management activities of the first and second lines of defence in their scope. Non-financial risk topics are an integral part of the agenda of regular MTs at all levels in the organisation. The Bank NFRC is the primary approval and oversight committee for non-financial risk matters.

The Head of Corporate Operational Risk Management (CORM) and the Chief Compliance Officer report to the Chief Risk Officer (CRO) and are jointly responsible for developing the framework of non-financial risk policies and standards within ING Bank and for monitoring the quality of non-financial risk management in the divisions.

The Chief Compliance Officer (CCO) is the general manager of the Bank Compliance Risk Management department and the Head of the Compliance Risk Management function within the Bank. This is an independent function responsible for developing and establishing the Bank-wide policies and minimum standards for managing compliance risks. The CCO assists and supports the MBB in managing ING Bank's compliance risks and control framework. The CCO is a permanent participant of the Risk Committee of the Supervisory Board and meets regularly with its Chairman.

The NFR function uses a layered functional approach within divisions to ensure systematic and consistent implementation of the framework of policies and minimum standards within ING Bank. To avoid potential conflicts of interests, it is imperative that staff in this function are independent and objective when advising business management on non-financial risk matters in their business unit or business line. To facilitate this, a strong functional reporting line to the next higher level within Operational Risk Management (ORM) and Compliance is in place. The functional reporting line has clear accountabilities with regard to objectives setting, remuneration, performance management and appointment of new staff as well as obligations to veto and escalate.

Framework

Non-financial risk is the risk of financial loss, legal or regulatory sanctions, or reputational damage due to inadequate or failing internal processes, people and systems; a failure to comply with laws, regulations and standards; or external events. ING Bank has a comprehensive framework for non-financial risks that supports and governs the process of identifying, measuring, mitigating, monitoring and reporting non-financial risks. It reflects the stages described in the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

Processes are in place to identify key threats, vulnerabilities and the associated risks which might cause adverse events. Event identification is performed proactively and precedes a risk assessment. Different techniques for event identification exist within ING Bank, e.g. Risk & Control Self-Assessments, scenario analysis, external events inventories, internal events analyses (e.g. lessons learned based on information from event reporting), key risk indicators and threat scans.

Risk & Control Self-Assessment
Identification and assessment of non-financial risks inherent to ING Bank products, activities, people, processes and systems provide management with an understanding of the operational risk profile. Based on the identification and assessment, internal controls are designed for mitigation of risks to remain within the risk appetite.

Business Environment Assessment
The Business Environment Assessment (BEA) assesses all internal control factors and external factors that could influence the internal and external operating environment and may lead to unacceptable operational risk exposure.

Scenario analysis
Scenario analysis is a process used to consider the impact of rare, significant, yet plausible future events, taking into consideration alternative possible outcomes for those events, their severity and frequency. Input for scenario analysis includes the results of various internal and external assessments such as the BEA. Scenario analysis is an important component in the calculation of operational risk capital.

Internal events analyses
Analysis of internal non-financial loss data assists in identifying, quantifying, mitigating and monitoring operational risk exposure. It provides insight into causes and effectiveness of associated controls.

External events inventories
External non-financial loss data provides valuable information about the losses experienced by other businesses, and assists ING Bank to quantify its exposure to risk events that have not been experienced internally.

Business units and departments perform regular BEAs and Risk & Control Self-Assessments (RCSAs) to identify and assess risks. These are conducted with involvement of the business and their ORM, Compliance and Legal departments. Based on the results of the risk assessment, response measures must be determined for the identified risks beyond the risk appetite. Risk response actions balance the expected cost for implementing these measures with the expected benefits regarding the risk reduction.

Risk response can be achieved through several combinations of mitigation strategies, for example reducing likelihood of occurrence, reducing impact, risk avoidance, risk acceptance or through the transfer of risk. Tracking takes place through ING Bank's central risk management system.

The risk appetite (defined as the acceptable and authorised maximum level of risk) is set by the Bank NFRC. Adherence to this risk appetite is monitored quarterly through the NFR Dashboard which reports the key non-financial risk exposures. The NFR Dashboard provides management at country, divisional and bank level with an overview of key risks within the non-financial risk areas including compliance risks, information security risks, continuity risks, control risks, fraud and unauthorised activities risks and personal and physical security risks, enabling management to focus and set priorities.

The yearly objective setting process for both business management and NFR professionals aims to keep improving the management of non-financial risk throughout ING Bank to ensure that ING Bank stays in control of its current and future non-financial risks.

Advanced Measurement Approach (AMA)
ING Bank has an Operational Risk Capital model in place in which the risk profile is closely tailored to the internal risk profile of ING Bank and its divisions, by using scenario data for capturing severe risks and internal loss and RCSA data for capturing day-to-day risks. The business has a strong role in assessing scenario severities and the ORM function in validating the results. The internal data are combined with external loss data (ORX) in the AMA capital calculation. Since April 2013 ING is allowed to use its AMA model for regulatory supervision purposes. ING Bank reports the regulatory capital numbers on a quarterly basis. The AMA capital requirement per the end of 2016 amounts to EUR 3,242 million, compared to EUR 3,451 million per 2015 year-end.

Risk mitigations
ING Bank is currently not using any insurance or risk transfer mechanisms for the mitigation of risk in the context of the AMA capital calculation.

Operational risk

Definition

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Risk categories

ING Bank categorises operational risks in a number of risk areas:

- *Information (Technology) risk* is the risk of financial loss, regulatory sanctions or reputational damage due to breaches of confidentiality, integrity or availability within business processes or information or lack of information quality;
- *Continuity risk* is the risk of financial loss, regulatory sanctions or reputational damage due to business disruptions (loss of people, processes, systems, data, premises);
- *Control risk* is the risk of financial loss, regulatory sanctions or reputational damage due to ineffective organisation structures and governance procedures (including unclear roles and responsibilities and inadequate reporting structure); monitoring and enforcement of risk mitigating measures; and risk culture;
- *Internal fraud risk* is the risk of financial loss, regulatory sanctions or reputational damage due to deliberate abuse of procedures, systems, assets, products and/or services of ING by employees (incl. temporary workers, third party contractors, internships and consultants) who intend to deceitfully or unlawfully benefit themselves or others;
- *External fraud risk* is the risk of financial loss, regulatory sanctions or reputational damage due to deliberate abuse of procedures, systems, assets, products and/or services of ING by external parties (clients, potential clients or other third parties, including vendors and outside agencies) who intend to deceitfully or unlawfully benefit themselves or others;
- *Unauthorised activity risk* is the risk of financial loss, regulatory sanctions or reputational damage due to employees performing outside the normal course of their business, intentionally giving unauthorised approvals or overstepping of their authority;
- *Personal and physical security risk* is the risk of financial loss, regulatory sanctions or reputational damage due to criminal and environmental threats that might endanger the security or safety of ING personnel at work, people in ING locations, ING assets or assets entrusted to ING, people at ING event locations, or might have an impact on ING organisation's confidentiality, integrity or availability;
- *Processing risk* is the risk of financial loss, regulatory sanctions or reputational damage due to failed (transaction) processing (input, execution, output) or failing process management; and
- *Employment practice risk* is the risk of financial loss, regulatory sanctions or reputational damage due to acts inconsistent with employment, health and/or safety laws, regulations or agreements, from payment of personal injury claims, or from diversity /discrimination events.

Operational risk includes the related risk of reputation loss, as well as legal risk but strategic risks are not included.
Reputational risk is defined as the potential that adverse publicity regarding ING Bank's business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of ING Bank. Reputational risk is multidimensional and reflects the perception of other market participants, like customers, counterparties, shareholders, investors or regulators that can adversely affect ING Bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding (e.g. through the interbank or securitisation markets).

Legal risk is defined as the risk related to (i) a failure (or perceived failure) to adhere to applicable laws, regulations and standards, (ii) contractual liabilities or contractual obligations that are defaulted or cannot be enforced as intended, or are enforced in an unexpected or adverse way, and (iii) liability (tort) towards third parties due to an act or omission contributable to ING Bank (potentially) resulting in impairment of ING Bank's integrity, leading to damage to ING Bank's reputation, legal or regulatory sanctions, or financial loss.

Given the heavy reliance on IT systems in financial institutions, controls that monitor the various aspects of IT risk, such as integrity and confidentiality, are embedded in ING Bank's risk and control framework.

Main developments in 2016

Internal and external fraud

The risk of clients and ING Bank staff being targeted by fraudsters using social engineering techniques to execute payments is still increasing and CxO impersonation fraud (criminals investigate the senior management structure of an organisation and target key positions) remains a significant threat. Efforts are undertaken to mitigate the risk such as creating awareness for customers and staff. ING Bank stringently monitors both this type of fraud and new emerging fraud methodologies.

ING Bank continues working on strengthening its global fraud resilience and to strengthen its control environment as fraudsters turn their interest to the end-user. Exploring and combining automated fraud detection tools that can be used for monitoring or early detection of fraudulent incoming and outgoing payments remains important in fraud prevention. These are used to further enhance an effective set of organisational controls.

Cybercrime
Cybercrime is a continuous threat to companies in general and to financial institutions specifically. Both the frequency and the intensity of attacks increase on a global scale. Particularly threats from Distributed Denial of Service (DDoS), targeted attacks (also called Advanced Persistent Threats) and Ransomware intensify worldwide. ING Bank builds on its cybercrime resilience, further enhancing the control environment to protect, detect and respond to e-banking fraud, DDoS and targeted attacks. Additional controls continue to be embedded in the organisation as part of the overall internal control framework and are continuously re-assessed against existing and new threats. During 2016 ING did not experience any cyber incident that can be classified as material. ING provides continuous reporting on cyber incidents to the ECB.

ING Bank also works on strengthening its global cybercrime resilience including strong collaboration against cybercrime with the financial industry, law enforcement authorities, government (e.g. National Cyber Security Center) and Internet Service Providers (ISPs).

Compliance risk

Definition

Compliance risk is defined as the risk of impairment of ING Bank's integrity, leading to damage to ING's reputation, legal or regulatory sanctions, or financial loss, due to a failure (or perceived failure) to comply with applicable laws, regulations and standards and the ING Values as part of the Orange Code. We aim to effectively manage compliance risks that could expose ING Bank to reputational damage, fines, civil and criminal penalties, payment of damages, court orders and suspension or revocation of licenses that would adversely impact our customers, staff, shareholders and other stakeholders.

The Bank Compliance Risk Management function established a compliance control framework in which controls are defined based on laws, regulations and standards that are part of the internal control framework of ING Bank applicable to non-financial risks. To support management in mitigating compliance risks, the Bank Compliance Risk Management function educates and supports the business in managing compliance risks related to e.g. money laundering, terrorist financing, sanction and export control compliance, conflicts of interests, mis-selling, corruption and protection of customers' interests.

Risk categories

ING Bank categorises compliance risk into four conduct-related integrity risk areas:
- *Client conduct* refers to the compliance risks arising from the relationship with or generated by the conduct of our clients and/or business partners, like money laundering or terrorist financing. Those risks are generally defined within ING Bank as Financial Economic Crimes (FEC);
- *Personal conduct* refers to the compliance risks arising from the conduct of ING employees;
- *Financial Services conduct* refers to the compliance risks arising from or generated by the conduct of ING Bank when developing, marketing and/or selling products and services to its clients;
- *Organisational conduct* refers to the compliance risks arising from the way the Bank is organising itself to develop its activities. This category covers for instance the licences required to perform its regulated banking activities or the operating effectiveness of its information barriers.

The controls to mitigate the compliance risks associated with the above mentioned risk areas are designed and embedded in the ING business units. The effectiveness of the controls as designed is tested periodically, and senior management is aware about their responsibility to ensure their processes are compliant with applicable laws and regulations, ING Bank's internal policies and the Orange Code.

In cases where an employee from ING Bank suspects a breach of external laws and regulations, internal policies and minimum standards and/or the Orange Code they are encouraged to (anonymously) speak up in line with the Whistleblower policy using the most appropriate channel, e.g. the (external) ethics line.

Financial Economic Crime (FEC) Policy and Minimum Standards
The ING Bank FEC Policy and Minimum Standards directly reflect relevant national and international laws, regulations and industry standards. The ING Bank FEC Policy is mandatory and applies to all ING banking entities, majority owned ING business, businesses under management control, staff departments, product lines and to all client engagements and transactions.

Management of ING Bank entities maintain local procedures aiming to enable them to comply with local laws, regulations and the ING Bank FEC Policy and Minimum Standards. Where local laws and regulations are more stringent, the local laws and regulations are applied. Likewise the FEC Policy and Minimum Standards prevail when the standards therein are stricter than stipulated in local laws and regulations and if not specifically forbidden (data privacy or bank secrecy).

The ING Bank FEC Policy and Minimum Standards set the requirements for all ING Bank entities with respect to guard against any involvement in criminal activity, and to participate in international efforts to combat money laundering and the funding of terrorist and criminal activities. The requirements in the ING Bank FEC Policy cover minimum standards and controls related to: money laundering, terrorist financing, export trade controls, proliferation financing, sanctions (economic, financial and trade) and countries designated by ING Bank as Ultra High Risk Countries (UHRC). The effectiveness of those controls is reviewed periodically.

As a result of frequent evaluation of all businesses from economic, strategic and risk perspective ING Bank continues to believe that for business reasons doing business involving certain specified countries should be discontinued. In that respect, ING has a policy not to enter into new relationships with clients from these countries and processes remain in place to discontinue existing relationships involving these countries. At present these countries are North Korea, Sudan, Syria, Iran and Cuba. Each of these countries is subject to a variety of EU, US and/or other sanctions regimes. Iran, Sudan, and Syria are identified by the US as state sponsors of terrorism and are subject to U.S. economic sanctions and export controls.

ING Bank has a FEC control framework in place to mitigate the risks related to Financial Economic Crime.

Also in 2016, the Ukraine-related sanctions as imposed earlier by both the US and the EU remained in force. Those sanctions restrict amongst others the dealing in specific (financial) products with certain named parties. Management of ING Bank entities use their existing control framework to ensure compliance with these sanctions.

Main developments in 2016

Regulatory developments

Compliance with applicable laws and regulations is resource-intensive and costly. Banks continue to be faced with new and increasingly onerous regulatory requirements, and we expect the scope and extent of regulations in the jurisdictions in which we operate to generally increase further. ING is concerned that the lack of coordination among policy makers and the lack of clarity on future regulatory requirements is making it increasingly difficult to actively support the economies where we operate.

Regulation is becoming increasingly more extensive and complex. A recent example is the implementation of the Common Reporting Standard (CRS), which like FATCA requires financial institutions to report detailed client-related information to the competent authorities. Customer due diligence (CDD) and transaction monitoring impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering (AML), terrorist financing, and fraud.

Despite our efforts to comply with applicable laws and regulations, there are a number of risks in areas where applicable regulations are unclear, subject to multiple interpretations or under development, are in conflict with each other, or where regulators revise their guidance or courts overturn previous rulings. Meeting all these requirements within the strict timelines that have been set poses a significant operational challenge for banks. Implementing the necessary processes and procedures to effectively comply has significant implications for IT systems and data, while people who have the necessary knowledge and skills are scarce.

User Access Management (UAM) is an important element of our control framework to mitigate unauthorized and / or inappropriate access to our data and information. The standards of controls on UAM are high and best practices illustrate that the trends are towards further increasing requirements. We have identified control deficiencies related to UAM and a central task force was formed to coordinate, assess, monitor and track remediation efforts that resulted in increased focus by the Executive Board, senior management and ING staff. In 2017, management will continue to enhance the internal controls, mitigation and monitoring the progress of mitigation and remediation.

Compliance Risk Culture Monitoring

The Bank Compliance Risk Management function enhanced its control framework by assessing the operation of soft controls in relation to compliance risks in addition to hard controls. The aim of Compliance risk culture monitoring is to assess the risks that might influence the conduct and risk culture, promoting the individual integrity of all employees and enhancing the overall culture that is led by integrity.

Market Abuse

Integrity and transparency in financial markets are essential for public and investor confidence. In light of revised Market Abuse European legislation that came into effect on 3 July 2016, ING Bank issued a new Market Abuse Policy and Minimum Standard to prevent insider dealing, unlawful disclosure of inside information and market manipulation, including benchmark manipulation. A central project was established to support ING's commitment in adhering to the revised market abuse European legislation and to create consistency throughout the organisation with respect to the roll out and implementation of the policy and minimum standard requirements.

Financial Economic Crime
The 4th AML Directive as issued by the European Union has been incorporated into the update of the FEC Policy and Minimum Standards. The main changes in this Directive (compared to the 3rd AML Directive) are related to: the establishment of an UBO register (at national level with the potential to share the information within the European Economic Area (EEA)) and a stronger approach towards the application of Due Diligence on ING's customers. The final translation of the 4th AML Directive into the laws and regulations of the EU member states is foreseen in Q2/2017. Various global programs have started in 2016 to enhance the Know Your Client process and the risk assessment of the clients' files, as well as strengthening the requirements and activities relating to Client Activity Monitoring.

Regulator relationships
The Bank Compliance Risk Management function continued its policy of investing in pro-active relationship building with regulators in the jurisdictions where ING Bank operates, by striving for cooperation in identifying and mitigating compliance risks for ING Bank as well as seeking to contribute to the regulatory debate going forward.

Review processes for setting benchmark rates
ING Bank has reviewed its internal processes for contributing to setting various benchmark rates. Possible irregularities have been investigated and remedial actions have been taken. ING Bank is cooperating with information requests and/or investigations of regulators and other authorities concerning ING Bank's contribution to setting various benchmark rates. It is at this moment not possible to assess whether ING Bank will be subject to monetary or other penalties, or the amount and nature thereof if they should arise.

Non-Financial Risk Awareness

Promoting Integrity Programme
The Promoting Integrity Programme was started in 2010 and is an innovative programme consisting of e-learning modules on key bank-wide topics that can be followed-up with dialogue sessions in which managers discuss the issues raised with their teams. The programme is sponsored by board members and senior managers and is created to ensure that every employee in every part of ING Bank understands how their actions and behaviour can help earn and retain customer and stakeholder trust. The modules consist of several case studies and real life examples which require staff to think about various aspects of the issue. In 2016 Cybersecurity was addressed, with a closer look at CxO fraud, the risks of malicious apps, innovation and vulnerability to cybercrime, how to secure our assets (including responsible disclosure) and identity theft.

Learning
An e-learning module for all ING Bank employees was launched to raise awareness of Market Abuse and its consequences, addressing new and stricter legislation that took effect in July 2016. It aimed at increasing knowledge of ING standards, regulatory obligations and market practice to prevent it, looking at aspects, such as insider dealing, unlawful disclosure of inside information, market manipulation and how to guard against them. Also understanding the human element involved to remain alert and maintain high standards of integrity and adhering to the Orange Code values.

Global education and awareness in the form of e-learning modules, awareness sessions and material was provided on topics such as Fraud and Security, Conflicts of Interest, Financial Economic Crime (FEC) and an ORM Onboarding e-learning for staff new to Operational Risk Management worldwide. Similar to what was developed earlier for Compliance Risk Management, an ORM curriculum and learning path was launched in the ING Learning Centre that gives staff in Operational Risk Management worldwide an overview of available ORM and other relevant training, including recommended external trainings. For staff in the Netherlands an Insiders e-learning was developed. Furthermore, there were end of year campaigns for anti-bribery and anti-corruption to strengthen awareness.

Classroom sessions were delivered on general non-financial risk awareness for all lines of defence in the Netherlands and in other countries. This included training in introduction programmes for new staff and talent programmes. The international Training on Operational Risk was held for staff in ING Bank worldwide who are new to the ORM function. Compliance Risk Management held its mandatory international Compliance Officer Training programme for all new Compliance Officers in ING Bank worldwide and also held an advanced Compliance Officer Training for senior compliance officers in ING Bank worldwide. For Compliance and ORM staff, there were classroom trainings on Risk Assessment and Monitoring. Classroom trainings and workshops were held for risk officers involved in the areas of Information Risk and Business Continuity Risk to update and align these communities with regard to models, toolkits, internal standards and procedures.

In addition, regular global calls and webcasts were organised on various subjects to provide advice and clarification to non-financial risk staff and provide the opportunity to ask questions.

Business Risk

Introduction

Business Risk for ING Bank has been defined as the exposure to value loss due to fluctuations in volumes/margins, expenses as well as the impact of customer behaviour risk. It is the risk inherent to strategy decisions and internal efficiency. The calculation of business risk capital is done by calculation of two components that are combined to one business risk figure via the variance-covariance methodology:

1. Expense risk covers the risk that expenses will deviate from the expected expenses over the horizon of the relevant activities. This risk primarily relates to the (in)flexibility to adjust expenses, when that is needed. Expense risk only concerns non-financial expenses (e.g. staff and IT expenses); financial expenses are not in scope; and
2. Customer behaviour risk relates to clients behaving differently than expected and the effect that this behaviour can have on customer deposits and mortgage pre-payments. The customer behaviour risk is calculated by stressing the underlying assumptions in the models for behavioural assets and liabilities.

Governance and risk management

The governance and management of Business Risk differs from the risk types that have been described in the sections before. ING Bank has not developed explicit risk appetite statements regarding business risk nor has it set up a department that is responsible for managing this risk. The main reason is that the underlying risk types (expense risk, volume-margin risk, and customer behaviour risk) are mitigated and managed in a different way. Expense risk is monitored and managed via the financial performance of the bank and the local units, whereby the reported expense numbers are compared on a quarterly basis with the 2020 Ambition of having a cost/income ratio between 50% and 53%. Deviations from this ambition are monitored as part of the financial projections that are discussed continuously within different parts of the organisation. For customer behaviour risk, the management and monitoring of this risk is part of the day-to-day business of the Balance Sheet Risk department. As of January 2017, customer behaviour risk will be reported under market risk economic capital. For a more extensive explanation of the risk management practices for customer behaviour risk, please refer to the ‘Market Risk in Banking Books’ section.

Capital management

Objectives

ING Group Capital Management (Capital Management) is responsible for the adequate capitalisation of ING Group and ING Bank entities at all times in order to manage the risk associated with ING's business activities. This involves not only the management, planning and allocation of capital within ING Group and ING Bank, but also the necessary capital market transactions, term (capital) funding and risk management transactions. ING takes an integrated approach to assess the adequacy of its capital position in relation to its risk profile and its operating environment. This implies taking into account the interests of its various stakeholders. Capital Management takes into account the metrics and requirements of regulators, rating agencies and internal risk based metrics such as the Risk Appetite Framework.

ING applies the following main capital definitions:

- Common equity Tier 1 capital, Tier 1 capital and Total capital – Tier 1 capital is defined as shareholders' equity plus Additional Tier 1 (hybrid) capital less regulatory adjustments. Common equity Tier 1, Tier 1 and Total capital divided by risk-weighted assets equal the Common equity Tier 1, Tier 1 and Total capital ratios respectively. Common equity Tier 1 capital is equal to Tier 1 capital excluding Additional Tier 1 (hybrid) capital;
- Common equity Tier 1 Risk Appetite – the solvency risk appetite statement is not only compared to the actual reported level, but also includes the potential impact of a standardised and pre-determined 1-in-10-year stress event (i.e. at a 90% confidence level with a 1-year horizon) as described in the Risk Management section;
- Overall Capital Requirement (OCR). The OCR means that ING's own funds exceeds the sum of the total SREP capital requirement (wherein per risk type the maximum is taken of Regulatory and Economic Capital requirements), capital buffer requirements and macro-prudential requirements.

Developments

2016 was an important year for ING Group, as it further strengthened its capitalisation. The further regulatory capital strengthening reflects strong profitability as well as the sale of the remaining stake in NN Group. Although the regulatory environment remains uncertain, our capital position ensures we can continue to support our customers to realise their financial future.

In January 2016, ING sold 33 million ordinary shares of NN Group and subsequently exchanged the final tranche of EUR 337.5 million mandatory exchangeable subordinated notes in February 2016, which were issued in 2014 as part of the anchor investment in NN Group. These transactions reduced ING's remaining stake in NN Group from 25.8% to 14.1%. In April 2016, ING sold its remaining 14.1% stake in NN Group. The divestment of NN Group is the final step of ING´s programme to divest all of its insurance and investment management businesses as part of the restructuring agreement with the European Commission. As a result of the sale of NN Group shares, NN Group is no longer an investment, and available Tier 1 instruments on-lent to NN Group no longer need to be deducted from available Tier 1 capital. This had a positive impact on available Tier 1 capital of EUR 0.8 billion.

All net capital flows in 2016 related to the sale of insurance related activities are disclosed in Note 51 'Other events'.

In March 2016 a GBP 66 million grandfathered additional Tier 1 security, which was fully on-lent to ING Bank, was redeemed by ING Group on its first call date. In April 2016, ING Bank NV issued EUR 1 billion CRD IV-eligible Tier 2 instruments. The transaction had an issuer substitution option which gives ING the right to exchange these for subordinated Tier 2 notes issued by ING Groep NV.

In September 2016, ING Group redeemed USD 800 million 7.05% grandfathered Perpetual Debt Securities which were on-lent to ING Bank NV.

In November 2016, ING Group issued USD 1,000 million contingent convertible Securities which qualify as Additional Tier 1 capital under CRD IV/CRR to strengthen ING's capital base. The perpetual bond, which will be on-lent to ING Bank can be called by ING Group five years after issuance, has a coupon of 6.875%.

The transitional (phased-in) common equity Tier 1 requirement that ING Group had to meet on a consolidated basis in 2016 was set at 10.25%. This requirement is the sum of (i) 9.5% being the ECB's decision on the 2015 Supervisory Review and Evaluation Process (SREP), including the capital conservation buffer, and (ii) 0.75% for the Systemic Risk Buffer (SRB) which has been set separately for Dutch systemic banks by the Dutch Central Bank. The fully-loaded SRB requirement is currently set at 3% for ING Group and phases in over four years, with a final implementation date of 1 January 2019. The impact from countercyclical buffer requirements was insignificant at the start of 2016.

At year-end 2016, ING Group received the ECBs decision on the 2016 SREP. The common equity Tier 1 requirement for ING Group was set at 9.0% in 2017. This requirement consists of a 4.5% Pillar 1 requirement, a 1.75% Pillar 2 requirement, a 1.25% Capital Conservation Buffer (CCB) and the 1.50% Systemic Risk Buffer (SRB) which has been set separately for Dutch systemic banks by the Dutch Central Bank (De Nederlandsche Bank). This excludes Pillar 2 guidance, which is not disclosed. The CCB and the SRB are scheduled to phase-in over the coming years to 2.5% and 3.0% respectively by 1 January 2019. Consequently, the fully-loaded Maximum Distributable Amount (MDA) trigger level is expected to rise from 9.0% in 2017 to 11.75% in 2019 and assumes a stable Pillar 2 requirement. In the event that ING Group breaches the MDA level it may face restrictions to pay dividends, coupons on AT1 instruments and bonuses. The impact from the Countercyclical Buffer (CCyB) is negligible at this stage.

With a 14.2% fully-loaded Group common equity Tier 1 ratio as at 31 December 2016, ING is in compliance with the current fully-loaded requirement of 11.75%. ING Group's fully-loaded Tier 1 ratio (including grandfathered securities) was 16.6% at the end of 2016, while the total capital ratio (including grandfathered securities) increased to 19.7%.

To support orderly resolution, the BRRD requires banks to meet minimum requirements for own funds and eligible liabilities (MREL). In addition, ING as a Global Systemically Important Bank (G-SIB) needs to comply with the total loss absorption capacity (TLAC) proposal published by the Financial Stability Board (FSB) in November 2015.

Since 2012, ING has worked with the different resolution authorities to determine a resolution strategy and to identify potential impediments to resolution. Following an discussion throughout 2016, with the Single Resolution Board (SRB) and the national resolution authority, De Nederlandsche Bank (DNB), we concluded that ING Group should be our designated resolution entity. At the end of January 2017, the Single Resolution Board (SRB) has informed us that it supports the designation of ING Group as the point of entry. Henceforth, ING Group will be the issuing entity for all TLAC/ MREL eligible debt consisting of Additional Tier 1, Tier 2 and senior unsecured debt.

G-SIBs will be required to meet the TLAC requirement alongside the minimum regulatory requirements set out in the Basel III framework. Specifically, they will be required to meet a Minimum TLAC requirement of at least 16% of the resolution group's risk-weighted assets (TLAC RWA Minimum) as from 1 January 2019 and at least 18% as from 1 January 2022. Minimum TLAC must also be at least 6% of the Basel III leverage ratio denominator (TLAC Leverage Ratio Exposure (LRE) Minimum) as from 1 January 2019, and at least 6.75% as from 1 January 2022. Buffer requirements will come on top of the RWA requirement but not on top of the leverage requirement. In addition, the Single Resolution Board has assumed full power as per 1 January 2016. The work plan for the SRB in 2016 focused on determining the preferred resolution strategy, the resolution entity and the required amount of Minimum Required Eligble Liabilities (MREL).

ING Bank continues to maintain a strong and high quality capital level, with a fully-loaded common equity Tier 1 ratio and a phased-in common equity Tier 1 ratio of 12.6%, thereby complying with CRR/CRD IV solvency requirements. Dividend from ING Bank to ING Group of EUR 1.3 billion was paid in November 2016. The fourth quarter 2016 profit of EUR 0.6 billion is not included in the regulatory capital per December 2016 as this was upstreamed as dividend to ING Group in February 2017. The sale of 2.5% of Kotak Mahindra Bank shares, which was settled in October 2016, had no material impact on ING's capital ratios. The fully loaded and phased in Tier 1 ratios respectively increased from 13.9% to 14.7% and 13.4% to 14.4%, primarily reflecting developments in ING Bank's common equity Tier 1 ratio. This was partly offset by the redemption of the USD 800 million 7.05% grandfathered Perpetual Debt Securities in September. In April 2016, ING Bank had issued EUR 1 billion of Tier 2 bonds with an issuer substitution option through exchange. Now that clarity has been provided on the preferred resolution strategy, ING intends to use the option to replace these ING Bank Tier 2 notes with ING Group Tier 2 notes at similar terms through exchange. The noteholders have agreed upfront to the terms and conditions to exchange their ING Bank Tier 2 notes for ING Group Tier 2. ING Bank's fully-loaded Tier 1 ratio (including grandfathered securities) was 14.7% at the end of 2016, while the total capital ratio (including grandfathered securities) increased to 17.8%.

Dividend

ING Group's dividend policy aims to pay a progressive dividend over time which will reflect considerations including expected future capital requirements, growth opportunities available to the Group, net earnings, and regulatory developments. The Executive Board proposes to pay a total cash dividend of EUR 2,560 million, or EUR 0.66 per ordinary share, over the financial year 2016. This is subject to the approval of shareholders at the Annual General Meeting in May 2017. Taking into account the interim dividend of EUR 0.24 per ordinary share paid in August 2016, the final dividend will amount to EUR 0.42 per ordinary share and will be paid fully in cash. The total amount of EUR 1,629 million is fully covered by the remaining balance of 'interim profits not included in CET1 capital' at year-end 2016.

Policies

The activities of Capital Management are executed on the basis of established policies, guidelines and procedures. For the Capital Treasury there are additional policies and limits that guide the management of the balance sheets and the execution of capital market transactions.

Processes for managing capital

In addition to measure capital adequacy, Capital Management also ensures that sufficient capital is available through setting targets and limits relevant to the above mentioned metrics for ING Group and ING Bank and ensuring adherence to the set limits and targets through planning and executing capital management transactions. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process. Following the annual budgeting process, each year a capital plan is prepared for the Group as a whole and each of its material businesses. This plan is updated on a quarterly basis and it is assessed to what extent additional management actions are required. At all times maintaining sufficient financial flexibility should be preserved to meet important financial objectives. At the foundation of the capital plan are ING's risk appetite statements that determine target setting. These constraints are being cascaded to the different businesses in line with our risk management strategy.

Important inputs to the capital planning and management process are provided by stress testing that is performed on a regular basis. These stress tests focus on topical issues and the sensitivity of the Group's capital position to certain risks. These analyses provide input that help to steer strategic direction. Setting policies for recovery planning and resolution are a natural extension of ING's capital management policies and follow ING's risk management framework seamlessly.

Capital adequacy assessment

As at 1 January 2014, the CRR/CRD IV capital rules entered into force. The capital position table reflects own funds according to the Basel III rules as specified in the CRR/CRD IV. As CRD IV will be phased-in gradually until 2019, the table shows the CRD IV positions according to the 2019 end-state rules and the 2016 rules. ING reports these metrics for ING Group and ING Bank. During 2016, ING Group and ING Bank were adequately capitalised.

ING Group capital position

	(fully-loaded)		(phased-in)	
	2016	2015	2016	2015
Shareholders' equity	49,793	47,832	49,793	47,832
– Deductions of significant investments in financial institutions	0	–1,389	0	–558
– Interim profit not included in CET1 capital[1]	–1,629	–1,586	–1,629	–1,586
– Other adjustments	–3,596	–4,069	–3,698	–4,134
Regulatory adjustments	–5,225	–7,044	–5,327	–6,278
Available common equity Tier 1 capital	**44,568**	**40,788**	**44,466**	**41,554**
Additional Tier 1 securities[2]	7,706	6,574	7,706	6,574
Regulatory adjustments additional Tier 1	0	0	–809	–1,716
Available Tier 1 capital	**52,274**	**47,362**	**51,364**	**46,412**
Supplementary capital Tier 2 bonds[3]	9,488	8,570	9,488	8,570
Regulatory adjustments Tier 2	109	102	–86	–657
Available Total capital	**61,871**	**56,034**	**60,765**	**54,325**
Risk weighted assets[4]	314,325	321,151	314,325	321,135
Common equity Tier 1 ratio	14.18%	12.70%	14.15%	12.94%
Tier 1 ratio	16.63%	14.75%	16.34%	14.45%
Total capital ratio	**19.68%**	**17.45%**	**19.33%**	**16.92%**

1 The interim profit not included in CET1 is the proposed final dividend of EUR 1,629 million, subject to approval of the shareholders at the Annual General Meeting in May 2017.
2 Including EUR 3,052 million (2015: EUR 2,061 million) is CRR/CRD IV compliant and EUR 4,654 million (2015: EUR 5,187 million) to be replaced as capital recognition is subject to CRR/CRD IV grandfathering rules. For 2015 this amount is presented net of positions on lent to insurance.
3 Including EUR 7,347 million (2015: EUR 6,229 million) is CRR/CRD IV-compliant and EUR 2,141 million (2015: EUR 2,341 million) to be replaced as capital recognition is subject to CRR/CRD IV grandfathering rules.
4 The 2015 fully-loaded RWA deviated from the phased-in RWA as a result of a slightly higher threshold to which the significant Financial Institutions were risk weighted.

As per 31 December 2016 the total amount of available distributable items following the CRD IV definition is EUR 37,959 million, slightly higher compared with EUR 36,284 million in 2015.

ING Group available distributable items according to the CRR/CRD IV

	2016	2015
Share premium	16,950	16,054
Other reserve	22,372	21,131
Share of associate reserve	5,781	5,715
Non distributable	–7,379	–6,832
Total	**37,724**	**36,068**
Accrued interest expenses on own fund instruments at year-end	235	216
Distributable items	**37,959**	**36,284**

ING Bank NV capital position according to CRR/CRD IV

	(fully-loaded)		(phased-in)	
	2016	2015	2016	2015
Shareholders' equity	43,540	40,857	43,540	40,857
Interim profit not included in CET1 capital[1]	–617	0	–617	0
Other adjustments	–3,548	–4,022	–3,661	–4,103
Regulatory adjustments	–4,165	–4,022	–4,278	–4,103
Available common equity Tier 1 capital	**39,375**	**36,834**	**39,262**	**36,753**
Additional Tier 1 securities[2]	6,496	7,248	6,496	7,248
Regulatory adjustments additional Tier 1	0	0	–798	–1,281
Available Tier 1 capital	**45,871**	**44,083**	**44,960**	**42,721**
Supplementary capital Tier 2 bonds[3]	9,488	8,570	9,488	8,570
Regulatory adjustments Tier 2	109	102	–86	–239
Available Total capital	**55,467**	**52,754**	**54,362**	**51,052**
Risk weighted assets	312,086	318,202	312,086	318,202
Common equity Tier 1 ratio	12.62%	11.58%	12.58%	11.55%
Tier 1 ratio	14.70%	13.85%	14.41%	13.43%
Total capital ratio	17.77%	16.58%	17.42%	16.04%

1 The interim profit of the fourth quarter 2016 has not been included in CET1 capital as of 31 December 2016.
2 Of which EUR 3,542 million (2015: EUR 3,531 million) is CRR/CRD IV compliant and EUR 2,954 million (2015: EUR 3,718 million) to be replaced as capital recognition subject to CRR/CRDIV grandfathering rules.
3 Of which EUR 7,347 million (2015: EUR 6,229 million) is CRR/CRD IV-compliant and EUR 2,141 million (2015: EUR 2,341 million) to be replaced as capital recognition is subject to CRR/CRD IV grandfathering rules.

Regulatory requirements

Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision (The Basel Committee) and the European Union Directives, as implemented by the Dutch Central Bank (Dutch Central Bank until 3 November 2014, the ECB thereafter) for supervisory purposes. In 2010 the Basel Committee on Banking Supervision issued new solvency and liquidity requirements, which superseded Basel II. The minimum requirements, excluding buffers, for the common equity Tier 1 ratio is 4.5%, the minimum Tier 1 requirement is 6% and the total capital ratio is 8% of all risk-weighted assets. Basel III requires Banks to hold a capital of at least 80% of the old Basel I requirements, which was 8% of the RWAs as calculated with the Basel I methodology. This Basel I floor has been extended until the end of 2017.

ICAAP/SREP process

On a yearly basis ING submits extensive documentation on the Internal Capital Adequacy Assessment Process (ICAAP) to its regulator as prescribed in the CRD IV frameworks. This documentation includes a description of ING's internal capital models, its risk appetite framework, an asset quality analysis and a capital planning, both under normal circumstances and in certain stressed scenarios. This documentation is an important input for the regulator's Supervisory Review and Evaluation Process (SREP) resulting in a letter to ING Management. The SREP is conducted by the ECB and examines on a regular basis ING's internal models and processes. The regulatory 2016 guidance indicated that the minimum capital ratios ECB considers adequate for ING Group and ING Bank sufficiently covered by ING's own capital standards.

Ratings

Main credit ratings of ING at 31 December 2016

	Standard & Poor's		Moody's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
ING Groep N.V.						
– long-term	A-	Stable	Baa1	Stable	A+	Stable
ING Bank N.V.						
– long-term	A	Stable	A1	Stable	A+	Stable
– short-term	A-1		P-1		F1	

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

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

Authorisation of Consolidated Annual Accounts

Amsterdam, 13 March 2017

The Supervisory Board

J. (Jeroen) van der Veer, *chairman*
H.J.M. (Hermann-Josef) Lamberti, *vice-chairman*
E.F.C.B. (Eric) Boyer de la Giroday
H.W. (Henk) Breukink
I. (Isabel) Martín Castellá
M. (Mariana) Gheorghe
R.W.P. (Robert) Reibestein
A.C. (Ann) Sherry

The Executive Board

R.A.J.G. (Ralph) Hamers, *CEO and chairman*
P.G. (Patrick) Flynn, *CFO*
W.F. (Wilfred) Nagel, *CRO*

Parent company statement of financial position

as at 31 December before appropriation of result

in EUR million	2016	2015
Assets		
Investments in group companies 1	43,711	41,017
Investments in associates and joint ventures 2		2,153
Other assets 3	16,868	17,529
Total assets	**60,579**	**60,699**
Equity 4		
Share capital	39	928
Share premium	16,950	16,054
Revaluation reserves		–8
Legal and statutory reserves	5,781	5,717
Other reserves	22,372	21,131
Unappropriated result	4,651	4,010
Total equity	**49,793**	**47,832**
Liabilities		
Subordinated loans 5	8,626	8,643
Other liabilities 6	2,160	4,224
Total liabilities	**10,786**	**12,867**
Total equity and liabilities	**60,579**	**60,699**

References relate to the accompanying notes. These form an integral part of the parent company annual accounts.

Parent company statement of profit or loss

for the years ended 31 December

in EUR million	2016	2015
Staff expenses 7	4	10
Other expenses 8	16	8
Total expenses	**20**	**18**
Interest and other financial income 9	498	627
Valuation results 10	42	–50
Interest and other financial expenses 11	–574	–720
Net interest and other financial income	**–34**	**–143**
Result before tax	**–54**	**–161**
Taxation	–19	–41
Result after tax	**–35**	**–120**
Result from (disposal of) group companies, associates and joint ventures after taxation 12	4,686	4,130
Net result	**4,651**	**4,010**

References relate to the accompanying notes. These form an integral part of the parent company annual accounts.

Parent company statement of changes in equity

in EUR million	Share capital	Share premium	Revaluation reserves	Legal and Statutory reserves	Other reserves	Unap-propriated result	Total
Balance as at 1 January 2016	928	16,054	–8	5,717	21,131	4,010	47,832
Unrealised revaluations available-for-sale investments and other revaluations			–128	208			80
Realised gains/losses transferred to the statement of profit or loss			128	–274			–146
Changes in cash flow hedge reserve			8	103			111
Unrealised revaluations property in own use				5			5
Remeasurement of the net defined benefit asset/liability				–65			–65
Exchange rate differences and other				–232			–232
Total amount recognised directly in equity			**8**	**–255**			**–247**
Net result						4,651	4,651
			8	**–255**		**4,651**	**4,404**
Transfer from Unappropriated result					4,010	–4,010	
Dividends					–2,521		–2,521
Changes in treasury shares					10		10
Employee stock option and share plans	2	5			75		82
Changes in the composition of the group and other changes	–891	891		319	–333		–14
Balance as at 31 December 2016	**39**	**16,950**	**–**	**5,781**	**22,372**	**4,651**	**49,793**

Changes in individual components are presented in Note 4 ‘Equity’.

Parent company statement of changes in equity - continued

in EUR million	Share capital	Share premium	Revaluation reserves	Legal and Statutory reserves	Other reserves	Unap-propriated result	Total
Balance as at 1 January 2015	925	16,046	39	11,351	21,732	1,251	51,344
Unrealised revaluations available-for-sale investments and other revaluations				–528			–528
Realised gains/losses transferred to the statement of profit or loss			–77	–17			–94
Changes in cash flow hedge reserve			30	–745			–715
Unrealised revaluations property in own use				35			35
Remeasurement of the net defined benefit asset/liability				34			34
Transfer to insurance liabilities/DAC				609			609
Exchange rate differences and other				1,662			1,662
Total amount recognised directly in equity			**–47**	**1,050**			**1,003**
Net result						4,010	4,010
			–47	**1,050**		**4,010**	**5,013**
Impact of partial divestment of NN Group				–1,484	–285		–1,769
Impact of deconsolidation of NN Group				–5,432	87		–5,345
Coupon on Undated subordinated notes					–19		–19
Transfer from Unappropriated result					1,251	–1,251	
Dividends					–1,393		–1,393
Changes in treasury shares					28		28
Employee stock option and share plans	3	8			23		34
Changes in the composition of the group and other changes				232	–293		–61
Balance as at 31 December 2015	**928**	**16,054**	**–8**	**5,717**	**21,131**	**4,010**	**47,832**

Changes in individual components are presented in Note 4 ‘Equity’.

Accounting policies for the parent company annual accounts

for the years ended 31 December

Basis of presentation

ING Groep N.V. is a company domiciled in Amsterdam, the Netherlands and is registered at the Commercial Register of Amsterdam under number 33231073.

The parent company annual accounts of ING Groep N.V. are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Dutch Civil Code, the recognition and measurement principles applied in these Parent company annual accounts are the same as those applied in the Consolidated annual accounts, reference is made to Note 1 'Accounting policies' of the Consolidated annual accounts. Investments in group companies are accounted for in the Parent company accounts according to the equity method.

A list containing the information referred to in Section 379 (1), Book 2 of the Dutch Civil Code has been filed with the office of the Commercial Register of Amsterdam, in accordance with Section 379 (5), Book 2 of the Dutch Civil Code.

Changes in presentation of the parent company annual accounts and related notes

Previously, ING Groep N.V. applied the option per Section 402, Book 2 of the Dutch Civil Code and presented an abbreviated statement of profit or loss. As of 2016, this option is no longer available for public interest entities, therefore ING Groep N.V. now presents a full statement of profit or loss together with the relevant note disclosures. Reference is made to the Parent company statement of profit or loss and related notes, being Notes 7 'Staff expenses' up to Note 12 'Result from group companies, associates and joint ventures after taxation'.

Parent company equity and related reserves

The total amount of equity in the parent company annual accounts equals Shareholders' equity (parent) in the consolidated annual accounts. Certain components within equity are different as a result of the following presentation differences between the parent company accounts and consolidated accounts:

- Unrealised revaluations within consolidated group companies, presented in Other reserves - Revaluation reserve in the consolidated accounts, are presented in the Share of associates and joint ventures reserve in the parent company accounts;
- The reserve for cash flow hedges within consolidated group companies, presented in Other reserves – Revaluation reserve in the consolidated accounts is included in the Share of associates and joint ventures reserve, in the parent company accounts on a net basis.
- Foreign currency translation on consolidated group companies, presented in Other reserves - Currency translation reserve in the consolidated accounts, is presented in the Share of associates and joint ventures reserve in the parent company accounts; and
- Revaluations on investment property and certain participations recognised in income and consequently presented in Retained earnings in the consolidated accounts, is presented in the Share of associates and joint ventures reserve in the parent company accounts.

A legal reserve is carried at an amount equal to the share in the results of associates and joint ventures since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the Share of associates and joint ventures reserve.

Notes to the parent company annual accounts

amounts in millions of euros, unless stated otherwise

Notes to the parent company statement of financial position

1 Investments in group companies

Investments in group companies

	2016 Interest held (%)	2016 Statement of financial position value	2015 Interest held (%)	2015 Statement of financial position value
ING Bank	100%	43,540	100%	40,857
Other		171		160
		43,711		**41,017**

Changes in investments in group companies

	2016	2015
Opening balance	41,017	51,735
Disposals		–14,493
Revaluations	–179	818
Results	4,237	5,185
Capital contributions		82
Dividends	–1,354	–2,282
	43,721	**41,045**
Changes in ING Groep N.V. shares held by group companies	–10	–28
Closing balance	**43,711**	**41,017**

In 2015, Disposal of group companies included the further divestment of ING's stake in NN Group, resulting in loss of control and deconsolidation of NN Group at the end of May 2015. As at 31 December 2015, the remaining interest in NN Group was 25.75% and was included in 'Investments in associates and joint ventures'. Reference is made to Note 2 'Investments in associates and joint ventures'.

2 Investments in associates and joint ventures

Changes in investments in associates and joint ventures

	2016	2015
Opening balance	2,153	-
Additions		3,612
Transfer to and from Investments	–1,315	
Revaluations	178	
Disposals	–1,016	–1,459
Closing balance	**–**	**2,153**

During 2016, ING sold its remaining shares in NN Group. As at 31 December 2015, Investments in associates and joint ventures comprised ING's investment, of 25.75%, amounting to EUR 2,153 million in NN Group.

In 2015, Additions represented the fair value of the investment retained in NN Group at deconsolidation. Further divestments of ING Group's shareholding in NN Group, subsequent to deconsolidation, was included in Disposals. As at 31 December 2015, Investments in associates and joint ventures represented the remaining interest in NN Group of 25.75%. The investment was measured at the lower of the carrying value and the fair value less cost to sell. Reference is made to the Consolidated annual accounts, Note 51 'Other events'.

3 Other assets

Other assets

	2016	2015
Receivables from group companies	15,633	16,116
Other receivables, prepayments and accruals	1,235	1,413
	16,868	**17,529**

Receivables from group companies include EUR 6,603 million subordinated loans provided by ING Group N.V. to ING Bank N.V. (2015: EUR 7,253 million)

As at 31 December 2016 an amount of EUR 8,566 million (2015: EUR 9,495 million) is expected to be settled after more than one year from the balance sheet date.

4 Equity

Equity

	2016	2015
Share capital	39	928
Share premium	16,950	16,054
Revaluation reserves		–8
Legal and statutory reserves	5,781	5,717
Other reserves	22,372	21,131
Unappropriated result	4,651	4,010
Total equity	**49,793**	**47,832**

Share capital

Share capital

	Ordinary shares (par value EUR 0.01)			
	Number x 1,000		Amount	
	2016	2015	2016	2015
Authorised share capital	14,729,000	14,500,000	147	3,480
Unissued share capital	10,850,516	10,629,817	108	2,552
Issued share capital	**3,878,484**	**3,870,183**	**39**	**928**

Changes in issued share capital

	Ordinary shares (par value EUR 0.01)	
	Number x 1,000	Amount
Issued share capital as at 1 January 2015	**3,858,862**	**925**
Issue of shares	11,321	3
Issued share capital as at 31 December 2015	**3,870,183**	**928**
Issue of shares	8,301	2
Transfer to share premium		–891
Issued share capital as at 31 December 2016	**3,878,484**	**39**

In 2016, ING Groep N.V. issued 8.3 million depositary receipts for ordinary shares (converted into ordinary shares per 26 July 2016) (2015: 11.3 million depositary receipts for ordinary shares). These issues were made in order to fund obligations arising from share-based employee incentive programmes.

During the Annual General Meeting of Shareholders, held on 25 April 2016, it was decided to reduce the par value per ordinary share from EUR 0.24 to EUR 0.01. As a result of this, EUR 891 million is attributed to the Share premium. Reference is made to the ING Group Consolidated annual accounts, Note 19 'Equity' - Depository receipts for ordinary shares.

Share premium

Changes in share premium

	2016	2015
Opening balance	16,054	16,046
Issue of shares	5	8
Transfer from issued share capital	891	
Closing balance	**16,950**	**16,054**

Revaluation reserves

Changes in revaluation reserves

2016	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance		–8	–8
Unrealised revaluations	–128		–128
Realised gains/losses transferred to the statement of profit or loss	128		128
Changes in cash flow hedge reserve		8	8
Closing balance	–	–	–

In the course of 2016 the NN Group shares were included in available-for-sale investments and were sold in April 2016. The EUR 128 million reflects unrealised and subsequently realised loss on the sale.

Changes in revaluation reserves

2015	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	77	–38	39
Realised gains/losses transferred to the statement of profit or loss	–77		–77
Changes in cash flow hedge reserve		30	30
Closing balance	**–**	**–8**	**–8**

The decrease in the Available-for-sale reserve related to the divestment of Voya in March 2015. Reference is made to the ING Group Consolidated annual accounts, Note 51 'Other events'.

Legal and statutory reserves

Changes in legal and statutory reserves

2016	Share of associates and joint ventures reserve	Currency translation reserve	Total
Opening balance	5,715	2	5,717
Unrealised revaluations property in own use	5		5
Unrealised revaluations available-for-sale investments and other	208		208
Realised gains/losses transferred to the statement of profit or loss	–274		–274
Changes in cash flow hedge reserve	103		103
Changes in net defined benefit asset/liability remeasurement reserve	–65		–65
Exchange rate differences and other	–232		–232
Changes in composition of the group and other changes	321	–2	319
Closing balance	**5,781**	**–**	**5,781**

Changes in legal and statutory reserves

2015	Share of associates and joint ventures reserve	Currency translation reserve	Total
Opening balance	11,348	3	11,351
Unrealised revaluations property in own use	38		38
Unrealised revaluations available-for-sale investments and other	1,190		1,190
Realised gains/losses transferred to the statement of profit or loss	–17		–17
Changes in cash flow hedge reserve	–95		–95
Transfer to insurance liabilities/DAC	–254		–254
Changes in net defined benefit asset/liability remeasurement reserve	18		18
Impact of partial divestment of NN Group	–1,484		–1,484
Impact of deconsolidation of NN Group	–5,432		–5,432
Exchange rate differences and other	177	–1	176
Changes in composition of the group and other changes	226		226
Closing balance	**5,715**	**2**	**5,717**

The Share of associates and joint ventures reserve includes the following components: Reserve for non-distributable retained earnings of associates and joint ventures of EUR 2,235 million (2015: EUR 1,733 million), Revaluation reserve of associates and joint ventures of EUR 3,917 million (2015: EUR 4,288 million) and Net defined benefit asset/liability remeasurement reserve of EUR –371 million (2015: EUR –306 million).

As at 31 December 2016, the Share of associates and joint ventures reserve includes an amount of EUR 1,325 million (2015: EUR 1,201 million) related to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN that cannot be freely distributed.

Changes in the value of hedging instruments that are designated as net investment hedges, are included in the line Exchange rate differences and other.

Other reserves

Changes in other reserves

2016	Retained earnings	Treasury shares	Total
Opening balance	21,149	–18	21,131
Changes in treasury shares		10	10
Transfer from Unappropriated result	4,010		4,010
Employee stock option and share plans	75		75
Dividends	–2,521		–2,521
Changes in the composition of the group and other changes	–333		–333
Closing balance	**22,380**	**–8**	**22,372**

Changes in other reserves

2015	Retained earnings	Treasury shares	Total
Opening balance	21,778	–46	21,732
Changes in treasury shares		28	28
Transfer from Unappropriated result	1,251		1,251
Employee stock option and share plans	23		23
Impact of partial divestments of NN Group	–285		–285
Dividends	–1,393		–1,393
Coupon on Undated subordinated notes	–19		–19
Changes in the composition of the group and other changes	–206		–206
Closing balance	**21,149**	**–18**	**21,131**

The Revaluation reserve, Share of associates and joint ventures reserve and Currency translation reserve cannot be freely distributed. Retained earnings can be freely distributed, except for an amount equal to the negative balance in each of the components of the Revaluation reserve, Share of associates and joint ventures reserve and the Currency translation reserve. Unrealised gains and losses on derivatives, other than those used in cash flow hedges, are presented in the statement of profit or loss and are therefore part of Retained earnings and are not included in Share of associates and joint ventures reserve.

The total amount of non-distributable reserves, in accordance with the financial reporting requirements per Part 9 of Book 2 of the Dutch Civil Code, is EUR 7,379 million (2015: EUR 6,832 million).

Reference is made to Note 19 'Equity' and the Capital Management section in the Consolidated annual accounts for additional information, including restrictions with respect to dividend and repayment of capital

Change in treasury shares

	Amount		Number	
	2016	2015	2016	2015
Opening balance	–18	–46	1,464,025	4,302,122
Purchased/sold	10	28	–863,391	–2,810,775
Share-based payments				–27,322
Closing balance	**–8**	**–18**	**600,634**	**1,464,025**

5 Subordinated loans

Subordinated loans

Interest rate	Year of issue	Due date	Notional amount in original currency		Statement of financial position value 2016	2015
6.875%	2016	Perpetual	USD	1,000	948	
6.500%	2015	Perpetual	USD	1,250	1,177	1,139
6.000%	2015	Perpetual	USD	1,000	943	912
4.000%	2014	Anchor investors[1]	EUR	1,125		338
9.000%	2008	Perpetual	EUR	10	10	10
6.375%	2007	Perpetual	USD	1,045	975	960
5.140%	2006	Perpetual	GBP	66		90
6.125%	2005	Perpetual	USD	700	662	635
Variable	2004	Perpetual	EUR	555	551	568
6.200%	2003	Perpetual	USD	500	470	454
Variable	2003	Perpetual	EUR	430	427	428
7.200%	2002	Perpetual	USD	1,100	1,041	1,004
7.050%	2002	Perpetual	USD	800		727
Variable	2000	31 December 2030	USD	1,500	1,422	1,378
					8,626	**8,643**

1 Reference is made to the ING Group Consolidated annual accounts, Note 18 'Subordinated loans - Subordinated notes – Anchor investors'.

In November 2016, ING Groep N.V. issued USD 1,000 million securities that qualify as Additional Tier 1 capital under CRR/CRD IV. The issuance was in the form of 5 Year Callable USD denominated Perpetual Additional Tier 1 Contingent Convertible Securities, with coupon 6.875%. The securities are subject to full conversion into ordinary shares of ING Groep N.V. in the event that ING's phased-in CET1 ratio would fall below 7%.

In February, March and September 2016 respectively, ING Groep N.V. redeemed the final tranche of subordinated loans from the Anchor investors (EUR 338 million), GBP 66 million 5.14% Bond and the USD 800 million 7.05% ING Perpetual Debt Securities. Reference is made to the ING Group Consolidated annual accounts, Note 18 'Subordinated loans' and Note 19 'Equity'.

The Subordinated loans rank subordinated to the Other liabilities in a winding-up of ING Group.

6 Other liabilities

Other liabilities by type

	2016	2015
Debenture loans	1,902	3,733
Amounts owed to group companies	35	85
Other amounts owed and accrued liabilities	162	186
Derivatives from group companies	61	220
	2,160	**4,224**

Debenture loans

Interest rate	Year of issue	Due date	2016	2015
4.699%	2007	1 June 2035	153	151
4.750%	2007	31 May 2017	1,749	1,833
Variable	2006	11 April 2016		1,000
4.125%	2006	11 April 2016		749
			1,902	**3,733**

The number of debentures held by group companies as at 31 December 2016 is 0 with a statement of financial position value of nil (2015: nil with a statement of financial position value of nil).

Amounts owed to group companies by remaining term	2016	2015
Within 1 year	35	85
	35	**85**

The interest rate on the Amounts owed to group companies as at 31 December 2016 is 0.0% (2015: 0.0%).

Other amounts owed and accrued liabilities are payable within one year.

Derivatives from group companies by remaining term	2016	2015
Within 1 year	4	12
More than 5 years	57	208
	61	**220**

Notes to the parent company statement of profit or loss

7 Staff expenses

Staff expenses	2016	2015
Pension costs and other staff related benefit costs	4	10
	4	**10**

Remuneration of Senior Management, Executive Board and Supervisory Board

The information on share-based payment plans and remuneration of the members of the Executive Board and the Supervisory Board is included in the Consolidated annual accounts. Reference is made to Note 49 'Related parties' (page 237 up to and including page 241).

8 Other expenses

Other expenses	2016	2015
External advisory fees	1	5
Other	15	3
	16	**8**

9 Interest and other financial income

Interest and other financial income	2016	2015
Interest income	498	568
Other financial income		59
	498	**627**

Included in Interest and other financial income is EUR 478 million (2015: EUR 552 million) related to group companies.

10 Valuation results

Included in Valuations results, are valuation results on non-trading derivatives related to warrants on the shares of Voya and NN Group amounting to EUR 33 million (2015: EUR –19 million).

11 Interest and other financial expenses

Interest and other financial expenses	2016	2015
Interest expenses	–574	–720
	–574	**–720**

Included in Interest and other financial expenses is EUR –80 million (2015: EUR –117 million) related to group companies.

12 Result from group companies, associates and joint ventures after taxation

Result from group companies, associates and joint ventures after taxation	2016	2015
Result of group companies	4,237	5,185
Result on disposal of associates and joint ventures		
- NN Group	449	–1,055
	4,686	**4,130**

Additional information

13 Other

Fees for audit and non-audit services

Reference is made to the ING Group Consolidated annual accounts, Note 27 ‘Other operating expenses’ for disclosures related to fees for audit and non-audit services.

Guarantees

ING Group has issued certain guarantees as participant in collective arrangements of national banking funds and as a participant in required collective guarantee schemes. For example, ING Groep N.V. provided a guarantee to the German Deposit Guarantee Fund (‘Einlagensicherungsfonds’ or ESF) under section 5 (10) of the by-laws of this fund, where ING Groep N.V. indemnifies the Association of German Banks Berlin against any losses it might incur as result of actions taken with respect to ING Germany. The ESF is a voluntary collective guarantee scheme for retail savings and deposits in excess of EUR 100,000.

As at 31 December 2016, ING Groep N.V. guarantees various US dollar debentures (that mature between 2023 and 2036) which were issued by a subsidiary of Voya Financial Inc. In the Shareholder’s agreement between ING Groep N.V. and Voya Financial Inc. it is agreed that the aggregate outstanding principal amount of the debentures will be reduced from EUR 404 million as at 31 December 2016 (2015: EUR 436 million; 2014: EUR 417 million) to no more than EUR 190 million as at 31 December 2017, no more than EUR 85 million at 31 December 2018 and nil at 31 December 2019.

Per the Shareholder’s agreement, the decrease in the aggregate outstanding principal shall be deemed to have been reduced to the extent of collateral deposited by Voya Financial Inc. As at 31 December 2016, USD 129 million (2015: USD 77 million) was pledged to ING Groep N.V. as collateral.

Fiscal unity

ING Groep N.V. forms a fiscal unity with several Dutch banking entities for corporation tax purposes. ING Groep N.V. and its banking subsidiaries that form part of the fiscal unity are jointly and severally liable for taxation payable by the fiscal unity.

14 Proposed appropriation of results

For 2016, the Executive Board, with the approval of the Supervisory Board, has proposed a cash dividend of EUR 0.66 per ordinary share of EUR 0.01. In August 2016, an interim dividend of EUR 0.24 per ordinary share was paid. Therefore, a final dividend of EUR 0.42 per ordinary share remains. The final dividend will be paid entirely in cash after ratification of the proposal by the General Meeting of Shareholders.

Proposed appropriation of result

	2016
Net result	4,651
Addition to reserves pursuant to Article 37 (4) of the Articles of Association	2,091
At the disposal of the General Meeting of Shareholders pursuant to Article 37 (5) of the Articles of Association	**2,560**
Dividend of EUR 0.66 per ordinary share	

15 Subsequent events

There are no subsequent events to report.

Authorisation of Parent company annual accounts

Amsterdam, 13 March 2017

The Supervisory Board
J. (Jeroen) van der Veer, *chairman*
H.J.M. (Hermann-Josef) Lamberti, *vice-chairman*
E.F.C.B. (Eric) Boyer de la Giroday
H.W. (Henk) Breukink
I. (Isabel) Martín Castellá
M. (Mariana) Gheorghe
R.W.P. (Robert) Reibestein
A.C. (Ann) Sherry

The Executive Board
R.A.J.G. (Ralph) Hamers, *CEO and chairman*
P.G. (Patrick) Flynn, *CFO*
W.F. (Wilfred) Nagel, *CRO*

Independent auditor's report

To: the Annual General Meeting of Shareholders and the Supervisory Board of ING Groep N.V.

Report on the accompanying annual accounts 2016

Our opinion

In our opinion:

- the accompanying consolidated annual accounts give a true and fair view of the financial position of ING Groep N.V. ('ING Group') as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code;
- the accompanying parent company annual accounts give a true and fair view of the financial position of ING Groep N.V. as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the annual accounts 2016 of ING Groep N.V., based in Amsterdam. The annual accounts include the consolidated annual accounts and the parent company annual accounts.

The consolidated annual accounts comprise:

1. The consolidated statement of financial position as at 31 December 2016.
2. The following consolidated statements for 2016: the statement of profit or loss, the statements of comprehensive income, changes in equity and cash flows.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company annual accounts comprise:

1. The parent company statement of financial position as at 31 December 2016.
2. The parent company statement of profit or loss for 2016.
3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

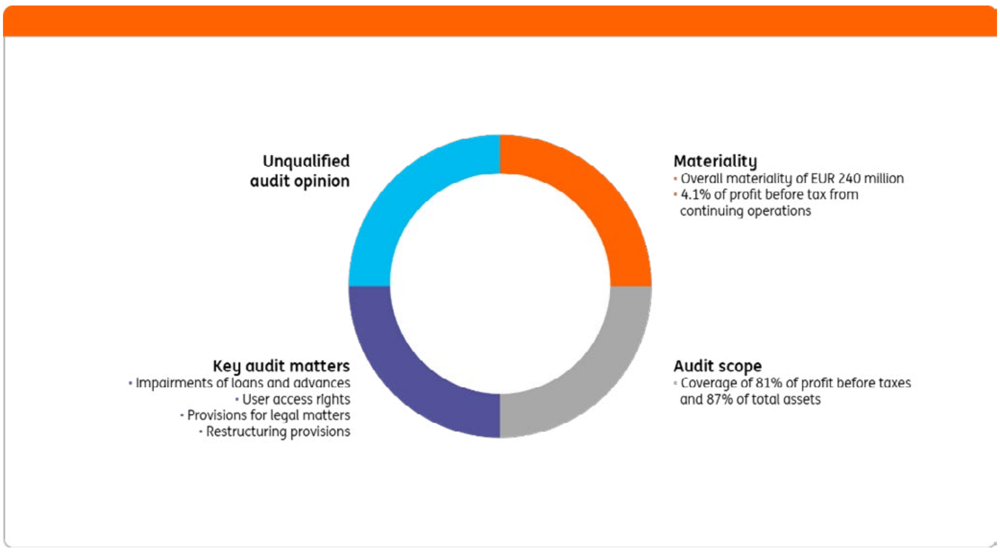
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the annual accounts' of our report.

We are independent of ING Group 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary



Initial audit engagement
This year was the first year we audited the annual accounts of ING Group. Therefore, we provide more information on how we prepared for this initial audit engagement.

From October 2015 and throughout the 31 December 2015 year-end process, we worked alongside the former auditors, attending their key meetings with ING Group and understanding the complex or significant audit judgements which they made. Members of the audit team took the opportunity to meet with ING Group's Executive Board and Management Board and key senior executives to understand the issues faced by the business, and to gather information which we required to plan our audit. We also observed the Audit Committee meetings and Risk Committee meetings of the Group.

In November 2015, we chaired a two-day meeting of the partners and staff of KPMG member firms who undertake audits of the most significant group entities, with the involvement of the Group's management. This meeting ensured that we would have a consistent approach to the audit globally, assisted in our determination of the significant risks and provided an opportunity for those partners and staff to directly liaise with ING Group's management.

We also reviewed the working papers of the former auditors, to help familiarise ourselves with the controls on which they relied for the purposes of issuing their opinion, the substantive audit procedures they have carried out and to understand the evidence they obtained over key judgements.

Materiality
Based on our professional judgement, we determined the materiality for the annual accounts as a whole at EUR 240 million. The materiality is determined with reference to the profit before taxation from continuing operations (4.1%). We consider profit before taxation from continuing operations as the most appropriate benchmark based on our assessment of the general information needs of users of the annual accounts. We believe that profit before tax from continuing operations is a relevant metric for assessment of the financial performance of ING Group. Given the relatively high balance sheet total and gross income, we have not used alternative benchmarks in determining materiality. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the annual accounts.

We agreed with the Audit Committee of the Supervisory Board that misstatements in excess of EUR 10 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit
ING Group is the head of a group of entities and subsidiaries. The financial information of ING Group is included in the consolidated annual accounts. ING Group is structured in segments: Retail Netherlands, Retail Belgium, Retail Germany, Retail Other, Wholesale Banking and Corporate Line Banking, covering different countries.

Because we are ultimately responsible for the opinion, we are responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group entities. Our group audit focused on significant group entities ('components'). These components are either individually financially significant due to their relative size compared to ING Group or because we assigned a significant risk of material misstatement to one or more account balances of these entities. In addition, we included certain group entities in the scope of our group audit in order to arrive at a sufficient coverage over all relevant significant account balances.

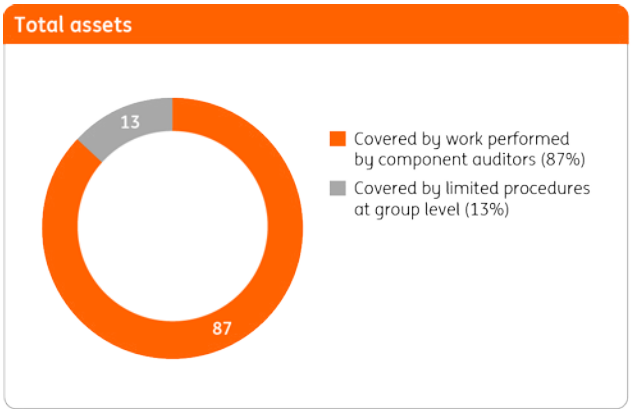
Applying these scoping criteria led to a full or specific scope audit for 39 components, in total covering 14 countries. This resulted in a coverage of 81% of profit before taxes and 87% of total assets. The remaining 19% of profit before taxes and 13% of total assets results from remaining components. For these remaining components, we performed analytical procedures at the aggregated group level in order to corroborate our assessment that there are no significant risks of material misstatement within these remaining components.

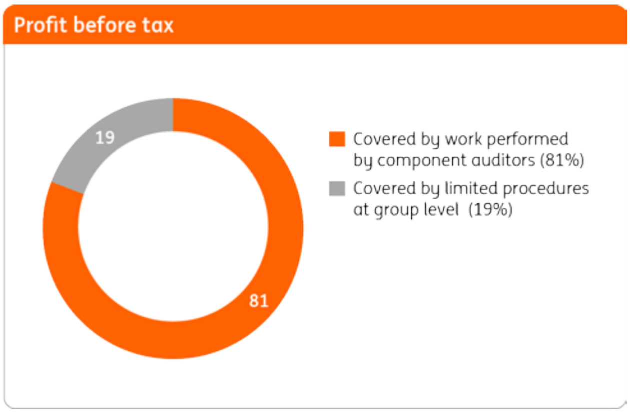
All components in scope for group reporting are audited by KPMG member firms. We sent detailed instructions to all component auditors, covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to the group audit team. We visited component locations in the Netherlands, Belgium, Germany, Poland and the United States of America, where we performed reviews of the audit files from local auditors. For all components in scope of the group audit, we held conference calls and/or physical meetings with the auditors of the components. During these visits, meetings and calls, the planning, risk assessment, procedures performed, findings and observations reported to the group auditor were discussed in more detail and any further work deemed necessary by the group audit team was then performed.

The group audit team has set component materiality levels, which ranged from EUR 25 million to EUR 80 million, based on the mix of size and financial statement risk profile of the components within the group to reduce the aggregation risk to an acceptable level.

The consolidation of the group, the disclosures in the annual accounts and certain accounting topics that are performed at group level are audited by the group audit team. The accounting matters on which audit procedures are performed by the group audit team include, but are not limited to, goodwill impairment testing, equity, group financing, certain elements of the loan loss provisioning process, corporate income tax for the Dutch fiscal unity and claims and litigations.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the annual accounts.





Our key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the Audit Committee of the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the annual accounts as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation uncertainty with respect to impairment losses on loans and advances to customers

Description

ING Group's portfolio of loans and advances to customers amounts to EUR 564 billion as at 31 December 2016. These loans and advances are measured at amortised cost, less a provision for loan losses (EUR 5.2 billion). Certain aspects of the accounting for loan losses require significant judgement of management, such as the identification of loans that are deteriorating, the assessment of objective evidence for impairment, the value of collateral and the estimation of the recoverable amount.

Due to the significance of loans and advances to customers and the related estimation uncertainty, we consider the valuation of loans as a key audit matter. Refer to the 'Principles of valuation and determination of results' section in Note 1 of the Consolidated Annual Accounts and related disclosures in the 'Risk Management' paragraph.

Our response

Our audit approach included testing both the effectiveness of internal controls around determining loan loss provisions as well as substantive audit procedures.

Our procedures over internal controls focused on controls around the accuracy of loan and collateral data, the determination of risk ratings and the process for identifying arrears and the management thereof. In our audit, we also considered the process around the internal validation and implementation of the models used to determine the loan loss provisions, as well as the periodic evaluation of the parameters applied in these models. As a result of internal control deficiencies identified during the year, the internal control risk was assessed as higher and the level of substantive audit procedures increased.

We assessed collective impairment methodologies, focusing on the retail and wholesale banking portfolios due to their relative size and the potential impact of changing inputs and assumptions. With the assistance of our financial risk management specialists, we have evaluated the models, assumptions and data used by ING Group for the collective impairment for incurred but not reported loan losses ('IBNR'), including the appropriateness of the loss emergence period as a critical factor used in these models. In addition, we have assessed the methodology and framework designed and implemented by ING Group as to whether the collective provision model outcomes should be adjusted to better reflect the current circumstances of the portfolio performance and economic conditions.

With the assistance of our corporate finance specialists, we examined a selection of loan exposures that either continued to be, have become, or were at risk of being individually impaired. We applied professional judgement in selecting those exposures for our detailed inspection, placing an emphasis on portfolios that were potentially more sensitive to developing economic trends. For selected loan files, we challenged management's estimate of the recoverable amount, including the cash generating capacity and, where applicable, the value of realisable collateral, based on available financial information, market information and, where applicable, the analysis of alternative recovery scenarios. Additionally, we assessed whether the disclosures in the annual accounts appropriately reflect ING Group's exposure to credit risk, specifically considering those portfolios identified in 2016 as presenting the highest risk.

Our observation

We have made recommendations to management in relation to evidencing appropriate review of risk ratings and IBNR model results in our auditor's report to ING Group's Audit Committee of the Supervisory Board. Overall, we assess that loans and advances to customers after deduction of loan loss impairments are fairly stated and concur with the related disclosures in the annual accounts.

Risk of inappropriate access to information technology and systems

Description

ING Group is vitally dependent on its IT infrastructure for the reliability and continuity of its operations and financial reporting. In 2016, ING Group made significant efforts to improve IT systems and processes to increase the efficiency and effectiveness of the IT infrastructure and the reliability and continuity of the IT processing.

In particular, there was increased management attention on access rights to the applications, operating systems and databases. These are important to ensure that access and changes to applications and data are properly authorised and made in an appropriate manner. We have therefore identified the effectiveness of user access management as part of the general IT controls a key audit matter.

Our response

Our audit approach relies to a large extent on automated controls and therefore procedures are designed to test access controls over IT systems. Inappropriate access to an application or infrastructure could impact an automated control and therefore compromise financial data. The use of each application has been considered in the evaluation of each IT related deficiency. Given the IT technical characteristics of this part of the audit, we involved our IT audit specialists in all stages of the annual accounts audit (risk assessment, planning, execution and reporting).

Our IT auditors assessed the reliability and continuity of the IT environment, insofar as needed within the scope of our audit of the 2016 annual accounts. Amongst others, we assessed and tested the design and operating effectiveness of user access management controls of the IT systems relevant for financial reporting. We examined the framework of governance over ING Group's IT organisations and the IT general controls, access to programmes and data, programme changes and IT operations, including compensating controls where those were required.

A particular area of focus related to the logical access management and segregation of duties controls. Access rights were tested to the extent relied upon for financial reporting. As a consequence of identified control weaknesses on user access management, management put additional efforts to remediate identified control deficiencies. Subsequently, we have performed additional test work over management's remediation. For those control weaknesses that were not remediated, we tested compensating controls that were not impacted by ineffective user access management controls. For certain applications, we substantively assessed the access to determine whether inappropriate access occurred and whether changes made were appropriate.

Our observation

The combination of the tests of the controls and the substantive tests performed, provided sufficient evidence to enable us to rely on the continued operation of the IT systems for the purposes of our audit. In our reporting to the Audit Committee of the Supervisory Board, we provided recommendations for further improvements to the IT controls and in particular the controls related to user access management.

Estimation uncertainty with respect to provision for legal matters

Description
The recognition and measurement of both provisions and the disclosure of contingent liabilities in respect of litigation, regulatory measures and client care remediation (hereafter: 'legal matters') require significant judgement by management. In 2016, notable developments in this area included amongst others the SME derivatives remediation programme in the Netherlands and related client care remediation and litigation.

Due to the complexity in assessing and measuring the amount from obligations resulting from legal matters, we consider this as a key audit matter. Refer to the 'Principles of valuation and determination of results' section in Note 1 on the annual accounts and related disclosures of legal proceedings in Note 45 of the annual accounts.

Our response
Our audit procedures included the assessment of controls over the identification, evaluation and measurement of potential obligations arising from legal matters. For matters identified, we considered whether an obligation exists, the appropriateness of provisioning and/or disclosure based on the facts and circumstances available.

In order to assess the facts and circumstances, we obtained and assessed underlying underwriters documentation and the relevant regulatory and litigation documents, including (external) lawyer's letters, we read minutes from relevant committees, we inquired with senior management and we interviewed ING Group's legal counsel and, where necessary, external lawyers of ING Group. We also assessed the assumptions made and key judgements applied by management based on our own assessment and knowledge of market information.

Additionally, we considered whether ING Group's disclosures of the application of judgement in estimating provisions and contingent liabilities adequately reflect the uncertainties associated with legal matters.

Our observation
Overall, we conclude that the provision for claims in respect of legal matters is fairly stated and related disclosures as appropriate and concur with the nature and extent of disclosure in note 45 of the contingent liabilities for claims and litigation in the annual accounts.

Estimation uncertainty with respect to the digital transformation restructuring provisions

Description
The recognition and measurement of restructuring provisions requires significant judgement by management. This specifically relates to the restructuring provision following the publicly announced 'Accelerating Think Forward' strategy on 3 October 2016. There is significant management judgement involved in the assumptions over projected employee redundancy cost.

These assumptions are impacted by local circumstances and the estimation uncertainty of the projected costs. Due to the significance of this restructuring and the difficulty in assessing and measuring the amount from any resulting provision, we consider the measurement of the restructuring provision a key audit matter.

Refer to the 'Principles of valuation and determination of results' section in Note 1 on the annual accounts and related disclosures of reorganisation provisions in Note 15 of the annual accounts.

Our response
Our audit procedures included the assessment of controls over the identification, evaluation and measurement of potential provisions arising from restructuring programmes. For the restructuring programmes identified, we considered whether they meet the recognition criteria for a restructuring provision. Therefore, we determined whether an obligation resulting from a past event exists and tested the appropriateness of the provision estimate and the disclosure based on the facts and circumstances available. In order to assess the facts and circumstances, we obtained and assessed the relevant underlying internal and external documentation, read minutes from relevant committees, re-performed the underlying calculations and inquired with senior management.

We also assessed the assumptions made and key judgements applied by management based on detailed analysis using historical experience data from previous restructuring programmes.

We involved an actuarial specialist to verify the reasonableness of actuarial assumptions and we evaluated the consistency of measurement methodologies used. Additionally, we considered whether ING Group's disclosures of the application of judgement in estimating provisions adequately reflect the uncertainties associated with determining the restructuring provision.

Our observation
We conclude that the provisioning for restructuring programmes are fairly stated as at 31 December 2016 and concur with the disclosures in the annual accounts, in note 15.

Report on the other information included in the annual report

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

- The report of the Executive Board.
- Other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.
- The Report on corporate governance.

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

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

We read the other information. Based on our knowledge and understanding obtained through our audit of the annual accounts 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 Netherlands Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the annual accounts.

The Executive Board is responsible for the preparation of the other information, including the report of the Executive Board, in accordance with Part 9 of Book 2 of the Netherlands Civil Code and other Information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by resolution at the Annual General Meeting of Shareholders as auditor of the ING Group on 11 May 2015 for the audit of the year 2016.

Description of the responsibilities for the annual accounts

Responsibilities of the Executive Board and Supervisory Board for the annual accounts

The Executive Board is responsible for the preparation and fair presentation of the annual accounts in accordance with EU-IFRS and with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Executive Board is responsible for such internal control as the Executive Board determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to errors or fraud.

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

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of annual accounts

Our objective is to plan and perform the audit 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 the audit.

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

For a further description of our responsibilities in respect of an audit of annual accounts, we refer to the website of the professional body for accountants in the Netherlands (NBA)
https://www.nba.nl/Documents/Tools%20Vaktechniek/Standaardpassages/Standaardpassage_nieuwe_controletekst_oob_variant_%20Engels.docx

Amstelveen, 13 March 2017

KPMG Accountants N.V.

M.A. Hogeboom RA

Articles of Association – Appropriation of results

Appropriation of results

The result is appropriated pursuant to Article 37 of the Articles of Association of ING Groep N.V., the relevant stipulations of which state that the Executive Board, subject to the approval of the Supervisory Board, determines what part of the result is to be appropriated to reserves and that the remaining part of the result shall be at the disposal of the General Meeting of Shareholders.

Risk factors

Any of the risks described below could have a material adverse effect on the business activities, financial condition, results of operations and prospects of ING. Additional risks of which the Company is not presently aware could also affect the business operations of ING and have a material adverse effect on ING's business activities, financial condition, results of operations and prospects. In addition, the business of a multinational, broad-based financial services firm such as ING is inherently exposed to risks that only become apparent with the benefit of hindsight. The market price of ING shares or other securities could decline due to any of those risks including the risks described below, and investors could lose all or part of their investments. The sequence in which the risk factors are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

Risks related to financial conditions, market environment and general economic trends

Because we are a financial services company conducting business on a global basis, our revenues and earnings are affected by the volatility and strength of the economic, business, liquidity, funding and capital markets environments specific to the geographic regions in which we conduct business. The ongoing turbulence and volatility of such factors have adversely affected, and may continue to adversely affect, the profitability , solvency and liquidity of our business.
Factors such as interest rates, securities prices, credit spreads, liquidity spreads, exchange rates, consumer spending, changes in client behaviour, business investment, real estate values and private equity valuations, government spending, inflation or deflation, the volatility and strength of the capital markets, political events and trends, and terrorism all impact the business and economic environment and, ultimately, our solvency, liquidity and the amount and profitability of business we conduct in a specific geographic region. We are particularly exposed to financial, economic, market and political conditions in the Benelux countries, from which we derive a significant portion of our revenues. In an economic downturn characterised by higher unemployment, lower family income, lower corporate earnings, higher corporate and private debt defaults, lower business investments and lower consumer spending, the demand for banking products is usually adversely affected and ING's reserves and provisions typically would increase, resulting in overall lower earnings. Securities prices, real estate values and private equity valuations may also be adversely impacted, and any such losses would be realised through profit and loss and shareholders' equity. We also offer a number of financial products that expose us to risks associated with fluctuations in interest rates, securities prices, corporate and private default rates, the value of real estate assets, exchange rates and credit spreads.

See also '—Interest rate volatility and other interest rate changes may adversely affect our profitability', '—Continued risk of resurgence of turbulence and ongoing volatility in the financial markets and the economy generally have adversely affected, and may continue to adversely affect, our business, financial condition and results of operations', and '—Market conditions observed over the past few years may increase the risk of loans being impaired. We are exposed to declining property values on the collateral supporting residential and commercial real estate lending' below.

In case one or more of the factors mentioned above adversely affects the profitability of our business, this might also result, among other things, in the following:
- reserve and provisions inadequacies, which could ultimately be realised through profit and loss and shareholders' equity;
- the write-down of tax assets impacting net results and/or equity;
- impairment expenses related to goodwill and other intangible assets, impacting net results;
- movements in risk weighted assets for the determination of required capital;
- changes in credit valuation adjustments and debt valuation adjustments; and/or
- additional costs related to maintenance of higher liquidity buffers and/or collateral placements.

Shareholders' equity and our net result may be significantly impacted by turmoil and volatility in the worldwide financial markets. Negative developments in financial markets and/or economies and changes in the regulatory environment in which we operate have in the past had and may in the future have a material adverse impact on shareholders' equity and net result, including as a result of the potential consequences listed above. See '— Continued risk of resurgence of turbulence and ongoing volatility in the financial markets and the economy generally have adversely affected, and may continue to adversely affect, our business, financial condition and results of operations' and '— We operate in highly regulated industries. Changes in laws and/ or regulations governing financial services or financial institutions or the application of such laws and/or regulations governing our business may reduce our profitability' below.

Continued risk of resurgence of turbulence and ongoing volatility in the financial markets and the economy generally have adversely affected, and may continue to adversely affect, our business, financial condition and results of operations.

General

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. In 2008 and through early 2009, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. Concerns over the slow economic recovery, the European sovereign debt crisis, the outcome of the negotiations between the UK and the EU following the UK referendum on EU membership (Brexit), the potential exit of other countries from the Eurozone, increasing political instability in Europe, unemployment, the availability and cost of credit, credit spreads, quantitative easing within the Eurozone through bond repurchases, the ECB's targeted longer-term refinancing operation ('TLTRO'), potential changes in U.S. laws, regulations and policies governing financial regulation, foreign trade and foreign investment following the inauguration of a new U.S. administration in January 2017, the level of U.S. national debt and the U.S. housing market, inflation/deflation levels, energy costs and heightened geopolitical issues all have contributed to increased volatility and diminished expectations for the economy and the markets in recent years.

These conditions have generally resulted in greater volatility, widening of credit spreads and overall shortage of liquidity and tightening of financial markets throughout the world. These concerns have since expanded to include a broad range of fixed income securities, including those rated investment grade and especially the sovereign debt of some EEA countries and the U.S., the international credit and interbank money markets generally, and a wide range of financial institutions and markets, asset classes, such as public and private equity, and real estate sectors. As a result of these and other factors, sovereign governments across the globe, including in regions where the Group operates, have also experienced budgetary and other financial difficulties, which have resulted in changes in economic policy including the implementation of austerity measures, downgrades in credit rating by credit agencies, planned or implemented bail-out measures and, on occasion, civil unrest (for further details regarding sovereign debt concerns, see ' —U.S. Sovereign Credit Rating' and ' — European sovereign debt crisis and the United Kingdom's withdrawal from the European Union below). As a result, the market for fixed income instruments has experienced decreased liquidity, increased price volatility, credit downgrade events, and increased probability of default. In addition, the confluence of these and other factors has resulted in volatile foreign exchange markets. Securities that are less liquid are more difficult to value and may be hard to dispose of. International equity markets have also continued to experience heightened volatility and turmoil, with issuers, including ourselves, that have exposure to the real estate, mortgage, private equity and credit markets particularly affected. These events and market upheavals, including high levels of volatility, have had and may continue to have an adverse effect on our revenues and results of operations, in part because we have a large investment portfolio and extensive real estate activities around the world.

In addition, the confidence of customers in financial institutions is being tested. Consumer confidence in financial institutions may, for example, decrease due to our or our competitors' failure to communicate to customers the terms of, and the benefits to customers of, complex or high-fee financial products. Reduced confidence could have an adverse effect on our revenues and results of operations, including withdrawal of deposits. Because a significant percentage of our customer deposit base is originated via Internet banking, a loss of customer confidence may result in a rapid withdrawal of deposits over the Internet.

As a result of the ongoing and unprecedented volatility in the global financial markets since 2007, we incurred in past years substantial negative revaluations and impairments on our investment portfolio, which have impacted our shareholders' equity and earnings.

The aforementioned impacts have arisen primarily as a result of valuation and impairment issues arising in connection with our investments in real estate (both in and outside the U.S.) and private equity, exposures to European sovereign debt and to U.S. mortgage-related structured investment products, including sub-prime and 'Alt-A' residential and commercial mortgage-backed securities, collateralised debt obligations and collateralised loan obligations, private equity and other investments. In many cases, the markets for investments and instruments have been and remain highly illiquid, and issues relating to counterparty credit ratings and other factors have exacerbated pricing and valuation uncertainties. Valuation of such investments and instruments is a complex process involving the consideration of market transactions, pricing models, management judgment and other factors, and is also impacted by external factors, such as underlying mortgage default rates, interest rates, rating agency actions and property valuations. Although we continue to monitor our exposures, there can be no assurance that we will not experience further negative impacts to our shareholders' equity, solvency position, liquidity, financial condition or profit and loss accounts in future periods.

European sovereign debt crisis and the United Kingdom's withdrawal from the European Union
Market concerns over the direct and indirect exposure of European banks and insurers to the sovereign debt of several EU Member States since 2010 have resulted in a widening of credit spreads and increased costs of funding for some European financial institutions. The sovereign debt crisis has also highlighted issues relating to the strength of the banking sector in Europe and the Euro. In addition, risks and ongoing concerns about the crisis in the Italian banking sector and its potential spill-over effect into other Member States, deterioration of the political situation in Turkey, as well as the possible default by one or more Member States could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European and other financial institutions, including us. For example, concerns regarding Greece's financial condition and potential exit from the Eurozone were raised again in early 2017. Additionally, the possibility of capital market volatility spreading through a highly integrated and interdependent banking system remains elevated. In the event of any default or similar event with respect to a sovereign issuer, some financial institutions may suffer significant losses, following which they would require additional capital, and such capital may not be available. We are exposed to the risk of downgrades of European sovereign ratings or corporate ratings, because they may affect our financial costs and, as a result, our profitability. Market disruptions in Europe related to sovereign debt and the banking sector continue to be a threat to global capital markets and remains a challenge to global financial stability. In the event of any default or similar event with respect to a sovereign issuer, some financial institutions may suffer significant losses, following which they would require additional capital, which may not be available. Market and economic disruptions stemming from the crisis in Europe also have affected, and may continue to affect, consumer confidence levels and spending, bankruptcy rates, levels of incurrence of, and default on, consumer debt and home prices, among other factors. There can be no assurance that market disruptions in Europe, including the increased cost of funding for certain government and financial institutions, will not spread, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilise the affected countries and markets in Europe or elsewhere. To the extent uncertainty regarding the economic recovery continues to negatively impact consumer confidence and consumer credit factors, our business and results of operations could be significantly and adversely impacted. Additionally, extreme prolonged market events, such as the recent global credit crisis, could cause us to incur significant losses and may lead to USD funding shortages for EU Banks.

In addition, although the UK is not a member state of the Eurozone, the decision of the UK to leave the EU may further destabilize the Eurozone. The outcome of the negotiations between the UK and the EU, which are expected to formally begin in March 2017 and to last for at least two years, remains highly uncertain as does its economic and operational impact on the Group and its counterparties. Concerns regarding other Member States' potential exit from the EU or the Eurozone also have emerged following the 'Brexit' referendum and may continue to emerge in the context of the French and German general elections in 2017. The possible exit from the EU and/or the Eurozone of one or more European states and/or the replacement of the Euro by one or more successor currencies could create significant uncertainties regarding the enforceability and valuation of Euro-denominated contracts to which we (or our counterparties) are a party and thereby materially and adversely affect our and/or our counterparties' liquidity, financial condition and operations. Such uncertainties may include the risk that (i) an obligation that was expected to be paid in Euros is redenominated into a new currency (which may not be easily converted into other currencies without incurring significant cost), (ii) currencies in some Member States may depreciate relative to others, (iii) former EU and/or Eurozone Member States may impose capital controls that would make it complicated or illegal to move capital out of such countries, and/or (iv) some courts (in particular, courts in countries that have left the EU and/or the Eurozone) may not recognise and/or enforce claims denominated in Euros (and/or in any replacement currency). These factors, combined with volatile oil prices, reduced business and consumer confidence and/or continued high unemployment, have negatively affected the economy of main geographic regions where we conduct our business. Our results of operations, liquidity position, capital position and investment portfolio are exposed to these risks and may be adversely affected as a result.

U.S. Sovereign Credit Rating
In 2011, Standard & Poor's Ratings Services ('S&P') lowered its long-term sovereign credit rating on the U.S. from AAA to AA+. Although other ratings agencies have not similarly lowered the long-term sovereign credit rating of the U.S., they have put that credit rating on watch. Amid the lingering uncertainty over the long-term outlook for the fiscal position and the future economic performance of the U.S. within the global economy and potential future budgetary restrictions in the U.S., there continues to be a perceived risk of a future sovereign credit ratings downgrade of the U.S. government, including the rating of U.S. Treasury securities. On 15 October 2013, Fitch Ratings placed the U.S.'s AAA credit rating under 'rating watch negative' in response to the financial crisis, a step that would precede an actual downgrade, which was however upgraded again to 'stable' in March 2014. It is foreseeable that the ratings and perceived creditworthiness of instruments issued, insured or guaranteed by institutions, agencies or instrumentalities directly linked to the U.S. government could also be correspondingly affected by any such downgrade. Instruments of this nature are key assets on the balance sheets of financial institutions and are widely used as collateral by financial institutions to meet their day-to-day cash flows in the short-term debt market. The impact of any further downgrades to the sovereign credit rating of the U.S. government or a default by the U.S. government to satisfy its debt obligations likely would create broader financial turmoil and uncertainty, which would weigh heavily on the global financial system and could consequently result in a significant adverse impact to the Group.

Adverse capital and credit market conditions as well as changes in regulations may impact our ability to access liquidity and capital, as well as the cost of liquidity, credit and capital.
Adverse capital market conditions have in the past affected, and may in the future affect, our cost of borrowed funds and our ability to borrow on a secured and unsecured basis, thereby impacting our ability to support and/or grow our businesses. Furthermore, although interest rates are at or near historically low levels, since the recent financial crisis, we have experienced increased funding costs due in part to the withdrawal of perceived government support of such institutions in the event of future financial crises. In addition, liquidity in the financial markets has also been negatively impacted as market participants and market practices and structures adjust to new regulations.

We need liquidity to pay our operating expenses, interest on our debt and dividends on our capital stock, maintain our securities lending activities and replace certain maturing liabilities. Without sufficient liquidity, we will be forced to curtail our operations and our business will suffer. The principal sources of our funding include a variety of short- and long-term instruments, including deposit fund, repurchase agreements, commercial paper, medium- and long-term debt, subordinated debt securities, capital securities and stockholders' equity.

In the event that our current resources do not satisfy our needs, we may need to seek additional financing. The availability of additional financing will depend on a variety of factors, such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects. Similarly, our access to funds may be limited if regulatory authorities or rating agencies take negative actions against us. If our internal sources of liquidity prove to be insufficient, there is a risk that we may not be able to successfully obtain additional financing on favourable terms, or at all. Any actions we might take to access financing may, in turn, cause rating agencies to re-evaluate our ratings.

Disruptions, uncertainty or volatility in the capital and credit markets may also limit our access to capital. Such market conditions may in the future limit our ability to raise additional capital to support business growth, or to counterbalance the consequences of losses or increased regulatory capital and rating agency capital requirements. This could force us to (i) delay raising capital, (ii) reduce, cancel or postpone payment of dividends on our shares, (iii) reduce, cancel or postpone interest payments on our other securities, (iv) issue capital of different types or under different terms than we would otherwise, or (v) incur a higher cost of capital than in a more stable market environment. This would have the potential to decrease both our profitability and our financial flexibility. Our results of operations, financial condition, cash flows, regulatory capital and rating agency capital position could be materially adversely affected by disruptions in the financial markets.

In the course of 2008 and 2009, governments around the world, including the Dutch government, implemented unprecedented measures to provide assistance to financial institutions, in certain cases requiring (indirect) influence on or changes to governance and remuneration practices. In certain cases, governments nationalised companies or parts thereof. The measures adopted in the Netherlands included emergency funding and capital reinforcement, and a Dutch Credit Guarantee Scheme, both of which have expired. Our completed Restructuring Plan and the divestments in connection with that plan altered the size and structure of the Group and involved significant costs, which required changes in our operations, funding and liquidity. Any potential future transactions with the Dutch State or any other government or any actions by such government regarding ING could adversely impact the position or rights of shareholders, bondholders, customers or creditors and our results, operations, solvency, liquidity and governance.

We are subject to the jurisdiction of a variety of banking regulatory bodies, some of which have proposed regulatory changes in recent years that, if implemented, would hinder our ability to manage our liquidity in a centralised manner. As a holding company, ING Groep N.V. is dependent for liquidity on payments from its subsidiaries, which are subject to restrictions, as described in '—As a holding company, ING Groep N.V. is dependent for liquidity on payments from its subsidiaries, many of which are subject to regulatory and other restrictions..' Furthermore, regulatory liquidity requirements in certain jurisdictions in which we operate are generally becoming more stringent, including those forming part of the 'Basel III' requirements discussed further below under '—We operate in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations governing our business may reduce our profitability', undermining our efforts to maintain this centralised management of our liquidity. These developments may cause trapped pools of liquidity and capital, resulting in inefficiencies in the cost of managing our liquidity and solvency, and hinder our efforts to integrate our balance sheet.

Interest rate volatility and other interest rate changes may adversely affect our profitability.
Changes in prevailing interest rates may negatively affect our business, including the level of net interest revenue we earn, and the levels of deposits and the demand for loans. A sustained increase in the inflation rate in our principal markets may also negatively affect our business, financial condition and results of operations. For example, a sustained increase in the inflation rate may result in an increase in nominal market interest rates. A failure to accurately anticipate higher inflation and factor it into our product pricing assumptions may result in mispricing of our products, which could materially and adversely impact our results of operations. On the other hand, recent concerns regarding negative interest rates and the low level of interest rates generally may negatively impact our net interest income, which may have an adverse impact on our profitability.

Declining interest rates or a prolonged period of low interest rates, as is currently the case, may result in:
- lower earnings over time on investments, as reinvestments will earn lower rates;
- increased prepayment or redemption of mortgages and fixed maturity securities in our investment portfolios, as well as increased prepayments of corporate loans. This as borrowers seek to borrow at lower interest rates potentially combined with lower credit spreads. Consequently, we may be required to reinvest the proceeds into assets at lower interest rates;
- lower profitability as the result of a decrease in the spread between client rates earned on assets and client rates paid on savings, current account and other liabilities;
- higher costs for certain derivative instruments that may be used to hedge certain of our product risks;
- lower profitability since we may not be able to fully track the decline in interest rates in our savings rates;
- lower profitability since we may not always be entitled to impose surcharges to customers to compensate for the decline in interest rates;
- lower profitability since we may have to pay a higher premium for the defined contribution scheme in the Netherlands for which the premium paid is dependent on interest rate developments and DNB's methodology for determining the ultimate forward rate;
- lower interest rates may cause asset margins to decrease thereby lowering our results of operations. This may for example be the consequence of increased competition for investments as result of the low rates, thereby driving margins down; and/or
- (depending on the position) a significant collateral posting requirement associated with our interest rate hedge programs, which could materially and adversely affect liquidity and our profitability.

All these effects may be amplified in a (prolonged) negative rate environment. In such environment there may also be the risk that a rate is to be paid on assets, while there is no (partial) compensation on the liabilities. This will reduce our results of operations then.

Rapidly increasing interest rates may result in:
- a decrease in the demand for loans;
- higher interest rates to be paid on debt securities that we have issued or may issue on the financial markets from time to time to finance our operations and on savings, which would increase our interest expenses and reduce our results of operations;
- higher interest rates can lead to lower investments prices reduce the revaluation reserves, thereby lowering IFRS equity and the capital ratios. Also the lower securities value leads to a loss of liquidity generating capacity which needs to be compensated by attracting new liquidity generating capacity which reduces our results of operations;
- prepayment losses if prepayment rates are lower than expected or if interest rates increase too rapidly to adjust the accompanying hedges; and/or
- (depending on the position) a significant collateral posting requirement associated with our interest rate hedge Program;

Inflation and deflation may negatively affect our business.
A sustained increase in the inflation rate in our principal markets would have multiple impacts on us and may negatively affect our business, solvency position and results of operations. For example, a sustained increase in the inflation rate may result in an increase in market interest rates, which may:
- decrease the estimated fair value of certain fixed income securities that we hold in our investment portfolios, resulting in:
  - reduced levels of unrealised capital gains available to us, which could negatively impact our solvency position and net income, and/or
  - a decrease in collateral values,
- result in increased withdrawal of certain savings products, particularly those with fixed rates below market rates,
- require us, as an issuer of securities, to pay higher interest rates on debt securities that we issue in the financial markets from time to time to finance our operations, which would increase our interest expenses and reduce our results of operations.

A significant and sustained increase in inflation has historically also been associated with decreased prices for equity securities and sluggish performance of equity markets generally. A sustained decline in equity markets may:
- result in impairment charges to equity securities that we hold in our investment portfolios and reduced levels of unrealised capital gains available to us which would reduce our net income, and
- lower the value of our equity investments impacting our capital position.

In addition, a failure to accurately anticipate higher inflation and factor it into our product pricing may result in a systemic mispricing of our products, which would negatively impact our results of operations.

On the other hand, deflation experienced in our principal markets may also adversely affect our financial performance. In recent years, the risk of low inflation and even deflation (i.e., a continued period with negative rates of inflation) in the Eurozone has materialized. Deflation may erode collateral values and diminish the quality of loans and cause a decrease in borrowing levels, which would negatively affect our business and results of operations.

We operate in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations governing our business may reduce our profitability.
We are subject to detailed banking laws and government regulation in the jurisdictions in which we conduct business. Regulatory agencies and supervisors have broad administrative power over many aspects of our business, which may include liquidity, capital adequacy, permitted investments, ethical issues, money laundering, anti-terrorism measures, privacy, recordkeeping, product and sale suitability, marketing and sales practices, remuneration policies, personal conduct and our own internal governance practices. Also, regulators and other supervisory authorities in the European Union ('EU'), the United States ('U.S.') and elsewhere continue to scrutinise payment processing and other transactions and activities of the financial services industry through laws and regulations governing such matters as money laundering, anti-terrorism financing, tax evasion, prohibited transactions with countries subject to sanctions, and bribery or other anti-corruption measures.

Our revenues and profitability and those of our competitors have been and will continue to be impacted by requirements relating to capital, additional loss-absorbing capacity, leverage, minimum liquidity and long-term funding levels, requirements related to resolution and recovery planning, derivatives clearing and margin rulesand levels of regulatory oversight, as well as limitations on which and, if permitted, how certain business activities may be carried out by financial institutions.

Following the start of the financial crisis, regulators around the world have increased their focus on the regulation of the financial services industry. Most of the principal markets where we conduct our business have adopted, or are currently in the implementation phase of, major legislative and/or regulatory initiatives in response to the financial crisis. Governmental and regulatory authorities in the Netherlands, Germany, Belgium, the United Kingdom, the EU, the U.S. and elsewhere have implemented, or are in the process of implementing measures to increase regulatory control in their respective financial markets and financial services sectors, including, among others, in the areas of prudential rules, liquidity and capital requirements, executive compensation, crisis and contingency management, bank taxes and financial reporting. Additionally, governmental and regulatory authorities in the Netherlands, in the EU and the U.S. as well as in a multitude of jurisdictions where we conduct our business continue to consider new mechanisms to limit the occurrence and/or severity of future economic crises (including proposals to restrict the size of financial institutions operating in their jurisdictions and/or the scope of operations of such institutions). Furthermore, we are subject to different tax regulations in each of the jurisdictions where we conduct business. Changes in tax laws (including case law) could increase our taxes and our effective tax rates and could materially impact our tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities, which could have a material adverse effect on our business, results of operations and financial condition. One such change relates to the current debate in the U.S. over corporate tax reform for multinational corporations and corporate tax rates. Changes in tax laws could also make certain ING products less attractive, which could have adverse consequences for our businesses and results.

In addition, the International Accounting Standards Board ('IASB') issued in July 2014 a new accounting standard for financial instruments also known as IFRS 9 'Financial Instruments'. IFRS 9, which was endorsed by the EU in November 2016, will replace IAS 39, the accounting standard heavily criticised in the wake of the financial crisis, for annual periods beginning on or after 1 January 2018, with early adoption permitted. Such changes could also have a material impact on our reported results and financial condition, as well as on how ING manages its business, internal controls and disclosure.

Compliance with applicable laws and regulations is resources-intensive, and changes in laws and regulations may materially increase costs. We expect the scope and extent of regulation in the jurisdictions in which we conduct our business, as well as regulatory oversight and supervision, to generally continue to increase. However, we cannot predict whether or when future legislative or regulatory actions may be taken, or what impact, if any, actions taken to date or in the future could have on our business, results of operations and financial condition. Regulation is becoming increasingly more extensive and complex and the industries in which we operate are increasingly coming under the scrutiny of regulators, and affected companies, including ING, are required to meet the demands, which often necessitate additional resources. These regulations can limit our activities, among others, through stricter net capital, customer protection and market conduct requirements and restrictions on the businesses in which we can operate or invest.

Despite our efforts to maintain effective compliance procedures and to comply with applicable laws and regulations, there are a number of risks in areas where applicable regulations may be unclear, subject to multiple interpretations or under development, or where regulations may conflict with one another, or where regulators revise their previous guidance or courts overturn previous rulings, which could result in our failure to meet applicable standards. Regulators and other authorities have the power to bring administrative or judicial proceedings against us, which could result, among other things, in suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action, which could materially harm our results of operations and financial condition. If we fail to address, or appear to fail to address, any of these matters appropriately, our reputation could be harmed and we could be subject to additional legal risk, which could, in turn, increase the size and number of claims and damages brought against us or subject us to enforcement actions, fines and penalties.

Basel III, CRD IV and CRD V

In December 2010, the Basel Committee on Banking Supervision ('BCBS') announced higher global minimum capital standards for banks and introduced a new global liquidity standard and a new leverage ratio. The BCBS's package of reforms, collectively referred to as the 'Basel III' rules, will, among other requirements, increase the amount of common equity required to be held by subject banking institutions, prescribe the amount of liquid assets and the long-term funding a subject banking institution must hold at any given moment and limit leverage. Banks will be required to hold a 'capital conservation buffer' to withstand future periods of stress such that the total common equity Tier 1 ratio, when fully phased in on 1 January 2019, will rise to 7%. Basel III also introduced a 'countercyclical buffer' as an extension of the capital conservation buffer, which would allow national regulators to require banks to hold more capital during periods of high credit growth (to strengthen capital reserves and moderate the debt markets). Further, Basel III has strengthened the definition of capital that will have the effect of disqualifying many hybrid securities, including those issued by the Group, from inclusion in regulatory capital, as well as the higher capital requirements for trading, derivative and securitisation activities as part of a number of reforms to the Basel II framework. In addition, the BCBS and the Financial Stability Board ('FSB') published measures in October 2011 that would have the effect of requiring higher loss absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for, and instituting more intensive and effective supervision of, 'systemically important financial institutions' ('SIFIs') and so-called 'Global' SIFIs ('G-SIFIs'), in addition to the Basel III requirements otherwise applicable to most financial institutions. In particular in November 2015 the FSB published the final Total Loss-Absorbing Capacity (TLAC) standard for G-SIFIs, which aims for G-SIFIs to have sufficient loss-absorbing and recapitalisation capacity available in resolution. The implementation of these measures began in 2012, and full implementation is targeted for 2019, with the TLAC requirements to apply from 2019. ING Bank has been designated by the BCBS and the FSB as one of the global systemically important banks ('G-SIBs'), forming part of the G-SIFIs, since 2011, and by the Dutch Central Bank (De Nederlandsche Bank N.V., 'DNB') and the Dutch Ministry of Finance as a domestic SIFI since November 2011. The Basel III proposals and their potential impact are monitored via semi-annual monitoring exercises in which ING Bank participates. As a result of such monitoring exercises and ongoing discussions within the regulatory environment, revisions have been made to the original Basel III proposals as was the case with the revised Liquidity Coverage Ratio in January 2013 and the revised Net Stable Funding Ratio and Leverage Ratio in January 2014. In January 2017, the BCBS announced that it expected to complete finalisation of all revisions to the Basel III framework, including the calibration of an aggregate capital floors framework and a leverage ratio minimum requirement, in 'the near future'. There is a high degree of uncertainty as to whether any further amendments to the 2010 framework and standards will be made by the BCBS in the coming years, and how any such amendments would be implemented subsequently in the EU and in The Netherlands.

For European banks, the Basel III requirements were implemented through the Capital Requirements Regulation and Capital Requirements Directive IV ('CRD IV Regulation' and 'CRD IV Directive', respectively and together the 'CRR'), which were adopted by the EC in June 2013 following approval by the European Parliament in April 2013. The CRD IV Regulation entered into force on 28 June 2013 and the CRD IV Directive on 17 July 2013, and all banks and investment firms in the EU (as opposed to the scope of the Basel III requirements, which apply to 'internationally active banks') were required to apply the new rules from 1 January 2014 in phases, with full implementation by 1 January 2019. The full impact of these rules, and any additional requirements for SIFIs or G-SIFIs, if and as applicable to the Group, will depend on how the CRD IV Directive is transposed into national laws in each Member State, including the extent to which national regulators and supervisors set more stringent limits and additional capital requirements or surcharges. In the Netherlands, the CRD IV Directive has been implemented through amendments to the Financial Supervision Act.In the next phase for regulatory requirements for banks' risk and capital management, the regulators are focusing on the required capital calculations across banks. Since the start of the financial crisis there has been much debate on the risk-weighted capitalisation of banks, and specifically on whether internal models are appropriate for such purposes. These developments have suggested that stricter rules may be applied by a later framework. The BCBS released several consultative papers, containing proposals to change the methodologies for the calculation of capital requirements and is expected to issue further standards in this respect. Within these proposals BCBS suggests methods to calculate RWA using more standardised or simpler methods in order to achieve greater comparability, transparency and consistency. In November 2016, the EC proposed substantial amendments (commonly referred to as CRD V) to the CRR (including the CRD IV Directive), the BRRD and the Singe Resolution Mechanism Regulation to, among other things, implement these revisions in the EU legislation. Legislation is expected to be finalised in 2018. These proposals will likely impact the capital requirements for currently reported exposures (e.g. credit risk via revised standardised RWA floor) but may also lead to new capital requirements. The proposals cover multiple areas, including the Pillar 2 framework, the leverage ratio, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, a new category of 'non-preferred' senior debt, the minimum requirement for own funds and eligible liabilities (MREL) and the integration of the TLAC standard into EU legislation. The proposals are to be considered by the European Parliament and the Council of the European Union and therefore remain subject to change. The final package of new legislation may not include all elements of the proposals and new or amended elements may be introduced through the course of the legislative process. Until the proposals are in final form, it is uncertain how the proposals will affect the Group or holders of its securities. The current proposals, as well as on the economic and financial environment at the time of implementation and beyond, can have a material impact on ING's operations and financial condition and they may require the Group to seek additional capital.

Risk factors - continued

Single Supervisory Mechanism
In November 2014, the European Central Bank ('ECB') assumed responsibility for a significant part of the prudential supervision of banks in the Eurozone, including ING Bank, following a year-long preparatory phase which included an in-depth comprehensive assessment of the resilience and balance sheets of the biggest banks in the Eurozone. ING Bank was among the seven Dutch institutions covered by the assessment (out of 130 institutions overall). While the ECB has assumed the supervisory tasks conferred on it by the Single Supervisory Mechanism ('SSM') Regulation, the DNB will still continue to play a big role in the supervision of ING Group and ING Bank.

In its capacity as principal bank supervisor in the European Union, the ECB has extensive supervisory and investigatory powers, including the ability to issue requests for information, to conduct regulatory investigations and on-site inspections, and to impose monetary and other sanctions. For example, under the SSM, the regulators with jurisdiction over the Group, including the ECB, may conduct stress tests and have discretion to impose capital surcharges on financial institutions for risks that are not otherwise recognised in risk-weighted assets or other surcharges depending on the individual situation of the bank and take or require other measures, such as restrictions on or changes to the Group's business. Competent regulators may also, if the Group fails to comply with regulatory requirements, in particular with minimum capital requirements (including buffer requirements) or with liquidity requirements, or if there are shortcomings in its governance and risk management processes, prohibit the Group from making dividend payments to shareholders or distributions to holders of its regulatory capital instruments. Generally, a failure to comply with the new quantitative and qualitative regulatory requirements could have a material adverse effect on the Group's business, financial condition and results of operations.

In 2016 the ECB has also started the Targeted Review of Internal Models (TRIM), an exercise which will take several years and is aimed at bringing assurance that capital held reflects the underlying risks. There is also heightened supervisory attention for the credit quality of loans to corporates and/or households. These exercises could impact the RWA we recognise for certain assets.

Dodd-Frank Act
On 21 July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ('Dodd-Frank' or 'Dodd-Frank Act') was signed into law in the U.S. The Dodd-Frank Act effects comprehensive changes to the regulation of financial services in the U.S. and has implications for non-U.S. financial institutions with a U.S. presence or that transact with U.S. counterparties, such as ING. Dodd-Frank directs existing and newly created government agencies and bodies to perform studies and promulgate a multitude of regulations implementing the law, most of which are in place. Because some of the regulations have only recently taken effect or are yet to be finalized, we cannot predict with certainty how such regulations will affect the financial markets generally and impact the Group's business, credit rating, results of operations, cash flows or financial condition or liquidity. Key aspects of Dodd- Frank that we have identified to date as possibly having an impact on the Group include the aspects set out below:

Title VII of Dodd-Frank creates a new framework for regulation of the over-the-counter derivatives markets and certain market participants which could affect various activities of the Group and its subsidiaries. ING Capital Markets LLC, a wholly-owned indirect subsidiary of ING Bank N.V., has registered with the U.S. Commodity Futures Trading Commission ('CFTC') as a swap dealer. The CFTC and other U.S. prudential regulators have adopted margin requirements on uncleared swaps, which will begin to come into effect for ING Capital Markets LLC in 2017. The SEC is expected to adopt regulations establishing margin and capital requirements for security-based swaps. Along with the still indeterminate effective date for SEC regulations on, among others, reporting, registration, and internal and external business conduct with respect to security-based swaps, these are likely to materially impact ING. Additionally, the CFTC is expected to adopt capital requirements for swap dealers, although the specific requirements, and any available exemptions, have not been finalized. If these requirements are applicable to ING, and no exemptions are available, it is possible that these requirements will be difficult for ING to comply with and may, as a result, materially and adversely impact ING's ability to operate as a swap dealer in the U.S. Other CFTC regulatory requirements, already implemented, include registration of swap dealers, business conduct rules imposed on swap dealers and requirements that some categories of swaps be centrally executed on regulated trading facilities and cleared through regulated clearing houses. In addition, new position limits requirements for market participants that may be contained in final regulations to be adopted by the CFTC could limit ING's position sizes in swaps referencing specified commodities and similarly limit the ability of counterparties to utilize certain of our products by narrowing the scope of hedging activity that is permitted for commercial end users and the trading activity of speculators. All of the foregoing areas of regulation of the derivative markets and market participants will likely result in increased cost of hedging and other trading activities, both for ING and its customers, which could expose our business to greater risk and could reduce the size and profitability of our customer business. In addition, the imposition of these regulatory restrictions and requirements, could result in reduced market liquidity, which could in turn increase market volatility and the risks and costs of hedging and other trading activities.

Pursuant to requirements of the Dodd-Frank Act, the SEC and CFTC are required to consider whether stable value contracts should be regulated as 'swap' derivative contracts. In the event that stable value contracts become subject to such regulation, certain aspects of our business could be adversely impacted, including issuance of stable value contracts and management of assets pursuant to stable value mandates.

Dodd-Frank established the Consumer Financial Protection Bureau ('CFPB') as an independent agency within the Federal Reserve to regulate consumer financial products and services offered primarily for personal, family or household purposes. The CFPB has significant authority to implement and enforce federal consumer financial laws, including the new protections established under Dodd- Frank, as well as the authority to identify and prohibit unfair, deceptive and abusive acts and practices. In addition, the CFPB has broad supervisory, examination and enforcement authority over certain consumer products, such as mortgage lending. Insurance products and services are not within the CFPB's general jurisdiction, and broker-dealers and investment advisers are not subject to the CFPB's jurisdiction when acting in their registered capacity.

On 10 December 2013, various federal agencies approved a final rule implementing Section 619 of Dodd-Frank, commonly referred to as the 'Volcker Rule' and which places limitations and restrictions on the ability of U.S. FDIC insured depository institutions and non-U.S. banks with branches or agencies in the U.S. that become subject to the U.S. Bank Holding Company Act, as well as their affiliates, to engage in certain proprietary trading or sponsor and invest in private equity and hedge funds. As a general matter, such organisations have until July 2017 to comply with the prohibition on certain fund activities and until July 2015 to comply with the proprietary trading prohibitions. In the event that we or one of our affiliates becomes subject to the Volcker Rule, our investment activities could be so restricted. It is expected that we will experience significant additional compliance and operational costs and may be prohibited from engaging in certain activities we currently conduct if the Volcker Rule becomes applicable to us and our affiliates.

For instance, ING Group's wholly owned subsidiary, ING Bank, may at some point in time consider whether to establish a branch office in the U.S. If ING Bank were to establish a U.S. branch, we would be subject to supervision and regulation by the Federal Reserve under various laws and various restrictions on our activities under those laws, including the Bank Holding Company Act of 1956, as amended, and the International Banking Act of 1978, and, as a consequence, such supervision and regulation, including such restrictions on activities could materially impact our operations. These would include, among others, the Volcker Rule and heightened supervisory requirements and prudential standards. Dodd-Frank also includes various securities law reforms that may affect the Group's business practices and the liabilities and/or exposures associated therewith, including a provision intended to authorise the SEC to impose on broker-dealers' fiduciary duties to their customers, as applied to investment advisers under existing law, which new standard could potentially expose certain of ING's U.S. broker-dealers to increased risk of SEC enforcement actions and liability. In 2011, the SEC staff released a study on this issue, and members of the SEC's Investor Advisory Committee voted in November 2013 to recommend the proposal implementing a uniform fiduciary standard for most brokers and registered investment advisers to the SEC.

Although the full impact of Dodd-Frank and its implementing regulations cannot be determined at this time, many of their requirements have had and may continue to have profound and/or adverse consequences for the financial services industry, including for us. Dodd-Frank, in its current form, could make it more expensive for us to conduct business, require us to make changes to our business model or satisfy increased capital requirements, subject us to greater regulatory scrutiny or to potential increases in whistleblower claims in light of the increased awards available to whistleblowers under Dodd-Frank and have a material effect on our results of operations or financial condition.

In February 2017, the U.S. Secretary of Treasury was directed by executive order to consult with other financial regulatory agencies to evaluate the current financial regulatory framework against core principles set out by the new U.S. administration. Such review may result in the revision, amendment or repeal, in all or in part, of Dodd-Frank and related rules and regulations. There can be no assurance that these or any other future reforms will not significantly impact our business, financial condition and results of operations.

Foreign Account Tax Compliance Act and other US withholding tax regulations
Under provisions of U.S. tax law commonly referred to as FATCA, non-U.S. financial institutions are required to provide certain information on their U.S. account holders and/or certain U.S. investors to the U.S. Internal Revenue Service ("IRS"). A 30% withholding tax is imposed on 'withholdable payments' made to non-compliant non-U.S. financial institutions. In addition to FATCA, non-U.S. financial institutions are required to comply with other U.S. withholding and reporting requirements on certain payments. The Group intends to take all necessary steps to comply with FATCA and other U.S. withholding tax regulations. ING is for example updating and strengthening its withholding compliance programme and reviewing, amending and filing the necessary tax returns and information reports.

Many countries, including the Netherlands, have entered into agreements ('intergovernmental agreements' or 'IGAs') with the U.S. to facilitate the type of information reporting required under FATCA. While the existence of IGAs will not eliminate the risk of the withholding described above, these agreements are expected to reduce that risk for financial institutions and investors in countries that have entered into IGAs. IGAs will often require financial institutions in those countries to report information on their U.S. account holders to the taxing authorities of those countries, who will then pass the information to the IRS.

If the Group is unable to comply with requirements imposed under IGAs or otherwise comply with FATCA (including as a result of local laws in non-IGA countries prohibiting information-sharing with the IRS, as a result of contracts or local laws prohibiting withholding on certain payments to account holders or other investors, or as a result of the failure of account holders or other investors to provide requested information), certain payments to the Group may be subject to withholding under FATCA. Payments made with respect to certain products offered by members of the Group may also be or become subject to withholding under FATCA. The possibility of such withholding and the need for account holders and investors to provide certain information may adversely affect the sales of certain of the Group's products. In addition (i) compliance with the terms of IGAs and with FATCA, with any regulations or other guidance promulgated thereunder or any legislation promulgated under an IGA, and (ii) offering products subject to U.S. withholding, may substantially increase the Group's compliance costs. Because legislation and regulations implementing FATCA and the IGAs remain under development, the future impact of this law on the Group is uncertain. Failure to comply with FATCA and other U.S. withholding tax regulations could harm our reputation and could subject the Group to enforcement actions, fines and penalties, which could have a material adverse effect on our business, reputation, revenues, results of operations, financial condition and prospects. For additional information with respect to specific proceedings, see Note 45 'Legal proceedings' to the consolidated financial statements.

Common Reporting Standard
Similarly, the Organisation for Economic Cooperation and Development ('OECD') has developed a Common Reporting Standard ('CRS') and model competent authority agreement to enable the multilateral and automatic exchange of financial account information. The CRS will require financial institutions to identify and report the tax residency and account details of non-resident customers to the relevant authorities in jurisdictions adhering to CRS. As of 2 November 2016, 87 jurisdictions, including the Netherlands, have signed a multilateral competent authority agreement to automatically exchange information pursuant to the CRS. The majority of countries where ING has a presence has committed to CRS. The EU has made CRS mandatory for all its member states. The first information exchange by the Netherlands (as for most of the signatories) is expected to start in September 2017.

Bank Recovery and Resolution Regimes
In June 2012, the 'Intervention Act' (Wet bijzondere maatregelen financiële ondernemingen) came into force in the Netherlands, with retroactive effect from 20 January 2012. The Intervention Act mainly amended the Dutch Financial Supervision Act and the Dutch Insolvency Act allowing Dutch authorities to take certain actions with respect to a failing bank or insurer that cannot be wound up under ordinary insolvency rules due to concerns regarding the stability of the overall financial system. It comprised two categories of measures. The first category of measures related to banks or insurers facing serious financial difficulties and included measures related to the timely and efficient liquidation of the failing institution. This set of measures gave the DNB the power to transfer customer deposits, assets and/or liabilities other than deposits and issued shares of an entity to third parties or to a bridge bank if the DNB deemed that, in respect of the relevant institution, there were signs of adverse developments with respect to its funds, solvency, liquidity or technical provisions and it could be reasonably foreseen that such developments would not be sufficiently or timely reversed. The DNB was also granted the power to influence the internal decision-making of failing institutions through the appointment of an 'undisclosed administrator'. The second category of measures can be triggered if the stability of the financial system is in serious and immediate danger as a result of the failure of a Dutch financial institution and includes measures intended to safeguard the stability of the financial system as a whole. This set of measures granted authority to the Dutch Minister of Finance to take immediate measures or proceed to expropriation of assets or liabilities , or shares in the capital, of failing financial institutions. Within the context of the resolution tools provided in the Intervention Act, holders of debt securities of a bank subject to resolution could also be affected by issuer substitution or replacement, transfer of debt, expropriation, modification of terms and/or suspension or termination of listings.

In addition, on 26 November 2015 the 'Act on implementing the European framework for the recovery and resolution of banks and Investment firms' (Implementatiewet Europees kader voor herstel en afwikkeling van banken en beleggingsondernemingen) came into force, implementing the 'Bank Recovery and Resolution Directive' ('BRRD') and partly amending the Intervention Act. Certain measures introduced by the Intervention Act were replaced, with respect to banking institutions, with measures based on the BRRD and the SRM Regulation, as described below. The BRRD came into effect on 2 July 2014. It includes, among other things, the obligation for institutions to draw up a recovery plan and for resolution authorities in the Member States to draw up a resolution plan, the resolution authorities' power to take early intervention measures and the establishment of a European system of financing arrangements. The BRRD confers extensive resolution powers on the resolution authorities, including the power to require the sale of (part of a) business, to establish a bridge institution, to separate assets and to take bail-in measures. The stated aim of the BRRD is to provide supervisory authorities and resolution authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. In November 2016, the EC proposed amendments to the BRRD regarding the ranking of unsecured debt instruments in national insolvency proceedings (to include a new category of 'non-preferred' senior debt) and to enhance the stabilisation tools with the introduction of a moratorium tool.

The powers granted to resolution authorities under the BRRD include, among others, the introduction of a statutory 'write-down and conversion' power and a 'bail-in' power, which gives the relevant resolution authority the power to, inter alia, (i) cancel existing shares and/or dilute existing shareholders by converting relevant capital instruments or eligible liabilities into shares of the surviving entity, (ii) cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities (which could include certain securities that have been or will be issued by ING) of a failing financial institution or group and/or (iii) convert certain debt claims (which could include certain securities that have been or will be issued by ING) into another security, including ordinary shares of the surviving group entity, if any. None of these actions would be expected to constitute an event of default under those securities entitling holders to seek repayment.

In addition to a 'write-down and conversion' power and a 'bail-in' power, the powers granted to the resolution authority under the BRRD include the two categories of measures introduced by the Intervention Act, as described above. In addition, the BRRD stipulates, among the broader powers to be granted to the relevant resolution authority, that it will confer powers to the relevant resolution authority to amend or alter the maturity date or interest payment date of debt instruments, including by suspending payment for a temporary period, or to amend the interest amount payable under such instruments. None of these actions would be expected to constitute an event of default under those debt instruments or other eligible liabilities entitling holders to seek repayment.

Many of the rules implementing the BRRD are contained in detailed technical and implementing rules, the exact text of which is subject to agreement and adoption by the relevant EU legislative institutions. Therefore, for some rules, there remains uncertainty regarding the ultimate nature and scope of these resolution powers and, when implemented, how they would affect us and the securities that have been issued or will be issued by us. Accordingly, it is not possible to assess the full impact of the BRRD on ING and on holders of any securities issued or to be issued by ING, and there can be no assurance that, once it is fully implemented, the manner in which it is applied or the taking of any actions by the relevant resolution authority contemplated in the BRRD would not adversely affect the rights of holders of the securities issued or to be issued by ING, the price or value of an investment in such securities and/or ING's ability to satisfy its obligations under such securities.

Finally, as part of the move towards a full banking union, on 19 August 2014, the Single Resolution Mechanism ('SRM') came into effect, with the aim to have a Single Resolution Board ('SRB') to be responsible for key decisions on how a bank subject to SSM supervision is to be resolved if a bank has irreversible financial difficulties and cannot be wound up under normal insolvency proceedings without destabilizing the financial system. The SRB is a key element of the SRM and is the European resolution authority for the Banking Union and is fully operational, with a complete set of resolution powers, as of 1 January 2016. The SRB works in close cooperation with the national resolution authorities such as the Dutch national resolution authority. The SRB is also in charge of the Single Resolution Fund, a pool of money financed by the banking sector which will be set up to ensure that medium-term funding support is available while a credit institution is being restructured. Historically, ING Bank has contributed to the Dutch National Resolution Fund (the 'NRF'). Beginning in 2016, contributions to the NRF will be phased out and will decrease steadily until they decrease to nil in 2023; during the same period, contributions to the SRF will commence and steadily increase, replacing ING Bank's contributions to the NRF. As the contributions for the NRF and the SRF are calculated on a different basis and by different authorities (DNB and SRB, respectively) the contributions to the SRF may deviate from the contributions to the NRF.

There are certain differences between the provisions of the Intervention Act, the BRRD and the SRM Regulation, which may further bring future changes to the law. We are unable to predict what specific effects the Intervention Act and the implementation of the BRRD and the entry into force of the SRM Regulation may have on the financial system generally, our counterparties, holders of securities issued by or to be issued by us, or on us, our operations or our financial position.

ING has a recovery plan in place to enhance the bank's readiness and decisiveness to tackle financial crises on its own. Effective since 2012, the plan is updated annually to make sure it stays fit for purpose. The completeness, quality and credibility of the recovery plan is assessed annually by ING's regulators. Since 2012, ING has worked together with the different resolution authorities to determine a resolution strategy and to identify potential impediments to resolution. This resulted in a resolvability assessment that is shared every year with the FSB and the preparation of a transitional resolution plan by the SRB. In November 2016, ING concluded that ING Groep N.V. should be the designated resolution entity. At the end of January 2017, the SRB has informed ING that it supports the designation of ING Groep N.V. as the point of entry.

Financial Stability Board
In addition to the adoption of the foregoing measures, regulators and lawmakers around the world are actively reviewing the causes of the financial crisis and exploring steps to avoid similar problems in the future. In many respects, this work is being led by the FSB, consisting of representatives of national financial authorities of the G20 nations. The G20 and the FSB have issued a series of papers and recommendations intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated. These proposals address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance, including executive compensation and risk culture, and a host of related issues associated with responses to the financial crisis.

In November 2015, the FSB published final standards on the adequacy of loss absorbing capacity held by G-SIBs. These comprise: (i) a set of principles on loss-absorbing and recapitalisation capacity of G-SIBs in resolution and (ii) a high level "termsheet" setting out an internationally agreed standard on the characteristics and adequacy of TLAC. The key requirement mandates G-SIBs to hold long-term debt that can be written down or converted into equity in the event that a G-SIB is put into liquidation, thereby providing a specific means of absorbing losses and recapitalising the G-SIB. The numbers are significant with the minimum standard requiring a G-SIB to hold TLAC of at least 16% of risk weighted assets and at least 6% of the leverage ratio denominator from 1 January 2019, and at least 18% and 6.75% respectively from 1 January 2022 on. In November 2016, the EC proposed amendments to the CRR and BRRD to implement the FSB's minimum TLAC requirement for G-SIB that are intended to align the TLAC requirement with the minimum requirement for own funds and eligible liabilities (MREL). In October 2016, the BCBS issued a final standard regarding the regulatory capital treatments of TLAC holdings of other G-SBIBs, confirming that G-SIBs must deduct from their own TLAC exposures TLAC instruments and liabilities issued by other G-SIBS.

Additional Governmental Measures
Governments in The Netherlands and abroad have also intervened over the past few years on an unprecedented scale, responding to stresses experienced in the global financial markets. Some of the measures adopted subject us and other institutions for which they were designed to additional restrictions, oversight or costs. Restrictions related to the Restructuring Plan are further described in Note 50 'The European Commission Restructuring Plan' to the consolidated financial statements.

In February 2013, the EC adopted a proposal setting out the details of a financial transaction tax ('FTT') under the enhanced cooperation procedure, to be levied on transactions in financial instruments by financial institutions if at least one of the parties to the transaction is established in the financial transaction tax zone ('FTT-zone') or if the instrument which is the subject of the transaction is issued within the territory of a Member State in the FFT-Zone. 10 Member States have indicated they wish to participate in the FTT (Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain) following Estonia's withdrawal in 2015. The initial proposal contemplated that the FTT would enter into effect on 1 January 2014, which would have then required us to pay a tax on transactions in financial instruments with parties (including Group affiliates) located in such FTT-zone. However, the FTT remains subject to negotiation between the participating Member States and currently it is uncertain whether and in what form and by which Member States the FTT will be adopted. The implementation date of any FTT will thus depend on the future approval by participating Member States in the Council, consultation of other EU institutions, and the subsequent transposition into local law. Depending on its final form, the introduction of an FTT in the Netherlands or outside the Netherlands could have a substantial adverse effect on ING's business and results.

As of 1 October 2012, banks that are active in the Netherlands are subject to a bank tax pursuant to a tax regulation that also includes measures to moderate bonuses awarded to executives at such banks. Increased bank taxes in countries where the Group is active result in increased taxes on ING's banking operations, which could negatively impact our operations, financial condition and liquidity. For information regarding historical regulatory costs incurred by ING, please refer inter alia to Note 27 'Other operating expenses' to the consolidated financial statements.

Additional Tier 1 Securities
In April 2015, ING issued USD 2.25 billion of Additional Tier 1 securities ('AT1 Securities') and in November 2016, ING issued USD 1 billion AT1 Securities. ING may issue additional AT1 Securities, or other instruments with similar terms (also known as contingent convertible bonds or 'CoCos'), in the future. The Dutch parliament adopted Article 29a of the Dutch Corporate Income Tax Act of 1969 (Wet op de vennootschapsbelasting 1969) in 2015 to provide debt treatment of securities similar to the AT1 Securities for the purpose of Dutch corporate income tax (25% rate) and (indirectly) dividend withholding tax purposes (15% non-grossed up rate). The interest payment obligation for the year 2015 in respect of the AT1 Securities is EUR 90 million and for the year 2016 it is EUR 135 million. For 2015 and 2016, that amount was treated by ING as a deductible interest expense for Dutch corporate income tax purposes and as exempt for Dutch dividend withholding tax purposes. However, there is a risk that the EC will take the view, and that court would uphold such view if contested, that the tax deductibility of interest payments on the AT1 Securities is in contravention of the EC's temporary state aid rules for assessing public support to financial institutions during the crisis (the 'Revised State Aid Guidelines'). The Revised State Aid Guidelines provide for strengthened burden-sharing requirements, which require banks with capital needs to obtain shareholders' and subordinated debt holders' contributions before resorting to certain state aid measures. If a determination were made that deduction of interest payments on AT1 Securities and other similar securities, including those ING may issue in the future, is inconsistent with the Revised State Aid Guidelines, amounts ING would have to pay to the Dutch State with respect to interest payments that have previously been treated as an expense for Dutch corporate income tax purposes and that have been paid free of withholding taxes could be substantial, in particular if ING is unable to redeem the securities (e.g. for the year 2015, the total amount of payment in this respect could be EUR 38 million excluding interest and for the year 2016 it would be EUR 58 million excluding interest). The terms of the AT1 Securities provide that ING can redeem the AT1 Securities only upon the occurrence of specific events (not including a determination that the tax treatment of the AT1 Securities is inconsistent with European rules against state aid) or after 5 years or 10 years (depending on the series) after their date of issuance.

Because we operate in highly competitive markets, including our home market, we may not be able to increase or maintain our market share, which may have an adverse effect on our results of operations.

There is substantial competition in the Netherlands and the other countries in which we do business for the types of wholesale banking, retail banking, investment banking and other products and services we provide. Customer loyalty and retention can be influenced by a number of factors, including brand recognition, reputation, relative service levels, the prices and attributes of products and services, scope of distribution, credit ratings and actions taken by existing or new competitors. A decline in our competitive position as to one or more of these factors could adversely impact our ability to maintain or further increase our market share, which would adversely affect our results of operations. Such competition is most pronounced in our more mature markets of the Netherlands, Belgium, the rest of Western Europe and Australia. In recent years, however, competition in emerging markets, such as Latin America, Asia and Central and Eastern Europe, has also increased as large financial services companies from more developed countries have sought to establish themselves in markets which are perceived to offer higher growth potential, and as local institutions have become more sophisticated and competitive and proceeded to form alliances, mergers or strategic relationships with our competitors. The Netherlands is our largest market. Our main competitors in the banking sector in the Netherlands are ABN AMRO Bank and Rabobank. Competition could also increase due to new entrants in the markets that may have new operating models that are not burdened by potentially costly legacy operations and that are subject to reduced regulation. New entrants may rely on new technologies, advanced data and analytic tools, lower cost to serve, reduced regulatory burden and/or faster processes in order to challenge traditional banks. Developments in technology has also accelerated the use of new business models. For example, new business models have been observed in retail payments, consumer and commercial lending (such as peer-to-peer lending), foreign exchange and low-cost investment advisory services. In particular, the emergence of disintermediation in the financial sector resulting from new banking, lending and payment solutions offered by rapidly evolving incumbents, challengers and new entrants, in particular with respect to payment services and products, and the introduction of disruptive technology may impede our ability to grow or retain our market share and impact our revenues and profitability.

Increasing competition in the markets in which we operate may significantly impact our results if we are unable to match the products and services offered by our competitors. Future economic turmoil may accelerate additional consolidation activity. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms or have declared bankruptcy. These developments could result in our competitors gaining greater access to capital and liquidity, expanding their ranges of products and services, or gaining geographic diversity. We may experience pricing pressures as a result of these factors in the event that some of our competitors seek to increase market share by reducing prices.

The default of a major market participant could disrupt the markets.

Within the financial services industry, the severe distress or default of any one institution (including sovereigns and central counterparties (CCPs)) could lead to defaults by, or the severe distress of, other market participants. Such distress of, or default by, an influential financial institution could disrupt markets or clearance and settlement systems and lead to a chain of defaults by other financial institutions because the commercial and financial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of a sovereign or financial institution (or a default by any such entity) may lead to market-wide liquidity problems and losses or defaults by us or by other institutions. This risk is sometimes referred to as 'systemic risk' and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom we interact on a daily basis and financial instruments of sovereigns in which we invest. Systemic risk could have a material adverse effect on our ability to raise new funding and on our business, financial condition, results of operations, liquidity, solvency position and/or prospects. In addition, such distress or failure could impact future product sales as a potential result of reduced confidence in the financial services industry.

The inability of counterparties to meet their financial obligations could have a material adverse effect on our results of operations.

Third parties that owe us money, securities or other assets may not pay or perform under their obligations. These parties include the issuers and guarantors (including sovereigns) of securities we hold, borrowers under loans originated, reinsurers, customers, trading counterparties, securities lending and repurchase counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. Defaults by one or more of these parties on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, continuing low oil or other commodity prices, operational failure or other factors, or even rumours about potential defaults by one or more of these parties or regarding a severe distress of the financial services industry generally, could have a material adverse effect on our results of operations, financial condition and liquidity. Given the high level of interdependence between financial institutions, we are and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of sovereigns and other financial services institutions. This is particularly relevant to our franchise as an important and large counterparty in equity, fixed income and foreign exchange markets, including related derivatives.

We routinely execute a high volume of transactions, such as unsecured debt instruments, derivative transactions and equity investments with counterparties and customers in the financial services industry, including brokers and dealers, commercial and investment banks, mutual and hedge funds, insurance companies, institutional clients, futures clearing merchants, swap dealers, and other institutions, resulting in large periodic settlement amounts, which may result in our having significant credit exposure to one or more of such counterparties or customers. As a result, we could face concentration risk with respect to liabilities or amounts we expect to collect from specific counterparties and customers. We are exposed to increased counterparty risk as a result of recent financial institution failures and weakness and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the creditworthiness of, one or more of these counterparties or customers or other financial services institutions could therefore have an adverse effect on our results of operations or liquidity.

With respect to secured transactions, our credit risk may be exacerbated when the collateral held by us cannot be or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to us. We also have exposure to a number of financial institutions in the form of unsecured debt instruments, derivative transactions and equity investments. For example, we hold certain hybrid regulatory capital instruments issued by financial institutions which permit the issuer to cancel coupon payments on the occurrence of certain events or at their option. The EC has indicated that, in certain circumstances, it may require these financial institutions to cancel payment. If this were to happen, we expect that such instruments may experience ratings downgrades and/or a drop in value and we may have to treat them as impaired, which could result in significant losses. There is no assurance that losses on, or impairments to the carrying value of, these assets would not materially and adversely affect our business, results of operations or financial condition.

In addition, we are subject to the risk that our rights against third parties may not be enforceable in all circumstances. The deterioration or perceived deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/ or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our income and risk weighting, leading to increased capital requirements. While in many cases we are permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. Also in this case, our credit risk may also be exacerbated when the collateral we hold cannot be liquidated at prices sufficient to recover the full amount of the loan or derivative exposure due to us, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those experienced during the financial crisis of 2008. The termination of contracts and the foreclosure on collateral may subject us to claims. Bankruptcies, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity. Any of these developments or losses could materially and adversely affect our business, financial condition, results of operations, liquidity and/or prospects.

Market conditions, including those observed over the past few years, may increase the risk of loans being impaired.
We are exposed to the risk that our borrowers (including sovereigns) may not repay their loans according to their contractual terms and that the collateral securing the payment of these loans may be insufficient. We may continue to see adverse changes in the credit quality of our borrowers and counterparties, for example, as a result of their inability to refinance their indebtedness, with increasing delinquencies, defaults and insolvencies across a range of sectors. This may lead to impairment charges on loans and other assets, higher costs and additions to loan loss provisions. A significant increase in the size of our provision for loan losses could have a material adverse effect on our financial position and results of operations.

Economic and other factors could lead to contraction in the residential mortgage and commercial lending market and to decreases in residential and commercial property prices, which could generate substantial increases in impairment losses. Additionally, continuing low oil prices could have an influence on the repayment capacity of borrowers.

We may incur losses due to failures of banks falling under the scope of state compensation schemes.
In the Netherlands and other jurisdictions, deposit guarantee schemes and similar funds ('Compensation Schemes') have been implemented from which compensation may become payable to customers of financial services firms in the event the financial service firm is unable to pay, or unlikely to pay, claims against it. In many jurisdictions in which we operate, these Compensation Schemes are funded, directly or indirectly, by financial services firms which operate and/or are licensed in the relevant jurisdiction. ING Bank is a participant in the Dutch Deposit Guarantee Scheme, which guarantees an amount of EUR 100,000 per person per bank (regardless of the number of accounts held). Until 2015, the costs involved with making compensation payments under the Dutch Deposit Guarantee Scheme had been allocated among the participating banks by the DNB, based on an allocation key related to their market shares with respect to the deposits protected by the Dutch Deposit Guarantee Scheme. Given our size, we may incur significant compensation payments to be made under the Dutch Deposit Guarantee Scheme, which we may be unable to recover from the bankrupt estate. Such costs and the associated costs to be borne by us may have a material adverse effect on our results of operations and financial condition. On 4 July 2015, the new EU Directive on deposit guarantee schemes had to be implemented by EU member states. As a consequence, the Dutch Deposit Guarantee Scheme has changed from an ex-post scheme, where we would have contributed after the failure of a firm, to an ex-ante scheme where we pay quarterly risk-weighted contributions into a fund for the Dutch Deposit Guarantee Scheme. The fund is to grow to a target size of 0.8% of all deposits guaranteed under the Dutch Deposit Guarantee Scheme, to be reached in July 2024. The Dutch decree implementing the Deposit Guarantee Scheme Directive entered into force on 26 November 2015.

The first ex-ante DGS contribution has been charged in respect of the first quarter of 2016. The build-up of the ex-ante fund will take place in 34 quarters. See also '—We operate in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations governing our business may reduce our profitability — Bank Recovery and Resolution Regimes'.

Currently, the EU is discussing the introduction of a pan-European deposit guarantee scheme, (partly) replacing or complementing national compensation schemes in two or three phases. Proposals contain elements of (re)insurance, mutual lending and mutualisation of funds. The new model is intended to be 'overall cost-neutral'. A more definitive proposal is expected in 2017 or 2018.

Risks related to the Group's business, operations and regulatory environment

As a holding company, ING Groep N.V. is dependent for liquidity on payments from its subsidiaries, many of which are subject to regulatory and other restrictions.
ING Groep N.V. is a holding company and, therefore, depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including debt obligations. Many of our subsidiaries, including our bank subsidiaries, are subject to laws that restrict dividend payments or authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to ING Groep N.V.

In addition, our bank subsidiaries are subject to restrictions on their ability to lend or transact with affiliates and to minimum regulatory capital and other requirements, as well as restrictions on their ability to use client funds deposited with them to fund their businesses. Additional restrictions on related-party transactions, increased capital and liquidity requirements and additional limitations on the use of funds in client accounts, as well as lower earnings, can reduce the amount of funds available to meet the obligations of ING Groep N.V., and even require ING Groep N.V. to provide additional funding to such subsidiaries. Restrictions or regulatory action of that kind could impede access to funds that ING Groep N.V. needs to make payments on its obligations, including debt obligations, or dividend payments. In addition ING Groep N.V.'s right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

There is a trend towards increased regulation and supervision of our subsidiaries by the governments and regulators in the countries in which those subsidiaries are located or do business. Concerns about protecting clients and creditors of financial institutions that are controlled by persons or entities located outside of the country in which such entities are located or do business have caused or may cause a number of governments and regulators to take additional steps to "ring fence" or maintain internal total loss-absorbing capacity at such entities in order to protect clients and creditors of such entities in the event of financial difficulties involving such entities. The result has been and may continue to be additional limitations on our ability to efficiently move capital and liquidity among our affiliated entities, thereby increasing the overall level of capital and liquidity required by the firm on a consolidated basis.

Furthermore, ING Groep N.V. has in the past and may in the future guarantee the payment obligations of certain of its subsidiaries, including ING Bank N.V., subject to certain exceptions. Any such guarantee may require ING Groep N.V. to provide substantial funds or assets to its subsidiaries or their creditors or counterparties at a time when ING Groep N.V. or its subsidiaries are in need of liquidity to fund their own obligations.

The requirements for ING Groep N.V. to develop and submit recovery and resolution plans to regulators, and the incorporation of feedback received from regulators, may require us to increase capital or liquidity levels or issue additional long-term debt at ING Groep N.V. or particular subsidiaries or otherwise incur additional or duplicative operational or other costs at multiple entities, and may reduce our ability to provide ING Groep N.V. guarantees of the obligations of our subsidiaries or raise debt at ING Groep N.V. Resolution planning may also impair our ability to structure our intercompany and external activities in a manner that we may otherwise deem most operationally efficient. Furthermore, arrangements to facilitate our resolution planning may cause us to be subject to additional costs such as resolution planning related taxes and funds. Any such limitations or requirements would be in addition to the legal and regulatory restrictions described above on our ability to engage in capital actions or make intercompany dividends or payments.

Ratings are important to our business for a number of reasons. A downgrade or a potential downgrade in our credit ratings could have an adverse impact on our operations and net results.
Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Our credit ratings are important to our ability to raise capital and funding through the issuance of debt and to the cost of such financing. In the event of a downgrade, the cost of issuing debt will increase, having an adverse effect on its net results. Certain institutional investors may also be obliged to withdraw their deposits from ING following a downgrade, which could have an adverse effect on our liquidity. We have credit ratings from S&P, Moody's Investor Service and Fitch Ratings. Each of the rating agencies reviews its ratings and rating methodologies on a recurring basis and may decide on a downgrade at any time.

Furthermore, ING Bank's assets are risk-weighted. Downgrades of these assets could result in a higher risk-weighting, which may result in higher capital requirements. This may impact net earnings and the return on capital, and may have an adverse impact on our competitive position.

As rating agencies continue to evaluate the financial services industry, it is possible that rating agencies will heighten the level of scrutiny that they apply to financial institutions, increase the frequency and scope of their credit reviews, request additional information from the companies that they rate and potentially adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. It is possible that the outcome of any such review of us would have additional adverse ratings consequences, which could have a material adverse effect on our results of operations, financial condition and liquidity. We may need to take actions in response to changing standards or capital requirements set by any of the rating agencies, which could cause our business and operations to suffer. We cannot predict what additional actions rating agencies may take, or what actions we may take in response to the actions of rating agencies.

Because we use assumptions to model client behaviour for the purpose of our market risk calculations, the difference between the realisation and the assumptions may have an adverse impact on the risk figures and future results.
We use assumptions in order to model client behaviour for the risk calculations in our banking books. Assumptions are used to determine the interest rate risk profile of savings and current accounts and to estimate the embedded option risk in the mortgage and investment portfolios. The realisation or use of different assumptions to determine client behaviour could have a material adverse effect on the calculated risk figures and, ultimately, future results.

We may be unable to manage our risks successfully through derivatives.
We employ various economic hedging strategies with the objective of mitigating the market risks that are inherent in our business and operations. These risks include currency fluctuations, changes in the fair value of our investments, the impact of interest rates, equity markets and credit spread changes, the occurrence of credit defaults and changes in client behaviour. We seek to control these risks by, among other things, entering into a number of derivative instruments, such as swaps, options, futures and forward contracts, including, from time to time, macro hedges for parts of our business, either directly as a counterparty or as a credit support provider to affiliate counterparties. Developing an effective strategy for dealing with these risks is complex, and no strategy can completely insulate us from risks associated with those fluctuations. Our hedging strategies also rely on assumptions and projections regarding our assets, liabilities, general market factors and the creditworthiness of our counterparties that may prove to be incorrect or prove to be inadequate. Accordingly, our hedging activities may not have the desired beneficial impact on our results of operations or financial condition. Poorly designed strategies or improperly executed transactions could actually increase our risks and losses. Hedging strategies involve transaction costs and other costs, and if we terminate a hedging arrangement, we may also be required to pay additional costs, such as transaction fees or breakage costs. There have been periods in the past, and it is likely that there will be periods in the future, during which we have incurred or may incur losses on transactions, possibly significant, after taking into account our hedging strategies. Further, the nature and timing of our hedging transactions could actually increase our risk and losses. Hedging instruments we use to manage product and other risks might not perform as intended or expected, which could result in higher (un)realised losses, such as credit value adjustment risks or unexpected P&L effects, and unanticipated cash needs to collateralise or settle such transactions. Adverse market conditions can limit the availability and increase the costs of hedging instruments, and such costs may not be recovered in the pricing of the underlying products being hedged. In addition, hedging counterparties may fail to perform their obligations, resulting in unhedged exposures and losses on positions that are not collateralised. As such, our hedging strategies and the derivatives that we use or may use may not adequately mitigate or offset the risks they intend to cover, and our hedging transactions may result in losses.

Our hedging strategy additionally relies on the assumption that hedging counterparties remain able and willing to provide the hedges required by our strategy. Increased regulation, market shocks, worsening market conditions (whether due to the ongoing Euro crisis or otherwise), and/or other factors that affect or are perceived to affect the financial condition, liquidity and creditworthiness of ING may reduce the ability and/or willingness of such counterparties to engage in hedging contracts with us and/or other parties, affecting our overall ability to hedge our risks and adversely affecting our business, operations, financial condition and liquidity.

Our risk management policies and guidelines may prove inadequate for the risks we face.

We have developed risk management policies and procedures and will continue to review and develop these in the future. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully effective, particularly during extremely turbulent times. The methods we use to manage, estimate and measure risk are partly based on historic market behaviour. The methods may, therefore, prove to be inadequate for predicting future risk exposure, which may be significantly greater than suggested by historical experience. For instance, these methods may not predict the losses seen in the stressed conditions in recent periods, and may also not adequately allow prediction of circumstances arising due to government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers, catastrophic occurrence or other information that is publicly known or otherwise available to us. Such information may not always be accurate, complete, updated or properly evaluated. Management of operational, compliance, legal and regulatory risks requires, among other things, policies and procedures to record and verify large numbers of transactions and events. These policies and procedures may not be fully effective.

Operational risks, such as systems disruptions or failures, breaches of security, cyber attacks, human error, changes in operational practices or inadequate controls including in respect of third parties with which we do business may adversely impact our business, results of operation and reputation.

We face the risk that the design and operating effectiveness of our controls and procedures may prove to be inadequate. Operational risks are inherent to our business. Our businesses depend on the ability to process a large number of transactions efficiently and accurately. In addition, we routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we endeavour to safeguard our systems and processes, losses can result from inadequately trained or skilled personnel, IT failures (including due to a computer virus or a failure to anticipate or prevent cyber attacks or other attempts to gain unauthorised access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or impairing operational performance, or security breaches by third parties), inadequate or failed internal control processes and systems, regulatory breaches, human errors, employee misconduct, including fraud, or from natural disasters or other external events that interrupt normal business operations. We depend on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. The equipment and software used in our computer systems and networks may not always be capable of processing, storing or transmitting information as expected. Despite our business continuity plans and procedures, certain of our computer systems and networks may have insufficient recovery capabilities in the event of a malfunction or loss of data. As part of a continuous life cycle management process we are replacing some important elements of our IT landscape as contemplated by our Think Forward strategy. Any failure or delay in implementation or integration of the new IT/operational systems on the anticipated time schedule or a failure of these systems to operate as anticipated could affect our ability to implement our Think Forward strategy in the manner and time frame currently contemplated. Like other financial institutions and global companies, we are regularly the target of attempted cyber attacks, including denial-of-service attacks and attempts to gain unauthorised access, and the techniques used for such attacks are increasingly sophisticated. We have faced, and expect this trend to continue, an increasing number of attempted cyber attacks as we have expanded our mobile- and other internet-based products and services, as well as our usage of mobile and cloud technologies. In addition, due to our interconnectivity with third-party vendors, exchanges, clearing houses, financial institutions and other third parties, we could be adversely impacted if any of them is subject to a successful cyber attack or other information security event. Whilst we have policies and processes to protect our systems and networks, and strive to continuously monitor and develop them to protect our technology infrastructure and data from misappropriation, they may be vulnerable to unauthorised access, computer viruses or other malicious code, cyber attacks and other external attacks or internal breaches that could have a security impact and jeopardise our confidential information or that of our clients or our counterparties. These events can potentially result in financial loss and harm to our reputation, hinder our operational effectiveness, result in regulatory censure, and could have a material adverse effect on our business, reputation, revenues, results of operations, financial condition and prospects.

Widespread outbreaks of communicable diseases may impact the health of our employees, increasing absenteeism, or may cause a significant increase in the utilisation of health benefits offered to our employees, either or both of which could adversely impact our business. In addition, other events including unforeseeable and/or catastrophic events can lead to an abrupt interruption of activities, and our operations may be subject to losses resulting from such disruptions. Losses can result from destruction or impairment of property, financial assets, trading positions, and the loss of key personnel. If our business continuity plans are not able to be implemented, are not effective or do not sufficiently take such events into account, losses may increase further.

We are subject to a variety of regulatory risks as a result of our operations in certain countries.
In certain countries in which we operate, judiciary and dispute resolution systems may be less developed. As a result, in case of a breach of contract, we may have difficulties in making and enforcing claims against contractual counterparties and, if claims are made against us, we might encounter difficulties in mounting a defence against such allegations. If we become party to legal proceedings in a market with an insufficiently developed judicial system, it could have an adverse effect on our operations and net results.

In addition, as a result of our operations in certain countries, we are subject to risks of possible nationalisation, expropriation, price controls, exchange controls and other restrictive government actions, as well as the outbreak of hostilities and or war, in these markets. Furthermore, the current economic environment in certain countries in which we operate may increase the likelihood for regulatory initiatives to enhance consumer protection or to protect homeowners from foreclosures. Any such regulatory initiative could have an adverse impact on our ability to protect our economic interest, for instance in the event of defaults on residential mortgages.

ING Group may be unable to retain key personnel.
As a financial services enterprise with a decentralised management structure, ING Group relies to a considerable extent on the quality of local management in the various countries in which it operates. The success of ING Group's operations is dependent, among other things, on its ability to attract and retain highly qualified personnel. Competition for key personnel in most countries in which ING Group operates is intense. ING Group's ability to attract and retain key personnel, in particular in areas such as technology and operational management, client relationship management, finance, risk and product development, is dependent on a number of factors, including prevailing market conditions and compensation packages offered by companies competing for the same talent.

As part of their responses to the financial crisis of 2008, the EC and national governments throughout Europe have introduced and are expected to continue introducing various legislative initiatives that aim to ensure that financial institutions' remuneration policies and practices are consistent with and promote sound and effective risk management, and impose restrictions on the remuneration of personnel, with a focus on risk alignment of performance-related remuneration. Such initiatives include, among others, measures set out in Directive 2013/36/EU (CRD IV), the Guidelines on Remuneration Policies and Practices published by (the predecessor of) the European Banking Authority, the Regulation of the DNB on Sound Remuneration Policies (Regeling beheerst beloningsbeleid Wft 2014), the Dutch law with respect to the limitation of liability of the DNB and AFM and the prohibition of the payment of variable remuneration to board members and day-to-day policy makers of financial institutions that receive state aid (*Wet aansprakelijkheidsbeperking DNB en AFM en bonusverbod staatsgesteunde ondernemingen*) and the Dutch Law on Remuneration Policies of Financial Undertakings (*Wet beloningsbeleid financiële ondernemingen*, Wbfo). Currently, implementation of the CRD IV rules varies significantly across the various Member States. The proportionality principle that allows for a minimum threshold for deferrals and pay-out in financial instruments to identified staff is applied differently in the various European countries. For instance, in the Netherlands a threshold of € 10.000 is applied; in Germany € 50.000; in Belgium € 75.000 and in the UK £500.000. This creates a situation where there is no level playing field. In addition, the Wbfo has introduced a variable remuneration cap of 20% of base salary for employees working in the financial sector in the Netherlands. Employees can be exempted and receive variable remuneration up to the Wbfo individual cap of 100%, provided that the average pay-out for the whole group does not exceed 20% of the collective base salaries. For this group, as well as for persons working outside the Netherlands, exceptions are possible, in line with CRD IV, but only under strict conditions. In addition, the Wbfo limits exit compensation, retention compensation and guaranteed variable remuneration. The introduction of the Wbfo has created an unlevel playing field in the Netherlands for ING due to the fact that branch offices in the Netherlands of financial institutions that fall under CRD IV (i.e. that have their corporate seat in another EER country) are not limited to the 20% cap but can apply to the higher CRD IV caps (e.g. 100%, or up to 200% with shareholder approval).

Since the financial crisis, ING has adapted its remuneration policies to the new national and international standards. Since the full repayment of the state aid by ING in 2014, the total remuneration package for the Executive Board members has been slightly increased, however, it remains significantly below the median of our EURO Stoxx 50 benchmark, which is made up of similar European financial and non-financial institutions.

The (increasing) restrictions on remuneration will continue to have an impact on existing ING Group remuneration policies and individual remuneration packages for personnel. This may restrict our ability to offer competitive compensation compared with companies (financial and/or non-financial) that are not subject to such restrictions and it could adversely affect ING Group's ability to retain or attract key personnel.

We may incur further liabilities in respect of our defined benefit retirement plans if the value of plan assets is not sufficient to cover potential obligations, including as a result of differences between results and underlying actuarial assumptions and models.

ING Group companies operate various defined benefit retirement plans covering a number of our employees. The liability recognised in our consolidated balance sheet in respect of our defined benefit plans is the present value of the defined benefit obligations at the balance sheet date, less the fair value of each plan's assets, together with adjustments for unrecognised actuarial gains and losses and unrecognised past service costs. We determine our defined benefit plan obligations based on internal and external actuarial models and calculations using the projected unit credit method. Inherent in these actuarial models are assumptions, including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index, and the expected return on plan assets. These assumptions are based on available market data and the historical performance of plan assets, and are updated annually. Nevertheless, the actuarial assumptions may differ significantly from actual results due to changes in market conditions, economic and mortality trends and other assumptions. Any changes in these assumptions could have a significant impact on our present and future liabilities to and costs associated with our defined benefit retirement plans.

Adverse publicity, claims and allegations, litigation and regulatory investigations and sanctions may have a material adverse effect on our business, revenues, results of operations, financial condition and/or prospects.

We are involved in governmental, regulatory, arbitration and legal proceedings and investigations involving claims by and against us which arise in the ordinary course of our businesses, including in connection with our activities as financial services provider, employer, investor and taxpayer. Financial reporting irregularities involving other large and well-known companies, possible findings of government authorities in various jurisdictions which are investigating several rate-setting processes, notifications made by whistleblowers, increasing regulatory and law enforcement scrutiny of 'know your customer' anti-money laundering, tax evasion, prohibited transactions with countries or persons subject to sanctions, and bribery or other anti-corruption measures and anti-terrorist-financing procedures and their effectiveness, regulatory investigations of the banking industry, and litigation that arises from the failure or perceived failure by us to comply with legal, regulatory, tax and compliance requirements could result in adverse publicity and reputational harm, lead to increased regulatory supervision, affect our ability to attract and retain customers and maintain access to the capital markets, result in cease and desist orders, claims, enforcement actions, fines and civil and criminal penalties, other disciplinary action or have other material adverse effects on us in ways that are not predictable. Some claims and allegations may be brought by or on behalf of a class and claimants may seek large or indeterminate amounts of damages, including compensatory, liquidated, treble and punitive damages. See '—ING is exposed to the risk of claims from customers who feel misled or treated unfairly because of advice or information received'. Our reserves for litigation liabilities may prove to be inadequate. Claims and allegations, should they become public, need not be well founded, true or successful to have a negative impact on our reputation. In addition, press reports and other public statements that assert some form of wrongdoing could result in inquiries or investigations by regulators, legislators and law enforcement officials, and responding to these inquiries and investigations, regardless of their ultimate outcome, is time consuming and expensive. Adverse publicity, claims and allegations, litigation and regulatory investigations and sanctions may have a material adverse effect on our business, revenues, results of operations, financial condition and/or prospects in any given period. For additional information, see the 'Review processes for setting benchmark rates' and 'Financial Economic Crime' paragraphs in the 'Main developments in 2016' part within the Compliance Risk in the Risk Management section in the annual report of ING Group. With respect to specific proceedings, see Note 45 'Legal proceedings' to the consolidated financial statements.

We may not be able to protect our intellectual property and may be subject to infringement claims by third parties, which may have a material adverse effect on our business and results of operations.

In the conduct of our business, we rely on a combination of contractual rights with third parties and copyright, trademark, trade name, patent and trade secret laws to establish and protect our intellectual property. Although we endeavour to protect our rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, trade names, patents, trade secrets and know-how or to determine their scope, validity or enforceability. In that event, we may be required to incur significant costs, and our efforts may not prove successful. The inability to secure or protect our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We may also be subject to claims made by third parties for (1) patent, trademark or copyright infringement, (2) breach of copyright, trademark or licence usage rights, or (3) misappropriation of trade secrets. Any such claims and any resulting litigation could result in significant expense and liability for damages. If we were found to have infringed or misappropriated a third-party patent or other intellectual property right, we could in some circumstances be enjoined from providing certain products or services to our customers or from utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licences. Alternatively, we could be required to enter into costly licensing arrangements with third parties or to implement a costly workaround. Any of these scenarios could have a material adverse effect on our business and results of operations.

ING is exposed to the risk of claims from customers who feel misled or treated unfairly because of advice or information received.

Our banking products and advice services for third-party products are exposed to claims from customers who might allege that they have received misleading advice or other information from advisers (both internal and external) as to which products were most appropriate for them, or that the terms and conditions of the products, the nature of the products or the circumstances under which the products were sold, were misrepresented to them. When new financial products are brought to the market, ING engages in a multidisciplinary product approval process in connection with the development of such products, including production of appropriate marketing and communication materials. Notwithstanding these processes, customers may make claims against ING if the products do not meet their expectations. Customer protection regulations, as well as changes in interpretation and perception by both the public at large and governmental authorities of acceptable market practices, influence customer expectations.

Products distributed through person-to-person sales forces have a higher exposure to such claims as the sales forces provide face-to-face financial planning and advisory services. Complaints may also arise if customers feel that they have not been treated reasonably or fairly, or that the duty of care has not been complied with. While a considerable amount of time and resources have been invested in reviewing and assessing historical sales practices and products that were sold in the past, and in the maintenance of effective risk management, legal and compliance procedures to monitor current sales practices, there can be no assurance that all of the issues associated with current and historical sales practices have been or will be identified, nor that any issues already identified will not be more widespread than presently estimated.

The negative publicity associated with any sales practices, any compensation payable in respect of any such issues and regulatory changes resulting from such issues, has had and could have a material adverse effect on our business, reputation, revenues, results of operations, financial condition and prospects. For additional information with respect to specific proceedings, see Note 45 'Legal proceedings' to the consolidated financial statements.

Additional risks relating to ownership of ING shares

The share price of ING shares has been, and may continue to be, volatile.

Our share price has experienced periods of volatility in the past, and the price and trading volume of our shares may be subject to significant fluctuations in the future, due, in part, to changes in our actual or forecast operating results and the inability to fulfil the profit expectations of securities analysts, as well as to the high volatility in the securities markets generally and more particularly in shares of financial institutions.

Other factors, besides our financial results, that may impact our share price include, but are not limited to:
- market expectations of the performance and capital adequacy of financial institutions in general;
- investor perception of the success and impact of our strategies;
- investor perception of our positions and risks;
- a downgrade or review of our credit ratings;
- potential litigation or regulatory action involving ING or sectors that we have exposure to;
- announcements concerning financial problems or any investigations into the accounting practices of other financial institutions; and
- general market circumstances.

There can be no assurance that we will pay dividends on our Ordinary Shares in the future.

It is ING's policy to pay dividends in relation to the long-term underlying development of cash earnings. Dividends can only be declared by shareholders when the Executive Board considers such dividends appropriate, taking into consideration the financial conditions then prevailing and the longer-term outlook. The Executive Board proposes to pay a total dividend of EUR 2,560 million, or EUR 0.66 per ordinary share, over the financial year 2016. This is subject to the approval of shareholders at the Annual General Meeting in May 2017. Taking into account the interim dividend of EUR 0.24 per ordinary share paid in August 2016, the final dividend will amount to EUR 0.42 per ordinary share and be paid in cash. However, there can be no assurance that we will pay dividends in the future.

Holders of ING shares may experience dilution of their holdings.

The issuance of equity securities resulting from the conversion of some or all of such instruments would dilute the ownership interests of existing holders of ING shares and such dilution could be substantial. Additionally, any conversion, or the anticipation of the possibility of a conversion, could depress the market price of ING shares.

Furthermore, we may undertake future equity offerings with or without subscription rights. In case of equity offerings with subscription rights, holders of ING shares in certain jurisdictions, however, may not be entitled to exercise such rights unless the rights and the related shares are registered or qualified for sale under the relevant legislation or regulatory framework. Holders of ING shares in these jurisdictions may suffer dilution of their shareholding should they not be permitted to, or otherwise chose not to, participate in future equity offerings with subscription rights.

Because we are incorporated under the laws of the Netherlands and many of the members of our Supervisory and Executive Board and our officers reside outside of the United States, it may be difficult to enforce judgments against ING or the members of our Supervisory and Executive Boards or our officers.
Most of our Supervisory Board members, our Executive Board members and some of the experts named in this Annual Report, as well as many of our officers are persons who are not residents of the United States, and most of our and their assets, are located outside the United States. As a result, it may not be able to serve process on those persons within the United States or to enforce in the United States judgments obtained in U.S. courts against us or those persons based on the civil liability provisions of the U.S. securities laws.

It also may not be able to enforce judgments of U.S. courts under the U.S. federal securities laws in courts outside the United States, including the Netherlands. The United States and the Netherlands do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, we may not be able to enforce in the Netherlands a final judgment for the payment of money rendered by any U.S. federal or state court based on civil liability, even if the judgment is not based only on the U.S. federal securities laws, unless a competent court in the Netherlands gives binding effect to the judgment.

Additional Pillar III information

amounts in millions of euros, unless stated otherwise

Introduction

Basis of disclosure

The information in this report relates to ING Group N.V. and all of its subsidiaries (hereafter ING Group). There are no differences between the scope of consolidation for prudential purposes and the scope of consolidation for accounting purposes as reported in the annual accounts in Note 1 'Accounting policies', Note 47 'Principal subsidiaries' and Note 48 'Structured entities'.

For both Capital Requirement and Asset Encumbrance, this Pillar III report provides information on ING Group level. The information on credit risk, counterparty credit risk, securitisations, market risk and non-financial risk focuses on ING Bank.

Assurance/validity

The Pillar III disclosures have been subject to the ING Group's internal control assessments and validation mechanisms, to ensure compliance with laws and regulations. They have not been audited by ING Group's external auditors.

The Disclosure Committee (DC), responsible for all ING Group disclosures, assesses the accuracy of the content before reporting their conclusions to the Audit Committee (AC) who review the outcome and provide final approval. However, the ultimate authority for the preparation and disclosure of financial information is vested within the Executive Board. This process ensures that both Executive Board and Supervisory Board are given sufficient opportunity to review and challenge the Group's financial statements and other significant disclosures before they are made public. Stand-alone reports that are not published in the annual report require management (General Manager or Head of department involved) to seek appropriate verification and validation of the information.

Regulatory framework

In 2010, the Basel III framework was adopted and consequently translated in the European Union (EU) into regulation through the Capital Requirement Regulation (CRR) and Capital Requirement Directive IV (CRD IV). The CRR is binding for all EU member states and became effective per 1 January 2014. For more information, please refer to the chapter 'Regulatory environment' in the Risk Management Paragraph.

The Basel Committee's framework is based on three pillars: the Pillar I on minimum capital requirements, which defines the rules for the calculation of credit, market and operational risk, Pillar II about Supervisory review process, which requires banks to undertake an internal capital adequacy assessment process for risks not included in Pillar I, and Pillar III on Market discipline, requiring disclosures to allow investors and other market participants to understand the risk profiles of individual banks.

ING Group prepares the Pillar III report in accordance with the CRR and CRD IV as required by the supervisory authority. The ING Group's 'additional Pillar III information' report contains disclosures for Regulatory Capital requirements, Credit Risk, including counterparty credit risk, securitisations and Other Non-Credit Obligation Assets (ONCOA), Market Risk, Liquidity Risk and non-financial risk disclosures. Furthermore, the report will discuss regulatory exposures and risk weighted assets, which are not included in the risk management section. Hence, the Pillar III section should be read in conjunction with the Risk Management and Capital Management sections of the annual accounts, which present a comprehensive discussion on both topics.

For the requirements related to CRR/CRD IV disclosures, a reference guide will be published on the corporate website ing.com. http://www.ing.com/About-us/Annual-Reporting-Suite.htm

The Pillar III report is published on an annual basis as part of the ING Group Annual Report. However, some capital requirements as laid down in Article 438 and, as well as information on risk exposure or other items prone to rapid change rapidly, are disclosed on a quarterly basis. Some ING Group's subsidiaries publish information on capital and solvency on their websites or annual reports pursuant to local regulatory requirements.

Developments in disclosure requirements

BCBS Revised Pillar III framework (RPF)

With respect to market information disclosures, the Basel Committee on Banking Supervision (BCBS) announced in 2014 its ambition to revise and consolidate the Pillar III disclosure requirements in a two-phase programme. The revised Pillar III framework (RPF) is the result of an extensive review of Pillar III reports, in which the existing Pillar III disclosure requirements are superseded. The result applies to internationally active banks at the highest consolidated level.

Additional Pillar III information - continued

Key goal is to improve comparability and consistency of disclosures by introducing harmonised templates. There are two type of templates/tables:

- Prescriptive fixed format (template) for quantitative information that is considered essential for the analysis of a bank's regulatory capital requirements, and
- Flexible format (table) for information considered meaningful to the market but not central to the analysis of a bank's regulatory capital adequacy.

The first phase of the revised Pillar III framework (RPF) was introduces in January 2015 (BCBS 309), focussing on risk management and RWA, linkages between financial statements and regulatory exposures, Credit risk, counterparty credit risk, securitisation and market risk.

In March 2016, the Basel Committee issued a consultative paper for the second phase of the RPF, which suggested:

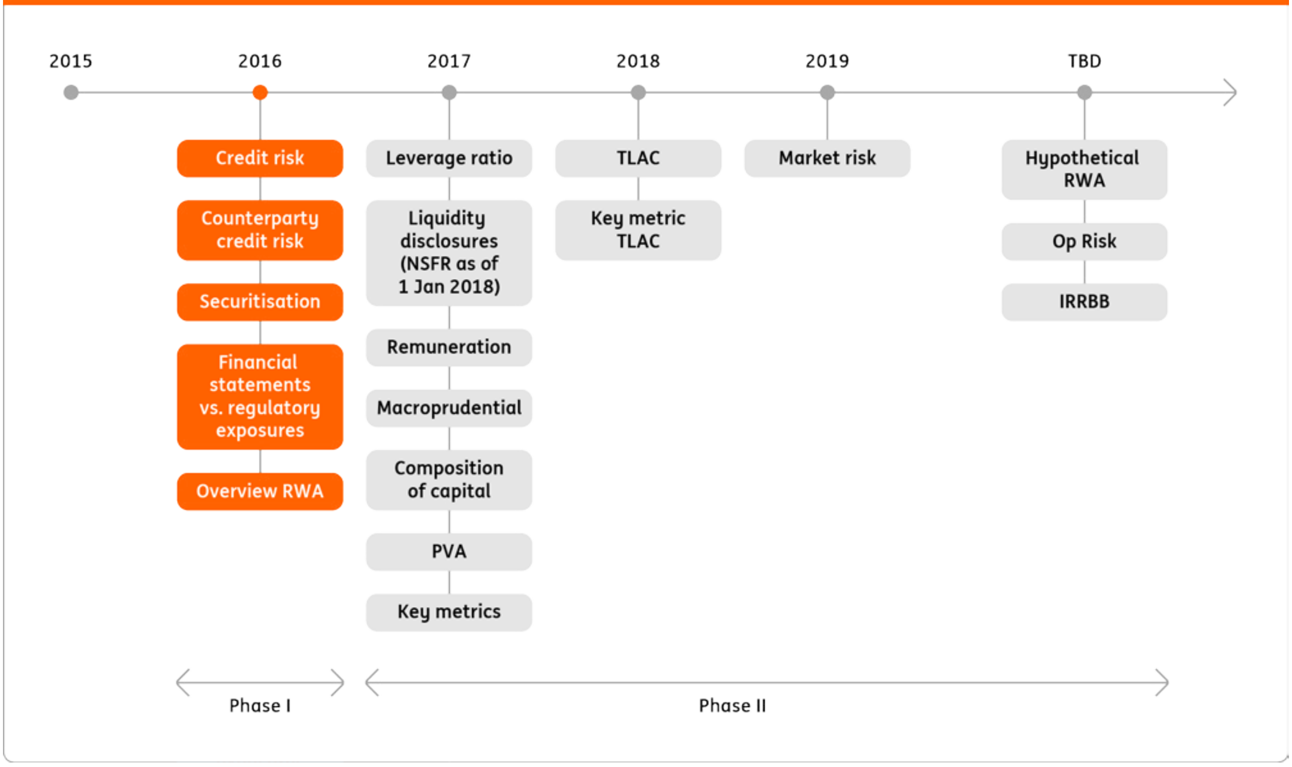
(i) further revision of the Phase I proposals, including the introduction of additional key regulatory metrics (when applicable) to a "dashboard", disclosure of 'hypothetical risk-weighted assets' calculated based on the standardised approach - to serve as a benchmark to RWA calculations using the internal ratings-based approach - and increased granularity for the disclosure of the Prudent Valuation Adjustment (PVA).

(ii) an inclusion of disclosure requirement resulting from other BCBS proposals, including addition of TLAC disclosure (via TLAC RWA and Leverage Ratio requirement and eligible instruments) to the regulatory capital disclosure requirements, revisions of operational risk disclosures to reflect the Standardised Measurement Approach (SMA), once finalised, revisions of market risk disclosures resulting from the Fundamental Review of the Trading Book (FRTB) and disclosure requirement described in the Interest Rate Risk in Banking Book (IRRBB) proposal.

(iii) the integration of other BCBS disclosure requirements into the Pillar III framework, which covers the disclosure requirements previously issued or announced by BCBS (i.e. G-SIB indicators, Countercyclical Capital Buffer, Leverage Ratio, LCR and NSFR)

The implementation date of the Phase 1 alterations is dependent on the expected finalisation of the underlying regulatory standards as displayed in the total overview of the RPF below.

BCBS revised Pillar III disclosures – overview



European Regulation

In order to be legally binding, the RPF templates needed to be transposed for European institutions into EU requirements by EBA. Therefore, in June 2016, EBA issued a consultation paper on the guidelines on the CRR disclosure requirements covering Phase I of the BCBS Revised Pillar III Framework.

Within the draft Guidelines, EBA adjusted the Revised Pillar III templates and included EU specificities, for instance in terms of exposure classes or concepts used, to fit the CRR requirements. The draft EBA guidelines should therefore be seen as specifications of the existing CRR disclosure requirements, rather than a completely new set of requirements.

Furthermore, EBA proposed to postpone the implementation date to year-end 2017, rather than year-end 2016 as proposed by BCBS. However, G-SIBs like ING Group are required to disclose a subset composed of the amounts on risk exposures and minimum capital requirements per year-end 2016. Further, EBA explicitly refers to and makes use of COREP and FINREP to populate the fixed and variable disclosure templates to ease the implementation. As part of the review of the Pillar III framework, EBA also requests to publish a compilation of the quantitative information in an editable format/ MS Excel file.

The scope of the EBA guidelines corresponds almost fully with the first phase of the RPF, focusing on general disclosure requirements for risk management, credit risk, counterparty credit risk and market risk. The remaining requirements in Part Eight CRR are out of scope because either covered in the second phase of the BCBS Pillar III review or are covered via other regulations (Delegated Act, Implementation Technical Standards, etc.) that are already applicable.

CRR/CRD IV review
On 23 November 2016, the European Commission (EC) published proposals amending major European regulations among others the Capital Requirements Directive and Capital Requirements Regulation (CRD V and CRR II) essential to further reinforce banks' ability to withstand potential shocks.

For the disclosure requirements, the Commission proposed targeted amendments to ensure better alignment with international standards. In particular, new disclosure requirements are proposed for TLAC, counterparty credit risk, market risk and liquidity requirements. Also, a more proportionate disclosure regime has been proposed where the disclosures are adapted to the relevance of institutions with small (i.e. with assets below EUR 1.5 billion) and non-listed institutions subject to less extensive and less frequent disclosures. In the CRR II proposals, firms are classified into three categories (significant, small, and other) with a further distinction between listed and non-listed firms.

Further, the EBA is mandated to develop uniform disclosure formats to enhance comparability, and the management is required to verify and sign off on compliance with disclosure requirements and adherence to internal policies on disclosure.

Implementation
With the EBA guidelines being positioned as specifications of the existing CRR disclosure requirements, ING Group has opted for an early implementation of the EBA templates related to regulatory capital requirements, credit risk, counterparty credit risk and market risk. This early implementation provides us an opportunity to improve the transparency of the information published in the annual Pillar III report.

The table below “disclosure index” points out where one can find the EBA templates in the annual report:

Disclosure index EBA guidelines

Type	ID	EBA description	Pages
Capital requirements	EU OV1	Overview of RWAs	370
Credit risk and general information on CRM	EU CRB-B	Total and average net amount of exposures	392
	EU CRB-C	Geographical breakdown of exposures	392
	EU CRB-D	Concentration of exposures by industry or counterparty types	394
	EU CRB-E	Maturity of exposures	395
	EU CR1-A	Credit quality of exposures by exposure class and instrument	402
	EU CR1-B	Credit quality of exposures by industry or counterparty types	403
	EU CR1-C	Credit quality of exposures by geography	403
	EU CR1-D	Ageing of past-due exposures	406
	EU CR1-E	Non-performing and forborne exposures	405
	EU CR3	Credit risk mitigation techniques – overview	414
Credit risk and CRM in the standardised approach	EU CR4	Standardised approach – Credit risk exposure and CRM effects	400
	EU CR5	Standardised approach	401
Credit risk and CRM in the IRB approach	EU CR6	IRB approach – Credit risk exposures by exposure class and PD range	396
	EU CR9	IRB approach – Backtesting of PD per exposure class	398 – 399
CCR	EU CCR1	Analysis of CCR exposure by approach	407
	EU CCR8	Exposures to CCPs	411
	EU CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk	407
	EU CCR4	IRB approach – CCR exposures by portfolio and PD scale	408
	EU CCR5-A	Impact of netting and collateral held on exposure values	410
	EU CCR5-B	Composition of collateral for exposures to CCR	410
Market risk	EU MR1	Market risk under the standardised approach	303
	EU MR2-A	Market risk under the IMA	304
	EU MR2-B	RWA flow statements of market risk exposures under an IMA	421
	EU MR3	IMA values for trading portfolios	303

Public disclosure of return on assets
The CRD IV requires ING Group to disclose information on its return on assets. ING Group has decided to calculate ROA based on underlying results and average assets derived from quarter-end assets to align it with the other indicators. The underlying ROA represents profit as a percentage of average total assets. In 2016, the underlying ROA was 0.58% (in 2015: 0.46%).

Capital requirement
Capital Adequacy Rules – CRR/CRD IV
The rules for required Regulatory Capital or Capital adequacy are based on the guidelines developed by the Basel Committee on Banking Supervision (The Basel Committee) and the European Union Regulation and Directives, as implemented by the European Central Bank and the Dutch Central Bank for supervisory purposes.

The rules express the regulators' and legislators' opinions of how much capital a bank and other regulated credit institutions must retain in relation to the size and the type of risk taking expressed in the form of risk-weighted assets. The most important part of the capital base is the shareholders' equity. In addition to equity, the institution may issue certain liabilities such as hybrid instruments to be included in the capital base. The legal minimum requirement (excluding buffers) stipulates that the capital base must correspond to at least 8% of the Risk-Weighted Assets (RWA).

The table below presents an overview of the Minimum capital requirements and the RWA at year end 2016 per type of risk and method of calculation. The largest part of the capital requirement relates to credit risk (82%), followed by operational risk with 13%, amounts below the threshold for deduction (which relates to equity in the banking book) 3% and market risk for 2% of the capital requirements.

Additional Pillar III information - continued

EU OV1: ING Group Regulatory capital requirements

amounts in EUR million	RWA 2016	RWA 2015	Minimum capital requirements 2016
Credit risk (excluding counterparty credit risk) (CCR)	**241,331**	**237,064**	**19,306**
Of which standardised approach (SA)	24,731	22,368	1,978
Of which internal rating-based (IRB) approach	212,982	209,885	17,039
Of which Equity IRB under the simple risk-weight or the internal models approach	3,618	4,811	289
Counterparty credit risk (CCR)	**14,714**	**17,927**	**1,177**
Of which Marked to market			-
Of which Original exposure			-
of which standardised approach for counterparty credit risk	10,863	12,290	869
of which internal model method (IMM)			-
Of which risk exposure amount for contributions to the default fund of a CCP	279	633	22
Of which CVA	3,572	5,004	286
Settlement risk	**-**	**-**	**-**
Securitisation exposures in banking book (after cap)	**842**	**1,904**	**67**
Of which IRB approach (RBA)	842	1,904	67
Of which IRB Supervisory Formula Approach (SFA)	-	-	-
Of which Internal assessment approach (IAA)	-	-	-
Of which Standardised approach (SA)	-	-	-
Market risk	**6,660**	**9,635**	**533**
Of which standardised approach (SA)	1,081	1,328	87
Of which internal model approaches (IMA)	5,579	8,307	446
Large exposures	**-**	**-**	**-**
Operational risk	**40,527**	**43,137**	**3,242**
Of which Basic Indicator Approach	-	-	-
Of which Standardised Approach	-	-	-
Of which Advanced Measurement Approach	40,527	43,137	3,242
Amounts below the thresholds for deduction (subject to 250% risk weight)	**10,251**	**11,469**	**820**
Floor adjustment	**0**	**0**	**0**
Total	**314,325**	**321,135**	**25,146**

The decrease in CRR/CRDIV required regulatory capital was mainly caused by decreased capital requirements for counterparty credit risk, market risk and operational risk. This decrease was partly offset by increased credit risk capital requirements following from volume growth and model changes. The CRR/CRDIV requires banks to hold own funds of at least 80% of the old Basel I requirement, which was 8% of the RWAs as calculated using the Basel I methodology. This requirement remains at least until the end of 2017.

Additional Pillar III information - continued

ING Group Regulatory Capital flow statement

	2016		2015	
	CRR/CRD IV phased-in	CRR/CRD IV fully loaded	CRR/CRD IV phased-in	CRR/CRD IV fully loaded
Common Equity Tier 1 capital				
Opening amount	41,554	40,788	40,543	31,511
Profit included in CET1 capital	2,091	2,091	1,495	1,495
Adjustment prudential filters own credit risk	24	31	-135	-129
Change in goodwill and intangibles	-284	58	-302	88
Change in revaluation reserves	732	-188	1,689	240
Change in third party interest	20	20	40	40
Change in deductions significant investments in Financial Institutions	558	1,389	4,073	12,714
Other	-229	379	-5,849	-5,171
Closing amount	**44,466**	**44,568**	**41,554**	**40,788**
Additional Tier 1 capital				
Opening amount	4,858	6,574	0	5,727
Change in AT 1 instruments	1,132	1,132	847	847
CRR/CRD IV phased-in adjustments (excl. significant investments in FIs)	487		575	
Change in deductions significant investments in Financial Institutions	419		3,436	
Closing amount	**6,897**	**7,706**	**4,858**	**6,574**
Tier 2 capital				
Opening amount	7,912	8,672	3,291	9,474
Change in T 2 instruments	918	918	-801	-801
CRR/CRD IV phased-in adjustments (excl. significant investments in FIs)	145		184	
Change in deductions significant investments in Financial Institutions	419		5,239	
Change minority interest	7	7	-1	-1
Closing amount	**9,402**	**9,597**	**7,912**	**8,672**
Total Regulatory Capital	**60,765**	**61,871**	**54,324**	**56,034**

Capital position

As at 1 January 2014, the CRR/CRD IV capital rules entered into force. According to CRR/CRD IV capital adequacy rules, the Common Equity Tier 1 ratio has to be at least 4.5%, the Tier 1 ratio at least 6% and the total capital ratio at least 8% of all risk-weighted assets.

The capital position table reflects own funds according to the CRR/CRD IV rules. As CRD IV is phased in gradually until 2019, the table shows the CRD IV positions both according to the 2019 end-state rules and the 2016 rules. This makes clear which items phase in directly, which phase in gradually.

ING Group's capital consists of Tier 1 capital and Tier 2 capital net after deductions. Tier 1 capital consists of both Common Equity Tier 1 capital and other Tier 1 capital, also referred to as hybrid capital. Tier 2 capital consists mostly of subordinated loans.

ING Group's phased-in (transitional) common equity Tier 1 ratio at year-end 2016 of 14.15% is well in excess of the 9.00% common equity Tier 1 requirement for ING Group in 2017. This requirement is the sum of (i) 4.5% Pillar 1 requirement (ii) 1.75% Pillar 2 requirement, being the European Central Bank's (ECB) decision on the 2016 Supervisory Review and Evaluation Process (SREP) (iii) the 1.25% capital conservation buffer and (iv) 1.5% for the Systemic Risk Buffer (SRB) which has been set separately for Dutch systemic banks by DNB as macro-prudential supervisor. The impact from countercyclical buffer requirements was insignificant in 2016. The fully loaded SRB requirement is currently set at 3% for ING Group and phases in over four years, with a final implementation date of 1 January 2019. With a 14.18% fully-loaded Group CET1 ratio as at 31 December 2016, ING is already in compliance with the current fully-loaded requirement that is expected to grow to 11.75% in 2019 .

Additional Pillar III information - continued

ING Group Capital position

			2016			2015
	2016 rules (CRR/CRD IV phased in)	2017 rules (CRR/CRD IV phased in)	2019 rules (CRR/CRD IV fully loaded)	2015 rules (CRR/CRD IV phased in)	2016 rules (CRR/CRD IV phased in)	2019 rules (CRR/CRD IV fully loaded)
Shareholders' equity	**49,793**	**49,793**	**49,793**	**47,832**	**47,832**	**47,832**
Regulatory adjustments:						
Minority interests, counting as Common equity Tier 1	326	326	326	305	305	305
Goodwill and intangibles deducted from Tier 1[1]	-922	-1,229	-1,536	-638	-956	-1,594
Provision shortfall[2]	-584	-779	-974	-454	-681	-1,135
Revaluation reserve debt securities	-470	-235		-758	-505	
Revaluation reserve equity securities	-1,063	-531		-1,580	-1,053	
Revaluation reserve real estate	-81	-41		-196	-130	
Revaluation reserve cash flow hedge	-777	-777	-777	-666	-666	-666
Prudent valuation adjustment	-49	-49	-49	-91	-91	-91
Investments >10% FI, exceeding 10% threshold				-558	-835	-1,389
excess AT1 deductions over AT1						
Prudential filters:						
Own credit risk	127	127	127	89	89	89
Defined benefit remeasurement (IAS19R)	223	148		244	184	
Net defined benefit pension fund assets	-297	-396	-495	-257	-386	-643
Deferred tax assets	-95	-127	-159	-113	-169	-282
Own credit risk adjustments to derivatives (DVA)	-36	-48	-60	-21	-32	-53
Interim profit not included in CET1 capital	-1,629	-1,629	-1,629	-1,586	-1,586	-1,586
Available capital - Common equity Tier 1	**44,466**	**44,554**	**44,568**	**41,554**	**41,320**	**40,788**
Subordinated loans qualifying as Tier 1 capital[3]	7,706	7,706	7,706	6,574	6,574	6,574
Deduction of goodwill and other intangibles[1]	-615	-307		-956	-638	
Provision shortfall[2]	-195	-97		-340	-227	
CRD-IV eligible Tier 1 Hybrids						
Investments >10% FI, exceeding 10% threshold				-419	-278	
Minority interests, counting as Additional Tier 1 capital						
Available capital - Tier 1	**51,363**	**51,856**	**52,274**	**46,412**	**46,750**	**47,362**
Supplementary capital - Tier 2[3]	9,488	9,488	9,488	8,570	8,570	8,570
Provision shortfall[2]	-195	-97		-340	-227	
IRB excess provision						
Investments >10 FIs, exceeding 10% threshold				-419	-278	
Minority interests, counting as Tier 2 capital	109	109	109	102	102	102
Available Tier 3 funds						
BIS capital	**60,765**	**61,355**	**61,871**	**54,325**	**54,916**	**56,034**
Risk-weighted assets	**314,325**	**314,325**	**314,325**	**321,135**	**321,146**	**321,151**
Common Equity Tier 1 ratio	**14.15%**	**14.17%**	**14.18%**	**12.94%**	**12.87%**	**12.70%**
Tier 1 ratio	**16.34%**	**16.50%**	**16.63%**	**14.45%**	**14.56%**	**14.75%**
Total capital ratio	**19.33%**	**19.52%**	**19.68%**	**16.92%**	**17.10%**	**17.45%**

1 Intangibles: mainly capitalised software.
2 In CRR/CRD IV the provision shortfall is deducted fully from Common Equity Tier 1. During the phase-in period (until 2017), the part of the shortfall that is not deducted from CET1 Capital is substracted 50%/50% from additional Tier 1 and Tier 2 Capital.
3 Assuming that non CRR/CRD IV eligible Tier 1 and Tier 2 capital will be replaced by CRR/CRD IV eligible equivalents before they stop to meet the CRR/CRD IV grandfathering conditions.

Own funds

The CRR requires ING Group to disclose information on own funds in a specific format that was provided in the EBA Implementation Technical Standards. The EBA templates Annex I, II and Annex VI are disclosed on the corporate website ing.com.
http://www.ing.com/About-us/Annual-Reporting-Suite.htm

Countercyclical buffer

As only a few countries had set a countercyclical buffer rate larger than zero and ING Group's exposures in these countries relatively small, the resulting countercyclical buffer is small: 0.01% in 2016. See below an overview of the exposure distribution for the most relevant countries (having either a share larger than 1% or a positive countercyclical buffer rate).

Countercyclical buffer

	General credit exposures		Trading book exposures		Securitisation exposures		Own fund requirements					
	Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total	Own funds requirements weights	Countercyclical capital buffer rate
Netherlands	3,671	191,088	0	117	0	967	4,211	8	7	**4,227**	22.110%	-
Belgium	855	81,241	0	0	0	0	2,573	0	0	**2,573**	13.460%	-
Germany	254	90,653	0	38	0	784	1,994	3	41	**2,037**	10.656%	-
United States of America	289	52,017	0	42	0	2,938	1,614	3	48	**1,665**	8.711%	-
Turkey	10,899	4,636	0	79	0	0	1,018	6	0	**1,024**	5.356%	-
Poland	8,106	11,097	0	5	0	0	980	0	0	**980**	5.128%	-
United Kingdom	40	13,223	0	29	0	463	661	2	5	**668**	3.496%	-
Spain	2,169	17,189	0	49	0	730	635	3	19	**658**	3.442%	-
France	726	12,692	0	82	0	106	566	6	2	**573**	2.997%	-
Italy	1,170	16,931	0	7	0	0	483	1	2	**485**	2.539%	-
Australia	1,373	36,861	0	4	0	19	368	0	0	**368**	1.927%	-
Luxembourg	144	11,853	0	28	0	773	342	2	6	**350**	1.831%	-
Russian Federation	4	4,633	0	286	0	0	284	20	0	**304**	1.592%	-
Romania	2,274	2,124	0	0	0	0	245	0	0	**245**	1.282%	-
Brazil	0	2,236	0	0	0	0	227	0	0	**227**	1.186%	-
Switzerland	0	8,619	0	0	0	0	198	0	0	**198**	1.037%	-
Hong Kong	45	4,699	0	25	0	0	94	2	0	**96**	0.502%	0.625%
Sweden	0	1,816	0	30	0	0	68	2	0	**70**	0.364%	1.500%
Norway	0	2,796	0	11	0	0	37	1	0	**37**	0.195%	1.500%
Total of other	346	62,584	0	533	0	79	2,275	37	18	**2,330**	12.190%	-
Total	**32,365**	**628,989**	**0**	**1,367**	**0**	**6,858**	**18,873**	**95**	**148**	**19,117**	**100.000%**	**0.012%**

Amount of institution-specific CCyB

	2016
Total RWA	314,325
Weighted countercyclical buffer rate	0.01%
Countercyclical buffer requirement	**36.2**

Leverage ratio

The Leverage ratio is a CRR/CRD IV measure indicating the level of the Tier 1 Capital compared to the total exposure. Its aim is to assess the risk of excessive leverage of the institution. In line with the regulatory requirements, ING Group will use the specific EBA templates as basis for the presentation of its Leverage ratio. These EBA templates reflect the Leverage ratio as calculated under the Leverage ratio Delegated Act which was introduced in October 2014. The Final Draft Implementing Technical Standards (ITS) on disclosure of the leverage ratio have been approved by the European Commission and published in the EU Official Journal early 2016. The official reporting of the Delegated Act Leverage ratio to the ECB has commenced per September 2016. The fully loaded leverage ratio of ING Group based on the Delegated Act, and with notional cash pooling grossed is 4.8% at 31 December 2016.

Additional Pillar III information - continued

Summary reconciliation of accounting assets and leverage ratio exposures

		2016 CRR/CRD IV phased in Applicable amounts	2016 CRR/CRD IV fully loaded Applicable amounts	2015 CRR/CRD IV phased in Applicable amounts	2015 CRR/CRD IV fully loaded Applicable amounts
1	Total assets as per published financial statements	845,081	845,081	841,769	841,769
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation				
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 'CRR')				
4	Adjustments for derivative financial instruments[1]	376	376	-140	-140
5	Adjustments for securities financing transactions 'SFTs'	3,661	3,661	15,786	15,786
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	71,623	71,623	69,093	69,093
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)				
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)				
7	Other adjustments[1]	172,269	173,180	145,010	146,666
8	**Total leverage ratio exposure**	**1,093,011**	**1,093,922**	**1,071,518**	**1,073,174**

1 The adjustment for Receivables for cash variation margin provided in derivatives transactions has been included in the line Other adjustments.

Additional Pillar III information - continued

Group leverage ratio common disclosure

		2016 CRR/CRD IV phased in CRR leverage ratio exposures	2016 CRR/CRD IV fully loaded CRR leverage ratio exposures	2015 CRR/CRD IV phased in CRR leverage ratio exposures	2016 CRR/CRD IV fully loaded CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)					
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	929,981	929,981	898,179	898,179
2	(Asset amounts deducted in determining Tier 1 capital)	-4,833	-3,922	-7,456	-5,800
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**925,149**	**926,060**	**890,723**	**892,379**
Derivative exposures					
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	11,726	11,726	13,439	13,439
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	27,031	27,031	25,575	25,575
EU-5a	Exposure determined under Original Exposure Method				
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework				
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-10,579	-10,579	-11,800	-11,800
8	(Exempted CCP leg of client-cleared trade exposures)			-156	-156
9	Adjusted effective notional amount of written credit derivatives	15,656	15,656	15,606	15,606
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-13,316	-13,316	-12,245	-12,245
11	**Total derivative exposures (sum of lines 4 to 10)**	**30,518**	**30,518**	**30,418**	**30,418**
Securities financing transaction exposures					
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	81,569	81,569	88,067	88,067
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-19,509	-19,509	-22,569	-22,569
14	Counterparty credit risk exposure for SFT assets	3,661	3,661	15,786	15,786
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013				
15	Agent transaction exposures				
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)				
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**65,722**	**65,722**	**81,283**	**81,283**
Other off-balance sheet exposures					
17	Off-balance sheet exposures at gross notional amount	217,943	217,943	210,856	210,856
18	(Adjustments for conversion to credit equivalent amounts)	-146,320	-146,320	-141,762	-141,762
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**71,623**	**71,623**	**69,093**	**69,093**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)					
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))				
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))				
Capital and total exposures					
20	Tier 1 capital[1]	51,363	52,274	46,412	47,362
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**1,093,011**	**1,093,922**	**1,071,518**	**1,073,174**
Leverage ratio					
22	**Leverage ratio**	**4.7%**	**4.8%**	**4.3%**	**4.4%**
Choice on transitional arrangements and amount of derecognised fiduciary items					
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Fully phased in	Transitional	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013				

1 Please note that Tier 1 Capital per December 2016 includes grandfathered hybrids to an amount of EUR 4,654 million (2015: EUR 5,187 million)

Additional Pillar III information - continued

Disclosure on qualitative items		
1	Description of the processes used to manage the risk of excessive leverage	ING follows the leverage ratio on a monthly basis and takes it into account when taking certain securitisation and/or Tier 1 issuance decisions.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	The change in leverage ratio was mainly due to the increase of qualifying Tier 1 capital as result of (a) the profit for 2016 that was included in CET1 capital, (b) AT1 issuance, (c) the divestment of both Voya Financial and NN Group leading to less deductions for significant investments in financial institutions and (d) changes in the revaluations reserves.

Economic and Regulatory Capital

EC and Regulatory Capital (RC) are the main sources of capital allocation within ING Bank. Both of these capital metrics are used to determine the amount of capital that a transaction or business unit requires to support the economic and regulatory-based risks it faces. The concept of EC differs from RC in the sense that RC is the mandatory amount of capital that is defined under Pillar I while EC is the best estimate of Pillar II capital that ING Bank uses internally to manage its own risk. EC is a non-accounting measure that is inherently subject to dynamic changes and updated as a result of ING Bank's portfolio mix and general market developments. ING Bank continuously recalibrates the underlying assumptions behind its economic capital model which may have an impact on the values of EC going forward.

EC is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it takes. In general, EC is measured as the unexpected loss above the expected loss at a given confidence level. This economic capital definition is in line with the net market value (or surplus) definition. The EC calculation is used as part of the CRR/CRD IV Pillar II Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) that is performed regularly by the supervisor.

The following fundamental principles and definitions have been established for the model:
- ING Bank uses a one-sided confidence level of 99.95% and a one-year time horizon to calculate EC;
- It is assumed that all currently known measurable sources of risk are included;
- The best estimate risk assumptions are as objective as possible and based on proper analysis of statistical data.;
- The EC calculation is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
- The EC calculations reflect known embedded options and the influence of customer behaviour in banking products;
- The EC calculations are on a before tax basis and do not consider the effect of regulatory accounting and solvency requirements on capital levels; and
- The framework does not include any franchise value of the business, discretionary management intervention or future business volumes and margins.

Specific measurement by risk type is described in greater detail in the separate risk type sections.

The tables below provide ING Bank's EC and RC by risk type and business line. For 2016, both the total RC and EC decreased compared to 2015. Both are well below the total amounts of available capital of EUR 53,646 million based on CRR/CRD IV phased-in rules. Details regarding the available capital can be found in the table "ING Group Regulatory Capital flow statement".

Economic and Regulatory Capital by risk type	Economic capital		Regulatory capital	
	2016	2015	2016	2015
Credit risk	18,820	20,057	21,192	21,234
Market risk	7,965	8,581	533	771
Business risk	3,160	2,571		
Operational risk	4,465	4,748	3,242	3,451
Total banking operations	**34,410**	**35,957**	**24,967**	**25,456**

Economic and Regulatory Capital by business line combination

	Economic capital		Regulatory capital	
	2016	2015	2016	2015
Wholesale Banking	11,937	12,127	12,305	12,195
Retail Benelux	8,642	9,237	6,663	7,159
Retail Challengers & Growth Markets	10,620	10,729	5,820	5,886
Corporate Line[1]	3,210	3,864	179	216
Total banking operations	**34,410**	**35,957**	**24,967**	**25,456**

1 Corporate Line includes funding activities at ING Bank level, internal transactions between business units and the Corporate Line.

The main changes in and differences between ING Bank's economic capital and regulatory capital are:
- The capital adequacy assessment in this section disregards any inter-risk diversification in the EC calculation, in accordance with the final EBA guidelines on common procedures and methodologies for the SREP. However, ING Bank is of the opinion that applying diversification across different risk types reflects economic reality. In case diversification was taken into account, the total EC would decrease with EUR 5.6 billion to EUR 28.8 billion. Note that for RC diversification was never taken into account;
- Apart from the below described risk specific differences, the EC numbers are based on a 99.95% confidence level, while the confidence level is 99.9% for RC. The EC figures include business risk, while there is no business risk defined for RC;
- The credit risk EC methodology includes internally calibrated asset correlations and excludes conservative floors otherwise present in the credit risk RC calculations. Furthermore, credit risk EC includes transfer risk while RC does not. Economic capital for credit risk decreased in 2016, mainly due to a credit quality improvement, besides a decrease of credit valuation adjustment (CVA) exposure and Other Non-Credit Obligation Assets (ONCOA).
- The market risk EC is higher than the RC primarily due to the inclusion of the interest rate risk in the banking books and the equity stakes in EC. In RC, only market risk in trading books and FX risk of the banking book are in scope. Furthermore, for Equity Investments the EC figures are reported under market risk, while the RC figures are reported under credit risk. During 2016, market risk economic capital decreased mainly caused by the sale of shares in Kotak Mahindra Bank and lower volatility in the time period used in the Historical Value-at-risk calculation for foreign exchange positions.
- For operational risk, the EC calculations are done using the same methodology as for RC apart from the application of a 99.95% confidence level.

EC and RC do not cover liquidity risk: the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities, at reasonable cost and in a timely manner, when they come due. ING Bank has a separate liquidity management framework in place to manage this risk, which is described in the 'funding and liquidity risk' section of the Risk Management section part of the Annual Accounts.

Credit Risk

Basis and scope of presentation

In the credit risk section of Pillar III, data included in tables are related to ING Bank's credit risk resulting from Lending (both on- and off-balance); Securities Financing, Derivatives (collectively Counterparty Credit Risk); Money Market activities, and Investment Risks. Compared to the Pillar III section of 2015, new templates have been added in accordance with EBA Pillar III disclosure requirements. A separate section for counterparty risk has been added.

The amounts presented in this section relate to amounts used for Credit Risk Management purposes, which follow ING Bank's internal interpretation of the definitions as prescribed under CRR/CRD IV. Therefore, the numbers can be different from the accounting numbers as reported in the annual accounts under IFRS-EU. An example is the treatment of ONCOA (Other Non-Credit Obligation Assets) items – while the accounting numbers include ONCOA, they are excluded from the credit risk section of Pillar III.

Unless stated otherwise, the tables included in this section are based on the measurement of Regulatory Exposure at Default (READ) and Credit Risk Weighted Assets (RWA) under the CRR/CRD IV definitions. READ is the sum of the on-balance and off-balance sheet: Lending, Investment, Money Market and Counterparty activities plus an estimated portion of the unused credit facilities extended to the obligor. The amounts associated with Investment and Lending activities are based on the original amount invested less repayments. Multiplying RWA by 8% will result in the level of Regulatory Capital (RC) for these portfolios (for the Credit Risk portion of the activities). This excludes all additional buffers. Figures for Derivatives and Securities Financing are based on the current exposure method, which generally is equal to the marked-to-market value of the underlying trades plus a (regulatory defined) 'add-on' which represents estimated potential future exposure(PFE). The amounts are then further modified by an adjustment that is related to the underlying collateral (market) values (after a haircut is applied) and any legal netting or compensation that may be permitted under various master agreement arrangements such as International Swaps and Derivatives Association (ISDA master agreements and Credit Support Annexes (CSAs).

Off-balance sheet exposures include letters of credit and guarantees, which are associated with the Lending Risk category. Additionally, off-balance sheet exposures include a portion of the unused limits, which is the unused portion of the limit between the moment of measurement and the theoretical moment of statistical default. Collectively, these amounts are called ‘Credit Risk outstandings’.

Exposures associated with Securitisations (Asset Backed Financing, Commercial / Residential Mortgage Backed Securities) are shown separately because of their specific treatment. These amounts also relate to the amount invested prior to any impairment activity or mark-to-market adjustments. These amounts are also considered to be ‘Credit Risk outstandings’.

Credit RWA Migration Analysis

The table below explains the changes in Credit RWA during the reporting period and provides additional information by linking the impact of changes in portfolio composition, model changes and shifts in the risk environment on Credit RWA. The table reconciles movements in Credit RWA for the period for each Credit RWA risk type of ING Bank for the SA and AIRB portfolio including securitisations excluding equity and ONCOA. It does not include counterparty credit risk exposures under the Internal Model Method, because ING Bank does not have these exposures.

Flow statement for Credit RWA

in EUR billion	2016	2015
Opening amount	231.6	226.7
Book size[1]	9.2	7.6
Divestments/De-consolidations	-0.5	-1.5
Book quality[2]	-9.8	-8.4
Model updates[3]	13.0	5.6
Methodology and policy[4]	0.4	-2.8
Foreign exchange movements	0.1	5.5
Other	-2.3	0.4
Total Credit RWA movement excluding CVA RWA	10.1	**6.3**
CVA RWA movement	-1.4	-1.4
Total Credit RWA movement	8.7	**4.9**
Closing amount	**240.3**	**231.6**

Excluding equities and ONCOA.
1 Book size: organic changes in book size and composition (including new business and maturing loans).
2 Book quality: quality of book changes caused by experience such as underlying customer behaviour or demographics including changes to credit quality of portfolios.
3 Model updates: model implementation, change in model scope or any change to address model malfunctions including changes through model calibrations / realignments.
4 Methodology and policy: methodology changes to the calculations driven by internal changes in policy and regulatory policy changes.

Key changes

Over the year 2016, credit RWA increased by EUR 8.7 billion to EUR 240.3.

- **Book size:** The increasing book size, excluding divestments, de-consolidations and FX fluctuations, led to EUR 9.2 billion higher RWA, mainly driven by the Wholesale Banking and Challenger & Growth portfolios. The growth in Challengers & Growth portfolios was partly due to organic growth and partly due to transfer of assets from Wholesale Banking to Germany. Mortgages also witnessed a growth in Germany, Australia, Poland and Spain, contributing to the growth of the Challenger & Growth portfolio. Within Wholesale Banking growth was seen in the Structured Finance book in Asia, Switzerland and Americas and the CFIL book in UK and BeLux. The reduction in the Dutch mortgage portfolio continued over 2016 contributing to reduced book size in the Market Leaders portfolio. Increase in mortgages in BeLux was more than compensated by the reduction in the Netherlands. Several smaller movements, both increases and decreases occurred in various portfolios throughout the year.
- **Divestments/ de-consolidations:** The periodic transfer of residential mortgages from WestlandUtrecht to NN Bank as a part of overall the strategy for WestlandUtrecht continued over 2016, further reducing RWA by EUR 0.5 billion.
- **Book quality:** The book quality improved reducing RWA by EUR 9.8 billion, largely due to the Dutch mortgages portfolio. The improved economic conditions especially with respect to house prices and employment in the Netherlands, accompanied with a more efficient arrears management has led to RWA reduction of EUR 2.9 billion in the mortgage portfolio. The Real Estate book showed signs of improvement in overall risk profile, helped by return to performing status of key clients and higher collateralisation which reduced RWA by EUR 1.4 billion. Similar Improvement in risk profile was also witnessed in other Corporate portfolios which further reduced RWA by EUR 2.1 billion. However, deteriorating conditions in Poland and Turkey led to a downgrade in ING rating of these countries and subsequently to an increase of more than EUR 0.5 billion in RWA.
- **EU Equivalence:** The EU equivalence rule used to be applicable to certain countries outside the EU that had supervisory and regulatory arrangements in place that are at least equivalent to those applied in the EU. As of March 31 2016, the 0% risk weight

will only apply to sovereigns that are part of the EU. Before the EU equivalence implementation ING did not take custormer type into account. From now on, EU equivalence and the resulting exposure class and correlation will be based on the combination of country and customer type. Due to this implementation, certain banks will be treated as Corporates, rather than Institutions.

- **Model updates:** Introduction of the Single Supervisory Mechanism of the ECB has led to a change in the implementation timelines. Model updates driven by regulatory guidance increased RWA by EUR 13.0 billion. An RWA add-on for the SME portfolios in the Netherlands and Belgium was implemented through LGD model updates which increased RWA by EUR 6.1 billion. Further RWA add-ons were implemented on Belgian mortgages and SBF portfolios through model updates, which increased RWA by EUR 1.9 billion. The RWA impact of all these add-ons were taken as an ONCOA item in 2015. For the LGD models for Project Finance and ING Direct Spain mortgages risk-weight multipliers were added to make the models more conservative increasing RWA by EUR 4.0 billion and EUR 0.7 billion, respectively. Next to these model updates, the model approach for the Dutch Healthcare portfolio changed from AIRB to SA which increased RWA by EUR 1.0 billion.
- **Methodology and policy:** Some larger and smaller changes resulted in an RWA increase of EUR 0.4 billion. The EUR 1.2 billion decrease was mainly due to the change in calculation for derivatives, counterparty credit risk methodology changes and reduction of the regulatory maturity. An RWA increase of EUR 1.4 billion was due to methodology updates on SME and EU equivalence identification implemented for regulatory compliance. The biggest impact was caused by the change in calculation for derivatives, several methodology changes for counterparty credit risk, and regulatory maturity reduced the RWA by EUR 1.2 billion. Another big impact was caused by the move of the Dutch Healthcare portfolio from IRB to SA approach which increased RWA by EUR 1.0 billion. Further increase in RWA of EUR 1.4 billion was due to methodology updates on SME and EU equivalence identification implemented for regulatory compliance. All in all, these changes and multiple other smaller changes resulted in an RWA increase of EUR 0.4 billion.
- **Foreign exchange movements:** FX rates fluctuated over quarters, but over the year FX movements had a small impact increasing RWA by EUR 0.1 billion. The appreciation of the US Dollar (3.0%) against the Euro increased RWA by EUR 1.6 billion, this was offset by the depreciation of the Turkish Lira (-14,5%) and the British Pound (-13.6%) decreasing RWA by EUR 1.0 billion and EUR 0.7 billion respectively.
- **CVA RWA:** RWA attributable to CVA capital movements decreased by EUR 1.4 billion over 2016, predominantly due to change in the calculation of pre-settlement exposure and regulatory maturity.
  Other: The remaining RWA decrease of EUR 2.3 billion was the result of multiple smaller changes. Improved and on-time handling of customer rating led to a decline of EUR 1.0 billion in RWA attributed to penalty ratings. Remainder of the RWA decreases stemmed from improvements in covers and provisions allocation.

Overall, RWA management has a high priority throughout ING Bank in all aspects of our business. From product design, to pricing, to divestment decisions, RWA allocation and consumption is extensively monitored, reported, and managed at all levels of the organisation.

Credit risk approach

ING Bank uses two methods to calculate Regulatory Capital for Credit Risk within its portfolio: the Advanced Internal Rating Based (AIRB) approach and the Standardised Approach (SA). ING Bank does not use the Basel Foundation IRB Approach (FIRB) for any of its portfolios. This section is to be read in conjunction with the Risk Management paragraph of the Annual Report.

ING Bank applies the Advanced Internal Ratings Based (AIRB) approach on the majority of its significant portfolios that contain credit risk in accordance with the approvals granted by ECB and various local regulators, as required. The AIRB approach is permitted by the Regulator if there are regulatory approved rating models (PD, EAD and LGD) in place and if the (local) management understands and uses these rating models (Basel Use Test) in their credit decision making processes. However, a small portion of the portfolio remains that is subject to the Standardised Approach (SA). The majority of SA portfolios at ING Bank relate to subsidiaries where the home regulator does not have a robust AIRB framework or requirement. Depending on the regulatory landscape, ING will continue to explore opportunities to transition additional portfolios from SA to AIRB.

The AIRB and SA approaches are explained in more detail in the Credit Risk Measurement section of the Risk Management paragraph. An analysis on the AIRB and SA portfolios and accompanying tables is provided in the SA and AIRB Approach sections of Pillar III.

CRR/CRD IV introduced an additional regulatory capital charge for material increases in the credit valuation adjustment (CVA), the market price of the counterparty credit risk of derivatives. In particular, as credit spreads of ING Bank's counterparties increase, CVA will increase as well and ING Bank will incur a loss. ING Bank follows the standardised approach for calculation of the capital charge to cover CVA Risk (CVA Capital) in accordance with the CRR/CRD IV. The scope of the products and counterparties that the CVA Capital charge is applied to also follows those regulations.

ING Bank uses the AIRB and the Internal Assessment Approach (IAA) for liquidity lines provided to Asset Backed Commercial Paper programmes and this is explained in more detail in the securitisation section.

Exposure classes

The Basel Accord has developed the concept of 'Exposure Classes'. These are essentially groupings of credit risks associated with a common obligor type or product type. For the AIRB and SA, most of the exposure classes have subcategories.

- **Central Governments & Central Banks** (hereafter **Sovereigns**) include Sovereign Government entities, Central Banks, CRR/CRD IV recognized Local / Regional Authorities and Public Sector entities as well as Supranational Organisations;
- **Institutions** include Commercial Banks and non-Bank Financial Institutions;
- **Corporates** include all legal entities, that are not considered to be Governments, Institutions or Retail; and
- **Retail** includes the following classes:
  - **Retail – Secured by immovable property non-SME** (hereafter **Secured by Residential Mortgages**) includes all retail loans which are covered by residential properties
  - **Retail – Secured by immovable property SME** (included in most tables with **Other Retail**) includes all retail loans which are covered by commercial properties.
  - **Retail Other** includes all other retail credit obligations related to Retail SMEs (such as partnerships and one-man businesses) and private individuals (such as consumer loans, car loans and credit cards). Under these exposure class definitions, it is possible for a private individual to be included under both Secured by Res. Mortgage and Retail Other.

In the table below, the CRR categories for the AIRB and SA approach are given and are mapped to the ING Bank exposure classes. The CRR is the translation of the Basel Accords into the European and national regulations.

CRR exposure classes[1]	ING Bank exposure class classification
AIRB	
Central governments and central banks	Sovereigns
Institutions	Institutions
Corporates – Specialised lending	Corporates
Corporates – SME	Corporates
Corporates – Other	Corporates
Retail – Secured by immovable property SME	Other Retail
Retail – Secured by immovable property non-SME	Secured by Res. Mortgage
Retail – Other SME	Other Retail
Retail – Other non-SME	Other Retail
Securitisations	Securitisations
SA	
Central governments or central banks	Sovereigns
Regional governments or local authorities	Sovereigns
Public sector entities	Sovereigns
Multilateral development banks	Sovereigns
International organisations	Sovereigns
Institutions	Institutions
Corporates	Corporates
Retail	Other Retail
Exposures secured by mortgages on commercial immovable property	Secured by commercial real estate
Exposures secured by mortgages on residential property	Secured by residential property
Exposures in default	All [2]

1 Exposure classes not applicable to ING are not listed in the table, and not taken up on the tables in the disclosures.
2 The SA exposure class 'Exposures in default' is mapped to the ING exposure class in which the exposure would have been if it was performing.

In the tables below an overall picture is given of the ING Bank portfolio per exposure class, after which a breakdown per exposure class is given segmented by geography, industry and maturity. The segmentation on Securitisations is provided in the Securitisation chapter. Compared to the Pillar III section of 2015, new templates have been added in accordance with EBA Pillar III disclosure requirements. A separate section for counterparty risk has been added. In some tables where a separation of actual AIRB and SA exposure classes is not provided, mapping of SA exposure classes presented in above tables has been used. This approach has been followed to preserve continuity with past annual disclosures.

Credit risk exposure (based on internal exposure classes)

The table below shows the total READ and RWA for ING Bank by internal defined exposure types for both the SA and AIRB portfolio per exposure class for Lending, Investment and Money Market. Counterparty Credit Risk is included in the table.

Additional Pillar III information - continued

Model approaches per exposure class

	Sovereigns		Institutions		Corporate		Secured by Res. Mortgage		Other Retail		Total 2016		Total 2015	
	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA
AIRB approach														
On-balance	91,045	5,215	39,386	7,082	210,673	100,281	274,321	40,809	26,494	13,455	641,918	166,841	632,066	158,568
Off-balance	8,409	206	5,021	1,383	70,871	28,883	7,981	619	8,820	2,380	101,102	33,472	101,247	31,480
Securities Financing	191	5	11,265	831	2,818	310					14,275	1,146	15,741	1,503
Derivatives	2,259	272	30,384	3,424	11,207	5,486			24	11	43,874	9,192	45,094	10,415
Total AIRB	101,904	5,698	86,055	12,720	295,569	134,959	282,302	41,428	35,339	15,846	801,169	210,651	794,148	201,967
SA approach														
On-balance	2,464	2,181	2,222	484	10,853	9,084	7,775	3,412	9,618	6,673	32,931	21,834	30,460	19,824
Off-balance	0	0	11	7	1,399	1,287	83	63	2,097	1,540	3,590	2,897	3,270	2,544
Securities Financing					0	0					0	0	45	41
Derivatives			565	280	247	251			3	3	815	534	672	343
Total SA	2,464	2,181	2,797	771	12,499	10,622	7,858	3,475	11,718	8,216	37,337	25,265	34,447	22,752
SEC AIRB														
On-balance											6,097	755	6,854	1,780
Off balance											827	87	1,276	124
Total Sec IRB											6,924	842	8,130	1,904
Total Bank	**104,368**	**7,879**	**88,853**	**13,491**	**308,068**	**145,581**	**290,161**	**44,903**	**47,056**	**24,061**	**845,430**	**236,757**	**836,726**	**226,623**
CVA (SA portfolio)				13		0						14		20
CVA (AIRB portfolio)		28		2,973		565						3,567		4,985
Total CVA		**28**		**2,987**		**566**						**3,581**		**5,005**
Total Bank including CVA	**104,368**	**7,907**	**88,853**	**16,478**	**308,068**	**146,147**	**290,161**	**44,903**	**47,056**	**24,061**	**845,430**	**240,339**	**836,726**	**231,628**

Excludes equities and ONCOA.
Default Fund Contribution to Central Clearing Parties is included under exposure classes Institutions and Corporate.

The ING Bank portfolio falls for 89% under the AIRB approach and for 11% under SA in terms of RWA (excl. CVA RWA). The total portfolio increased in 2016 by EUR 8.7 billion (2015: EUR 46.4 billion) in READ and also by EUR 8.7 billion (2015: EUR 4.9 billion) in RWA. The increase in READ was mainly a result of growth witnessed in the Wholesale Banking and Challenger & Growth portfolios while RWA growth was driven by implementation of model updates apart from the portfolio growth.

Improvements in risk profile were observed in the mortgages (especially in the Netherlands), Real Estate Finance and Corporate & FI Lending portfolios. These improvements were offset by deterioration of the credit quality of some specific portfolios, notably shipping, and the direct and indirect negative effects of continued low oil and other commodity prices. Despite the imbalances in emerging economies and financial markets which continued in 2016, ING's overall risk profile improved during the year leading to decline in RWA in the banking book. FX rates fluctuated over quarters, but over the year FX movements had a small impact in READ and RWA.

However, these declines were more than compensated by the various model updates in the Netherlands and Belgium. Also, some methodology changes implemented for regulatory compliance further contributed to the RWA increase. These two in total contributed to a relatively higher increase in RWA compared to READ.

SA portfolio increase over the year was mainly due to the shift of the Dutch Healthcare portfolio from AIRB to SA approach. In addition to this development, rating downgrades for Turkey and Poland contributed to a higher increase in RWA compared to READ since these two countries form majority of the SA portfolio.

Additional Pillar III information - continued

Sovereigns credit risk disclosure

The table below presents the READ and RWA (excl. CVA RWA), segmented by relevant factors for the exposure class ‘Sovereigns’. The figures per geography for each exposure class are based on the country of residence of the obligor.

Sovereigns – credit risk disclosure in READ and RWA

		READ			RWA		
		2016	2015	Change in %	2016	2015	Change in %
Sovereigns	**Total per rating**	**104,368**	117,789	**-11%**	**7,879**	8,297	**-5%**
	Performing	**104,368**	117,771	**-11%**	**7,879**	8,229	**-4%**
	Non-performing	**0**	18	**-100%**	**0**	68	**-100%**
			0			0	
Sovereigns	**Geography/business units**	**104,368**	117,789	**-11%**	**7,879**	8,297	**-5%**
	Africa	**560**	313	**79%**	**58**	180	**-67%**
	America	**5,159**	3,490	**48%**	**586**	18	**3092%**
	Asia	**4,242**	6,868	**-38%**	**327**	428	**-23%**
	Australia	**2,679**	3,061	**-12%**	**166**	0	**0%**
	Europe	**91,729**	104,057	**-12%**	**6,741**	7,671	**-12%**
			0			0	
Sovereigns	**Europe**	**91,729**	104,057	**-12%**	**6,741**	7,671	**-12%**
	Netherlands	**17,590**	25,205	**-30%**	**233**	224	**4%**
	Belgium	**14,658**	14,691	**0%**	**158**	147	**8%**
	Germany	**22,889**	24,364	**-6%**	**0**	64	**-100%**
	Other Europe	**36,591**	39,797	**-8%**	**6,350**	7,236	**-12%**
			0			0	
Sovereigns	**Product Type**	**104,368**	117,789	**-11%**	**7,879**	8,297	**-5%**
	Bond Investments	**67,823**	70,427	**-4%**	**4,337**	4,373	**-1%**
	Revolving	**13,705**	23,983	**-43%**	**624**	776	**-20%**
	Money Market	**15,644**	15,128	**3%**	**2,306**	2,270	**2%**
	Term Loans	**4,582**	4,414	**4%**	**306**	390	**-21%**
	Derivatives	**2,259**	2,229	**1%**	**272**	262	**4%**
	Other	**355**	1,609	**-78%**	**34**	225	**-85%**
Sovereigns	**PD Bands**	**104,368**	117,789	**-11%**	**7,879**	8,297	**-5%**
	<0.05%	**84,277**	91,755	**-8%**	**1,036**	283	**266%**
	0.05% to 0.5%	**19,195**	25,532	**-25%**	**6,141**	7,385	**-17%**
	0.5% to 5%	**451**	276	**63%**	**49**	195	**-75%**
	5% to 10%	**438**	63	**594%**	**643**	10	**6346%**
	10% to 20%	**8**	43	**-82%**	**9**	30	**-69%**
	20% to 50%	**0**	103	**-100%**	**0**	325	**-100%**
	more than 50%	**0**	18	**-100%**	**0**	68	**-100%**
Sovereigns	**LGD Bands**	**104,368**	117,789	**-11%**	**7,879**	8,297	**-5%**
	<10%	**1,519**	1,107	**37%**	**69**	41	**70%**
	10% to 20%	**628**	715	**-12%**	**72**	42	**73%**
	20% to 30%	**3,708**	3,436	**8%**	**8**	15	**-49%**
	30% to 40%	**95,038**	106,644	**-11%**	**5,794**	5,241	**11%**
	40% to 50%	**3,200**	5,689	**-44%**	**1,325**	2,443	**-46%**
	50% to 60%	**-**	-	**-**	**-**	-	**-**
	more than 60%	**274**	197	**39%**	**611**	515	**19%**

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.

The majority of the sovereign exposure comprises of investments in bonds issued by European sovereigns. Next to Germany, the Netherlands and Belgium a large part of sovereign exposure is observed in Poland, Luxembourg and France. The main driver for the READ decrease in the Netherlands was a decline in the central bank deposits of EUR 7.4 billion) at the Dutch Central Bank (also visible in the <0.05% PD bucket), which carries a 0% risk weight therefore not impacting the RWA.

The main driver for the RWA increase in America (EUR 0.6 billion) and Australia (EUR 0.2 billion) was the implementation of the EU equivalence regulation, which asserts that a 0% risk weight no longer applies to sovereigns outside the EU that have supervisory and regulatory arrangements in place that are at least equivalent to those applied in the EU.

Given that a major purpose of sovereign credit exposure is to support high quality liquid assets, it is consistent that most exposures are in the best quality risk bands. Due to the sovereign rating upgrade for Ukraine the exposure moved from the 20% to 50% bucket to the 5% to 10% PD Band bucket. Exposures in Ukraine increased during the year increasing the 5% to 10% PD Band bucket further.

The declined RWA in the 0.05% to 0.5% PD Band bucket is mainly attributable to the Government of the Republic of Italy (EUR 1.2 billion RWA) and Bank of Japan (EUR 0.2 billion RWA), which was driven by a decrease in READ (EUR 2.6 billion and EUR 3.4 respectively).

Institutions credit risk disclosure

The table below presents the READ and RWA (excl. CVA RWA), segmented by relevant factors for the exposure class 'Institutions'. The figures per geography for each exposure class are based on the country of residence of the obligor.

Institutions – credit risk disclosure in READ and RWA

				READ			RWA
		2016	2015	Delta %	2016	2015	Delta %
Institutions	**Total per rating**	**88,853**	107,372	-17%	**13,491**	20,683	-35%
	Performing	**88,530**	107,017	-17%	**13,483**	20,477	-34%
	Non-performing	**323**	354	-9%	**8**	206	-96%
Institutions	**Geography/business units**	**88,853**	107,372	-17%	**13,491**	20,683	-35%
	Africa	**126**	435	-71%	**79**	515	-85%
	America	**14,334**	17,701	-19%	**2,202**	3,249	-32%
	Asia	**9,045**	12,274	-26%	**1,640**	2,878	-43%
	Australia	**1,730**	1,495	16%	**236**	216	9%
	Europe	**63,618**	75,466	-16%	**9,334**	13,827	-32%
Institutions	**Europe**	**63,618**	75,466	-16%	**9,334**	13,827	-32%
	Netherlands	**7,317**	7,845	-7%	**1,252**	1,775	-29%
	Belgium	**9,107**	8,601	6%	**1,734**	1,667	4%
	Germany	**2,072**	3,259	-36%	**303**	430	-30%
	Other Europe	**45,122**	55,761	-19%	**6,046**	9,955	-39%
Institutions	**Product Type**	**88,853**	107,372	-17%	**13,491**	20,683	-35%
	Derivatives	**29,579**	32,056	-8%	**3,531**	5,371	-34%
	Bond Investments	**15,027**	18,645	-19%	**1,273**	1,623	-22%
	Revolving	**11,678**	18,144	-36%	**2,877**	4,575	-37%
	Securities Financing	**11,017**	13,113	-16%	**779**	1,387	-44%
	Term Loans	**12,952**	13,794	-6%	**3,276**	4,200	-22%
	Other	**8,601**	11,620	-26%	**1,755**	3,526	-50%
Institutions	**PD Bands**	**88,853**	107,372	-17%	**13,491**	20,683	-35%
	<0.05%	**19,296**	17,386	11%	**2,396**	2,346	2%
	0.05% to 0.5%	**64,487**	84,313	-24%	**8,884**	15,367	-42%
	0.5% to 5%	**4,647**	4,987	-7%	**2,097**	2,393	-12%
	5% to 10%	**11**	91	-88%	**12**	67	-83%
	10% to 20%	**82**	137	-40%	**92**	262	-65%
	20% to 50%	**7**	104	-93%	**3**	43	-92%
	more than 50%	**323**	354	-9%	**8**	206	-96%
Institutions	**LGD Bands**	**88,853**	107,372	-17%	**13,491**	20,683	-35%
	<10%	**23,745**	26,663	-11%	**1,211**	1,534	-21%
	10% to 20%	**7,005**	9,584	-27%	**843**	1,346	-37%
	20% to 30%	**3,205**	6,012	-47%	**608**	1,372	-56%
	30% to 40%	**52,959**	55,941	-5%	**9,373**	11,058	-15%
	40% to 50%	**71**	276	-74%	**53**	195	-73%
	50% to 60%	**1,226**	5,147	-76%	**772**	3,037	-75%
	more than 60%	**641**	3,748	-83%	**631**	2,142	-71%

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.

The decrease in READ was mainly driven by the implementation of the EU equivalence regulation, which shifted EUR 15.0 billion READ and EUR 5.9 billion RWA from exposure class Institutions to Corporates. Under this change, the resulting exposure class and correlation will be determined by the country and customer type, meaning that some banks will be treated as Corporates rather than Institutions. The shift was witnessed across the geographies within this portfolio. The biggest impact of this change in absolute numbers was witnessed in America, Asia and Other Europe and in the 50%-60% LGD band.

Additionally, the READ decrease was driven by a decline in revolving loans and bond investments, which was spread over several countries. As Turkey and Russia carry a relatively high risk weight, the volume decrease of the revolving loans portfolio in both countries impacted RWA considerably, while the volume decreases in the Netherlands, US and China impacted RWA to a lesser extent, due to their relatively low risk weight. The decrease in bond investments is mainly witnessed in Spain and Norway.

The READ and RWA decrease in the more than 60% bucket is mainly driven by reduced nostro exposure in Switzerland.

Additional Pillar III information - continued

Corporate credit risk disclosure

The table below presents the READ and RWA (excl. CVA RWA), segmented by relevant factors for the exposure class 'Corporates'. The figures per geography for each exposure class are based on the country of residence of the obligor.
The Industry breakdown for this table is based on the NAICS system (North American Industry Classification System).

Corporates – credit risk disclosure in READ and RWA

		READ			RWA		
		2016	2015	Delta %	2016	2015	Delta %
Corporate	**Total per rating**	**308,068**	269,558	14%	**145,581**	125,091	16%
	Performing	**300,022**	261,661	15%	**134,429**	114,457	17%
	Impaired/Non-performing	**8,046**	7,897	2%	**11,152**	10,634	5%
Corporate	**Geography/business units**	**308,068**	269,558	14%	**145,581**	125,091	16%
	Africa	**2,553**	1,654	54%	**1,735**	1,007	72%
	America	**48,956**	39,936	23%	**24,362**	19,191	27%
	Asia	**35,151**	25,601	37%	**11,392**	8,044	42%
	Australia	**5,520**	4,083	35%	**2,171**	1,556	39%
	Europe	**215,890**	198,284	9%	**105,922**	95,292	11%
Corporate	**Europe**	**215,890**	198,284	9%	**105,922**	95,292	11%
	Netherlands	**57,366**	54,324	6%	**28,669**	26,228	9%
	Belgium	**38,697**	39,083	-1%	**20,051**	15,476	30%
	Germany	**9,432**	8,284	14%	**3,552**	3,100	15%
	Rest of Europe	**110,395**	96,593	14%	**53,650**	50,488	6%
Corporate	**Industry**	**308,068**	269,558	14%	**145,581**	125,091	16%
	Natural Resources	**54,572**	48,089	14%	**23,672**	19,157	24%
	Real Estate	**48,473**	43,999	10%	**16,627**	17,676	-6%
	Transportation & Logistics	**32,317**	30,377	6%	**13,951**	12,897	8%
	Food, Beverages & Personal Care	**22,448**	24,600	-9%	**11,846**	11,509	3%
	Services	**20,633**	18,189	13%	**13,644**	10,435	31%
	Other	**129,626**	104,306	24%	**65,842**	53,417	23%
Corporate	**PD Bands**	**308,068**	269,558	14%	**145,581**	125,091	16%
	<0.05%	**10,997**	9,058	21%	**1,499**	1,239	21%
	0.05% to 0.5%	**183,109**	158,886	15%	**58,113**	49,792	17%
	0.5% to 5%	**94,849**	83,802	13%	**62,505**	50,991	23%
	5% to 10%	**4,075**	3,049	34%	**3,757**	2,877	31%
	10% to 20%	**2,736**	3,176	-14%	**3,285**	4,335	-24%
	20% to 50%	**4,256**	3,690	15%	**5,271**	5,222	1%
	more than 50%	**8,046**	7,897	2%	**11,152**	10,634	5%
Corporate	**LGD Bands**	**308,068**	269,558	14%	**145,581**	125,091	16%
	<10%	**79,490**	66,795	19%	**6,732**	4,889	38%
	10% to 20%	**32,219**	38,908	-17%	**11,264**	12,812	-12%
	20% to 30%	**54,954**	43,457	27%	**23,332**	16,322	43%
	30% to 40%	**74,699**	59,761	25%	**40,188**	31,314	28%
	40% to 50%	**41,385**	38,953	6%	**33,683**	33,286	1%
	50% to 60%	**12,980**	9,642	35%	**13,141**	10,039	31%
	more than 60%	**12,340**	12,042	3%	**17,240**	16,429	5%

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.

The increase in READ is mainly attributed to growth observed in the Structured Finance, Corporate & FI Lending, and Real Estate Finance portfolios. During the year, risk weights improved for these portfolios, partially due to increased provisions, restructuring and increased collateral.

A driver for both the READ and RWA increase is the implementation of the EU Equivalence regulation. Under this regulation, EUR 15.0 billion READ and EUR 5.9 billion RWA shifted from exposure class Institutions to exposure class Corporates.
The methodology update on SME clients also contributed to an increase in READ and RWA. Due to this change, EUR 3.7 billion in READ and EUR 1.6 billion in RWA shifted from Retail exposure class to Corporate exposure class. Besides this, an additional stand-alone increase of EUR 0.9 billion in RWA has been observed within the Corporate exposure class, which is not related to the methodology update on SME clients or the implementation of the EU Equivalence regulation.

The Natural Resources portfolio shows a deterioration in risk profile due to the difficulties faced by the Oil and Gas sector. This deterioration impacted RWA mainly in the Netherlands, United Kingdom, Switzerland, United States, and the Republic of Korea. The exposures in Africa are mainly in Structured Finance.

In addition, model updates and changes in methodology and policy further increased RWA by EUR 11.1 billion. An 35% LGD add-on for the SME Belgium and SME Netherlands LGD models was implemented, increasing RWA by EUR 6.1 billion. Furthermore the Project Finance LGD model was updated, increasing RWA by EUR 4.0 billion. In addition to these model related impacts the Dutch Healthcare portfolio was moved from AIRB approach to SA approach, increasing RWA by EUR 1.0 billion in the Netherlands.

Additional Pillar III information - continued

Retail credit risk disclosure

The table below presents the READ and RWA (excl. CVA RWA), segmented by relevant factors for the exposure class 'Retail'. The figures per geography for each exposure class are based on the country of residence of the obligor.

Retail – credit risk disclosure in READ and RWA

				READ			RWA
		2016	2015	Delta %	2016	2015	Delta %
Retail	**Total per rating**	**337,217**	333,876	1%	**68,964**	70,647	-2%
	Performing	**332,193**	327,116	2%	**62,570**	62,297	0%
	Impaired/Non-performing	**5,024**	6,760	-26%	**6,394**	8,351	-23%
Retail	**Customer Segment**	**337,217**	333,876	1%	**68,964**	70,647	-2%
	Private Persons	**315,311**	308,145	2%	**60,270**	59,982	0%
	Small Mid-sized Enterprises	**17,638**	19,377	-9%	**7,606**	8,769	-13%
	Private Banking	**3,112**	3,683	-16%	**702**	910	-23%
	Other	**1,156**	2,671	-57%	**387**	986	-61%
Retail	**Geography/business units**	**337,217**	333,876	1%	**68,964**	70,647	-2%
	Africa	**55**	88	-38%	**14**	16	-12%
	America	**166**	249	-33%	**45**	85	-47%
	Asia	**118**	171	-31%	**20**	26	-22%
	Australia	**32,948**	29,834	10%	**2,116**	2,011	5%
	Europe	**303,929**	303,534	0%	**66,769**	68,509	-3%
Retail	**Europe**	**303,929**	303,534	0%	**66,769**	68,509	-3%
	Netherlands	**135,611**	142,607	-5%	**20,635**	26,242	-21%
	Belgium	**43,535**	42,660	2%	**10,259**	8,284	24%
	Germany	**81,356**	77,107	6%	**20,920**	19,772	6%
	Rest of Europe	**43,428**	41,160	6%	**14,955**	14,211	5%
Retail	**PD Bands**	**337,217**	333,876	1%	**68,964**	70,647	-2%
	<0.05%	**28,159**	25,288	11%	**1,773**	1,521	17%
	0.05% to 0.5%	**217,248**	206,862	5%	**22,646**	20,853	9%
	0.5% to 5%	**77,923**	85,664	-9%	**29,472**	30,734	-4%
	5% to 10%	**3,253**	3,215	1%	**2,870**	2,796	3%
	10% to 20%	**3,458**	3,599	-4%	**3,394**	3,679	-8%
	20% to 50%	**1,951**	2,084	-6%	**2,293**	2,480	-8%
	more than 50%	**5,225**	7,164	-27%	**6,516**	8,584	-24%
Retail	**LGD Bands**	**337,217**	333,876	1%	**68,964**	70,647	-2%
	<10%	**116,023**	108,381	7%	**6,547**	5,362	22%
	10% to 20%	**109,066**	109,392	0%	**17,144**	17,784	-4%
	20% to 30%	**23,469**	34,637	-32%	**5,880**	9,816	-40%
	30% to 40%	**20,893**	23,761	-12%	**6,220**	6,117	2%
	40% to 50%	**18,623**	15,732	18%	**6,782**	6,319	7%
	50% to 60%	**17,129**	12,446	38%	**7,371**	6,745	9%
	more than 60%	**32,013**	29,527	8%	**19,022**	18,503	3%

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.

The decrease in RWA is mainly due to an improved risk profile, also observed in decreasing non-performing loans. The improving Dutch economy resulted in lower RWAs for mortgages. Furthermore the decline in READ in the Dutch portfolio was caused by the continued transfer of Westland Utrecht Bank (WUB) mortgages to NN Group and the run-off in the WUB mortgages portfolio.

Due to the methodology update on SME clients a shift of EUR 3.7 billion in READ and EUR 1.6 billion in RWA from Retail exposure class to Corporate exposure class is observed. The decreases were offset by model updates for Belgium mortgages, increasing RWA by EUR 1.9 billion. This was mainly caused by the implemented macro-prudential add-on for Belgium mortgages Additionally, growth in the residential mortgages portfolio, mainly observed in Germany, Australia, and Poland, increased RWA by an additional EUR 0.9 billion RWA. The increase of RWA in the Rest of Europe bucket is mainly a result of the ING Direct Spain mortgage LGD model update, increasing RWA by EUR 0.7 billion.

LTV Residential Mortgages per country

The table below shows the weighted average Loan-to-Value (LTV) ratio of the ING Bank Residential Mortgage portfolio per country. All LTV figures are based on market values. In most portfolios, ING uses house price developments to index these market values. In several markets, customers provide additional collateral or (government sponsored) mortgage insurance programs are used. None of these additional covers are included in the LTV figures.

Loan-to-Value Residential Mortgages per country

	2016		2015	
	LTV	READ	LTV	READ
Netherlands	78%	124,368	83%	129,814
Germany	70%	72,671	70%	69,967
Belgium, Luxembourg	64%	32,395	72%	30,760
Australia	61%	32,901	62%	29,875
Spain	62%	11,750	64%	10,453
Italy	58%	8,220	59%	7,673
Poland	62%	5,325	61%	4,626
Turkey	57%	1,357	57%	1,472
Romania	69%	1,173	68%	871
Total	71%	290,161	74%	285,510

The improvement of the LTV ratio is mainly caused by improved housing markets in the Benelux region. The economic environment and the housing market in the Netherlands continued to improve in 2016. The average Dutch house price increased from EUR 227,000 in December 2015 to EUR 236,000 in December 2016, which led to an improved LTV through indexation. The LTV in Belgium improved due to the change in the LTV calculation, which now takes indexation into account instead of LTV at origination. The improvement in LTV in Spain is also attributable to the improved housing market, which is again reflected through indexation. The increased READ change was due to growth in mortgage portfolios mainly in Australia, Germany, Poland, Spain, and Italy, which was offset by decreased exposures in the Netherlands.

AIRB models per exposure class

Within ING Bank internal Basel models are used to determine the PD, EAD and LGD for regulatory and economic capital. Bank wide, ING Bank has implemented over 80 models, including various sub models for specific portfolios. A model may be applicable for various exposure classes. In the table below, the number of significant PD, EAD, and LGD models per asset class are shown. Additionally a description of the model and methodology are provided per exposure class. The asset classes presented in this table do not align with the EBA Exposure classes as the scope has been redefined to better fit the scope of the model. SME exposure for example can be part of both Corporate exposures as Other Retail depending on the size of the SME.

AIRB models and methodology

Asset classes measured in EUR billion	READ for associated Asset class	% of Total EAD	RWAs for associated Asset class	% of Total RWA	Model Type	Number of significant models	Model description and methodology	Number of years of data
Sovereigns	95.62	11.8%	5.32	2.5%	PD	1	The Government Central PD model is a fully statistical model, containing only quantitative risk drivers.	>7 years
					LGD	1	The LGD model for Sovereigns and other governments is an unsecured recovery model built on assessment of structural factors that influence a country's performance.	>7 years
					EAD	1	The Low Default EAD model is a hybrid model that pools default information from multiple low default portfolios, including central governments and central banks.	>7 years
Government related entities	12.84	1.6%	2.35	1.1%	PD	1	The government related entities PD model is expert based and assigns ratings based on stand-alone credit fundamentals as well as degree of government support.	>7 years
					LGD	1	The LGD model for Government related entities is a secured/unsecured recovery model built on assessment of stand-alone fundamentals as well as geography.	>7 years
					EAD	1	The Low Default EAD model is a hybrid model that pools default information from multiple low default portfolios, including government related entities.	>7 years

Additional Pillar III information - continued

AIRB models and methodology - continued

Financial institutions	81.72	10.1%	14.90	7.0%	PD	3	The main PD model applied is Bank Commercial based upon financial, qualitative and country information. Other PD models for different types of financial institutions are built using a similar framework, but are more specialised for the specific characteristics of the financial institution.	>7 years
					LGD	1	This LGD model was developed based on expert judgement, supported by limited internal and external data. The developed LGD model is based on ultimate recovery rates.	>7 years
					EAD	1	The Low Default EAD model is a hybrid model used that pools default information from multiple low default portfolios, including financial institutions.	>7 years
Corporates - Specialized lending	83.75	10.4%	29.77	14.1%	PD	3	Expert based scorecards Models predict a rating for Commercial Property Finance, Project Finance, Trade and Commodity Finance.	>7 years
					LGD	3	Hybrid LGD Models predict loss given default for Commercial Property Finance, Project Finance, Trade and Commodity Finance.	>7 years
					EAD	1	There is a dedicated EAD model for commercial property finance due to the specificities of this portfolio.	>7 years
Large Corporates	141.63	17.5%	67.09	31.7%	PD	1	The Corporate Large model is a global hybrid model build on 13 years of data, including balance sheet and qualitative information as well as country risk and parent influence.	>7 years
					LGD	1	Loss Given Default for Large corporates are predicted by a dedicated hybrid LGD model using both no loss rates as well as secured/unsecured recovery rates.	>7 years
					EAD	1	The Low Default EAD model is a hybrid model used that pools default information from multiple low default portfolios, including large corporates.	>7 years
SME	64.81	8.0%	37.10	17.5%	PD	6	The SME PD models are estimated statistically and directly predict a PD. Most of these models are developed locally to reflect regional/jurisdiction circumstances.	>7 years
					LGD	6	Local statistical models or hybrid models use various data inputs on cure behaviour as well as cost and recovery.	>7 years
					EAD	6	Local statistical models that use various data inputs, including product type and geography.	>7 years
Secured by Res. Mortgage	276.29	34.2%	39.64	18.7%	PD	7[1]	The PD mortgages models are all developed statistically and include borrower specific information, payment behaviour and product related information. These are statistical models that directly predict a PD.	>7 years
					LGD	7	Local statistical models or hybrid models use various data inputs on cure behaviour as well as cost and recovery	>7 years
					EAD	7	Local statistical models that use various data inputs, including product type and geography.	>7 years
Private Individuals	30.10	3.7%	12.36	5.8%	PD	4[1]	The PD models for private individuals are all developed statistically and include borrower specific information, payment behaviour and product related information. These are statistical models that directly predict a PD.	>7 years
					LGD	4	Local statistical models use various data inputs on cure behaviour as well as cost and recovery.	>7 years
					EAD	4	Local statistical models that use various data inputs, including product type and geography.	>7 years
Other[1]	21.27	2.6%	2.93	1.4%	Other		(Covered Bonds, Structured assets)	
Total	**808.03**	**100%**	**211.46**	**100%**				

1 Belgian PD models provide a rating at a customer level, covering both secured and unsecured loans.
Excludes Securitisations, CVA RWA, Equities and ONCOA.

Credit risk exposure excluding Counterparty Credit Risk (based on EBA templates)

In this section on Credit Risk the tables shown represent the Net Values of on- and off-balance sheet exposures as per EBA definitions. The scope of these tables are the Credit Risk Exposures excluding the Counterparty Credit Risk exposures (within the Risk Management Paragraph these are named Pre-Settlement exposures), Securitisations, Equity positions, CVA RWA and ONCOA items. The EBA has implemented a view on credit risk exposures different from the internal ING view.

Additional Pillar III information - continued

The gross carrying value refers to the original exposure pre-credit conversion factors for the on- and off-balance sheet items. The net carrying values correspond to the original exposure (on and off-balance) pre-credit conversion factors corrected for allowances, impairments and provisions. In the table on Credit quality of exposures by exposure class and instruments, the gross carrying values and the net carrying values are provided .
The next four tables the Net Carrying Values are broken down per exposure class, Geography, Counterparty Type and Maturity.

The table below displays the net carrying values at the end of 2015 and as per end of 2016 per AIRB and SA exposure classes. Next to it the average net carrying value per the same exposure classes over the past 4 quarters is provided. This average net carrying value is based upon the last 4 quarter end observations in the year 2016.

EU CRB-B: Total and average net amount of exposures

AIRB Approach	Net carrying value of exposures at the end of 2016	Average net exposures over the period	Net carrying value of exposures at the end of 2015
Central governments or central banks	225,826	222,210	180,961
Institutions	100,954	106,058	120,191
Corporates	409,510	387,659	350,343
Of Which: Specialised lending	142,754	132,616	120,709
Of Which: SME	34,060	34,200	36,003
Retail	325,737	325,014	324,427
Secured by real estate property	296,084	294,992	293,514
SMEs	10,916	11,391	12,227
Non-SMEs	285,168	283,601	281,287
Qualifying Revolving			
Other Retail	29,653	30,022	30,913
SMEs	5,907	6,622	8,108
Non-SMEs	23,745	23,399	22,805
Total AIRB approach	**1,062,027**	**1,040,941**	**975,921**
SA approach			
Central governments or central banks	3,801	3,807	3,812
Regional governments or local authorities	274	245	227
Institutions	2,281	2,438	4,917
Corporates	12,468	14,002	13,456
of which: SMEs	2,865	3,408	3,746
Retail	14,831	14,783	14,533
of which: SMEs	4,492	4,815	5,236
Secured by mortgages on immovable property	15,991	14,278	11,665
of which: SMEs	2,960	2,910	2,702
Exposures in default	481	479	424
Total SA approach	**50,127**	**50,032**	**49,033**
Total	**1,112,154**	**1,090,972**	**1,024,954**

The total exposure increased by EUR 87.2 billion in Net Carrying value mainly from increased exposures and higher limits in the AIRB portfolio (EUR 86.1 billion), and to a lesser extent from the SA portfolio (EUR 1.1 billion). A significant part of the increased limits were unadvised and uncommitted. Within both the AIRB and SA portfolios, the highest exposures can be found towards corporates, retail, and secured by real estate property. The exposure within institutions decreased in 2016 mainly driven by the implemented EU equivalence regulation in 2016, shifting exposures from the institutions to corporates exposure class. The growth of the Corporates portfolio is observed in the Structured Finance, Corporate & FI Lending, and Real Estate portfolios.
The majority of the growth in the SA portfolio is related to the move of the Dutch Healthcare portfolio from the AIRB to the SA approach. The Retail Mortgage exposures in Turkey, Poland and Romania contribute to the growth of the 'Secured by Mortgages on Immovable Property' exposure class.

Exposure by geography

The table below presents a breakdown of net carrying value of exposures and their totals by geographical areas and exposure classes under the AIRB and SA approaches.

Additional Pillar III information - continued

EU CRB-C: Geographical breakdown of exposures

	Net carrying value									
	Europe	Netherlands	Belgium & Luxembourg	Germany	Other Europe	America	Africa	Asia	Australia	Total
Central governments or central banks	202,241	44,146	45,040	70,937	42,118	10,194	586	8,748	4,057	225,826
Institutions	54,573	5,132	10,748	2,210	36,483	11,908	1,234	27,738	5,501	100,954
Corporates	272,448	68,230	59,972	12,991	131,255	64,620	4,309	63,924	4,209	409,510
Retail	292,647	140,662	46,784	83,435	21,766	178	58	127	32,728	325,737
Total AIRB approach	**821,909**	**258,170**	**162,544**	**169,573**	**231,622**	**86,900**	**6,187**	**100,537**	**46,494**	**1,062,027**
Central governments or central banks	3,801	2			3,799					3,801
Regional governments or local authorities	274	1	4		269					274
Institutions	2,229	2,060	36	2	132	43	1	6	2	2,281
Corporates	12,069	995	817	350	9,907	1	0	391	7	12,468
Retail	14,825	140	114	1	14,569	3	3	0	0	14,831
Secured by mortgages on immovable property	14,473	3,247	0	2	11,224	0		45	1,473	15,991
Exposures in default	474	41	129	0	305	0	0	0	7	481
Total SA approach	**48,145**	**6,486**	**1,101**	**354**	**40,204**	**48**	**4**	**442**	**1,489**	**50,127**
Total	**870,054**	**264,656**	**163,645**	**169,928**	**271,826**	**86,947**	**6,191**	**100,979**	**47,983**	**1,112,154**

The Central Governments or Central Banks exposure for ING is mostly concentrated within Europe. The majority of the exposure comprises uncommitted/unadvised limits.

The SA portfolio comprises of Secured by Mortgages on Immovable Property, Retail, and Corporates exposure class. These exposures are mainly observed in Poland and Turkey with some Commercial Property Finance in Australia.

Exposure by industry or counterparty type

The following table provides a breakdown of the net carrying values by industry or counterparty type per exposure class, both AIRB and SA, ordered by the size of the combined AIRB and SA exposure. These industry sector or counterparty types are based upon the European NACE codes (Nomenclature statistique des Activités économiques dans la Communauté Européenne) and reflect the main activity of the counterparty. The industry or counterparty type allocation is based exclusively on the nature of the immediate counterparty. The classification of the exposures incurred jointly by more than one obligor should be done on the basis of characteristics of the obligor that was the more relevant, or determinant, for the institution to grant the exposure.

Additional Pillar III information - continued

EU CRB-D: Concentration of exposures by industry or counterparty types

	Net Carrying Value						
	Activities of households as employers and own use	Wholesale and retail trade	Financial and insurance activities	Public administration and defence, compulsory social security	Manufac turing	Other Services	Total
Central governments or central banks			85,935	136,268	0	3,623	225,826
Institutions			89,080	8,666	20	3,189	100,954
Corporates	74	81,424	49,995	0	85,703	192,313	409,510
Retail	273,566	5,598	1,548	12,989	8,252	23,783	325,737
Total AIRB approach	**273,640**	**87,022**	**226,558**	**157,923**	**93,975**	**222,908**	**1,062,027**
Central governments or central banks			2,699	1,100		2	3,801
Regional governments or local authorities				271		3	274
Institutions			2,281				2,281
Corporates	283	3,449	406		4,968	3,361	12,468
Retail	5,727	2,241	305	915	1,878	3,765	14,831
Secured by mortgages on immovable property	6,415	1,281	104	64	1,525	6,602	15,991
Exposures in default	263	74	2	3	50	90	481
Total SA approach	**12,687**	**7,045**	**5,797**	**2,353**	**8,422**	**13,824**	**50,127**
Total	**286,328**	**94,067**	**232,355**	**160,275**	**102,397**	**236,732**	**1,112,154**

The table shows the industry or counterparty types that represent at least 5% of the total net carrying value. In total the top 5 Counterparty or Industry types makes up 79% of the exposure. The other counterparty or industry types exposures are grouped under the Other Services. The way of allocating exposures to these counterparty sectors, explains largely the above table. Manufacturing is logically mostly found in the Corporate Exposure class and the Financing activities in the Institutions and Sovereign exposure classes.

The AIRB portfolio is mostly concentrated in the Financial and Insurance Activities, Public Administration and Defence and Activities of Households as Employers industries. This last industry or counterparty type refers to both households as employers and to the production and services to households for own use. In this case is the mortgage book underlying that is classified in this category.
The SA portfolio is predominantly spread in Manufacturing, Wholesale and Retail Trade, Financial and Insurance Activities, Human Health Services and Social Work Activities, and Activities of Households as Employers.

The Retail portfolio holds most exposures within the Activities of Households as Employer, which is related to Residential Mortgages and Loans (Traditional Residential Mortgages and Interest-Only Mortgage). The Central Governments or Central Banks exposure class holds most exposures within the industry types Financial and Insurance Activities and Public Administration and Defence.

Within the SA Secured by Mortgages on Immovable Property exposure class, most exposures can be found in the Manufacturing, Wholesale and Retail Trade, Human Health Services and Social Work Activities, and Activities of Households as Employers industries.
The Retail portfolio shows the highest exposures within Manufacturing, Wholesale and Retail Trade, Professional, Scientific and Technical Activities, and Activities of Households as Employers industries.
The Corporates exposure class holds most exposures within the industry types Manufacturing, Wholesale and Retail Trade, and Human Health Services and Social Work Activities.

Exposure by maturity
The table below presents a breakdown of the net carrying value by residual maturity, for both AIRB and SA exposure classes.

Additional Pillar III information - continued

EU CRB-E: Maturity of exposures

	Net carrying value				
	<= 1 year	> 1 year < 5 years	>= 5 years	No stated maturity	Total
Central governments or central banks	110,087	62,072	53,668		225,826
Institutions	66,600	19,726	14,628		100,954
Corporates	163,364	168,364	77,781		409,510
Retail	14,552	38,019	273,165		325,737
Total AIRB approach	**354,603**	**288,181**	**419,243**		**1,062,027**
Central governments or central banks	3,136	628	37		3,801
Regional governments or local authorities	2	245	27		274
Institutions	2,170	108	3		2,281
Corporates	4,859	6,356	1,252		12,468
Retail	5,422	6,772	2,637		14,831
Secured by mortgages on immovable property	2,330	3,677	9,985		15,991
Exposures in default	266	29	187		481
Total SA approach	**18,186**	**17,814**	**14,127**		**50,127**
Total	**372,789**	**305,996**	**433,370**		**1,112,154**

The majority of the exposures within the AIRB portfolio are observed in the lower than 1 year and higher than 5 years maturity buckets. The Retail portfolio consists mostly of residential mortgages, which typically have longer maturities. The exposures within the Corporates and Central Governments or Central Banks exposure classes are shorter compared to the Retail portfolio, which results in more exposure within the lower maturity buckets.
For Central Governments or Central Banks this is mostly in the less than 1 year buckets in Money Market Lending and to a lesser extent to Revolving Loans. Exposures in the other two buckets are predominantly seen in the Bond Investment products. Revolving Loans and Guarantees make up the majority of the exposure seen in the first maturity bucket of the Corporate exposure class, whereas Term Loans and Revolvers are the dominant product types in the longer maturity buckets.

For the SA portfolio, most exposures within both the Retail and Corporates exposure classes can be found in the first two maturity buckets. With Mortgages as the main underlying exposure the Secured by Mortgages and Immovable Property is predominantly seen in the longer maturity.

Advanced Internal Rating Based approach (AIRB)

The AIRB approach has five main elements that drive the CRR/CRD IV 'risk-based approach' for the determination of RWA and EL. The elements are: the Exposure Class, Probability of Default (PD), Regulatory Exposure at Default (READ), Loss Given Default (LGD) and Maturity (M). For further details on these elements please see the 'Risk Management' part of the consolidated annual accounts.

AIRB credit exposures by exposure class and PD range

The table below provides an overview of the main parameters used for the calculation of capital requirements for AIRB models. The on-and off balance sheet exposures are shown by the four main exposure classes and according to PD grades to enable an assessment of the credit quality of the portfolio. The exposures are bucketed in PD Scales prescribed by EBA. This bucketing of PD scales is not used within ING. The ING Bank's Probability of Default (PD) rating models are based on a 1-22 scale, which corresponds to the same rating grades that are assigned by external rating agencies. Risk Ratings (PD) for performing loans (1-19) are calculated in ING Bank with regulatory approved models. Risk Ratings for non-performing loans (20-22) are set on the basis of an approved discretionary methodology by the Global or Regional Restructuring unit. Overall the risk weights of the ING portfolio are a mixture of low risk weights for Sovereigns and Residential Mortgages combined with higher risk weights for Corporates. Many central governments exposure receive a zero risk weight due to the high quality rating (permanent partial use of the SA rules). Mortgages generally benefit from large levels of (over) collateralisation.

Additional Pillar III information - continued

As of July 2014, PD values of the ING Bank Master Scale are adjusted using both internal and external default data covering the period from 2005 until 2013. External data from Standard & Poor's is used. Internal default experience is reflected for a better fit of ING Bank's portfolios compared to the predominantly US-based Standard & Poor´s data.

The average Credit Conversion Factor CCF (the conversion of off-balance sheet exposure into credit exposure equivalents) is calculated as the off-balance exposure post-crm and post-ccf over the original off-balance sheet exposure. The CCF's percentages are applied on product or transaction level and are regulatory driven.

EU CR6: IRB- Credit risk exposures by exposure class and PD range

	PD Scale	Original on-balance sheet gross expo-sure	off-balance sheet expo-sures pre-ccf	Average CCF	EAD post crm and post-ccf	Average pd	Number of obligors	Avera ge LGD	Average matu-rity	RWA	RWA density	EL	Value adjust-ments and provi-sions
Central Governments and Central Banks	0.00 to < 0.15	87,684	131,631	6%	95,367	0.0%	1,212	30%	2.63	3,509	4%	4	-2
Central Governments and Central Banks	0.15 to < 0.25	570	630	34%	785	0.2%	30	36%	1.98	216	28%	1	
Central Governments and Central Banks	0.25 to < 0.50	2,242	2,150	9%	2,428	0.3%	42	42%	1.52	1,056	44%	3	-1
Central Governments and Central Banks	0.50 to <0.75			0%		0.0%	0	0%	-		0%		
Central Governments and Central Banks	0.75 to < 2.50	107	26	52%	121	1.9%	40	3%	4.37	11	9%		
Central Governments and Central Banks	2.50 to < 10.00	438	337	91%	746	6.6%	41	23%	3.11	620	83%	14	-8
Central Governments and Central Banks	10.00 to < 100.00	3	17	24%	7	16.3%	54	20%	2.94	9	119%		
Central Governments and Central Banks	default			50%		100.0%	3	31%	1.00		6%		
Central Governments and Central Banks	**sub-total**	**91,045**	**134,792**	**6%**	**99,454**	**0.1%**	**1,421**	**30%**	**2.61**	**5,421**	**5%**	**22**	**-11**
Institutions	0.00 to < 0.15	30,769	49,398	7%	34,352	0.1%	2,925	23%	2.59	4,781	14%	5	-2
Institutions	0.15 to < 0.25	1,316	3,635	13%	1,799	0.2%	470	25%	1.89	327	18%	1	
Institutions	0.25 to < 0.50	3,127	4,676	11%	3,650	0.4%	767	24%	2.16	1,414	39%	4	-2
Institutions	0.50 to < 0.75	3	1	100%	5	0.7%	7		4.61	3	62%		
Institutions	0.75 to < 2.50	3,809	2,583	14%	4,163	1.0%	551	27%	1.72	1,785	43%	8	-4
Institutions	2.50 to < 10.00	28	532	3%	42	5.3%	145	18%	1.39	61	145%	1	
Institutions	10.00 to < 100.00	23	731	7%	73	17.2%	3,380	26%	1.51	86	118%	2	-1
Institutions	default	310	26	50%	323	100.0%	48	1%	4.93	8	2%	4	-4
Institutions	**sub-total**	**39,386**	**61,581**	**8%**	**44,407**	**0.9%**	**8,293**	**23%**	**2.46**	**8,465**	**19%**	**25**	**-13**
Corporate	0.00 to < 0.15	35,245	78,364	32%	60,411	0.1%	15,940	32%	2.73	13,018	22%	17	-5
Corporate	0.15 to < 0.25	23,089	27,062	35%	32,673	0.2%	7,848	25%	2.92	9,055	28%	17	-5
Corporate	0.25 to < 0.50	66,370	55,139	36%	86,025	0.4%	24,957	23%	3.08	30,940	36%	77	-26
Corporate	0.50 to < 0.75	1,149	450	48%	1,364	0.6%	2,135	30%	2.89	672	49%	2	-1
Corporate	0.75 to < 2.50	61,379	33,074	39%	74,410	1.2%	34,991	24%	3.17	45,438	61%	231	-89
Corporate	2.50 to < 10.00	10,395	4,526	45%	12,287	5.5%	11,330	25%	2.91	11,122	91%	162	-59
Corporate	10.00 to < 100.00	5,599	2,884	29%	6,464	23.4%	21,374	21%	2.77	8,017	124%	320	-132
Corporate	default	7,429	749	49%	7,911	100.0%	5,715	32%	2.37	10,901	138%	2,934	-2,934
Corporate	**sub-total**	**210,656**	**202,248**	**35%**	**281,543**	**4.1%**	**124,290**	**26%**	**2.98**	**129,163**	**46%**	**3,761**	**-3,252**
Retail	0.00 to < 0.15	61,311	15,077	66%	71,372	0.1%	4,228,271	25%		3,879	5%	13	-5
Retail	0.15 to < 0.25	63,761	3,705	51%	65,685	0.2%	723,298	16%		4,707	7%	21	-10
Retail	0.25 to < 0.50	97,514	3,434	59%	99,728	0.4%	1,129,103	16%		11,467	11%	63	-23
Retail	0.50 to < 0.75	27,191	1,311	56%	27,936	0.7%	509,064	23%		6,402	23%	43	-19
Retail	0.75 to < 2.50	30,045	2,499	68%	31,901	1.2%	1,163,149	27%		11,529	36%	114	-52
Retail	2.50 to < 10.00	10,572	652	56%	10,990	4.5%	439,278	27%		7,667	70%	136	-59
Retail	10.00 to < 100.00	5,153	226	66%	5,330	22.5%	186,922	26%		5,628	106%	307	-138
Retail	default	4,601	46	54%	4,675	100.0%	88,581	31%		5,985	128%	1,053	-1,053
Retail	**sub-total**	**300,147**	**26,949**	**62%**	**317,617**	**2.4%**	**8,467,666**	**21%**		**57,263**	**18%**	**1,749**	**-1,360**
Total (all portfolios)	**Total**	**641,234**	**425,571**	**24%**	**743,021**	**2.6%**	**8,237,084**	**24%**	**2.84**	**200,313**	**27%**	**5,557**	**-4,635**

Additional Pillar III information - continued

All figures are in millions of EUR, except for the number of obligors. The maturity is not available for the retail exposure class, for all other cells that are left blank, the values are minimal.

The figures in this table can be compared to the figures reported in the first tables in this section on exposure class, geography, counterparty type and maturity. Adding the on and off-balance sheet exposures with the Expected Losses will provide the net carrying amounts, except for the corporate exposure class where the write-offs should be included as well.

The PD, LGD, EAD and Maturity are drivers from the RWA and the RWA Density, which is measured as the RWA over the EAD, and is expected to increase with each PD Scale. In several instances the RWA Density is lower than expected, for instance in the Central Governments and Central Banks and Institutions exposure classes where loans are guaranteed by an Export Credit Agency [ECA]. These ECAs offer loans and insurance to help remove the risk of uncertainty of exporting to other countries and underwrite the political risk and commercial risks of overseas investments, and as such lower the LGD for these loans. With very low LGDs as a result the RWA is lower than would be assumed in a higher PD classes.

The CCF is lower for products and/or transactions seen in the corporate exposure class as opposed those seen in the Central Government exposure class, explaining the higher observed average CCF percentage in the latter exposure class.

Backtesting of model parameters
ING has dedicated AIRB credit risk models per business line and geography. The performance and predictive power of the models is monitored by the model development team. More over an independent Model Validation department periodically reviews all AIRB models. All models are backtested when possible by both the Model development and the independent Model Validation departments. If a model is considered not to be robust or backtesting indicates insufficient performance, than the model is either re-calibrated or re-developed. All model recommendations from Model Validation department are tracked via an internal database that management uses to track issues detected by the Internal Audit department, incidents and non-financial risk issues. All significant model changes are submitted to the ECB and implemented after regulatory approval. On average, 86% of the AIRB credit risk models in the validation cycle have had 'No to Remote' (49%) and 'Minor' (37%) model deficiencies.

PD backtesting
The PD backtesting is performed per exposure class and PD-range, corresponding to the internal rating scales 1 to 19, which are then mapped to comparable rating grades from Standard & Poor's. Securitisations and Equity exposures are not included in these tables. The results are presented per exposure class, each in an individual table, and display the performing portfolios as per end of 2016.

The analysis is based on the 31 December 2016 portfolio. The average PD as of 31 December 2016 per portfolio is split per exposure class and rating grade. Both the number and the amount-weighted predicted PD figures are shown for the performing portfolios. The number weighted predicted PD is also referred to as the arithmetic weighted PD, and the amount weighted PD is referred to as the EAD-weighted PD.

The Annual Average historical default rate is calculated over the last 6 years, from 2011 until 2016. The performing clients at the end of each year were followed through the following year (12 months) and their into-default moments were flagged each month. In case a client went into-default more than once within the 12-month observation period, the last (i.e. most recent) observed into-default moment was used. The annual average observed default rate represents the average of the 6 years observed number weighted default rates.

ING does not have positions with Central Governments in the lower two performing rating classes

Additional Pillar III information - continued

EU CR9: IRB – Backtesting of probability of default (PD) per exposure class

Exposure class	PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors End of 2015	Number of obligors End of 2016	Defaulted obligors in the year	Average historical annual default
Central Governments	0.00 - 0.01	AAA	0.010%	0.010%	85	93		
Central Governments	0.01 - 0.03	AA	0.021%	0.021%	515	532		
Central Governments	0.03 - 0.04	AA	0.031%	0.031%	253	267		
Central Governments	0.04 - 0.05	AA	0.041%	0.041%	202	161		
Central Governments	0.05 - 0.06	A	0.052%	0.052%	48	39		
Central Governments	0.06 - 0.08	A	0.062%	0.062%	86	74		
Central Governments	0.08 - 0.11	A	0.092%	0.092%	43	37		
Central Governments	0.11 - 0.17	BBB	0.139%	0.139%	27	22		0.245%
Central Governments	0.17 - 0.26	BBB	0.212%	0.213%	32	26		
Central Governments	0.26 - 0.37	BBB	0.307%	0.306%	24	25		
Central Governments	0.37 - 0.58	BB	0.444%	0.445%	23	21		
Central Governments	0.58 - 1.00	BB	0.756%	0.756%	6	9		
Central Governments	1.00 - 1.77	BB	1.321%	1.335%	13	11		
Central Governments	1.77 - 3.23	B	2.377%	2.441%	24	23		
Central Governments	3.23 - 6.05	B	4.391%	4.410%	17	18		0.926%
Central Governments	6.05 - 11.67	B	8.349%	8.349%	14	23		
Central Governments	11.67 - 20.20	CCC	16.324%	16.324%	7	8		

EU CR9: IRB – Backtesting of probability of default (PD) per exposure class

Exposure class	PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors End of 2015	Number of obligors End of 2016	Defaulted obligors in the year	Average historical annual default
Corporates	0.00 - 0.01	AAA	0.010%	0.010%	13	13		
Corporates	0.01 - 0.03	AA	0.021%	0.021%	26	315		
Corporates	0.03 - 0.04	AA	0.031%	0.031%	89	96		
Corporates	0.04 - 0.05	AA	0.041%	0.041%	121	158		0.075%
Corporates	0.05 - 0.06	A	0.051%	0.047%	2,667	2,960	1	0.095%
Corporates	0.06 - 0.08	A	0.062%	0.066%	1,242	1,320		0.159%
Corporates	0.08 - 0.11	A	0.092%	0.102%	1,423	1,577	1	0.133%
Corporates	0.11 - 0.17	BBB	0.139%	0.136%	9,453	10,030	25	0.300%
Corporates	0.17 - 0.26	BBB	0.213%	0.214%	6,447	6,782	10	0.340%
Corporates	0.26 - 0.37	BBB	0.306%	0.297%	10,451	11,279	30	0.448%
Corporates	0.37 - 0.58	BB	0.443%	0.444%	13,245	14,191	52	0.725%
Corporates	0.58 - 1.00	BB	0.755%	0.761%	13,051	13,807	90	1.214%
Corporates	1.00 - 1.77	BB	1.318%	1.343%	13,057	13,583	210	1.680%
Corporates	1.77 - 3.23	B	2.360%	2.393%	9,367	9,837	196	2.936%
Corporates	3.23 - 6.05	B	4.384%	4.350%	6,935	7,432	230	4.659%
Corporates	6.05 - 11.67	B	8.317%	8.347%	3,083	3,221	225	10.425%
Corporates	11.67 - 20.20	CCC	15.846%	15.769%	3,172	3,271	320	9.335%
Corporates	20.20 - 29.58	CC-	24.881%	24.639%	1,512	1,414	266	16.522%
Corporates	29.58 - 100.00	C-	36.148%	39.969%	1,242	1,104	288	27.205%

EU CR9: IRB – Backtesting of probability of default (PD) per exposure class

Exposure class	PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors End of 2015	Number of obligors End of 2016	Defaulted obligors in the year	Average historical annual default
Institutions	0.00 - 0.01	AAA	0.010%	0.010%	59	52		
Institutions	0.01 - 0.03	AA	0.021%	0.021%	309	33		
Institutions	0.03 - 0.04	AA	0.031%	0.031%	69	80		0.154%
Institutions	0.04 - 0.05	AA	0.041%	0.041%	992	1,006		
Institutions	0.05 - 0.06	A	0.052%	0.051%	505	526		0.064%
Institutions	0.06 - 0.08	A	0.062%	0.062%	828	646		
Institutions	0.08 - 0.11	A	0.092%	0.092%	790	451		0.072%
Institutions	0.11 - 0.17	BBB	0.139%	0.139%	672	775	1	0.135%
Institutions	0.17 - 0.26	BBB	0.212%	0.213%	488	528		0.023%
Institutions	0.26 - 0.37	BBB	0.307%	0.305%	503	377		0.036%
Institutions	0.37 - 0.58	BB	0.444%	0.444%	812	643	1	0.021%
Institutions	0.58 - 1.00	BB	0.756%	0.761%	520	471		0.042%
Institutions	1.00 - 1.77	BB	1.318%	1.331%	392	321	4	0.293%
Institutions	1.77 - 3.23	B	2.389%	2.406%	285	275		1.055%
Institutions	3.23 - 6.05	B	4.524%	4.371%	223	150	4	0.539%
Institutions	6.05 - 11.67	B	8.183%	8.277%	91	62	2	1.091%
Institutions	11.67 - 20.20	CCC	16.322%	16.293%	62	126	4	3.476%
Institutions	20.20 - 29.58	CC-	24.855%	24.658%	32	10	4	4.819%
Institutions	29.58 - 100.00	C-	36.813%	39.576%	31	10	1	4.611%

EU CR9: IRB – Backtesting of probability of default (PD) per exposure class

Exposure class	PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors End of 2015	Number of obligors End of 2016	Defaulted obligors in the year	Average historical annual default
Retail	0.00 - 0.01	AAA	0.005%	0.009%	1,865,865	1,984,312	538	0.031%
Retail	0.01 - 0.03	AA	0.019%	0.021%	79,657	86,022	71	0.073%
Retail	0.03 - 0.04	AA	0.031%	0.031%	77,248	97,544	42	0.090%
Retail	0.04 - 0.05	AA	0.044%	0.041%	645,294	677,469	296	0.050%
Retail	0.05 - 0.06	A	0.051%	0.053%	79,571	46,746	21	0.031%
Retail	0.06 - 0.08	A	0.067%	0.067%	143,336	51,231	89	0.061%
Retail	0.08 - 0.11	A	0.089%	0.102%	864,211	948,013	1,059	0.104%
Retail	0.11 - 0.17	BBB	0.146%	0.136%	556,848	556,142	559	0.142%
Retail	0.17 - 0.26	BBB	0.209%	0.217%	647,080	681,394	978	0.222%
Retail	0.26 - 0.37	BBB	0.324%	0.312%	541,514	570,611	1,384	0.392%
Retail	0.37 - 0.58	BB	0.457%	0.476%	615,005	615,365	3,035	0.600%
Retail	0.58 - 1.00	BB	0.727%	0.773%	663,427	653,326	3,540	1.605%
Retail	1.00 - 1.77	BB	1.314%	1.485%	373,902	455,802	3,762	1.663%
Retail	1.77 - 3.23	B	2.645%	2.498%	421,224	470,410	5,298	2.348%
Retail	3.23 - 6.05	B	4.152%	3.907%	191,386	190,078	6,905	6.357%
Retail	6.05 - 11.67	B	8.340%	7.927%	171,878	182,624	11,027	7.675%
Retail	11.67 - 20.20	CCC	16.227%	16.815%	82,577	75,683	7,580	12.792%
Retail	20.20 - 29.58	CC-	24.960%	25.843%	11,192	10,885	2,131	20.164%
Retail	29.58 - 100.00	C-	44.409%	37.048%	43,591	34,283	11,592	27.216%

The performance of AIRB PD models is statistically back-tested on a regular basis. There are currently no known issues of PD underestimation.

EL backtesting
The table below gives insight in the Expected Loss rate and the Observed Loss rate. The expected loss as of 31 December 2015 for the performing portfolio is split per exposure class. The 31 December 2015 portfolio is followed through 2016 to determine the defaulted exposures. The models are based on long series of historical data. In the comparison, the expected loss rate is calculated by dividing the expected loss of the performing portfolio as of 31 December 2015 by the READ of the performing portfolio of the same period. The Observed Loss rate is a result of multiplying the observed defaulted exposures by its LGD. This backtest is only representative of the year end 2015 portfolio and can be influenced by small sample sizes or incidents. Nonetheless, backtesting gives a comparison of the Expected Loss rate PD versus the observed Loss rate.

Expected loss rate under the Advanced IRB approach versus the observed loss rate per exposure class

2016	Sovereigns	Institutions	Corporate	Secured by Res. Mortgage	Other retail	Total
Expected loss rate 2015*	0.02%	0.05%	0.34%	0.18%	0.82%	**0.22%**
Observed Loss Rate 2016	0.00%	0.05%	0.25%	0.12%	0.80%	**0.17%**

Includes the AIRB portfolio only; excludes securitisations, equities and ONCOA.
* Expected loss rate 2015 includes performing loans only.

Backtesting observed default rates and observed losses for 2016 show observed results that are below predicted levels for all exposure classes except for Institutions. This can be explained by the improved economic conditions that were experienced in 2016. In 2016, no defaults were recorded for Sovereigns while default rates of corporates, residential mortgages and other retail loans have continued to improve compared to the previous year. The observed losses for institutions were mainly witnessed for institutions in Africa.

Standardised Approach
A subset of the ING portfolio is treated with the Standardised Approach (SA approach). The SA approach applies fixed risk weights to each exposure class, split into credit quality steps (based on external ratings) as dictated by the Capital Requirement Directive (CRD). The SA approach is the least sophisticated of the CRR/CRD IV methodologies and is not as risk sensitive as the risk-based AIRB Approach.

In order to calculate the regulatory capital requirements under the SA approach, ING Bank uses eligible external ratings from Standard & Poor's, Moody's and Fitch Ratings. Ratings are applied to all relevant exposure classes in the SA approach. For the mortgage portfolios, the fixed prescribed risk weights are used.

Exposures before and after risk mitigation for the SA portfolio
The table below shows how credit risk mitigation (CRM) in the SA portfolio is distributed over the exposure classes. ING Bank's exposure value is shown before and after credit risk mitigation. There are two principal methods for reducing or mitigating Credit Risk: i) by reduction of Credit Risk through the acceptance of pledged financial assets as collateral or ii) mitigation or shifting of credit risks to a lower risk weighting group by accepting guarantees from unrelated third parties. ING Bank uses both methods to take CRM effects into account. For financial markets collateral, ING Bank uses the Financial Collateral Comprehensive Method to allow for mitigation effects.

The table below illustrates the effect of all CRM techniques applied in accordance with the Part Three, Title II, Chapter 4 of Regulation (EU) 575/2013 on the standardised approach capital requirements' calculations. Risk weighted exposure amount (RWA) density provides a synthetic metric on riskiness of each portfolio.

EU CR4: Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects

	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Exposure classes	On-Balance Sheet amount	Off-Balance Sheet amount	On-Balance Sheet amount	Off-Balance Sheet amount	RWA	RWA density
Central governments or central banks	2,433	1,369	2,582	3	2,158	84%
Regional governments or local authorities	76	198	76	1	37	48%
Institutions	2,147	135	2,563	11	540	21%
Corporates	5,969	6,521	5,861	893	6,637	98%
Retail	8,528	6,409	7,969	2,020	7,142	71%
Secured by mortgages on immovable property	13,604	2,409	13,426	653	7,667	54%
Exposure in default	878	37	455	10	550	118%
Total	**33,634**	**17,078**	**32,931**	**3,590**	**24,731**	**68%**

Excludes Counterparty Credit Risk exposures.

The SA portfolio comprises mainly of the exposures in Turkey, Poland and Romania. In terms of business, the portfolio is spread over residential mortgages and consumer lending, with a relatively small portion arising from corporate exposures. The biggest movement in 2016 within the SA portfolio was the move of the Dutch Healthcare portfolio from IRB approach to SA approach. Excluding this change, there was growth in residential mortgages in these SA three countries. The sovereign portion of SA exposure is arising mainly due to deposits with the Turkish Sovereign.

Risk weights per exposure classes
The table below presents the breakdown, post conversion factor and post risk mitigation techniques, of exposures under the Standardised approach by exposure class and risk weight (corresponding to the riskiness attributed to the exposure according to SA approach). The risk weights presented encompass all those assigned to each credit quality step in Article 113 to Article 134 in Part Three, Title II, Chapter 2 of Regulation (EU) 575/2013.

EU CR5: Standardised approach Post-CCF and Post-CRM Techniques

	Risk weight																	
Exposure Classes	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	others	de-ducted	**Total**	Un-rated
Central governments or central banks	216						419			1,949							**2,584**	
Regional governments or local authorities					5		71										**76**	
Institutions					2,537	0	10			25	2						**2,574**	
Corporates							7			6,704	43						**6,754**	
Retail									9,989								**9,989**	
Secured by mortgages on Real immovable property						6,968	3,436			3,675							**14,079**	
Exposure in default							20			255	191						**466**	
Total	**216**				**2,542**	**6,968**	**3,963**		**9,989**	**12,608**	**236**						**36,522**	

Excludes Counterparty Credit Risk exposures.

The SA portfolio increased by 8% to EUR 36.5 billion in terms of READ, excluding the counterparty credit risk. The RWA increased by 10% to EUR 24.7billion. This increase in the SA portfolio is mainly related to transfer of the Dutch Healthcare portfolio from AIRB approach to SA. Increase in portfolio was witnessed in Poland and in Turkey. In Poland the Residential Mortgage portfolio grew by EUR 0.8 billion READ while in Turkey the portfolio growth is mainly attributable to the Corporates portfolio which increased by EUR 1.3 billion. FX impact over 2016 was limited as the portfolio is denominated in both Turkish Lira's and U.S. dollar for which the FX impacts offset each other.
The exposures with a 35% risk weight are mostly seen in the Polish mortgage portfolio, and the retail exposures with a 75% risk weight originate mostly in the Turkish portfolios, with smaller attributions from Poland and Romania. The 100% risk weight exposures in the corporate exposure class originate in the Turkish corporate portfolio (EUR 7.2 billion) and in the Dutch Healthcare portfolio (EUR 2.0 billion).

Credit quality
This section focusses on non-performing loans, which are loans where there is a reasonable probability that ING Bank may end up with a loss, unless ING Bank intervenes with specific and significant actions. In other words, in this category an account or portfolio requires a more intensified approach, which may include renegotiations of terms and conditions and/or business/financial restructuring. This section should be read in conjunction with the Risk Management paragraph sections of the Annual Report on: Risk Appetite Framework and Credit Quality.

The credit quality of risk exposures is presented in three tables providing insight in the credit quality per exposure class, industry or counterparty type and geography. These tables present the gross carrying values, consisting of on- and off balance sheet exposures, split over non-performing / performing, specific risk adjustments and impairments/allowances. The net carrying values are the result and are presented at the end of the tables. These three tables should be read in conjunction with detailed sections per (ING Internal) exposures class: Sovereign, Institutions, Corporate and Retail. Albeit that the measures used in those sections are READ and RWA, the main movements are explained.

On-balance sheet items include loans and debt securities. Off-balance sheet items include guarantees given and irrevocable loan commitments. Pre-settlement exposures are not included in this section.
More information on the definition of non-performing loans and allowances can be found in the Credit quality section of the risk management paragraph of the Annual report.

Credit quality of exposures by exposure classes and instruments

This section provides a comprehensive picture of the credit quality of the banks' assets per exposure class.

EU CR1-A: Credit quality of exposures by exposure classes and instruments

	gross carrying values					
	defaulted exposures	Non-defaulted exposures	specific credit risk adjustments	general credit risk adjustments	credit risk adjustment charges of the period	Net values
Central governments or central banks	0	225,837	-11			225,826
Institutions	336	100,631	-13			100,954
Corporates	8,179	404,726	-3,395			409,510
of which: specialised lending	2,559	141,166	-971			142,754
of which: SMEs	1,657	32,950	-546			34,060
Retail	4,647	322,450	-1,360			325,737
secured by real estate property	3,893	292,942	-751			296,084
SMEs	611	10,476	-171			10,916
Non-SMEs	3,281	282,466	-580			285,168
Qualifying revolving						
Other retail	754	29,507	-609			29,653
SMEs	303	5,839	-235			5,907
Non-SMEs	451	23,669	-374			23,745
Total IRB Approach	**13,161**	**1,053,643**	**-4,778**			**1,062,027**
Central governments or central banks	0	3,802	-1			3,801
Regional governments or local authorities	0	274	0			274
Institutions	0	2,282	-1			2,281
Corporates	0	12,489	-22			12,468
of which: SMEs	0	2,870	-5			2,865
Retail	0	14,937	-106			14,831
of which: SMEs	0	4,509	-17			4,492
secured by mortgages on immovable property	0	16,012	-21			15,991
of which: SMEs	0	2,967	-7			2,960
Exposures in default	915	0	-434			481
Total SA approach	**915**	**49,797**	**-585**			**50,127**
Total	**14,077**	**1,103,441**	**-5,363**			**1,112,154**

Excludes Counterparty Credit Risk, Securitisations, CVA RWA, Equities and ONCOA.

Credit quality of exposures by industry or counterparty types

The following breakdown shows the defaulted and non-defaulted exposures per NACE industry or counterparty sector type.

Additional Pillar III information - continued

EU CR1-B: Credit quality of exposures by industry or counterparty types	gross carrying values of defaulted exposures	gross carrying values of non-defaulted exposures	specific credit risk adjustments [1]	general credit risk adjustments	credit risk adjustment charges of the period	Net values
Agriculture, Forestry and Fishing	338	4,164	-129			4,373
Mining and Quarrying	732	21,378	-232			21,878
Manufacturing	1,900	101,454	-956			102,397
Electricity, Gas, Steam and Air Conditioning Supply	290	22,633	-127			22,796
Water Supply; Sewerage, Waste Management and Remediation Activities	86	3,540	-37			3,589
Construction	1,237	18,167	-547			18,858
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	1,240	93,418	-591			94,067
Transportation and Storage	1,195	32,608	-381			33,422
Accommodation and Food Service Activities	115	4,530	-49			4,596
Information and Communication	343	17,898	-107			18,134
Financial and Insurance Activities	421	232,026	-92			232,355
Real Estate Activities	1,474	45,481	-498			46,457
Professional, Scientific, and Technical Activities	512	23,965	-231			24,247
Administrative and Support Service Activities	407	21,121	-126			21,402
Public Administration and Defence; Compulsory Social Security	105	160,226	-56			160,275
Education	15	1,812	-7			1,820
Human Health and Social Work Activities	105	10,852	-47			10,910
Arts, Entertainment, and Recreation	47	1,502	-26			1,523
Other Service Activities	69	2,690	-33			2,727
Activities of Households as Employers; Producing Activities of Households for own use	3,445	283,975	-1,092			286,328
Total	**14,077**	**1,103,441**	**-5,363**			**1,112,154**

Excludes Counterparty Credit Risk exposures, Securitisations, CVA RWA, Equities and ONCOA.

[1] Includes 119 million for contingent liabilities

Credit quality of exposures by geography

The table below provides a comprehensive picture of the credit quality of the on- and off-balance sheet exposures by geography

EU CR1-C : Credit quality of exposures by geography	gross carrying values of defaulted exposures	gross carrying values of non-defaulted exposures	specific credit risk adjustments [1]	general credit risk adjustments	credit risk adjustment charges of the period	Net values
Europe	12,740	862,182	-4,867			870,054
Netherlands	5,269	261,185	-1,799			264,656
Germany	780	169,692	-544			169,928
Belgium & Luxemburg	2,677	161,640	-672			163,645
Other Europe	4,014	269,665	-1,853			271,826
Africa	90	6,109	-7			6,191
America	838	86,350	-241			86,947
Asia	254	100,960	-236			100,979
Australia	155	47,840	-12			47,983
Total	**14,077**	**1,103,441**	**-5,363**			**1,112,154**

Excludes Counterparty Credit Risk exposures, Securitisations, CVA RWA, Equities and ONCOA.

[1] Includes 119 million for contingent liabilities

Additional Pillar III information - continued

Reconciliation of non-performing loans disclosures

The table below shows the reconciliation of non-performing loans segmented by the lines of businesses used internally by ING Bank. A narrative explanation on these business lines is given in the Risk Management paragraph of the Annual report.

Reconciliation of non-performing loans disclosures[4]

	Wholesale Banking	Retail Banking Benelux	Retail Challengers & Growth Markets	Total ING Bank
Impaired loan book - movements				
Impaired loans at 1 January 2016[1]	6,191	7,172	1,962	15,325
Classified as impaired during the year[2]	1,719	1,668	842	4,229
Outflow from impaired excluding write-offs	-1,628	-2,443	-367	-4,438
Amounts written off	-624	-677	-188	-1,489
Changes in composition of the bank	0	0	0	0
Exchange rate and other movements[3]	22	0	-52	-30
At 31 December 2016	**5,680**	**5,721**	**2,196**	**13,597**
Impairment allowances - movements				
Impairment allowances at 1 January 2016[1]	2,371	2,199	1,216	5,786
Changes in the composition of the Bank	0	0	0	0
Amounts written off	-625	-681	-188	-1,494
Recoveries of amounts written off in previous years	49	38	7	94
Addition to loan loss provisions (from income statement)	367	347	260	974
Exchange rate and other movements	-15	-19	-18	-52
At 31 December 2016	**2,147**	**1,884**	**1,277**	**5,308**

1 Equals the amount as of 31 December 2015.
2 Unadjusted for exchange rate fluctuations.
3 Based on start and end date of the outstanding positions, unadjusted for inflow and outflow.
4 At the end of 2016, the stock of provisions included provisions for amounts due from banks: EUR 11 million (2015: EUR 14 million).

The decrease of EUR 1.7 billion in non-performing loans was mainly driven by the continuing improving Dutch economy. In Wholesale Banking a significant NPL decrease was observed within Real Estate Finance (EUR 0.5 billion) due to write-offs, repayments and improved clients. This was offset by an increase in Structured Finance (EUR 0.5 billion), mainly driven by the Shipping and Oil & Gas portfolios, the latter also being the main driver for the watch listed clients increase.

The favourable trend in risk costs continued over the first three quarters of 2016. Compared to 2015-end, risk costs have trended down to 31 basis points (2015: 44 basis points) of average RWA which is below the through-the-cycle guidance range of 40-45 basis points. The improving risk trend caused average quarterly risk costs to remain well below EUR 300 million, causing the total stock of provisions to decline from EUR 5.8 billion to EUR 5.3 billion.

Portfolios in Market Leaders continued to improve, Wholesale Banking corporate lending was also relatively strong with a few incidental defaults. Challenges continued in industries like Oil & Gas, Shipping, and Telecom while on the other hand, improved risk profiles were witnessed in other portfolios of the bank such as in Residential Mortgages and in the REF portfolio. Encouraging signs in the Dutch housing market have helped reduce the risk costs due to improved house prices and risk profiles. Risk costs in Turkey and Ukraine have trended downwards in previous quarters.

There was an improvement in the bank coverage ratio to 39.0% (2015: 38.5%) due to improved non-performing loan levels and a comparatively lesser decrease in stock provision level.

Large parts of the Investment portfolio are not accounted for at amortised costs (Loans & Receivables or Held-to-Maturity) and therefore out of scope for LLP. Instead, these assets are evaluated for impairment. The ING Bank Impairment Meeting is a quarterly process that reviews all assets that are subject to an IFRS-EU impairment test.

Non-performing and forborne exposures

The Non-performing exposure table should be read in conjunction with the information and statements made in the Risk Management Paragraph of the annual accounts.

EU CR1-E: Non-performing and forborne exposures

	Gross carrying amount of performing and non-performing exposures					Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due >30 days and <=90 days	of which performing forborne	Of which non-performing		On performing exposures		On non-performing exposures		On non-performing exposures	of which: forborne exposures
					of which: forborne		of which: forborne		of which: forborne		
Debt Securities	91,920			7	0	-13		-5			
Loans and advances	589,232	601	7,660	13,215	6,733	-814	-91	-4,475	-1,818	6,917	10,144
Off-balance sheet exposures	149,025		687	602	361					153	116

The total ING Bank forborne assets increased by EUR 4.7 billion to EUR 15.4 billion per December 2016. The main driver for this increase relate to the further policy revision of the forbearance definition which was implemented in 2016. Key policy revisions were the inclusion of concessions where ING Bank is substantially compensated by concessions by the client, as well as measures that address key financial covenants as part of the loan agreement. Almost 70% of this increase is visible in the top three industries: a EUR 1.0 billion increase in Natural Resources which was mostly attributable to the Oil & Gas portfolio, another EUR 0.9 billion increase in Transportation & Logistics which is mainly related to shipping activities and another EUR 0.4 billion in the Real Estate portfolio.

Past due loans

ING Bank considers past due loans to be those loans where any payment of interest of principal is more than one day past due. The methodology is principally applied to loans to private individuals, such as residential mortgage loans, car loans and other consumer loans. For business loans (Sovereigns, Institutions, Corporates), ING Bank has adopted a policy to classify the obligor as a non-performing loan as quickly as possible upon the occurrence of a payment default.

The table below is based on the country of residence of the obligor and on credit risk outstandings. Credit Risk outstandings include amounts associated with both on- and off- balance sheet products, but exclude amounts related to unused limits.

Past due but performing consumer loans by geographic area (based on outstandings)

			2016	2015
	Residential mortgages	Other retail	Total	Total
Netherlands	945	2	947	1,073
Belgium	901	542	1,443	1,719
Germany	223	28	251	276
Other Europe	346	438	784	768
Americas	2	-	2	2
Asia / Pacific	542	0	542	490
ROW	1	0	1	0
Total	**2,960**	**1,010**	**3,970**	**4,328**

Total past due exposure for consumer loans decreased by EUR 0.36 billion. The decrease is mainly caused by an improved residential mortgages portfolio in Belgium and the Netherlands which is a result of the further improved economic environment and improved arrears. In the Other Europe Residential Mortgage portfolio an increase is observed in past due exposures payments between 1 to 90 days compared to end of 2015. This is mainly caused by the Turkish, Italian, and Romanian residential mortgage portfolios. In Asia / Pacific, the increase is mostly observed in Australia.

Aging of past due exposures

The table below gives an insight in the aging of the Business and Consumer exposures and includes both the performing and non-performing portfolio, while the previous table only includes the past due performing exposures for Consumer. The table is broken down into type of instruments (Loans and Debt Securities). The values displayed are the on balance sheet gross carrying values before impairment, provisions and before write offs, as write offs take place after the provisioning process.

Additional Pillar III information - continued

EU CR1-D: Ageing of past-due exposures

	<= 30 days	>30 days <60 days	> 60 days <90 days	>90 days <180 days	>180 days < 1year	> 1year
Loans	587,310	1,019	3,102	1,217	1,169	6,983
Debt Securities	101,098	31	35	-	-	0
Total exposures	**688,408**	**1,050**	**3,138**	**1,217**	**1,169**	**6,983**

On a total level the ageing of the portfolio improved with EUR 2.5 billion, counting from 30 days and more past due. All buckets show a decrease, except the bucket > 1 year, which increased with EUR 1.1 billion. This means that a part of the customers that were already past due, continue having interest payment arrears.

Off-balance items

Undrawn commitments

The figures below represent the potential exposure that may be drawn by ING Bank's obligors under committed facilities. In most cases, the obligors have the right to make use of these facilities unless an event of default has occurred, or another defined event within the associated credit risk agreement has occurred. In most cases, the obligor pays a commitment fee to ING Bank on the unused portion of these facilities. Pre-Settlement, Money Market and Investment limits are generally not committed.

Undrawn commitments

						2016	2015
	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
Under SA approach	1	1	1,353	166	3,935	5,456	4,518
Under AIRB Approach	1,285	4,270	80,286	11,617	9,768	107,226	105,687
– 0% risk weight	14	25	376	6		421	206
– >0% - ≤10% risk weight	1,082	1,655	12,893	8,696	5,068	29,394	28,052
– >10% - ≤20% risk weight	138	676	8,950	1,702	1,706	13,172	15,595
– >20% - ≤35% risk weight	47	840	20,523	830	880	23,120	24,878
– >35% - ≤50% risk weight		653	15,516	205	723	17,095	16,120
– >50% - ≤75% risk weight		137	11,564	102	711	12,515	10,961
– >75% - ≤100% risk weight		178	4,296	37	439	4,949	5,077
– >100% - ≤150% risk weight	2	60	4,307	22	181	4,572	3,309
– >150% - ≤200% risk weight	2	42	1,243	10	36	1,333	928
– >200% - <1250% risk weight		4	619	7	24	655	560
– 1250% risk weight	0	0	0	0	0	0	
Total	1,285	4,271	81,640	11,784	13,703	112,683	110,205

If all of the unused commitments were called upon at the same time, ING Bank's credit risks (in terms of outstandings) would increase by 14.5%. As part of its Regulatory EAD models, ING Bank makes an estimate of how much of these unused commitments would be drawn under normal circumstances. The effect is included in the calculation of the RWA, together with a similar effect applied to uncommitted facilities, albeit at a lower rate.
The increase of the undrawn commitments is spread over all the risk weight categories and is in line with the growth of the portfolio in 2016.

Counterparty credit risk (CCR)

The main activities that qualify under counterparty credit risk are derivatives trading activities and securities financing. As part of these activities, ING Bank enters into master agreements such as ISDA master agreements and Global Master Repurchase Agreements (GMRAs). Under the terms contained in sections related to Threshold Amounts and Minimum Transfer Amounts of Credit Support Annexes (CSA) or other similar clauses, both ING Bank and its counterparties may agree to pledge additional collateral to each other. The actual amount that ING Bank may be required to pledge in the future varies based on ING Bank's portfolio composition of both derivatives and securities pledged in securities financing transactions, market circumstances, the number of downgrade notches as well as the terms and conditions of future CSAs or other similar agreements entered into.

CCR risk approach

Analysis of the counterparty credit risk exposure by approach

In the table below the portfolio's counterparty credit risk exposure, calculated according the regulatory requirements, is presented. ING is using the Current Exposure Method (or MTM / Mark to Market) method as described in the CRR (art 274), which is a Standardised Approach. There are no exposures under de Internal Model method. For the calculation of the collateral, ING uses the comprehensive method for Securities Financing Transactions (SFT). There is no Contractual Cross Product netting.

For the regulatory exposure at default (READ) calculation for counterparty default risk, ING uses the Current Exposure Method (or MTM / Mark to market) method as described in the CRR (art 274). The READ measure consist of a MTM part and a regulatory prescribed add-on to reflect the potential future exposure in the trade. The READ is calculated on a daily basis to take into account the changes in the MTM value due to market movements and changes in the portfolio composition. This calculation is done on:

- A gross basis (ignoring any collateral received and ignoring any netting between trades, by applying (max(MTM,0) for each trade).
- A net basis (ignoring any collateral received, but applying netting between trades with a positive and negative MTM in case there is a legally enforceable netting agreement in place).
- A net basis after collateral (subtracting any post haircut value of collateral received, and applying netting between trades with a positive and negative MTM in case there is a legally enforceable netting agreement in place).

The READ together with the other building blocks (PD, LGD and maturity), allow ING Bank to classify a large part of its derivatives exposures under the AIRB approach. READ also takes into account the sum of CVA recognised as an incurred write-down in line with CRR art. 273(6).

EU CCR1 – Analysis of the counterparty credit risk (CCR) exposure by approach

	Replacement cost (floored MtM)	Potential future exposure	EAD post-CRM	RWA
Mark to market (Derivatives)	96,440	9,880	37,530	9,726
Financial collateral comprehensive method (for SFT's)			7,619	1,146
Total	96,440	9,880	45,149	10,872

Excluding exposure class Securitizations

The RWA of ING counterparty credit risk portfolio dropped by 6.6% during the year, mainly due to the increased use of central clearing. In line with regulatory requirement ING novated more trades via qualifying central counterparties (CCPs), which compresses the exposure via the use of the large netting pool of a CCP as well as requires a low risk weight (2%). Additionally RWA dropped by approximately EUR 1 billion due to a change in the regulatory exposure calculation methodology for derivatives.

Standardised approach – CCR exposures by regulatory portfolio and risk

The following table presents the CCR exposures that are calculated according the Standardised approach (SA):

EU CCR3: Standardised approach - CCR exposures by regulatory portfolio and risk

	Risk weight											**Total**
Exposure Class	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
Central governments or central banks												
Regional governments or local authorities												
Institutions					9	554			1			564
Corporates									242	8		250
Retail								1				1
Secured by mortgages on Real Immovable property												
Exposure in default												
Other items												
Total					9	554		1	243	8		815

Excluding exposure class Securitizations

The 100% Risk weight exposure contains mainly interest rate swaps and is related to the Dutch healthcare portfolio. This portfolio was recently moved to the Standardised approach and received a hundred percent risk weight.

IRB – CCR exposures by portfolio and PD scale

The following table shows all relevant parameters used for the calculation of CCR capital requirements for IRB models.

EU CCR4: IRB-CCR exposures by portfolio and PD scale

	PD Scale	READ	Average pd	Number of obligors	Average LGD	Average maturity	RWA	RWA density
Central Governments and Central Banks	0.00 to < 0.15	2,377	0.03%	128	26%	3.6	184	8%
Central Governments and Central Banks	0.15 to < 0.25	25	0.21%	3	45%	2.3	12	47%
Central Governments and Central Banks	0.25 to < 0.50	33	0.31%	12	45%	3.8	24	73%
Central Governments and Central Banks	0.50 to < 0.75							
Central Governments and Central Banks	0.75 to < 2.50							
Central Governments and Central Banks	2.50 to < 10.00		8.35%	3	31%	4.9	1	181%
Central Governments and Central Banks	10.00 to < 100.00	14	16.32%	2	100%	1.5	55	397%
Central Governments and Central Banks	**sub-total**	**2,450**	**0.09%**	**150**	**27%**	**3.6**	**277**	**11%**
Corporates	0.00 to < 0.15	7,311	0.08%	1,318	28%	1.9	1,154	16%
Corporates	0.15 to < 0.25	1,232	0.21%	820	39%	2.9	567	46%
Corporates	0.25 to < 0.50	3,037	0.36%	2,891	37%	2.4	1,582	52%
Corporates	0.50 to < 0.75	2	0.62%	186	52%	1.8	2	78%
Corporates	0.75 to < 2.50	2,154	1.13%	2,717	43%	2.4	1,920	89%
Corporates	2.50 to < 10.00	192	5.34%	520	40%	3.5	283	147%
Corporates	10.00 to < 100.00	79	26.90%	522	37%	2.9	180	228%
Corporates	default	19	100.00%	147	46%	2.8	108	581%
Corporates	**sub-total**	**14,026**	**0.67%**	**9,121**	**34%**	**2.2**	**5,796**	**41%**
Institutions	0.00 to < 0.15	37,510	0.06%	1,294	34%	3.0	3,366	9%
Institutions	0.15 to < 0.25	3,155	0.21%	129	19%	0.5	455	14%
Institutions	0.25 to < 0.50	558	0.36%	365	27%	2.3	193	35%
Institutions	0.50 to < 0.75							
Institutions	0.75 to < 2.50	391	0.99%	612	22%	1.1	223	57%
Institutions	2.50 to < 10.00	31	4.76%	96	10%	4.1	13	44%
Institutions	10.00 to < 100.00	4	16.32%	105	38%	1.0	4	121%
Institutions	default							
Institutions	**sub-total**	**41,649**	**0.09%**	**2,601**	**33%**	**2.8**	**4,255**	**10%**
Retail	0.00 to < 0.15	8	0.07%	216	53%		1	9%
Retail	0.15 to < 0.25	5	0.17%	84	58%		1	22%
Retail	0.25 to < 0.50	2	0.36%	196	57%		1	34%
Retail	0.50 to < 0.75	2	0.68%	79	67%		1	54%
Retail	0.75 to < 2.50	4	1.11%	160	41%		1	40%
Retail	2.50 to < 10.00	1	3.74%	44	54%		1	79%
Retail	10.00 to < 100.00	2	17.52%	140	60%		2	129%
Retail	default		100.00%	16	61%		2	757%
Retail	**sub-total**	**24**	**2.98%**	**935**	**54%**		**11**	**44%**
Total Portfolio		58,149	0.23%	12,801	33%	2.7	10,338	18%

Excluding exposure class Securitisations. All figures are in millions of EUR, except for the number of obligors. The maturity is not available for the retail exposure class, for all other cells that are left blank, the values are minimal

Derivatives by product type

The table below shows the derivatives exposure by product type, where the exposure measure is based on the regulatory exposure at default (READ) used for counterparty default risk under CRR.

Additional Pillar III information - continued

Derivatives by product type in READ

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	2016 Total	2015 Total
Interest Rate Derivatives	1,940	24,435	6,054		10	32,439	33,930
FX Derivative	312	3,574	3,694		8	7,588	5,972
Equity Derivative	3	1,195	415		9	1,622	2,176
Exchange Traded Products		1,370	147			1,516	2,094
Commodity Derivative	4	34	960		0	999	997
Credit Derivative		268	176			443	410
Derivatives Other		72	9			81	187
Total (ALL)	**2,259**	**30,948**	**11,455**		**27**	**44,689**	**45,766**

The derivative portfolio of ING Bank facilitates hedging mortgage lending portfolio facilities as well as hedging for clients. Approximately 73% of the derivatives portfolio is related to interest rate derivatives of which a large part is cleared via CCPs.
The FX derivative portfolio increased by 27% in 2016. This is explained by new client volume as well as expansion in one product (FX Swap) with key counterparties.
At Equity derivatives, ING made efforts to simplify the product line and focus only on the most value-added trades.

Over-the-counter and exchange traded derivatives

This section provides a quantitative and qualitative analysis of ING's credit risk that arises from its derivatives transactions. This quantifies notional derivatives exposure, including whether derivatives are traded over-the-counter (OTC) or traded on recognised exchanges (ETD). Where the derivatives are OTC, the table shows how much is cleared by central counterparties and how much is not, and provides a description of the collateral agreements in place.

Credit risk from derivative transactions

	2016 Notional	2016 MtM	2015 Notional	2015 MtM
OTC derivatives				
CCP	2,238,106	- 1,804	2,052,352	-2,190
Non-CCP	1,644,126	-1,658	1,759,442	-1,353
ETD derivatives	45,214	-18	46,472	-28
Total	3,927,445	-3,479	3,858,265	-3,571

At the end of 2016, around 57% of the derivative portfolio (based on notional value) was novated via a central counterparty. 24% of the non-cleared trades were uncollateralized, which mainly relate to Corporates with small credit limits and mainly comprises of interest rate derivatives (53%) and FX Derivatives (32%).
Among the collateralised, not cleared trades 84% is under a bilateral CSA. Unilateral CSA agreements relate mainly to agreements that are unilateral against ING and mainly consist of Interest Rate Derivatives with Sovereign counterparties.

Securities financing by product type

The exposures in this table are calculated based on the Financial Collateral Comprehensive Method as described in CRR (art. 223), where the regulatory haircuts are used for exposure and collateral and where netting is applied whenever there is a master netting agreement in place with a positive legal netting opinion.

Securities financing by product type in READ

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	2016 Total	2015 Total
Bond Financing Given	113	5,876	500			6,489	6,983
Equity Financing Given		3,487	1,522			5,009	5,140
Bond Financing Taken	78	1,200	704			1,982	2,363
Equity Financing Taken		702	92			794	1,301
Total (ALL)	191	11,265	2,818			14,275	15,786

Includes both AIRB and SA portfolios; excludes Securitisations, equities and ONCOA.

The securities financing portfolio decreased by around 10% in 2016. The decrease was shared between all product types.

Impact of netting and collateral held on exposure values

Impact of netting

It is common practice in OTC derivatives trading to sign master agreements that allow for close out netting in case one of the parties defaults. In case ING has signed such a master agreement and a positive legal netting opinion is in place, the agreement is deemed to be legally enforceable. For trades done under such a legally enforceable netting agreement, it is possible to calculate the exposure on a net basis.

EU CCR5-A: Impact of netting and collateral held on regulatory exposure values

	Gross positive fair value	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives by underlying	136,343	91,328	45,015	7,485	37,530
Securities Financing Transactions	37,208	22,933	14,275	6,657	7,619
Cross-product netting					
Total	173,551	114,261	59,290	14,142	45,149

Excluding exposure class securitization

Collaterals

The change in the actual amount that ING Bank had to pledge can be observed in the following table.

EU CCR5-B: Composition of collateral for exposures to counterparty credit risk

		Collateral used in derivative transactions				Collateral used in SFT's	
		Fair value of collateral received		Fair value of posted collateral			
2016		Segregated	Un-Segregated	Segregated	Un-segregated	Fair value of collateral received	Fair value of posted collateral
	Cash	1,460	10,481	-4,058	-13,983		
	Securities		1,760	-716	-3,754		
	Total	1,460	12,241	-4,774	-17,737	102,612	-82,868
2015	Total	396	14,128	-6,379	-22,239	103,311	-90,403

ING's key drivers of the changes to the collateralized derivative portfolio are Interest- and Foreign Exchange Risk.

Central Counterparties

The use of Central Clearing (CCPs) is becoming more important for the derivatives business and as a consequence part of the credit risk is shifting from counterparties to CCPs.

The table below presents the exposures to central counterparties, broken down by qualified (QCCP) and non-qualified CCPs:

EU CCR8: Exposures to central counterparties

	EAD (post-CRM)	RWA
Exposures to QCCPs (total)		
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	17,002	340
(i) OTC derivatives	15,676	314
(ii) Exchange-traded derivatives	631	13
(iii) Securities financing transactions	695	14
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin		
Non-segregated initial margin		
Pre-funded default fund contributions	159	279
Alternative calculation of own funds requirements for exposures		
Exposures to non-QCCPs (total)		
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	229	15
(i) OTC derivatives		
(ii) Exchange-traded derivatives		
(iii) Securities financing transactions	229	15
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin		
Non-segregated initial margin		
Pre-funded default fund contributions		
Alternative calculation of own funds requirements for exposures		

Note: The status “qualified” is based on the European Securities and Markets Authority (ESMA) qualification. ING clears with the following QCCPs: Banque Centrale de Compensation SA, EUREX Clearing Aktiengesellschaft, KDPW CCP SA, LCH Clearnet Repoclear service and LCH Clearnet Swapclear service.

Voluntary and mandatory clearing has a large impact on the development of EAD and RWA. From an EAD perspective, it should be noted that many trades are concentrated in one netting set (per CCP service), compared to bilateral trading, where trades are ending up in various netting sets. Novating a bilateral traded contract to a CCP therefore typically reduces the amount of EAD.
From an RWA perspective, the novation reduces the amount of RWA even more, due to the fact that the risk weight is only 2% (for QCCP exposure).

During 2016, the total trade exposure EAD (post-credit risk mitigation) for QCCP’s has increased, due to the following reasons:

- Increased cleared trade volumes
- Cleared trades previously reported on INGs clearing brokers, are now reported on the CCP (where the “look-through” approach could be applied as described under CRR art. 305, 2/3).
- In 2016 ESMA has authorised new CCP’s (increase in number of Qualified CCPs). For this reason, the share of QCCPs in the total of cleared trades, has increased.

The trade exposure RWA has decreased, due to the following reasons:

- Exposure previously booked with the regulatory risk weight of the clearing broker, has now been given the 2% risk weight that applies to CCP exposure, based on the same “look-through” approach as described above.
- In 2016 ESMA has authorised new CCP’s (increase in number of Qualified CCPs). For this reason, the risk weight of the newly qualified CCPs could be reduced to 2%.

Note: The exposures to non-QCCPs are predominantly with the entity “The Options Clearing Corporation (OCC)”. Although this US based entity is qualified for the US regulator, it was not so for ESMA as of 31 December 2016.

Additional Pillar III information - continued

CVA risk

In 2014 CRR/CRD IV introduced an additional regulatory capital charge for material increases in the CVA, the market price of the credit risk of derivatives. In particular, as credit spreads of ING Bank's counterparties increase, CVA will increase as well and ING Bank will incur a loss. ING Bank follows the standardised approach for calculation of the capital charge to cover CVA Risk (CVA Capital) in accordance with the CRR/CRD IV. The scope of the products and counterparties that the CVA Capital charge is applied to also follows those regulations. The most important factors in the calculation of CVA Capital according to the standardised approach are the CVA Exposure, the CVA Risk Weight and the Maturity. The CVA exposure is similar to the READ, but includes collateral held under collateral agreements. The CVA Risk Weight is prescribed in regulation and depends directly on the risk rating of the counterparty. The Maturity used for CVA Capital is similar to the Maturity used in the calculation of Counterparty Default Risk, but without the 5 years cap.

CVA risk

	CVA Exposure	Average CVA Risk Weight	Average Maturity	CVA RWA
Interest Rate Derivatives	5,100	0.87%	4.13	2,280
FX Derivative	3,409	0.89%	1.76	722
Equity Derivative	1,128	0.93%	2.88	390
Commodity Derivative	46	0.96%	2,44	15
Credit Derivative	357	1.00%	3,12	149
Derivatives Other	55	0.84%	4.40	25
Securities Financing				
Total 2016	10,096	0.89%	3.15	**3,581**
Total 2015	11,680	0.89%	3.78	5,005

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

The average credit quality of ING counterparties did not change in 2016 thus the average risk weight remained constant during the period.
CVA Capital Maturity dropped in all the major product lines showing that some long term contracts were closed out and replaced by shorter maturity trades. Additionally the CVA capital was impacted by the regulatory exposure calculation methodology change for derivatives in Q4.
Exposure decreased by 13.6% on average compare to 2015. This reflects ING efforts to move trades to qualifying CCPs, where no CVA Capital charge is required. FX derivative portfolio is an exception where CVA exposure increased by 45% in 2016. This is explained by new client volume as well as expansion in one product (FX Swap) with key counterparties.

Credit default swaps

ING Bank participates in the credit risk derivative trading market, as a net purchaser of credit risk protection from other counterparties.

Credit derivative transactions used for own credit portfolio

Credit derivatives exposures

	Credit derivative hedges	
	Protection bought	Protection sold
Notionals		
Single-name credit default swaps	-1,973	513
Index credit default swaps	-	-
Total return swaps	-	-
Credit options	-	-
Other credit derivatives	-	-
Total notionals	**-1,973**	**513**
Fair values	-6	-1
Positive fair value (asset)	4	
Negative fair value (liability)	-9	-2

Credit derivative transactions used in intermediation activities

Credit derivatives exposures

	Credit derivative hedges	
	Protection bought	Protection sold
Notionals		
Single-name credit default swaps	-15,894	14,396
Index credit default swaps	-680	828
Total return swaps	-	-
Credit options	-	-
Other credit derivatives	-	-
Total notionals	**-16,574**	**15,224**
Fair values	-33	97
Positive fair value (asset)	114	179
Negative fair value (liability)	-148	-81

As of 30 December 2016, ING's credit derivative positions are mostly used in intermediation activities. The largest notional is under single-name credit default swap (CDS), and a small notional is under Index CDS. The largest contributor to the fair values comes from sovereign position, followed by corporates and financial institutions.
The remaining small portion of credit derivative positions are used for own credit portfolio. Only single-name CDS is used. The largest contributor to the fair values is from sovereign position, followed by corporates and financial institutions.
Compared to 2015, the absolute total notional for intermediation activities have increased in both protection bought and protection sold. For protection bought, the total fair value changed from positive in 2015 to negative in 2016, mainly due to the decrease in the fair value of the sovereign position. On the other hand, the fair value of protection sold changed from negative in 2015 to positive in 2016, mainly caused by the increase in the fair value of the sovereign and corporate positions.
For the own credit portfolio, the absolute notional amounts of both long and short CDS positions have increased compared to 2015. Especially, the notional for protection bought has increased significantly. The total fair value changed from positive in 2015 to negative in 2016, driven by the decrease in the fair value of the sovereign position and the negative fair value of the corporates exposure.

Credit risk mitigation

ING Bank's lending and investment businesses are subject to credit risk. As such, the creditworthiness of our customers and investments is continually monitored for their ability to meet their financial obligations to ING Bank. In addition to determining the credit quality and creditworthiness of the customer, ING Bank uses various credit risk mitigation techniques and instruments to mitigate the credit risk associated with an exposure and to reduce the losses incurred subsequent to an event of default on an obligation a customer may have towards ING Bank. The most common terminology used in ING Bank for credit risk protection is 'cover'. While a cover can be an important mitigant of credit risk and an alternative source of repayment, generally it is ING Bank's practice to lend on the basis of the customer's creditworthiness rather than exclusively relying on the value of the cover. Within ING Bank, there are two distinct forms of covers: assets and third party obligations.

Cover forms

Assets

The asset that has been pledged to ING Bank as collateral or security gives ING Bank the right to liquidate it in cases where the customer is unable to fulfil its financial obligation. As such, the proceeds can be applied towards full or partial compensation of the customer's outstanding exposure. An asset can be tangible (such as cash, securities, receivables, inventory, plant & machinery and mortgages on real estate properties) or intangible (such as patents, trademarks, contract rights and licenses).

Third party obligation

Third Party Obligation, indemnification or undertaking (either by contract and/or by law) is a legally binding declaration by a third party that gives ING Bank the right to expect and claim from that third party to pay an amount, if the customer fails on its obligations to ING Bank. The most common examples are guarantees (such as parent guarantees and export credit insurances) and letters of comfort.

Cover valuation methodology

General guidelines for cover valuation are established to ensure consistency of the application within ING Bank. These general guidelines also require that the value of the cover needs to be monitored on a regular basis, in principle at least annually. Covers shall be revalued accordingly and whenever there is reason to believe that the market is subject to significant changes in conditions. The frequency of monitoring and revaluation depends on the type of covers.

The valuation method also depends on the type of covers. For asset collateral, the valuation sources can be the customer's balance sheet (e.g. inventory, machinery, and equipment), nominal value (e.g. cash, receivables), market value (e.g. securities and commodities), independent valuer (commercial real estate) and market indices (residential real estate). For third party obligations, the valuation is based on the value which is attributed to the contract between ING Bank and that third party.

For the determination of the Credit Risk applicable amount for Pre-Settlement deals, ING Bank first matches the trades with similar characteristics to determine their eligibility for offsetting. This offsetting effect is called 'compensation'. Subsequently, ING Bank reduces the amount by any legal netting that may be permitted under various types of Master Agreements (such as ISDAs and GMRAs). Lastly, the amount is further reduced by any collateral that is held by ING Bank under CSAs or other similar agreements.

For the other risk types and especially lending, covers are received which is intended to reduce the losses incurred subsequent to an event of default on an obligation a customer may have towards ING Bank. These are subdivided into four groups called collateral values mortgages, cover values cash, cover value guarantees and other physical covers.

The table below presents the ING bank portfolio excluding equities per loan type. Exposures represent the outstandings and a loan is presented as secured by collateral or a guarantee if such a cover exists on a facility type. The secured amounts represent the part of the loan that is covered by the collateral. If a loan would have both collateral and a guarantee than these are both shown in the designated column.

Credit Risk Mitigations techniques – overview
Covers which are received are intended to reduce the losses incurred subsequent to an event of default on an obligation a customer may have towards ING Bank. These are subdivided into four groups called collateral values mortgages, cover values cash, cover value guarantees and other physical covers.

The table below presents the ING bank portfolio excluding pre-settlement, securitisations and equities. Exposures represent the outstandings and a loan is presented as secured by collateral or a guarantee if such a cover exists on a facility type. If a loan would have both collateral and a guarantee than these are both shown in the table below in the designated column.

EU CR3: Credit risk mitigation techniques - overview

	Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	142,167	463,478	437,601	82,905	0
Total debt securities	85,497	794	794	107	0
Total exposures	**227,664**	**464,272**	**438,395**	**83,012**	**0**
Of which defaulted	3,426	9,809	8,636	2,933	0

Includes the AIRB and SA portfolios and the Default Fund Contribution, excludes securitisations, CVA RWA, equities and ONCOA.

Maximum exposure to credit risk

The following table present our maximum exposure to Credit Risk in the AIRB and SA portfolios and associated collateral held and other credit enhancements (netting and collateral) that do not qualify for offsetting in our financial statements for the periods specified. The netting credit enhancement component includes the effects of legally enforceable netting agreement as well as the offset of negative mark-to-markets from derivatives against pledged cash collateral. The collateral credit enhancement component which is referred to as Cover Values mainly includes real estate, guarantees and collateral in the form of cash.

ING records collateral value per facility. Those figures are based on original cover values although some business units attempt to update to current market values. This is inherently difficult in volatile markets. Some facilities will have multiple levels of collateral while others have no collateral. The total figures may not reflect the collateral value per facility.

Additional Pillar III information - continued

Maximum Exposure to Credit Risk per 31 December 2016

	Pre-settlement				Cover Values	Cover Values	Cover Values	Cover Values	Cover Values
									Other
	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Outstanding of which pre-settlement	Total outstanding	Mortgages	Eligible Financial Collateral	Guarantees	Basel II eligible
AIRB									
Sovereigns	6,621	2,502	2,188	2,754	93,898	299	349	1,419	122
Institutions	147,239	41,669	30,302	30,598	73,390	483	14,922	3,929	2,666
Corporates	18,682	14,257	12,270	15,821	260,979	84,908	14,504	58,091	83,036
Res Mortgage secured					274,097	468,123	2,901	27,442	1,497
Other Retail	26	25	25	41	26,495		1,146	1,516	2,312
Securitisations	336	336	336	388	6,151				
Total AIRB	**172,903**	**58,788**	**45,120**	**49,602**	**735,010**	**553,813**	**33,822**	**92,397**	**89,633**
SA									
Sovereigns					2,466	50	2		
Institutions	676	565	91	73	2,316		474	151	
Corporates	305	270	270	323	12,705	8,127	145	411	
Res Mortgage secured					7,824	17,494	18		
Other Retail	3	3	3	6	10,414		201	395	
Total SA	**984**	**838**	**364**	**402**	**35,726**	**25,671**	**840**	**957**	
Total Bank	**173,887**	**59,626**	**45,484**	**50,003**	**770,736**	**579,484**	**34,662**	**93,354**	**89,633**

Excludes equities exposure

The ING Bank portfolio is characterised by significant amounts of secured lending especially in the key areas of residential and commercial mortgages, structured finance and leasing. Amount of collateral often has a significant impact on provisioning and LGD which directly affects risk density. The cover values are pre-haircut but indexed values and exclude any cost of liquidation. Covers can either be valid for all limits, sub-limits or a particular outstanding of a borrower, the latter being the most common. The guarantees for the same portfolio relate to mortgages covered by governmental insurers under the Nationale Hypotheek Garantie (NHG) in the Netherlands.

The Risk Management Paragraph of the Annual Report includes an extensive cover section where exposures are categorised into different Value-to-Loan (LTV) buckets which gives insight in the level of collateralisation of ING Bank's portfolio.

Exposures secured by guarantees received

From time to time, ING Bank extends loans for which it receives a specific financial guarantee from a non-related counterparty or obligor. The figures in the table below represent the READ that has been guaranteed by these non-related parties. It does not include non-guaranteed amounts. For example, if a given credit risk is only partially guaranteed by a third party then only the portion of the amount which is guaranteed is included in the figures. For the Residential Mortgages portfolio the guarantees relate to mortgages covered by governmental insurers under the Nationale Hypotheek Garantie (NHG) in the Netherlands. The NHG guarantees the repayment of a loan in case of a forced property sale.

Exposures secured by third party guarantees received

						2016	2015
	Sovereigns	Institutions	Corporate	Secured by Res. Mortgage	Other retail	Total	Total
Under AIRB Approach	1,419	3,929	58,091	24,858	4,100	92,397	86,826
Total	1.5%	4.3%	62.9%	26.9%	4.4%	100.0%	100.0%

Includes AIRB portfolio only; excludes securitisations, equities and ONCOA.

These figures exclude any guarantees which are received from a party related to the obligor, such as a parent or sister company. The figures also exclude any guarantees that may be implied as a result of credit default swap activities. The figures do include amounts that are guaranteed through an unfunded risk participation construction. The overall level of third party guarantees received increased over the year. However, there were opposite movements within the portfolios. An increase of EUR 6.2 billion was observed in the Corporates portfolio, while the rest of the portfolios witnessed decreases mainly driven by the EUR 4.3 billion decrease in the Residential Mortgages.

Maturity profile

Outstandings by tenor bucket

The table below shows the outstanding of ING Bank by run-off profile. The figures assume that no new credit risks are introduced into the portfolio and that there are no delays in repayments associated with non-performing loans, nor are there write offs associated with provisions. The portfolio tenor is implied by the difference in the figures between two periods.

The assumption is that loans, money market and investments in fixed income securities are fully repaid at their maturity dates and that limits are reduced in conjunction with repayment schedules contained in the associated loan documentation, without regard for potential renewal or extension, or portfolio sales or acquisitions. Pre-Settlement risks are assumed to reduce over the legal maturity of the underlying transactions. However, under mark-to-market plus add-on methodology, it is possible for exposures to increase in time, rather than decrease. This is a function of ING Bank's estimates of future interest rates and foreign exchange rates, as well as potential changes in future obligations that may be triggered by such events. Generally, credit risk outstandings are lower than READ.

Due to an inflow of longer term and an outflow of shorter term lending assets in the bank portfolio, there is a relative increase in assets having a tenor of 5 years and over.

Outstandings by tenor buckets (credit risk outstandings)

						2016	2015
	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
Current Outstandings	96,365	75,396	265,637	278,576	34,965	750,939	733,880
1 month	82,440	54,913	255,661	278,183	34,734	705,931	683,140
3 month	80,296	47,282	240,627	277,271	34,461	679,937	660,550
6 month	79,703	43,501	225,337	275,752	33,977	658,270	641,577
1 year	72,314	37,135	188,744	272,152	30,175	600,520	572,739
2 years	69,309	31,565	151,999	267,435	25,652	545,960	516,076
3 years	67,818	26,484	120,881	262,002	22,773	499,958	472,762
5 years	65,606	19,109	65,863	247,067	15,479	413,124	378,167
7 years	61,933	16,732	36,836	232,252	10,144	357,898	314,117
10 years	59,237	14,304	18,355	202,798	6,503	301,196	240,312

Includes AIRB portfolio only; excludes securitisations, equities and ONCOA.
Non-performing loans (rating 20-22) are excluded in the figures above.

Securitisations

The following information is prepared taking into account the 'Industry Good Practice Guidelines on Pillar III disclosure requirements for securitisations' (the Guidelines) issued by the European Banking Federation and other industry associations on 31 January 2010 and the CRR/CRD IV disclosure requirements. It includes qualitative and quantitative disclosures addressing both the exposure securitised as well as securitisations positions held. While quantitative disclosures are limited to those securitisations that are used for the purpose of calculating the regulatory capital requirements under the CRR/CRD IV, qualitative information have a broader scope and give a view on ING Bank's entire securitisation activity.

Depending on ING Bank's role as investor, originator, or sponsor the objectives, the involvement and the rules applied may be different. ING Bank is primarily engaged in securitisation transactions in the role of investor (in securitisations arranged by others). To a lesser extent, ING Bank is also an originator or sponsor of securitisations that are usually traded in the public markets. ING does not re-securitise its securitisations exposure and even though ING bank hedges its securitisation positions, such instruments are not recognized as credit risk mitigants for regulatory capital purposes.

Valuation and accounting policies

ING Bank's activities regarding securitisations are described in Note 48 'Structured entities' in the annual accounts. The applicable accounting policies are included in the section 'Accounting policies for the consolidated annual accounts of ING Bank' in the annual accounts. The most relevant accounting policies for ING Bank's own originated securitisation programmes are 'Derecognition of financial assets' and 'Consolidation'. Where ING Bank acts as investor in securitisation positions, the most relevant accounting policy is 'Classification of financial instruments'.

Regulatory capital method used and Rating Agencies

ING Bank has implemented the AIRB approach for credit risk. As a consequence, ING Bank uses the Rating Based Approach (RBA) for investments in tranches of asset-backed securities (ABS) and mortgage-backed securities (MBS) which have been rated by external rating agencies. Rating agencies which are used by ING Bank under the RBA include Standard & Poor's, Fitch and Moody's. The securitisation exposure for which each rating agency is used is given in the following table. In case of multiple ratings, the worst rating is used

ING Bank uses the Internal Assessment Approach (IAA) for the support facilities it provides to Asset Backed Commercial Paper (ABCP) conduit Mont Blanc Capital Corp., based on externally published rating agency methodologies. Under the IAA approach, the unrated position is assigned by the institution to an internal rating grade, which is estimated using an ING developed model. The position is then attributed a derived rating by mapping the internal rating grade to an externally published credit assessments corresponding to that rating grade.

Securitisation exposure per rating agency used

						2016	2015
	S&P	Fitch	Moody's	IAA approach	Other	Total	Total
Asset Backed Securities	1,716	2,000	160	0	0	**3,875**	3,056
Residential Mortgage Backed Securities	393	990	166	0	0	**1,549**	3,331
Securitisation Liquidity	0	0	0	720	0	**720**	846
Interest Rate Derivatives	0	0	0	330	0	**330**	423
Other	32	7	10	401	0	**450**	474
Total	**2,141**	**2,996**	**336**	**1,451**	**0**	**6,924**	**8,130**

Under the RBA, the risk-weighted assets (RWA) are determined by multiplying the amount of the exposure by the appropriate regulatory risk weights, which depend on: the external rating or an available inferred rating, the seniority of the position and the granularity of the position.

Securitisations - credit risk disclosure in READ

	2016	2015	Delta %
Geography	**6,924**	**8,130**	**-17.4%**
America	2,908	3,388	-16.5%
Asia	35	38	-9.6%
Australia	19	13	31.9%
Europe	3,962	4,692	-18.4%
Europe	3,962	4,692	-18.4%
Germany	1,556	888	43.0%
Netherlands	943	768	18.5%
Spain	730	1,452	-98.9%
United Kingdom	463	919	-98.6%
Rest of Europe	269	664	-146.6%
Product Type	**6,924**	**8,130**	**-17.4%**
Asset Backed Securities	3,875	2,897	25.2%
Residential Mortgage Backed Securities	1,549	3,286	-112.2%
Securitisation Liquidity (1)	720	846	-17.5%
Interest Rate Derivatives	330	423	-28.1%
Other	450	678	-50.8%
Exposure Class (2)	**6,924**	**8,130**	**-17.4%**
Securitisation Investor	5,476	6,442	-17.6%
Securitisation Sponsor	1,448	1,688	-16.6%

Excludes equities and ONCOA.
1 These are structured financing transactions by ING for clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to an SPV.
2 Securitisation benefits are excluded. Own originated securitisations are explained in a separate section.

During 2016 the exposure to securitisations decreased from EUR 8.1 billion to EUR 6.9 billion mainly caused by repayments in the RMBS portfolio. The biggest increase was observed in the exposure in German assets. During 2016 the liquidity portfolio in ABS grew moderately mainly in Auto-ABS from Western Europe, the majority of Auto-ABS is based on German Assets. All assets in the securitisation portfolio are performing.

Investor securitisations

ING Bank's goal is to maintain a portfolio of high quality liquid assets that meets the regulatory requirements of CRR/CRD IV and the Delegated Act of October 2014 regarding liquidity. ING invests in high quality Residential Mortgage Backed Securities (RMBS) and Asset Backed Securities (ABS) keeping close track of the securitisation investment positions via monthly monitoring reports and weekly update calls. Additionally, ING may invest in securitisation positions in order to facilitate client business from its Global Capital Markets Unit.

In the table below, the investor securitisations are given, broken down by underlying exposure.

Additional Pillar III information - continued

Investor securitisation activities

			2016	2015
	Traditional	Synthetic	Total	Total
Retail	**4,617**		**4,617**	**6,114**
Of which residential mortgage	1,568		1,568	3,340
Of which credit card				
Of which other retail exposures	3,049		3,049	2,774
Of which re-securitisation				
Wholesale	**859**		**859**	**327**
Of which loans to corporates	10		10	18
Of which commercial mortgage	32		32	36
Of which lease and receivables	817		817	274
Of which re-securitisation				
Total	**5,476**		**5,476**	**6,442**

In 2016 the securitisation activities with underlying retail exposure decreased by EUR 1.5 billion to EUR 4.6 billion, while the securitisations with underlying Wholesale Banking exposure increased by EUR 0.5 billion to EUR 0.9 billion.

The following table provides the breakdown of current exposures by risk weight bands. The amount of securitisation positions is based on the regulatory exposure values calculated according to the CRR/CRD IV after consideration of credit conversion factors (CCFs) where applicable as used for the purpose of Pillar I, but prior to the application of credit risk mitigates on securitisation positions. Given the focus on high quality securitisations the portfolio composition is shifting to the lower risk band.

Investor securitisation activities

	2016		2015	
	READ	RWA	READ	RWA
Risk weight band 1 <= 10%	5,112	383	5,493	421
Risk weight band 2 >10% and <= 18%	147	21	146	19
Risk weight band 3 >18% and <= 35%	191	41	419	116
Risk weight band 4 >35% and <= 75%	1	0	289	165
Risk weight band 5 >75% and <1250%	7	18	23	50
Risk weight 1250%	19	232	72	903
Total	**5,476**	**695**	**6,442**	**1,674**

Capital requirements for investment positions in securitisations

		Traditional securitisation			Total exposure 2016	Total exposure 2015
		Total traditional	Of which retail underlying	Of which non-retail underlying		
Exposure values (by RW bands)	<= 20% RW	5,303	5,271	32	5,303	5,835
	>20% to 50% RW	147	147	0	147	237
	>50% to 100% RW	4	4	0	4	288
	>100% to <1250% RW	3	3	0	3	10
	1250% RW	19	19	0	19	72
	Total	**5,476**	**5,444**	**32**	**5,476**	**6,442**
Exposure values (by regulatory approach)	IRB RBA (incl. IAA)	5,457	5,425	32	5,457	6,370
	1250% Risk Weight	19	19	0	19	72
	Total	**5,476**	**5,444**	**32**	**5,476**	**6,442**
RWA (by regulatory approach)	IRB RBA (incl. IAA)	462	456	7	462	772
	1250% Risk Weight	232	232	0	232	903
	Total	**695**	**688**	**7**	**695**	**1,674**
Capital charge after cap	IRB RBA (incl. IAA)	37	36	1	37	62
	1250% Risk Weight	19	19	0	19	72
	Total Capital	**56**	**55**	**1**	**56**	**134**

Excludes equities and ONCOA. ING does not have any re-securitisation in its books.

In the table above an overview of Investor Securitization exposures and their respective capital requirements are shown. In line with ING's policy and Risk Appetite the vast majority of positions are rated AA- and above, and almost the entire portfolio remains within the investment grade. Positions that have deteriorated in credit quality have been adequately provisioned and have been reduced significantly.

Sponsor securitisations

In the normal course of business, ING Bank structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to a Special Purpose Vehicle (SPV). The senior positions in these transactions are funded by the ING administered multi seller Asset Backed Commercial Paper (ABCP) conduit Mont Blanc Capital Corp. (rated A-1/P-1). Mont Blanc Capital Corp. funds itself externally in the ABCP markets.

In its role as administrative agent, ING Bank facilitates these transactions by acting as administrative agent, swap counterparty and liquidity provider to Mont Blanc. ING Bank also provides support facilities (liquidity) backing the transactions funded by the conduit. The types of asset currently in the Mont Blanc conduit include trade receivables, consumer finance receivables, car leases and residential mortgages.

ING Bank supports the commercial paper programmes by providing Mont Blanc Capital Corp. with short-term liquidity facilities. Once drawn these facilities bear normal credit risk.

The liquidity facilities, provided to Mont Blanc are EUR 812.3 million. There was no drawn liquidity amount at 31 December 2016. Mont Blanc has no investments in securitisation positions that ING Bank has securitised.

The standby liquidity facilities are reported under irrevocable facilities. All facilities, which vary in risk profile, are granted to the SPE subject to normal ING Bank credit and liquidity risk analysis procedures. The fees received for services provided and for facilities are charged subject to market conditions. Mont Blanc is consolidated by ING Bank. These transactions are therefore on-balance sheet arrangements.

In line with the Internal Assessment Approach, which has been approved for use by ECB for ING in relation to the ING sponsored ABCP conduit, Mont Blanc Capital Corp, the credit quality of the positions are internally assessed by following publicly available assessment methodology of external rating agencies. This includes differing stress factors for different asset classes as outlined by rating agencies as well as assessing the entire structure of the transaction including additional quantitative and qualitative features. This will result in the calculation of a certain credit enhancement. Other protections in a transaction (eligibility criteria, early amortization triggers, commingling protections etc.) are factored in that results in an internal rating. This rating is then directly mapped to an external rating for the liquidity facilities provided by ING to support the transactions and is outlined in a defined approach. Any changes to rating agency methodology is tracked annually with a procedure in place with the credit risk measurement department verifying that any changes are captured in an update to the approach.

The credit approval process for individual transactions follows ING's standard credit approval procedures. At inception, initial data is required to be received outlining the historical performance of the assets. Due diligence is carried out on the underlying asset pool. Following ING policy, each transaction is reviewed (including reassessing the internal assessment approach analysis for that transaction) on at least an annual basis or on a more frequent basis if deemed necessary. The performance of each transaction is closely monitored on an ongoing basis through a.o. detailed transaction reports.

Originator securitisations

ING Bank originates own securitisation transactions for economic and regulatory capital purposes, as well as liquidity and funding purposes. As of 31 December 2016, there were no synthetic transactions.

Liquidity and funding

Although the most senior tranches in securitisations are no longer efficient to release regulatory capital under CRR/CRD IV, they are used to obtain funding and improve liquidity. To be eligible as collateral for central banks securitised exposures must be sold to a Special Purpose Vehicle (SPV) which, in turn, issues securitisation notes ('traditional securitisations') in two tranches, one subordinated tranche and one senior tranche, rated AAA by a rating agency. The AAA tranche can then be used by ING Bank as (stand-by) collateral in the money market for secured borrowings.

ING Bank has created a number of these securitisations with a 31 December 2016 position of approximately EUR 75.5 billion of AAA rated notes and unrated subordinated notes. The underlying exposures are residential mortgages in the Netherlands, Germany, Belgium, Spain, Italy and Australia and SME Loans in the Netherlands and Belgium.

As long as the securitisation exposures created are not transferred to third parties, the regulatory capital remains unchanged. These are not detailed hereunder. Apart from the structuring and administration costs of these securitisations, these securitisations are profit / loss neutral.

Additional Pillar III information - continued

Simple risk weight method

A small part of ING's portfolio – some of the equity exposure – is subject to the simple risk weight method for calculating the regulatory capital. The table below shows more details on the equity exposure for which this method is used.

Equity exposure – Simple risk weight approach

	On balance sheet amount		Off balance sheet amount		RW	Exposure amount		RWA		Capital requirements	
	2016	2015	2016	2015		2016	2015	2016	2015	2016	2015
Exchange traded equity exposures	770	1,224	-	-	290%	770	1,224	2,233	3,548	179	284
Private equity exposures	490	556	-	-	190%	490	556	930	1,057	74	85
Other equity exposures	-	-	-	-	370%	-	-	-	-	-	-
Total	1,260	1,780	-	-		1,260	1,780	3,163	4,605	253	368

In September 2016 ING announced the sale of 46.7 million ordinary shares of Kotak Mahindra Bank (Kotak). The sale reduced ING's stake in Kotak from 6.4% to 3.9%. ING obtained its stake in Kotak through the merger of ING Vysya Bank with Kotak Mahindra Bank, which was effective from 1 April 2015. This transaction significantly reduced ING equity exposure amount and as a result the RWA.

Market risk

Market RWA under the internal model approach (IMA)

The table below explains the changes in Market RWA under the internal model approach (IMA) during 2016 and provides additional information by linking the impact of changes in portfolio composition, model changes and shifts in the risk environment on Market RWA.

EU MR2-B: RWA flow statements of market risk exposures under the IMA

amounts in EUR millions

		VaR	SVaR	IRC	CRM	Other	Total RWA	Total capital requirements
1	RWA at previous year end	1,797	2,931	3,579			8,307	665
1a	*Regulatory adjustment*	1,262	1,962	239			3,464	277
1b	*RWA at previous year-end (end of the day)*	535	969	3,339			4,844	387
2	Movement in risk levels	-86	85	-1,839			- 1,840	-147
3	Model updates/changes							
4	Methodology and policy							
5	Acquisitions and disposals							
6	Foreign exchange movements							
7	Other							
8a	*RWAs at the end of the reporting period (end of the day)*	449	1,054	1,500			3,003	240
8b	*Regulatory adjustment*	674	1,492	409			2,575	206
8	RWA at the end of the reporting period	1,123	2,546	1,910			5,579	446

* It is required to fill in Rows 1a/1b and 8a/8b when the RWA/capital requirement for any of the columns (VaR, SVaR, IRC) is the 60-day average (for VaR and SVaR) or the 12-week average measure (for IRC) and not the RWA/capital requirement at the end of the period. According to regulatory guidelines the values in rows 1a/8b are calculated as differences between values in rows 1 and 1b and 8 and 8a, respectively.
** Movement in risk levels: Changes due to position changes between end-of-day values for two reporting periods in question.

Key changes

Over the year, the ING Bank Market RWA under Internal Model Approach decreased by EUR 2.7 billion to EUR 5.6 billion, the key changes being a decrease in exposures to sovereign issuers that decreased IRC, and a change in risk positions during 2016 that resulted in decreases in VaR and Stressed VaR. The main changes in risk positions throughout the year were in equity derivatives portfolio and CVA hedge portfolio. The CVA hedges are capitalized under market risk framework, while CVA is capitalized under credit risk framework according to Basel rules.

Disclosures on Market risk under Internal Model Approach (table EU MR2-A), Internal Model Approach values for CAD2 trading portfolios (table EU MR3) and Market risk under Standardised Approach (table EU MR1) are presented in "Market risk in trading books" section of the Annual Report.

Economic capital for market risk

Economic capital for market risk is the economic capital necessary to withstand unexpected value movements due to changes in market variables and model risk.

Risk profile

Economic and Regulatory Capital by risk type

	Economic capital		Regulatory capital	
	2016	2015	2016	2015
Trading	224	307	446	665
Interest rate risk in the banking books	3,651	3,555		
Foreign exchange	556	894	87	106
Real Estate	230	369		
Equity Investments*	3,313	3,456		
Market risk	**7,974**	**8,581**	**533**	**771**

* Regulatory capital for equity investments are reported under credit risk regulatory capital.

The market risk Economic Capital is higher than the Regulatory Capital primarily due to the inclusion of the interest rate risk in banking books and equity investments in Economic Capital. The main drivers of the Market Risk Economic Capital are the linear interest rate risk positions of Capital Investments and the strategic Equity Investments in the banking books.

Year-on-year variance analysis
During 2016, market risk economic capital decreased from EUR 8.6 billion to EUR 8.0 billion. The main driver of the decrease is the sale of shares in Kotak Mahindra Bank, with a value of 490 million euro. The foreign exchange Economic Capital also decreased markedly, mainly due to the position change in INR, GBP and USD currencies, and the lower volatility (of CNY, RUB and USD) in the time period used in the Historical Value-at-risk calculation..

Capital at Risk
Capital at Risk measures the impact of predefined instant shocks of market risk factors such as interest rates, credit spreads, foreign exchange rates, equity prices and real estate prices on the volatility of IFRS-EU and common equity Tier-1.

Main Drivers
The main market risk sensitivities of capital are interest rate and credit spread driven, resulting from cash flow hedges and available for sale debt securities. Furthermore the sensitivity of the currency translation reserve is an intended open position to stabilise the common equity tier1 ratio for foreign exchange movements, as the RWA are impacted as well by these market movements.

Risk profile

Capital Elements & Market Risk Impact on Capital

Market Risk Sensitivity (before tax)			Interest Rate	Credit Spread	Equity Prices	Real Estate	Foreign Exchange
	IFRS-EU	CRR/CRD IV*	+100bp	+40bp	–10%	–10%	+10%
Capital elements							
Reserve							
Property revaluation reserve	●	●				-88	
Cash flow hedge reserve	●		-2,057				
Available-for-sale reserve							
– Debt securities	●	●	-521	-1,263			
– Equity securities	●	●			-391		-368
Currency translations reserve	●	●					-972
P&L							
All items impacting P&L, excluding DVA	●	●	-48	-73	-88	-16	-144
DVA own issued debt/structured notes	●			165			
DVA derivatives	●		-1	45			-3
Impact on capital							
IFRS-EU Equity			-2,627	-1,126	-479	-104	-1,486
Common equity Tier 1 (CRR/CRD IV, fully loaded)			-569	-1,336	-479	-104	-1,483

* CRR/CRD IV on a fully loaded basis, no phase in assumed.
● Indicates the item has an impact on the capital as indicated in that column.

Additional Pillar III information - continued

Revaluation Reserve Impact

The revaluation reserve for real estate, debt securities, equity securities and for currency translations will be part of CRR/CRD IV equity. The revaluation reserve for cash flow hedges will not be part of CRR/CRD IV equity. The interest rate sensitivity shown for debt securities is the unhedged interest rate sensitivity, i.e. debt securities in hedge accounting relations are excluded.

P&L Impact

Items on fair value which revalue through P&L, excluding debit valuation adjustments, impact IFRS-EU equity as well as CRR/CRD IV equity. Debit valuation adjustments of own issued debt only impacts IFRS-EU equity and not CRR/CRD IV equity. Debit valuation adjustments of derivatives will not be part of CRR/CRD IV equity.

Funding & liquidity risk

Funding and liquidity risk is the risk that ING Group or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner.

To protect ING Bank and its depositors against liquidity risks, ING Bank maintains a liquidity buffer, which is based on the liquidity needs across all entities under stressed conditions. ALCO Bank ensures that sufficient liquidity is maintained, in accordance with Bank and regulatory rules and standards, including a buffer of unencumbered, high quality liquid assets.

As part of the liquidity buffer management, ING Group also monitors the existing asset encumbrance. Encumbered assets represent the on- and off-balance sheet assets that are pledged or used as collateral for ING Group's liabilities. The presented templates of ING Group's encumbered and unencumbered assets are based on the CRR (Part Eight) and the related guidance from the European Banking Authority (EBA).

In 2016, the median asset encumbrance ratio for ING Group was 19% compared to 18% in 2015.

Asset encumbrance ING Group

2016 median in EUR million	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of ING Group	106,258		763,461	
Equity instruments	5,450	5,450	8,583	8,583
Debt securities	15,782	15,745	99,422	99,391
Other assets	706		74,414	

Asset encumbrance ING Group

2015 median in EUR million	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of ING Group	104,305		752,873	
Equity instruments	6,551	6,551	12,326	12,326
Debt securities	11,477	11,394	106,771	106,697
Other assets	660		70,536	

Collateral received ING Group

2016 median in EUR million	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by ING Group	79,098	34,397
Equity instruments	12,339	3,357
Debt securities	66,759	30,920
Other collateral received		120
Own debt securities issued other than own covered bonds or ABSs		

Additional Pillar III information - continued

Collateral received ING Group

2015 median in EUR million	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by ING Group	69,988	40,384
Equity instruments	16,076	5,891
Debt securities	53,911	34,033
Other collateral received		460
Own debt securities issued other than own covered bonds or ABSs		

Encumbered assets/collateral received and associated liabilities ING Group

2016 median in EUR million	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	116,394	162,319

Encumbered assets/collateral received and associated liabilities ING Group

2015 median in EUR million	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	108.536	146.697

Information on importance of encumbrance ING Group

ING Group manages it balance sheet prudently whereby a variety of funding sources is readily available. Given this situation, the level of encumbrance of ING Group's balance sheet is relatively low.

Encumbered assets on ING Group's balance sheet comprise to a large extent mortgages and other loans which are used as cover pool for covered bond programs issued by subsidiaries in the Netherlands, Belgium and Germany, as well as external securitisations and other types of collateralized deposits. Of the total encumbered assets of the Group, EUR 77 billion are loans and advances, mostly mortgages, that serve as collateral for these type of liabilities. The cover pool assets are not considered encumbered when the securities are retained within ING Group. The issued securitisations and especially the covered bonds have over collateralisation, meaning that the assets in the cover pool are higher than the issuance.

Furthermore, assets are encumbered as a result of the repo- and securities lending business and cash and securities collateral posted for derivative and clearing transactions in which pledging collateral is a requirement. As part of its normal securities financing and derivatives trading activities ING enters into standard master agreements such as ISDA and Global Master Repurchase Agreements (GMRA), which contain Credit Support Annexes (CSA) or other similar clauses. Under the terms of these contracts ING could be required to provide additional collateral in the event ING is downgraded by one of the established rating agencies. Refer to the paragraph Counterparty Credit Risk.

The main part of ING Group's repo- and reverse repo activities are short-term dated. Repo transactions are mostly conducted with securities which have been obtained as collateral in reverse repo transactions, which are not recognized on the balance sheet. Where securities recognized on the balance sheet have been used in a repo transaction, these remain recognized on the balance sheet and are reported as encumbered. Of the unencumbered other assets included in the table 'Assets', the vast majority of the assets is not available for encumbrance. This category comprises assets such as derivative receivables, tax assets, property and equipment, intangible assets and investments in associates and joint ventures.

Non-Financial Risk

The table below shows the distribution of the gross loss amount for non-financial risk events by the Basel risk categories. The Basel risk categories (i.e. Basel event type classifications) include the risk areas set out in the Non-Financial Risk chapter. The event loss is presented in the year of discovery of the individual events.

Additional Pillar III information - continued

Distribution of gross loss* by risk category	2016	2015**
Business disruption and systems failures	1	4
Clients, products and business practices	10	207
Damage to physical assets	5	3
Employment practices and workplace safety	3	38
Execution, delivery and process management	68	29
External fraud	63	38
Internal fraud	2	3
Total	**152**	**322**

* Loss amounts for events with an individual loss ≥ €10,000.
** Due to recoveries and the development of loss amounts over time, the figures of previous years can be subject to change.

In 2016, losses occurred mainly in the risk categories *Execution, delivery and process management* and *External fraud*. Over 50% of losses for *Execution, delivery and process management* were from multiple events in the home markets of the BeNeLux countries. For *External fraud,* 60% of losses were caused by two events in Wholesale Banking.
In 2015, losses were mainly in the category *Clients, products and business practices.* This was mostly related to the compensation of Small and Medium-sized Enterprise (SME) customers with Interest Rate Derivative contracts in the Netherlands. These contracts were all sold before 2012.

Whistleblower

ING deems it important that any employee can report, anonymously or not, alleged irregularities ('Concerns') regarding accounting or auditing matters, as well as Concerns of a general, operational and financial nature within the company, in accordance with its Whistleblower Policy. ING exercises the utmost care with regard to the confidentiality of such a report or the anonymity of the employee, within the limits as defined by applicable laws and regulations. ING will not discharge, demote, suspend, threaten, harass or in any other way harm the employment status of a Whistleblower who has reported a Concern in good faith or of an employee who participates or has participated in an investigation following a reported Concern.

Concerns are recorded in accordance with specific categories, as represented in the table. The Concerns are reported periodically (in numbers and on content, if necessary) via the Head of Compliance up to the level of the Supervisory Board.

Whistleblower concerns		
Number of cases	2016	2015
Breach of Orange code or unethical behaviour	37	14
Fraud / Theft	3	13
Privacy or (client) confidentiality	3	2
Bribery / Corruption	5	2
Other breach of any external law / regulation	42	39
Retaliation		1
Total	**90**	**71**

Non-financial appendix

Reporting principles

We aspire to present a balanced and comprehensive overview of our financial and non-financial performance. We disclose data on our financial performance as well as the impact of our organisation on society and the environment. We report performance data on areas of our business and operations where we can have a material impact both inside the organisation and externally. The Executive Board and the Supervisory Board are the highest bodies to review and approve our Annual Report including disclosure on all material topics.

The high-priority material topics identified and disclosed in our materiality assessment are reported on in the relevant sections of the Annual Report including this appendix. For a detailed description of data-gathering scope and process on specific data points, please refer to the Non-financial data reporting protocol (www.ing.com/16ar1). This provides the definitions on performance indicators and describes the internal data-gathering process. Compared to previous year, no significant changes were observed in definitions and measurement methods.

Progress report

Progress report

Our goals	Our performance in 2016
Accelerating financial empowerment	
We aim to achieve number-one net promoter score (NPS) ranking compared to our main competitors in each of our retail banking markets	We achieved number one Net Promoter Scores (NPS) in 7 of our 13 major retail markets
We set an ambition to make 25 million people feel financially empowered by 2020	ING's financial empowerment activities aim to help people in make better financial decisions. In 2016, 23.9 million people felt financially empowered
Through our "Power for Youth" partnership with UNICEF, we aim to reach 335,000 adolescents in six less-developed countries by 2018, helping them to develop the social and financial knowledge and skills needed to build a brighter future	Power for Youth" partnership reached a total 95,227 adolescents since 2015
Accelerating sustainable transitions	
Sustainable assets under management: we aim to increase our sustainable assets under management	At the end of 2016, sustainable assets under management (SAuM) for customers were EUR 3,306 million, up from EUR 2,573 million in 2015
We set an abmition to increase our sustainable transitions financed (STF) to EUR 35 billion by 2020	Sustainable transitions financed (STF) increased to EUR 34.3 billion
People	
Our employee engagement score is above 70% (bi-annual)	ING achieved an overall engagement score of 77% exceeding the 70% target it had set
We aim to further invest in the personal and professional development of our employees	EUR 70 million spent on training and development
Improving environmental performance	
We will reduce our total global CO_2e emissions by 18% by 2017 and 20% by 2020 (compared to 2014)	The total extrapolated amount of carbon emissions decreased by 27% from 101 to 74 kilotonne CO_2e
We will procure 100% renewable electricity for all ING buildings where we have management control worldwide by 2020.	Our share of renewable electricity increased by 14% compared to our base year to 91% of our total global electricity use.

Finding out what matters the most

To improve as an organisation, we need to identify and understand the most important issues for our stakeholders and how these relate to the actions and decisions that we take. Our regular materiality assessment results guide us in our strategic decision-making, stakeholder engagement agenda and reporting framework.

For the 2015 materiality assessment, ING reached out to senior management and six stakeholder groups (business and retail customers, investors, NGOs, regulators and employees) in five countries. In total, over 1,500 respondents from the Netherlands, Poland, Germany, Spain and Turkey provided us with insights into the topics that matter most to them.

Non-financial appendix - continued

The topics were based on an extensive analysis of issues that either ING can impact through our business and strategy, or that can impact ING's own business. These topics were checked against ING's own risk assessment as well as guidelines from international bodies such as GRI G4 and the Sustainability Accounting Standards Board (SASB).

Materiality research is constantly evolving, and we updated our methodology in 2016. We chose for the best of both worlds by combining quantitative and qualitative assessment. Adding a qualitative check to the quantitative outcome of 2015:
- adds to the validity of the results and increased understanding of stakeholder priorities;
- does justice to the goal of materiality, to check if we as a company and our stakeholders are truly aligned on material topics;
- provides us with the opportunity to have an in-depth conversation with several stakeholder groups at once.

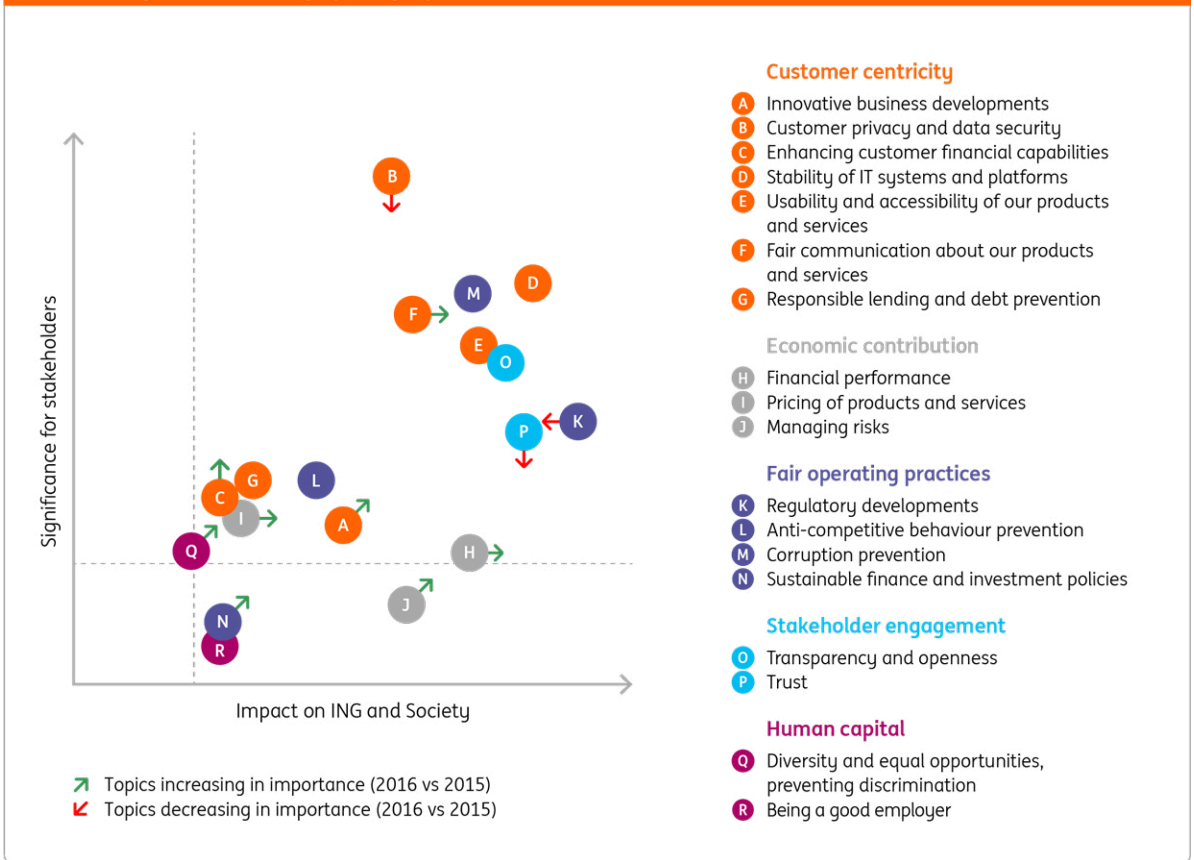
The qualitative approach we took in 2016 included an external stakeholder dialogue and internal interviews. ING reached out to senior management and seven stakeholder groups: business and retail customers, NGOs, academics, shareholders, employees and regulators. All were asked to score the material topic in importance; to find consensus on one or two action points for ING to work on in the near future. They were also asked to provide their input on potential emerging topics for ING and for society.

In addition, a media, trend and peer analysis was performed to capture emerging topics and to ensure the topics reported in 2015 are still relevant. The results from these analyses were discussed during external stakeholder dialogue and internal interviews and served as a basis for drafting the 2016 materiality matrix. Our materiality assessment approach and results are discussed and approved at the board level.

The materiality matrix below shows senior management's views on the horizontal axis and our stakeholders' views on the vertical axis.

More information on the process can be found at www.ing.com/16ar10

Our materiality matrix 2016 – high-priority topics for our stakeholders and ING



The position of the material topics is based on 2015 materiality assessment. The arrows indicate 2016 outcomes, demonstrating whether a topic is increasing or decreasing in importance.

Economic value generated

ING contributes to the economies of more than 40 countries where we operate. In addition to this, we aim to align the disclosures with the Global Reporting Initiative (GRI) G4 guidelines.

Economic value generated and distributed from continuing operations

in EUR million		Economic value		
Stakeholder group	**Indicator**	2016	2015	2014
Suppliers	Operating cost[1]	2,280	2,274	2,159
Employees	Staff expenses[2]	5,039	4,972	5,788
Shareholders	Net result from continuing operations[3]	4,210	4,466	2,657
Governments	Corporate income tax and bank taxes[4]	1,970	1,881	1,459
Community	Total donations	13.6	12.7	11.3

1 Refer to note 27 of the ING Group Consolidated Annual Accounts 2016. Includes: Computer costs, office expenses, travel and accommodation expenses, advertising and public relations, external advisory fees, audit and non-audit services and postal charges.
2 Refer to note 26 of the ING Group Consolidated Annual Accounts 2016.
3 Refer to the P&L of the ING Group Consolidated Annual Accounts 2016 in the Annual Report 2016.
4 Refer to note 27 and 36 of the ING Group Consolidated Annual Accounts 2016.

Business

Most of ING Bank's activities serve the financing and investment needs of households and companies, other financial institutions and governments. We allocate 39.3% of the balance sheet to private individuals in the form of mortgages and other types of loans. This exposure has minimal environmental risk implications. Some 34.6% of our assets is allocated to meet the financing needs of corporates. In response to what stakeholders and society ask of us with regard to transparency, the tables on the next pages provide insight into the different sectors we finance and how we apply our Environmental and Social Risk Framework.

Credit risk portfolio per client segment

in percentage	2016		2016		2016
ING Bank		**Governments**		**Financial institutions**	
Governments	9,8%	Bonds – Germany	1,5%	United Kingdom	1,4%
Financial institutions	15,0%	Bonds – Netherlands	1,2%	Germany	1,1%
Corporates	34,6%	Bonds – ROW[1]	4,9%	Spain	0,6%
Consumer lending	39,3%	Other[2]	2,2%	China	1,0%
Other	1,3%			Netherlands	2,3%
				United States	1,5%
				ROW[1]	7,2%
Total	**100%**	**Total**	**9,8%**	**Total**	**15,0%**
		Corporates		**Consumer lending**	
		Netherlands	7,0%	Residential mortgages – NL	15,8%
		Belgium	4,6%	Residential mortgages – ROW[1]	20,8%
		United States	3,5%	Other consumer lending	2,6%
		Poland	1,5%		
		United Kingdom	1,4%		
		Turkey	1,6%		
		ROW[1]	15,0%		
		Total	**34,6%**	**Total**	**39,3%**

1 Rest of the world.
2 Other financial instruments such as term loans and derivatives.

Non-financial appendix - continued

In response to what stakeholders and society ask of us regarding transparency, the table below provides insight into the different sectors we finance and how we apply our Environmental and Social Risk Framework. It specifically focuses in more detail on the corporate sectors, as these sectors are more vulnerable to environmental and social risks and impacts. The table also provides insight into which sectors we have Sustainable Finance strategies for.

Credit risk portfolio per economic sector and application of ESR framework and SF strategies

		Environmental and Social Risk policies														Sustainable Finance strategies**
		General pillars				Sector policies*										
in percentage	Exposure 2016 (%)	ING Values	Equator principles (Project Financing)	Human rights	Environmental management *UNESCOWorld Heritage Site,Ramsar,IUCN Cat I&II	Animal husbandry * Animal testing for cosmetic purposes	Chemicals	Defence *Cluster Munition (Controversial Weapons)	Forestry and Agrocommodities *Deforestation and/or burning down tropical rainforest	Mining and Metals *Mountain Top Removal	Manufacturing *Ship Breaking in Asia	Energy *New coal-fired power plants	*Online gambling***	* Online pornography***	Sustainable Finance sector strategies
Consumer lending	39,3%	•													
Financial institutions	15,0%	•													
Governments	9,8%	•													
Other	1,3%	•													
Corporates	34,6%														
– Real estate	5,7%	•	•	•	•										•
– Natural resources	6,8%	•	•	•	•					•		•			•
– Transportation & logistics	3,9%	•	•	•	•			•			•				•
– Services	2,5%	•	•	•	•			•			•		•		
– Food, beverages & personal care	2,6%	•	•	•	•	•			•						
– General industries	2,3%	•	•	•	•			•	•		•				
– Builders & contractors	1,8%	•	•	•	•						•				
– Chemicals, health & pharmaceuticals	1,8%	•	•	•	•	•	•								
– Other	1,4%	•	•	•	•										
– Utilities	1,8%	•	•	•	•							•			•
– Media & telecom	1,3%	•	•	•	•			•					•	•	•
– Retail	1,1%	•	•	•	•										
– Automotive	1,0%	•	•	•	•			•			•				•
– Technology	0,6%	•	•	•	•		•	•			•				•

* Examples of excluded activities per sector are mentioned in the smaller font. The full list of excluded activities is available in the public ESR policy Framework.
** A Sustainable Finance sector strategy identifies sustainability related developments in a specific sector. It outlines how best to pursue the opportunities that arise from them and provides solutions for best-in-class clients and best practices that are outstanding in their environmental performance relative to their sector.
*** Gambling and Pornography are excluded activities only and not sector policies.

Policy into practice – Energy policy

In November 2015, ING decided to end the financing of new coal-fired power plants and thermal coal mines worldwide. ING also won't finance any new clients whose business is over 50 percent reliant on operating coal-fired power plants or thermal coal mines. Standing commitments and new clients whose business complies with our policy may lead to additional lending exposure to the sector. Overall, given our reluctance to finance new thermal coal mines, new coal-fired power plants and new clients predominantly relying on thermal coal, we aim to reduce our overall credit exposure to thermal coal-related businesses.

In terms of exposure to thermal coal we define the following categories:

Thermal coal category

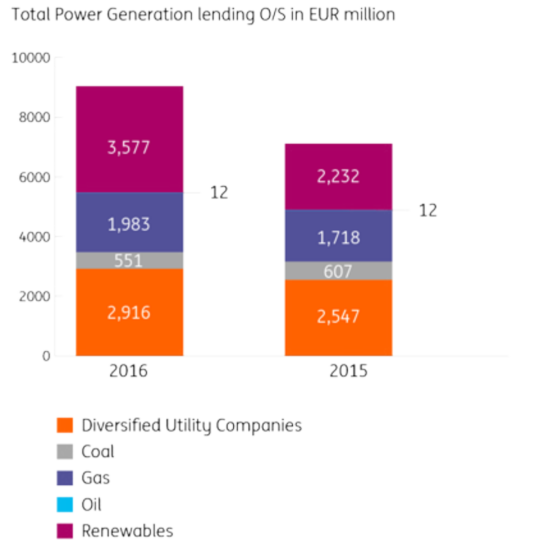
Lending O/S in EUR million	Dec 2016	Dec 2015	% change
Mining (including coal terminals)	455	616	26%
Power generation, coal fired power plants	551	607	9%

In addition, we acknowledge coal being used in the energy mix of Diversified Utility Companies (DUC) that operate various energy sources (typically coal, gas, nuclear, and/or renewables) to generate power. Within this category however, the exact energy mix used is not known to ING. ING's power generation lending portfolio to DUC's reached EUR 2.9 billion at YE2016.

ING's power generation lending portfolio to Single Energy Sources (SES) clients, transactions supporting a particular energy source or utility companies operating one single energy source, is EUR 6.1 billion at YE 2016. Within this category, coal-fired power EUR 551 million represents some 9% of total.

Overall, ING's power generation lending portfolio (DUC's and SES) is EUR 9.0 billion at YE 2016, an overview of the distribution in sources being reflected in the chart below[1].

Power generation portfolio



1 The 2016 renewables figure reported above differs from the 2016 renewables figure reported in the Sustainable Transitions Financed (STF) table in the "Wholesale Banking" chapter. STF is reported on exposure in line with the STF reporting protocol, while the power generation portfolio is reported in outstandings

Applying the Equator Principles (EP)

As an Equator Principles (EP) Financial Institution, we implement the EP in our internal environmental and social policies, procedures and standards. We aim not to provide project finance or project-related corporate loans to clients that are unable, or choose not, to comply with the principles. All transactions in scope of EP are reviewed at least annually, at which time covenant compliance is typically affirmed. Project names of project finance transactions that reached financial close in the reporting period are published annually in the Equator Principles website. All project names are disclosed only if ING has received the related client's consent[1]**.** The EP are embedded in ING's ESR Framework, and require involvement of the following three banking areas:

Front Office: departments that originate transactions and have direct contact with the client or project sponsors.

Risk Managers: departments that provide control over Front Office activities and generally sign off on the environmental and social impacts for 'Low Risk' or 'Medium Risk' EP deals, which generally refer to Category C projects or Category A and B in designated countries.

Environmental and Social Risk: department within risk management fully dedicated to assessing environmental and social impacts associated with 'High Risk' transactions, which in the context of EP generally refer to Category A and B projects in non-designated countries.

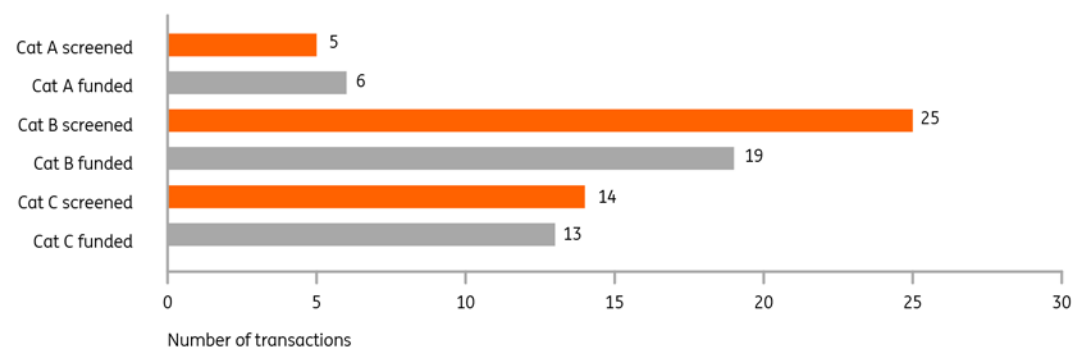
As our risk assessment processes are decentralised, each front-office team must be highly familiar with ING's Environmental and Social Risk framework and in particular Equator Principles III (EPIII). Hence, ING makes significant investment in internal training programmes to help front office and risk management staff in assessing the environmental and social risk under EPIII.

For example, in 2016 the ESR team, together with Structured Export Finance team from Frankfurt, visited a construction site in Russia. Sibur is Russia's largest integrated gas processing and petrochemicals company, and its subsidiary ZapSibNeftekhim is currently constructing a petrochemical complex for the production of polymers. The project is financed by a consortium of 12 international banks and follows the Equator Principles.

In order to manage the project's environmental and social risks and impacts ING was awarded the role of Environmental Agent for the banking consortium. Given the large scale of this project and the extensive workforce currently onsite great support was given to labour and working conditions, including the availability of operational grievance mechanisms for all project stakeholders. Having the role of Environmental Agent allowed ING to work in close cooperation with our client, including the opportunity to visit the project site which appeared to be of paramount importance to verify the adherence of international standards applicable to this project.

The graphs below show 2016 EP screened transactions versus funded (those that reached financial close) for Project Finance and Project Related Corporate Loans[2].

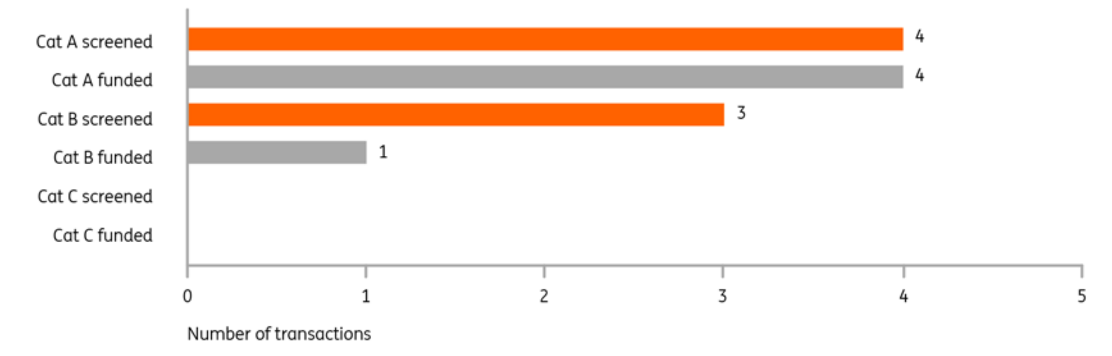
EP Project Finance Loans



1 http://www.equator-principles.com/index.php/members/ing
2 Category A – Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented; Category B – Projects with potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; and Category C – Projects with minimal or no adverse environmental and social risks and/or impacts. The difference between the number of screened and funded transactions might be due to a number of reasons including environmental and social matters. Also, some of the EP screened transactions may reach financial close in the future.

Non-financial appendix - continued

EP Project -Related Corporate Loans



The table below provides an overview of EP transaction in accordance with EPIII reporting requirements, which refer to funded deals or advisory roles that have been mandated to ING in 2016.

EP Application Table 2016

	Project Finance				Project Related Corporate Loans			
	EP risk category[1]				EP risk category			
Sector	**A**	**B**	**C**	**Total**	**A**	**B**	**C**	**Total**
Mining	1			**1**	1			**1**
Infrastructure		3	1	**4**	1			**1**
Oil & Gas	4	7		**11**				
Power		8	12	**20**	2	1		**3**
Others	1	1		**2**				
Total	**6**	**19**	**13**	**38**	**4**	**1**		**5**
Region	**A**	**B**	**C**	**Total**	**A**	**B**	**C**	**Total**
Americas	2	9		11		1		**1**
Europe Middle East & Africa	1	8	12	21	3			**3**
Asia Pacific	3	2	1	6	1			**1**
Total	**6**	**19**	**13**	**38**	**4**	**1**		**5**
Country Designation	**A**	**B**	**C**	**Total**	**A**	**B**	**C**	**Total**
Designated Country	1	17	13	**31**		1		**1**
Non-Designated Country	5	2		**7**	4			**4**
Total	**6**	**19**	**13**	**38**	**4**	**1**		**5**
External Independent Review	**A**	**B**	**C**	**Total**	**A**	**B**	**C**	**Total**
Yes	6	14	10	**30**	4	1		**5**
No		5	3	**8**				
Total	**6**	**19**	**13**	**38**	**4**	**1**		**5**

1 Category A – Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented; Category B – Projects with potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; and Category C – Projects with minimal or no adverse environmental and social risks and/or impacts.

People

The tables below provide an overview of Human Resources related topics like training and development and diversity.

Budget training and development employees[1]

	2016		2015		2014	
	In EUR million	Per FTE	In EUR million	Per FTE	In EUR million	Per FTE
ING	70[1]	1,325	68	1,279	57	1,033

1 Refer to note 26 of the ING Group Consolidated Annual Accounts 2016.

Training

	2016[1]	2015	2014
in numbers of trainings completed	Number of trainings completed x 1,000	Number of trainings completed x 1,000	Number of trainings completed x 1,000
Classroom	73.2	133.2	55.6
On the job training	0.6	5.4	11.6
Online	327.8	339.6	341.2
Program	23.1	33.3	10.0
Other	31.1	14.9	5.6
Total	**455.9**	**526.4**	**424.0**

1 The reduced amount of training in 2016 is predominantly due to the postponing of global compliance training from 2016 to early 2017.

Leavers and turnover rate[1] (headcount)

	2016	2015[2]	2014
Leavers			
Voluntary	3,265	2,945	2,622
Involuntary	3,446	3,042	2,340
Not recorded	5	1	17
Total	**6,716**	**5,988**	**4,979**
Turnover rate %	**12**	**11**	**9**

1 Total leavers headcount in 2016 divided by headcount on 1 January 2016.
2 Correction on 2015 numbers. This correction is predominantly due to an update for Turkey with minor adjustments for Australia, Belgium, Germany and Poland.

Percentage of employees covered by Collective Bargaining (headcount)

in percentage of employees	2016	2015
ING Bank	60.7	59.5

Percentage of employees that have undergone a performance management process (headcount)

in percentage of employees	2016	2015	2014
ING Bank	99	97	92

Total workforce gender breakdown (headcount)

	2016		2015		2014	
in percentage of employees	Female	Male	Female	Male	Female	Male
ING Bank	49.5	50.5	49.7	50.3	50.0	50.0

Total workforce breakdown (headcount)

	2016	2015	2014		2016	2015	2014
Gender				**Age group**			
Female	27,055	27,266	27,600	< 30	9,603	9,673	9,962
Male	27,655	27,566	27,585	30-50	35,339	36,148	36,246
Not recorded	27	41	7	> 50	9,096	9,042	8,923
				Not recorded	699	10	61
Total	**54,737**	**54,873**	**55,192**	**Total**	**54,737**	**54,873**	**55,192**
FT / PT Status				**Temp / Perm on ING contract**			
Full-time	48,309	48,109	48,207	Permanent	53,218	53,454	54,172
Part-time	6,390	6,750	6,981	Temporary	1,519	1,419	1,020
Not recorded	38	14	4				
Total	**54,737**	**54,873**	**55,192**	**Total**	**54,737**	**54,873**	**55,192**
Geographical region							
Asia	6,827	6,842	7,217				
Australia	1,122	1,059	1,021				
Belgium	9,551	10,005	10,279				
Netherlands	14,614	15,080	15,643				
North America	539	500	484				
Rest of Europe	21,996	21,323	20,484				
South- and Mid-America	88	64	64				
Total	**54,737**	**54,873**	**55,192**				

Total number of employees by ING employment contract (permanent and temporary), by gender (headcount)

2016

Number of employees	Female	Male	Not recorded	Total
Permanent	26,189	27,009	20	53,218
Temporary	866	646	7	1,519

Total number of employees by ING employment contract (permanent and temporary), by region (headcount)

2016

Number of employees	Permanent	Temporary	Total
Asia	6,791	36	6,827
Australia	1,079	43	1,122
Belgium	9,479	72	9,551
Netherlands	14,111	503	14,614
North America	539	0	539
Rest of Europe	21,131	865	21,996
South- and Mid-America	88		88

Total number of employees by employment type (full-time and part-time), by gender (headcount)

2016

Number of employees	Female	Male	Not recorded	Total
Full-time	21,636	26,646	27	48,309
Part-time	5,402	988		6,390
Not recorded	17	21		38

Sickness and absenteeism (headcount)			
in percentage of employees	2016	2015	2014
ING Bank	3.90	3.69	3.34

Community Investment

The tables give an overview of charitable donations and volunteering of ING employees.

Total donations ALL				
in EUR thousands		2016	2015	2014
ING Bank				
Direct business donations	Donations business	11,248	10,325	9,501
	Donations business in-kind	847	615	142
Facilitated by ING	Donations customers	740	964	952
	Donations employees	728	806	733
Total		**13,563**	**12,710**	**11,328**

Total donations (incl. business, customer and employee) and volunteering hours	Total donations incl. business, customer and employees (in EUR thousands)			Volunteering hours (in hours)		
	2016	2015	2014	2016	2015	2014
Arts & Culture	845	686	779	365	347	313
Education[1]	2,150	5,235	5,538	8,087	14,614	26,289
Emergency relief	159	246	179	0	473	956
Environment	136	543	603	5,484	6,848	3,974
Financial Empowerment[1,2]	4,881	1,777	785	13,209	6,129	1,851
Health	1,911	1,964	1,554	1,979	990	2,537
Social welfare	1,725	1,095	1,426	18,999	11,259	11,289
Other	1,757	1,164	464	161	552	1,713
Total	**13,563**	**12,710**	**11,328**	**48,284**	**41,212**	**48,922**

1 In 2015 and 2014, the cotegory 'education' included the donations and volunteering hours for UNICEF. In 2016, this is reported under the 'Financial empowerment' category

2 In 2015 and 2014, this category was termed as 'Financial Education and Entrepreneurship'

Charitable donations to UNICEF			
in EUR thousands	2016	2015	2014
Donation	2,988	3,059	2,784
Cumulative total	35,499	32,511	29,452

Reach through UNICEF programmes[1]	2016	2015	2014
Adolescents reached[2]	47,810[5]	47,417[6]	0
Cumulative Total	95,227	47,417	0
Children reached[3,4]		18,040	92,970
Cumulative Total		1,000,000	981,960

1 We achieved our target of reaching 1 million children through UNICEF education programmes in 2005-2015. Since 2015 we are supporting a new UNICEF programme, Power for Youth, that aims to empower 335,000 adolescents by 2018. The Power for Youth programme is active in six countries: Indonesia, Kosovo, Montenegro, Nepal, The Philippines and Zambia.

2 Adolescence is the period in human growth and development that occurs from ages 10 to 19.

3 A child is a person below the age of 18.

4 The methodology we used to calculate the number of children reached through UNICEF programmes has changed. For historical comparison the number presented in this table is in line with the former calculation method and only includes the number of children reached through UNICEF education programmes supported between 2005-2015. Due to the type of activities carried out by UNICEF from 2013 to 2015, we know the number of children reached is higher than reported here.

5 The reported number consists of adolescents reached in Nepal from January 2016 - September 2016 and in the other five countries from January 2016 - August 2016.

6 The reported number consists of adolescents reached from July 2015 - December 2015.

Environmental footprint

Our activities impact the environment we operate in - both directly, through the operations of our buildings, IT systems and business travel, but also indirectly, through our lending portfolio and through our procurement supply chains. We are committed to reducing this impact and work closely with customers and suppliers to take advantage of opportunities within the low-carbon, resource-efficient economy of the future. Our Environmental Approach (www.ing.com/16ar11) describes how we are managing our direct and indirect environmental impacts as well as how we mitigate risks and create and seize opportunities.

Our direct footprint

Our approach also outlines our 2020 targets for improving our operational eco-efficiency, namely:

- We will reduce our CO_2e emissions by 20% by 2020 (base year 2014) – *achieved in 2016.*
- We will reduce global residual waste by 20% by 2020 (base year 2014).
- We will reduce our water footprint by 20% by 2020 (base year 2014).
- We will remain carbon neutral by offsetting remaining carbon emissions.

Our objectives and targets concerning our operational environmental impact are managed through the ING Environmental Programme, which has established a robust Environmental Management System (EMS) that ensures effective processes and continual improvement of our performance. In 2016, ING achieved the ISO14001 EMS certification for head office operations in the Netherlands. Our EMS, which applies globally, has helped us to make progress against our 2020 targets. Relative to our base year, our carbon footprint was reduced by 27% in 2016 as a result of increasing our renewable electricity consumption to 91% of total electricity consumption, which is a 14% increase since 2014. In addition, we reduced global energy consumption by 10% compared to 2014. This means that we have met our 2020 target for emissions reduction and have made solid progress on our target to achieve 100% renewable electricity consumption by 2020.

We are proud of this progress but will set a new target in 2020 to drive continued action against climate change. Our residual waste increased by 6% against our base year due to archive dumps in two countries and a move to a new building in the UK. Our water footprint increased slightly by 1%. We have faced challenges with our waste and water indictors but remain vigilant in our efforts to work towards our 2020 targets.

We offset 100% of our remaining carbon emissions in 2016 through the purchase of Voluntary Carbon Units (VCUs) from various projects in India including a VCS solar energy access project providing lighting and hot water to bottom of the pyramid households, a Gold Standard solar water heating project replacing fossil fuel-powered heaters in households, schools and enterprises as well as large scale wind energy projects.

Breakdown of energy consumption

	2016		2015		2014	
Coverage (% of employees)	96		95		92	
In MWh and kilotonne CO_2e	MWh x 1.000	Kilotonne	MWh x 1.000	Kilotonne	MWh x 1.000	Kilotonne
Electricity	23	9	38	28	67	38
Renewable electricity	236	0	240	0	227	0
Natural gas	83	19	88	20	93	21
Fuel oil	3	1	4	1	5	1
District heating	22	5	15	3	17	4
Total energy	**367**	**34**	**385**	**53**	**409**	**65**
Total energy per FTE in MWh and in tonne	**6.9**	**0.6**	**7.3**	**1.0**	**7.9**	**1.2**

Energy consumption and carbon emissions through business travel

	2016		2015		2014	
Coverage (% of employees)	98		98		89	
In kilometers and kilotonne CO_2e	KM x 1 million	Kilotonne	KM x 1 million	Kilotonne	KM x 1 million	Kilotonne
Total travel	**227**	**29**	**215**	**29**	**193**	**27**
Total travel carbon per FTE in tonne	**–**	**0.5**	**–**	**0.5**	**–**	**0.5**

Carbon emissions extrapolated [1]

in kilotonne CO_2e	2016	2015	2014
Coverage (% of employees)	96	95	90
Total carbon[2]	63	82	92
Total carbon per FTE in tonne	1.2	1.5	1.6
Total extrapolated carbon	74	94	101
Total carbon Scope 1[3]	20	22	23
Total carbon Scope 2[3]	14[4]	32[4]	42[4]
Total carbon Scope 3[3]	29	29	27

1 In 2016 we updated our emissions factors according to the IEA 2015 factors, DEFRA 2016, and factors from suppliers providing a more accurate calculation of our GHG emissions. As a result we have updated our emissions disclosure accordingly. For more information about emissions factors and restatement policy, please see our Non-financial Reporting Protocol on ING.com

2 The total carbon amount is the sum of scope 1, 2 and 3 emissions. The total can vary slightly from sum of the figures displayed due to the fact that we only display figures rounded to the nearest kilotonne.

3 Scope 1: comprises emissions from our use of natural gas and fuel oil;
Scope 2: comprises emissions from our use of electricity, renewable electricity and district heating;
Scope 3: comprises emissions from our business travel by air and car. While scope 3, category 15 (emissions through lending and investments) is material to ING's indirect emissions footprint, due to measurement complexity and lack of quality data, ING is not able to completely measure and disclose this figure. See section 'Impact Measurement' in this appendix for information on our efforts and challenges in this area.

4 The total carbon figure for Scope 2 displayed here is calculated using the GHG Protocol Market-based calculation method outlined within the Scope 2 Guidance. This method takes into account the use of renewable electricity with an emissions factor of 0 g CO_2e/MWh. This sharp decrease in 2016 is thanks to decrease in electricity consumption and an increase of renewable electricity purchased, in particular in Poland, meaning a shift from a heavy coal-mix in the grid. Using the Location-based method outlined within the Scope 2 Guidance, our scope 2 CO_2e emissions for our base-year (2014) is 123 kilotonnes and for 2016 is 112 kilotonnes. This means that we have reduced our location-based scope 2 emissions by 9% since 2014. For more information on our calculation methodology and scope, please see our reporting protocol on ING.com.

Paper consumption			
in tonnes	2016	2015	2014
Coverage (% of employees)	98	95	92
Eco-labelled paper	1,664	1,434	1,894
Non-eco-labelled paper	64	316	423
Total	**1,729**	**1,750**	**2,317**

Residual Waste[1]			
in tonnes	2016	2015	2014
Coverage (% of employees)	98	95	92
Total residual waste	3,032[2]	2,714	2,870

1 Residual waste is total waste minus the waste that is recycled.
2 In 2016 we saw an increase in residual waste due to a slight uptick in coverage (we do not extrapolate waste values), the relocation of our UK office, and archive dumps in Belgium and Turkey.

Water consumption			
in thousands of m^3	2016	2015	2014
Coverage (% of employees)	92	91	87
Total water consumption[1]	578	574	572

1 This year we restated our base-year water consumption figure based on a more complete coverage (87% compared to 53%) and based on our new reporting protocol. We now extrapolate our water consumption to adjust for missing data. See our Non-financial reporting protocol for more information.

Our indirect footprint

Sustainable procurement
With more than EUR 4 billion in global procured spend and 25,000 suppliers worldwide, we have a real opportunity to drive our sustainability agenda through our supply chain. By encouraging suppliers to share our standards and work towards continual improvement, we believe we can make a demonstrable impact while mitigating risks.

At ING our procurement policies and procedures require us to take into account the social and environmental aspects of the products we procure as well as the attitude of the supplier towards sustainability. We have implemented, globally, a supplier qualification (SQ) process that helps us determine the levels of social, environmental and financial risks associated with a supplier, specifically related to Human Rights including forced and child labour, fair labour standards, environmental protection, and anti-corruption.[3] Once suppliers pass the SQ process, they are qualified to become ING suppliers and the ING Procurement Sustainability Standards (IPSS) apply. Compliance is then monitored via our partnership with EcoVadis Sustainability Monitoring. For more information on our Sustainable Procurement Program, please see our Environmental Approach. In 2016, we made the following commitments:

- We will have global supplier coverage of the IPSS of 95% by 2020.
- We will procure 100% green electricity for all ING buildings worldwide by 2020.
- We will pilot 20 circular purchasing projects.
- We will assess 450 suppliers for sustainability performance assessments in 2016.

[3] As a result of the UK Modern Slavery Act 2015, ING is obliged to publish a 'slavery and human trafficking statement' for each financial year. ING aims to publish its first statement in 2017.

Other facts and figures Environmental Programme				
	Unit	2016	2015	2014
Business Travel				
Fully Electric Vehicles	# Vehicles	82	75	59
Hybrid Vehicles	# Vehicles	301	485	473
Sustainable Procurement				
Renewable Electricity	% of total electricity consumption	91	86	77
Supplier Sustainability Performance Assessments	# of Suppliers Engaged	647	596	243
Circular Purchasing Projects	# of Projects realised	18	21[1]	2

1 This is the number of projects initiated in 2015 while 18 were realised in 2016.

Impact Measurement

ING sees climate change as one of the biggest challenges of our time and we are committed to reducing the impact of our own operations as well as helping clients to reduce theirs.

In 2016, we conducted a pilot to measure the indirect emissions impact and performance of two specific asset classes within our lending portfolio. This provided us with insight into what is needed to be able to properly measure the emissions impact of our entire portfolio. While we arrived at a reasonable measurement, we struggle with the outcome as we found that the margin of error was unacceptable for disclosure. This is a result of the lack of data availability. To further improve our methodology, we continue to work with internal and external partners, but also look forward to the establishment of international market standards that will help create benchmarking capabilities and a level playing field among peers. Therefore, we do not only provide input for more local initiatives but also actively provide input for international efforts like the Financial Stability Board Taskforce for climate-related financial disclosure to provide guidance to the financial sector on this topic.

Sustainability governance

Our global head of Sustainability reports directly to the Vice-Chairman of the Management Board Banking of ING Bank. Via the global sustainability department, responsibilities are cascaded through various business units to subject-matter experts who help develop ING's policies and goals in response to sustainability-driven risks and opportunities, in line with our global sustainability direction. Progress on identified priorities is communicated regularly to the Management Board Banking and to external stakeholders through ING's Quarterly Report.

Stakeholder engagement

On a day to day basis we actively engage with our customers and other stakeholders such as investors, government officials and NGOs on relevant topics, issues and challenges, both on expert level and on (senior) management and Board level. With regard of new or revised ESR policies, we follow a structured process for consultation and proactively seek input from relevant stakeholders.

In line with our sustainability direction we contribute to multiple international initiatives and cooperate as a member in platforms such as the Equator Principles Association and the Ellen MacArthur Foundation for circular economy. We seek external direction and validation of our sustainability priorities by endorsing international standards such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the Global Reporting Initiative. A full overview of partnerships, memberships and endorsements can be found on ING's corporate website ing.com (www.ing.com/16ar12).

Throughout the year challenges and issues are discussed with and brought to our attention by different stakeholders. In the table below, we provide a snapshot of the key issues from 2016.

Issue table

Stakeholder	Topic of Discussion	ING's point of view
Society at large Australia	**Interest paid on pension account:** The Australian Securities & Investments Commission (ASIC) raised the question of whether customers "expected" to be paid the top retail rate on savings inside of superannuation (pension account) relative to retail rates. In a subsequent review, ING DIRECT found that some Living Super customers may have understood that the interest paid on their cash options would be eligible for ING DIRECT's highest variable savings rate, including any bonus rates. This is not the case as interest rates for Living Super are set independently.	There were no customer complaints. However ING DIRECT believes it could have been clearer in the communications and has voluntarily decided to credit customers any difference. The total amount that will be credited to customers by 30 September is approximately USD 5 mln. The total number of customers is more than 24,000. ING DIRECT wrote to all Living Super customers to explain the action and let customers know how much they will receive. More than 50,000 people choose Living Super for their retirement savings.
Society at large Germany	**Paying cash:** The future of cash is a widely and controversial discussed industry topic in the German media landscape, especially after the European Central Banks (ECB) announcement, that it will no longer produce the EUR 500 note. In Germany paying by cash is still the first choice of consumers in contrast to many other European countries, also in times of digitalization.	ING-DiBa used the discussion to take its position: German consumers shall get access to cash - anytime, quick and free of charge or at a low fee. To strengthen its position ING-DiBa has published a new position paper (https://www.ing-diba.de/pdf/ueber-uns/menschen/positionen/ing-diba-positionen-bargeldversorgung-2016.pdf) based on an analysis of the payment behaviour of its current account clients. The results were met with high interest by representatives of politics and media and was widely covered in the news.

Non-financial appendix - continued

Issue table - continued

Stakeholder	Topic of Discussion	ING's point of view
Society at large Netherlands	**Financing clients in line with the renewed coal policy November 2015:** Throughout the year NGOs and newspapers reported on the involvement of ING in financing coal mines and coal companies like: * Cirebon Electric Power II, a coal-fired power plant in Indonesia * Punta Catalina, a coal-fired power plant in the Dominican Republic * SUEK, a Russian coal company * Uniper, a German energy-producing company	In November 2015 we published our new coal policy, which stated ING decided to end our financing of new coal-fired power plants and thermal coal mines worldwide, effective immediately. ING also won't finance any new clients whose business is over 50 percent reliant on operating coal-fired power plants or thermal coal mines. As part of our responsibility to existing clients, we will honour standing commitments. As part of our responsibility to existing clients, we are honouring standing commitments, as financing a coal-fired power plants is a long process. We had already made commitments to some projects before we announced our new policy, including Punta Catalina (Dominican Republic) and Cirebon II (Indonesia). Suek was also already an ING client at the time we published our policy. Uniper is a new client whose business is not over 50 percent reliant on operating coal-fired power plants or thermal coal mines. Though we understand NGO concern regarding coal in general, it is important to stress that these transactions comply with our policy. As well as to re-confirm that our lending book to thermal coal will decrease over time (2015 & 2016 data has been published in this report). More information has been shared on: https://www.ing.com/ING-in-Society/Sustainability/Our-Stance/Energy.htm
Society at large Netherlands	**Animal Welfare:** On 18 August 2014 the Dutch animal-rights NGO called 'Wakker Dier' published a report on animal welfare in the US animal husbandry sector. It expressed its concerns about companies in the US not respecting animal welfare as a consequence of a lack of legislation around animal housing and care.	In consultation with Wakker Dier, we commissioned an independent research institute to look into these alleged differences. The summary of that research titled 'Critical ethical issues in US animal production' was published late 2015, and early 2016 we published our animal husbandry policy based on those results and conversations with various stakeholders. More information has been shared on: https://www.ing.com/ING-in-Society/Sustainability/Our-Stance/Animal-welfare.htm
Society at large Netherlands	**Myronivsky Hliboproduct:** Various stakeholders, retail clients, government officials and NGOs raised questions on our financing of Ukrainian company Myronivsky Hliboproduct (MHP). MHP operates mega stalls with chickens and was accused of not living up to EU (animal welfare) standards.	ING understands that the ways our food is produced is an important topic and as such we take our responsibility seriously. For that reason we are actively involved in the debate on this topic, advise our clients on social and environmental aspects and require them to live up to our Environmental and Social Risk standards. We extensively spoke to our client and carefully assessed their activities. In addition, the IFC executed an independent audit. MHP scored good on both bio safety and animal welfare and MHP lives up to EU standards. "Our production facilities have been built up from the ground based on European standards and with the best technology," said MHP employee Anastasija Sobotjoek in the newspaper FD on 27 May 2016. Nonetheless, in 2016 the company agreed to further increase their animal welfare standards.

Non-financial appendix - continued

Issue table - continued

Stakeholder	Topic of Discussion	ING's point of view
Fair Finance Guide (FFG) report: Living wages Netherlands	**Living wages report** This research focused on loans provided by banks to companies active in the electronics and clothing manufacturing sector. The aim was to research in what manner banks promote their corporate clients to pay their workers and the workers in their supply chain a decent living wage. In the opinion of the FFG, in theory ING scores well, but in practice ING could do more to promote payment of a living wage and freedom of association within the operations of its clients and their supply chains.	We provided written feedback on questions asked, agreed to extensive interviews and provided insight into our systems to substantiate the claims we made. More information has been shared on: https://www.ing.com/ING-in-Society/Sustainability/Our-Stance/Human-rights.htm
PAX Netherlands	**PAX report: Nuclear weapons and Cluster munitions** PAX issued two reports. The first on investments made in companies producing cluster munitions and the second on our involvement with nuclear-weapon producing companies. Overall, PAX was positive about ING. They commented that ING should apply its exclusion policy comprehensively to all its markets, and to all its financial products, including funds following an index. In both reports ING was again included in the runners-up category. The PAX website, press release, 16 June 2016 (Suzanne Oosterwijk, project lead Cluster munitions PAX) mentioned "Financial institutions should not want to be involved in any way with cluster munitions, also not via foreign subsidiaries." And, "the Netherlands has showed leadership to forbid investments in cluster munitions. If other countries too would forbid these explosive investments and if financial institutions would end their investments, that could be a great contribution to a cluster munitions free world."	ING does not provide any services whatsoever to companies that produce cluster munition. ING does also not finance nuclear weapons. There are companies partially involved in producing nuclear weapons while primarily engaged in non-defence activities. ING doesn't finance the nuclear weapons activities of these companies. Our elaborate stance towards the defence industry and nuclear weapons and cluster munition in particular can be found on our webpage Our Stance: https://www.ing.com/ING-in-Society/Sustainability/Our-Stance/Defence.htm
FFG report: Update Netherlands	**Update report on Environmental & Social Risk policies of Dutch Banks:** In December the FFG published its annual update, comparing banks' policies with their own expectations. FFG concluded that ING made improvements. In the Volkskrant newspaper, 21 December 2016, Peter Ras, project leader FFG, stated: "Banks continue to become more sustainable. That deserves kudos."	ING shares many of the environmental and social concerns expressed by the FFG. However, we differ in our approach towards these issues and feel the methodology and research do not do our results justice. Different from the FFG, we don't seek to totally exclude sectors like coal, oil, gas and uranium mining, hampering steel production (coal), the transport industry including freight transport, shipping and aviation (oil), electricity production and heating (gas), or cancer treatment with medical isotopes (uranium). We rather seek to support higher standards applied within sectors than exclusion. More information has been shared on: https://www.ing.com/ING-in-Society/Sustainability/Our-Stance/Transparency.htm

Issue table - continued

Stakeholder	Topic of Discussion	ING's point of view
Society at large Netherlands	**Dakota access pipeline:** Being part of a syndicate of 17 banks, ING financed the pipeline project. Controversy arose due to the pipeline being located in an area considered a Heritage Site by native Americans (Standing Rock Sioux Tribe).	When ING approved financing, the permits for the pipeline were already provided. As it turned out the Sioux claimed their rights had not been taken into account. Social media amplified this controversy, leading to various protest throughout the world, including in front of ING's global HQ. US President Donald Trump signed executive orders on 24 January 2017 to advance the construction of the Dakota Access pipeline. This is in contrast to the US government decision in December 2016 to withdraw the necessary permits and conduct an additional detailed environmental assessment. We have signed a contract and it is legally impossible to withdraw from it. Given the developments, we decided however to divest our shares in the parent companies towards the end of 2016 (approximately USD 220 million) and to stop doing any new business with them. Credit facilities that expire won't be renewed. This effectively means that the relationship will end if there is no improvement. In the meanwhile we have and continue to exert our influence by engaging with our customer. The lenders to the pipeline have commissioned additional research to be conducted by an external independent human rights expert and will continue to monitor developments closely. Another way is by engaging with the Standing Rock Sioux Tribe. ING met its leaders in mid-February 2017. As the situation keeps on developing, we provide continuous updates including a Q&A on: ING and the Dakota Access pipeline
Society at large Poland	**Pension scheme:** The discussion on the pension scheme is ongoing in Poland and also relates to possibilities of long-term saving for the future. Information and statistics provided from the government show that persons, who have not individually saved funds for retirement, but have relied only the national pension scheme, will receive a max. of 30% of their last salary upon retiring. The Polish society has somewhat changed its attitude towards saving for this cause.	ING Bank Śląski has been encouraging Poles to save, both via its marketing campaigns and by offering suitable products. In 2016, ING Bank Śląski launched index funds – a solution geared towards clients who want to diversify their investment portfolio. This enables clients to invest in key stock exchanges in Europe, including Poland, as well as in the US. The launch of this product was supported by a press conference and multiple media interviews.

Non-GAAP measures

ING Group evaluates its results 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 derived by excluding from IFRS the following: special items; the impact of divestments and Legacy Insurance.

Special items include items of income or expense that are significant and arise from events or transactions that management consider distinct from the regular operating activities. These may either be recurring or non-recurring in nature but must be of a significant size to qualify as a special item. Disclosures on comparative periods also reflect the impact of current period's divestments. Legacy Insurance consists of the intercompany eliminations between ING Bank and NN Group until deconsolidation of NN Group at the end of May 2015, the results from Insurance Other and the results from discontinued operations. Insurance Other reflects (former) insurance related activities that are not part of the discontinued operations.
The items excluded from the GAAP measures in 2016 are:

- Restructuring charges and impairments related to the intended digital transformation programmes amounting to EUR –799 million after tax
- Results of Insurance other, primarily consisting of the results of the Voya- and NN warrants, amounting to EUR 33 million after tax
- Results from discontinued operations, primarily consisting of the results of the sale of the remaining NN shares, amounting to EUR 441 million after tax

Underlying result is a non-GAAP financial measure and is not a measure of financial performance under IFRS. Because underlying result is not determined in accordance with IFRS, underlying result as presented by ING may not be comparable to other similarly titled measures of performance of other companies. Note that underlying ratios are also impacted by the items above when calculated using the individual income or expense line item to which the items relate.

Below table shows a comparison of GAAP versus non-GAAP of the most important measures used by ING.

Reconciliation between IFRS and Underlying

		2016	2015	change
Net result attributable to ING Group's shareholders	(a)	4,651	4,010	16%
-/- Net result from divestments/special items		–799	309	
-/- Net result insurance other and eliminations ING Bank/NN Group		33	–63	
-/- Net result from discontinued operations		441	–456	
Underlying net result Banking	(b)	4,976	4,219	18%
Shareholders' equity ING Group (year-end)		49,793	47,832	
Shareholders' equity ING Group (average*)	(c)	49,038	49,259	
Shareholders' equity ING Bank (year-end)		43,540	40,857	
Shareholders' equity ING Bank (average*)	(d)	42,949	39,197	
ING Group's total return on equity	(a/c)	9.5%	8.1%	
ING Group's underlying return on equity	(b/c)	10.1%	8.6%	
ING Bank's underlying return on equity	(b/d)	11.6%	10.8%	
Total income (continuing operations)	(e)	17,491	16,845	
-/- Net result from divestments/special items			367	
-/- Net result insurance other and eliminations ING Bank/NN Group		33	–73	
Underlying income	(f)	17,458	16,552	
Staff expenses (continuing operations)		5,039	4,972	
Other operating expenses (continuing operations)		5,575	4,354	
Total operating expenses (continuing operations)	(g)	10,614	9,326	
-/- Net result from divestments/special items		1,157	77	
-/- Net result insurance other and eliminations ING Bank/NN Group			3	
Underlying operating expenses	(h)	9,456	9,246	
Cost/income ratio (continuing operations)	(g/e)	60.7%	55.4%	
Underlying cost/income ratio	(h/f)	54.2%	55.9%	

* average calculated based on quarter-end figures

Glossary

Amortised costs
The amount at which the financial asset or liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

Application programme interface
A software device that allows for an application or data to be shared.

Asset-backed security (ABS)
A type of bond or note that is based on pools of assets, or collateralised by the cash flows from a specified pool of underlying assets.

Asset Liability Committee (ALCO)
ALCO manages the balance sheet of ING, especially regarding the strategic non-trading risk. These are interest rate risk, equity risk, real estate risk, liquidity, solvency and foreign exchange risk and fluctuations.

Asset & Liability Management (ALM)
The practice of managing a business such that decisions on assets and liabilities are coordinated. It involves the ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities.

Assets under Management (AuM)
Refers to the total market value of assets a financial company invests on behalf of its customers.

Associate
An entity over which the Group has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also is the ability to participate in the financial and operating policies through situations including, but not limited to, one or more of the following:
- representation on the board of directors;
- participation in the policymaking process; and
- interchange of managerial personnel.

Audit Committee
The Audit Committee, consisting of members of the Supervisory Board, assists the Supervisory Board in monitoring the integrity of the financial statements of ING Group N.V. and ING Bank N.V., in monitoring the compliance with legal and regulatory requirements, and in monitoring the independence and performance of ING's internal and external auditors.

Authorised capital
The maximum amount of share capital that a public limited company or a private limited company can issue according to its Articles of Association. Part of the authorised capital can remain unissued.

Available Financial Resources (AFR)
The available financial resources equal the market value of assets minus the market value of liabilities, excluding hybrids issued by ING Group, which count as capital. ING's policy is that the available financial resources should exceed economic capital for Bank and Group.

Available-for-sale financial assets
Those non-derivative financial assets that are designated as available-for-sale or are not classified as:
- loans and receivables;
- held-to-maturity investments; and
- financial assets at fair value through profit and loss.

Bank for International Settlements (BIS)
The Bank for International Settlements is an international organisation fostering the cooperation of central banks and international monetary policy makers.

Basel I
Regulatory requirements issued by the Basel Committee on Banking Supervision for the solvency calculation, which were superseded by Basel II, and apply to ING from 2008 onwards.

Basel II
Regulatory requirements issued by the Basel Committee on Banking Supervision for the solvency calculation, which apply to ING from 2008. Basel II is an international standard for calculating the required capital, based on internal models that take into account financial and operational risks.

Basel III
Regulatory requirements issued by the Basel Committee on Banking Supervision for solvency calculation and liquidity requirements, which superseded Basel II. Basel III was adopted in 2010 and consequently translated by the EU into the Capital Requirement Regulation (CRR) and the Capital Requirement Directive IV (CRD IV). The CRR is binding for all EU member states and became effective as at 1 January 2014, with the full requirements to take effect from 1 January 2018. The CRD IV directs all EU member states to implement certain components of Basel III in their own law; in the Netherlands in the 'Wet Financieel Toezicht' (Act on Financial Supervision). Although not all definitions and parameters of the CRR/CRD IV have been finalised, the key principles of Basel III have been included in ING's solvency and liquidity risk appetite frameworks that are continuously monitored by senior management.

Basis Point Value (BPV)
The change in the net present value of a cash flow or a pool of cash flows due to a one basis-point change of the yield curve.

Business risk
The exposure to value loss due to fluctuations in volumes, margins and costs. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency.

Capital base
Capital plus minority interests plus subordinated loans.

Capital coverage ratio
Available capital divided by required capital.

Capital Requirements Directive (CRD IV)
For European banks, the Basel III requirements are implemented through the Capital Requirement Regulation (CRR) and the Capital Requirement Directive IV (CRD IV). The CRD IV directs all EU member states to implement certain components of Basel III in their own law, taking into account transitional arrangements, in the Netherlands through amendments to the 'Wet Financieel Toezicht' (Act on Financial Supervision).

Capital Requirements Regulation (CRR)
For European banks, the Basel III requirements are implemented through the Capital Requirement Regulation (CRR) and the Capital Requirement Directive IV (CRD IV). The CRR is binding for all EU member states and came into effect on 1 January 2014, taking into account transitional arrangements, with the full requirements to take effect on 1 January 2018.

Central Clearing Parties or Central Counterparties (CCP)
A legal entity between two trade counterparties in a bilateral transaction. The parties legally assign their trades to the CCP , and the CCP becomes the counterparty to each, assuming all rights and responsibilities. Thus, from the point of view of the original counterparties, the counterparty credit risk exposure is shifted from the other original counterparty to the CCP.

Collateralised debt obligation (CDO)
A type of asset-backed security that provides investors with exposure to the credit risk of a pool of fixed income assets.

Collateralised loan obligation (CLO)
A type of collateralised debt obligation (CDO) that is backed primarily by leveraged bank loans.

Commercial paper
Promissory note (issued by financial institutions or large firms) with a very-short to short maturity period (usually 2 to 30 days, and not more than 270 days), and unsecured.

Common equity Tier 1 capital
Capital definition specified in article 26 of the capital requirements regulation (CRR). Common equity Tier 1 items of institutions consist of the following:

a. capital instruments;
b. share premium accounts related to the instruments referred to in point (a);
c. retained earnings;
d. accumulated other comprehensive income;
e. other reserves; and
f. funds for general banking risk.

Compliance risk
Compliance risk is defined as the risk of impairment of ING Bank's integrity as a result of failure (or perceived failure) to comply with applicable laws, regulations, ING Bank policies and minimum standards, and the ING Values as part of the Orange Code.

Concentrations of credit risk
Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect groups of counterparties whose aggregate exposure is significant in relation to ING Group's total exposure.

Contingent liabilities
Possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events, but is not recognised because:

- it's not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- the amount of the obligation cannot be measured with sufficient reliability.

Control
Situations in which ING owns, directly or indirectly, more than half of the voting power of a company, or when ING has control of a company's operating and financial policies through situations including, but not limited to:

- ability to appoint or remove the majority of the board of directors;
- power to govern such policies under statute or agreement; and
- power over more than half of the voting rights through an agreement with other investors.

Convexity
The non-linear relationship between changes in interest rates and changes in bond prices and their net present value. It is a very important market risk measure for portfolios containing embedded options.

Corporate governance
The way in which a company is governed and how it deals with the various interests of its customers, shareholders, employees, business partners and society at large.

Corporate Governance Committee
The Corporate Governance Committee, consisting of members of the Supervisory Board, assists the Supervisory Board in monitoring and evaluating the corporate governance of ING as a whole and the way it's reported on in the Annual Report and to the General Meeting of Shareholders. It advises the Supervisory Board on improvements.

Cost of capital
The costs related to owning capital. These can be split into the cost of equity, hybrids and debt, taking a target leverage into account.

Country of residence
From the perspective of a given country, a resident is an individual or legal entity that has its major operations in the given country. All of ING's customers and entities are said to be residents in one country only.

Country risk
The risk that a government will not fulfil its obligations or that it will obstruct the remittance of funds by debtors, either for financial reasons (transfer risk) or for other reasons (e.g. political risk).

Credit default swap (CDS)
A CDS is a financial derivative instrument that synthetically transfers the credit risk of a specific reference entity between two counterparties. The protection buyer pays a fixed periodic fee, usually expressed in basis points per annum, on the notional amount. The protection seller makes no payment unless some specified credit event relating to the reference entity occurs, in which case he/she is obliged to make a payment to compensate the loss incurred by the protection buyer.

Credit institutions
All institutions that are subject to banking supervision by public authorities, including mortgage banks, capital market institutions, multilateral development banks and the International Monetary Fund (IMF).

Credit rating
Credit ratings, as assigned by rating agencies (such as Standard & Poor's and Moody's), are indicators of the likelihood of timely and complete repayment of interest and instalments of fixed-income securities.

Credit risk
The risk of loss from default by borrowers (including bond issuers) or counterparties. Credit risks arise in ING's lending, pre-settlement and investment activities, as well as in its trading activities. Credit risk management is supported by dedicated credit risk information systems and internal rating methodologies for debtors and counterparties.

Credit risk exposure
Total amount of committed facilities to a designated borrower or an obligor group or, if higher, their outstanding balances, together with the outstanding balances of any related uncommitted facilities.

Credit support annex (CSA)
Supporting documentation for a collateral arrangement that accompanies a master agreement used in the execution of an over-the-counter derivative swap. The document clearly delineates the rules and procedures for the use of the collateral in the backing of the traded securities. A CSA may be executed as a separate document, or can be part of the master agreement.

Credit valuation adjustment (CVA)
An adjustment to the valuation of 'over-the-counter' (OTC) derivative contracts to reflect the creditworthiness of OTC derivative counterparties.

Cumulative preference shares
Shares that entitle the holder to a fixed annual dividend. In the case of a profit distribution, these shares take precedence over ordinary shares. If the profit available for distribution isn't enough to pay this dividend in full, the shortfall will be made up from the reserves as much as possible. If, and to the extent that, the dividend distribution can't be made from the reserves, the profits earned in subsequent years shall first be used to make up the shortfall before any distribution may be made on shares of any other category.

Debit valuation adjustment (DVA)
An adjustment made by ING to the valuation of 'over-the-counter' (OTC) derivative liabilities to reflect within fair value ING's own credit risk.

Deferred tax assets arising from carryforward of tax losses
The amount of income tax receivable in future periods arising from the utilisation of carryforward tax losses against future taxable profits.

Deferred tax assets/liabilities arising from temporary differences
The amounts of income tax receivable/payable in future periods in respect of taxable temporary differences between carrying amounts of assets or liabilities in the balance sheet and tax base, based on tax rates that are expected to apply in the period when the assets are realised or the liabilities are settled.

Defined benefit plan
Post-employment benefit plans other than defined contribution plans.

Defined contribution plan
Post-employment benefit plans under which ING pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Derivatives
A derivative is a financial instrument or other contract with all three of the following characteristics:
a. Its value changes in response to a change in any of the following: a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (provided in the case of a non-financial variable that the variable is not specific to a party to the contract, sometimes called the 'underlying');
b. It requires no initial net investment, or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
c. It is settled at a future date.

Discontinued operations
A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and
a. represents a separate major line of business or geographical area of operations;
b. is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
c. is a subsidiary acquired exclusively with a view to resale.

Discounted bills
Bills that are sold, less interest, giving the owner the right to receive an amount of money on a given date.

Earnings sensitivity (ES)
Measures the impact of changing interest rates on (before-tax) net interest income.

Economic capital (EC)
EC is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it takes. In general, EC is measured as the unexpected loss above the expected loss at a given confidence level. This economic capital definition is in line with the net market value (or surplus) definition.

Economic exposure
Total of outstandings plus undrawn committed portions calculated on the basis of economic risk principles.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Elimination
A process by which intercompany transactions are matched with each other and deducted, so that the assets, liabilities, income and expenses are not inflated.

Employee benefits
All forms of consideration given by a company in exchange for service rendered by employees or for the termination of employment.

Employee value proposition
Sets out the various rewards and benefits received by employees in return for their performance.

ESR framework
The Environmental and Social Risk (ESR) Framework is a set of policies and governance to identify, assess and manage ING's engagement with companies operating in sectors that are more vulnerable to environmental and social risks and impacts.

ESR policies
Our financing and investment policies, as well as our broader business ambitions, are structured around strongly embedded social, ethical and environmental criteria. Our Environmental and Social Risk (ESR) policies guide our decisions for customer engagement and assessing finance proposals.

Expected loss (EL)
The expected loss provides a measure of the value of the credit losses that ING Bank may reasonably expect to incur on its portfolio. ING Bank must hold a reserve (as part of its capital base) to cover the expected losses in its credit portfolio. EL is calculated as probability of default x loss given default x exposure at default. Collective provisions are taken to cover for expected losses.

Exposure at default (EaD)
The exposure at default uses models to estimate the outstanding amount or obligation at the moment of default in the future. Since the fact that a counterparty will go into default is not known, and the level of outstandings (see definition) that may occur on that date is also not known, ING Bank uses a combination of statistical, expert and hybrid models to estimate the exposure at default.

Fair value
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date ('exit price').

Final dividend
The final dividend is the total dividend for the year as proposed by the Board, less any interim dividend paid during the year. The dividend is subject to approval of shareholders at the Annual General Meeting.

Finance lease
A lease that transfers substantially all the risks and rewards associated with ownership of an asset to the lessee. Title may or may not eventually be transferred.

Financial asset
Any asset that is:
- cash;
- an equity instrument of another company; and
- a contractual right to:
  - receive cash or another financial asset from another company;
  - exchange financial instruments with another company under conditions that are potentially favourable; and
  - a certain contract that will or may be settled in ING's own equity instruments.

Financial instruments
Contracts that give rise to both a financial asset for one company and a financial liability or equity instrument for another company.

Financial liability
Any liability that is:
a. contractual obligation:
  - to deliver cash or another financial asset to another company; or
  - to exchange financial instruments with another company under conditions that are potentially unfavourable; or

b. contract that will or may be settled in the company's own equity instruments.

Fintech
This stands for 'financial technology'. It's used to describe companies (generally startups) that are using software and technology to disrupt current banking models and deliver innovative financial services.

First call date
Perpetual subordinated loans have no set maturity. The first call date is the date on which ING has the option to repay and cancel that particular subordinated loan.

Forbearance activities
Forbearance occurs when a client is considered unable to meet its financial commitments under the contract due to financial difficulties, and based on these difficulties, ING decides to grant concessions towards the client by either loan modification or refinancing. Modification is when the terms and conditions of the contract are adjusted to enable the client to service the debt. Refinancing relates to putting a new loan contract in place to ensure the total or partial repayment of an existing loan contract, which the debtor is unable to comply with. Examples of forbearance measures are: postponement and/or reduction of loan principal and/or interest payments, extended payment terms, debt consolidations and deferral of foreclosures.

Foreign exchange rate risk (FX risk)
Probability of loss occurring from an adverse movement in foreign exchange rates.

Forward contracts
Commitments to exchange currencies or to buy or sell other financial instruments at specified future dates.

Fully loaded CET 1 ratio
The CRR/CRD IV Common Equity Tier 1 ratio calculated according to the 2019 end-state rule. (See other definitions.)

Future contracts
Commitments to exchange currencies or to buy or sell other financial instruments at specified future dates. Exchanges act as intermediaries and require daily cash settlement and collateral deposits.

Group debt
Investments in ING Group subsidiaries minus the equity of the holding company, including hybrids.

Held for sale
A business or group of assets for which the carrying amount will be recovered principally through a sale transaction rather than through continuing use. When a business or a group of assets are to be sold together in a single transaction, and the sale is considered to be highly probable, these are classified separately in the balance sheet as 'assets held for sale'. A sale is highly probable when management is demonstrably committed to the sale, which is expected to occur within one year from the date of classification as held for sale. Liabilities directly associated with those assets, and that are included in the transaction, are included in the balance sheet as 'liabilities held for sale'.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity that ING Group has the positive intention and ability to hold to maturity other than:
a. those that ING Group upon initial recognition designates as at fair value through profit and loss;
b. those that ING Group designates as available-for-sale; and
c. those that meet the definition of loans and receivables.

Historical simulation
A model to calculate value at risk, assuming that future changes in risk factors will have the same distribution as they had in the past, taking into account the non-linear behaviour of financial products.

Human capital return on investment
The human capital return on investment (HCROI) provides a means of measuring a company's profitability in relation to total employee costs. It is calculated by removing non-employee costs from overall operating costs and deriving the resulting operating profitability.

Hybrid capital
Tier 1 instruments issued by ING Group (e.g. perpetual debt securities and preference shares). Hybrid capital securities are perpetual fixed income securities with an embedded call and coupon deferral feature. All hybrid capital securities rank senior to core Tier 1 securities and ordinary shares of ING Group and they are structurally subordinated to the senior debt instruments issued by ING Groep N.V.

Impairment loss
The amount by which the carrying amount of an asset exceeds its recoverable amount.

ING Continuity Foundation
The role of the ING Continuity Foundation is to safeguard to the best of its ability the interests of ING, its enterprises, and its stakeholders; and to resist influences that might conflict with these interests by affecting the independence, continuity or identity of ING. This foundation may for that purpose exercise its call option right for as many cumulative preference shares as are necessary in order to hold up to one-third of the issued share capital.

Integrated reporting
An integrated report is a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term. The report should tell the overall story of an organisation in a manner that allows all stakeholders to assess its ability to create value.

Interest-bearing instrument
A financial asset or liability for which a time-proportionate compensation is paid or received, in relation to a notional amount.

Interest margin
Difference between the average interest received on funds lent and the interest paid by the bank on capital raised.

Internal rate of return (IRR)
Internal rate of return is the calculated discount rate at which the present value of distributable earnings from new business equals the investment in new business (i.e. the projected return on the investment in new business).

Interest rate risk
Probability that the market interest rates will rise significantly higher than the interest rate earned on investments such as bonds, resulting in their lower market value.

Interim dividend
The interim dividend is an advance on the total dividend and distributed before the end of the fiscal year.

Internal assessment approach (IAA)
A method used to calculate credit risk capital requirements for securitisation exposures (including liquidity lines provided to asset-backed commercial paper programmes and sponsored securitisations).

In the money
A call option is said to be 'in the money' if the exercise price is lower than the price of the underlying value. A put option is said to be in the money if the exercise price is higher than the price of the underlying value.

Investment risk
Investment risk is the credit default and risk rating migration risk that is associated with ING Bank's investments in bonds, commercial paper, securitisations, and other similar publicly traded securities. This can be viewed as the worst-case loss that ING Bank may incur as a result of holding a position in underlying securities whose Issuer's credit quality deteriorates or defaults.

Initial public offering (IPO)
This is when a company publicly offers its shares for sale for the first time on a stock exchange. The most important goal of an IPO is to raise capital that the company can use to invest and expand.

Irrevocable facilities
This mainly constitutes unused portions of irrevocable credit facilities granted to corporate customers, and commitments made to purchase securities to be issued by governments and private issuers.

Irrevocable letters of credit
This represents an obligation on behalf of a customer to pay an amount of money upon submission of a specific letter or document, or to accept a bill of exchange, subject to certain conditions. An irrevocable letter of credit cannot be cancelled or adjusted by the bank that has granted it for the duration of the agreement unless all those concerned agree.

Issued share capital
The share capital that is issued by a public or private limited company.

Joint venture
A joint venture is an entity over which the Group has joint control. Joint control is the contractually agreed sharing of control over an arrangement or entity, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint control means that no party to the agreement is able to act unilaterally to control the activity of the entity. The parties to the agreement must act together to control the entity and therefore exercise the joint control.

Legal risk

Legal risk is the risk related to:

- A failure (or perceived failure) to adhere to applicable laws, regulations and standards;
- Contractual liabilities or obligations that are defaulted or cannot be enforced as intended, or are enforced in an unexpected or adverse way; and
- Liability (tort) towards third parties due to an act or omission attributable to ING (potentially) resulting in impairment of ING's integrity, leading to damage to ING's reputation, legal or regulatory sanctions, or financial loss.

Lending risk

Lending risk arises when ING Bank grants a loan to a counterparty, or issues guarantees on behalf of a counterparty. This includes term loans, mortgages, revolving credits, overdrafts, guarantees, letters of credit, etc. The risk is measured as the notional amount of the financial obligation that the counterparty has to repay to ING Bank, excluding any accrued and unpaid interest, discount/premium amortisations or impairments.

Leverage ratio

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator expressed as a percentage).

Liquidity coverage ratio (LCR)

Regulatory measure for the liquidity of banks, which compares the amount of high-quality liquid assets with a potential outflow over a one-month period. The measure is introduced under Basel III. LCR is defined as: stock of high quality liquid assets divided by assumed 30-day cash outflow.

Liquidity premium

In order to correct the value of liabilities for their illiquidity, a premium is added to the risk-free liability valuation curve. This premium reflects the price of illiquid long-term funding, which increases in stressed markets.

Liquidity risk

The risk that ING Group, or one of its subsidiaries, cannot meet its financial liabilities when they are due, at reasonable costs and in a timely manner.

Loan to deposit ratio (LtD ratio)

Measure for the liquidity of banks. The LtD ratio is defined as: own originated loans divided by own originated deposits.

Loan to value ratio (LtV ratio)

This is defined as the amount of the mortgage divided by the value of the property and is one way to measure the risk of a mortgage. Typically, assessments with higher LtV ratios are considered riskier mortgages. This also affects how the mortgage is weighed for regulatory capital purposes.

Loss given default (LGD)

Anticipated percentage loss in the event of a default of a customer or counterpart.

Management Board Banking

The Management Board Banking (MBB) consists of:

- the CEO, CFO and CRO of ING Group;
- the vice-chairman and head of Market Leaders of ING Bank;
- the head of Challengers & Growth Markets of ING Bank;
- the head of Wholesale Banking of ING Bank; and
- the chief operations officer of ING Bank.

The MBB reports to the Executive Board of ING Group.

Marked-to-market (MTM)

Valuing a security, portfolio or account against its market value instead of its carrying value.

Market risk

Market risk is the risk that movements in market variables, such as interest rates, equity prices, foreign exchange rates, credit spreads and real estate prices, negatively impact the bank's earnings, capital, market value or liquidity position.

Master agreement

Contract between parties in which agreements are reached for most of the terms and conditions of future transactions, so that negotiations only focus on deal-specific terms. Well-known master agreements include ISDA (for over-the-counter derivative transactions), GMRA (for repo or repurchase transactions) and GMSLA (for securities-lending transactions).

Minority interest

That part of the profit or loss and net assets of a subsidiary attributable to an interest that is not owned, directly or indirectly, by the parent company.

Minimum requirement of eligible liabilities (MREL)

The institution-specific loss absorption and recapitalisation requirement established in the EU Bank Recovery & Resolution Directive based on the resolvability assessment of the institution.

Monetary assets and liabilities

Assets and liabilities that are fixed in terms of units of currency by contract or otherwise. Examples are cash, short or long-term accounts, notes receivable in cash and notes payable in cash.

Money market risk

Money market risk arises when ING Bank places short-term deposits with a counterparty in order to manage excess liquidity. As such, money market deposits tend to be short-term in nature. In the event of a counterparty default, ING Bank may lose the deposit placed. Money market risk is measured as the notional value of the deposit, excluding any accrued and unpaid interest or the effect of any impairment

Monte Carlo simulation

A model to calculate value at risk, assuming that changes in risk factors are normally distributed together, taking into account non-linear behaviour of financial products.

Mortgage-backed securities (MBS)
A security with cash flows backed by typically the principal and/or the interest payments of a pool of mortgages.

Net asset value
Used in the equity method of accounting. The initial net asset value of the investment is determined by the fair value of the assets and liabilities of the investee. After the initial valuation of assets and liabilities of the investee at fair value, the assets and liabilities of the investee are valued in accordance with the accounting policies of the investor. The profit and loss account reflects the investor's share in the results of operations of the investee.

Net present value at risk (NPV at risk)
NPV at risk measures the impact of changing interest rates on value. As a full valuation approach is applied, the risk figures include convexity risk that results from embedded optionalities like mortgage prepayment options.

Net promoter score
Net promoter score (NPS) is a way of measuring customer loyalty and satisfaction. It's based on a direct question: 'How likely is it that you would recommend our company/product/service to a friend or colleague?' Promoters respond with a score of 9 or 10 (out of 10) and are considered 'loyal enthusiasts'. Detractors are those who respond with a score of 0 to 6 ('unhappy customers'). Scores of 7 and 8 are 'passives', and will only count towards the total number of respondents, but not directly affect the formula. NPS is calculated by subtracting the percentage of customers who are detractors from the percentage of customers who are promoters.

Nominal value of share
Dutch shares have a nominal value, which is mentioned on all issued share certificates. Shares must be issued against at least the nominal value. The nominal value remains fixed, as opposed to the market value, which fluctuates.

Nomination Committee
The Nomination Committee, consisting of members of the Supervisory Board, assists the Supervisory Board on aspects such as the composition of the Supervisory Board and Executive Board.

Notional amounts
Represent units of account, which in respect of derivatives, reflect the relationship with the underlying assets. They do not reflect, however, the credit risks assumed by entering into derivative transactions.

Obligor
This is a person or entity who's legally obliged to provide some benefit or payment to another. Financially, it usually refers to a bond issuer who's obligated to make payments on the principal and interest of the outstanding debt.

Operating lease
A contract that allows use of an asset, but not ownership of the asset. Different than a finance lease.

Operational risk
The risk of direct and indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Orange Code
ING's framework for a common corporate culture to unite employees. Developed with input from employees, the code is based on the principle of 'integrity above all'. It comprises values and behaviours. Values are those non-negotiable promises we make to the world no matter what. These are: we are honest, we are responsible and we are prudent. Behaviours are the commitments we make to each other and the standards by which we measure each other's performance: You take it on and make it happen, you help others to be successful and you are a step ahead. The Orange Code underpins all of ING's people processes and tools including performance management.

Ordinary share
An equity instrument that is subordinated to all other classes of equity instruments. Ordinary shares participate in the net profit for the financial year after other types of shares such as preference shares.

Outstandings
Total amount of all drawn portions of a facility and thus the sum of all transactions of a specific facility.

Over-the-counter instrument
A non-standardised financial instrument not traded on a stock exchange, but directly between market participants.

Performing loans
Loans for which customers currently meet and are expected to meet their financial obligations in full and on time.

Plan assets
Comprise assets held by a long-term employee benefit fund and qualifying insurance policies. Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting enterprise) that:
- are held by an entity (a fund) that is legally separate from the reporting enterprise and exists solely to pay or fund employee benefits; and
- are available to be used only to pay or fund employee benefits, are not available to the reporting enterprise's own creditors (even in bankruptcy), and cannot be returned to the reporting enterprise, unless either the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting enterprise, or the assets are returned to the reporting enterprise to reimburse it for employee benefits already paid.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party of the reporting enterprise, if the proceeds of the policy:
- can be used only to pay or fund employee benefits under a defined benefit plan; and
- aren't available to the reporting enterprise's own creditors (even in bankruptcy) and can't be paid to the reporting enterprise, unless either the proceeds represent surplus assets that aren't needed for the policy to meet all the related employee benefit obligations, or the proceeds are returned to the reporting enterprise to reimburse it for employee benefits already paid.

Post-employment benefit plans
Formal or informal arrangements under which a company provides post-employment benefits for one or more employees. Post-employment benefits are employee benefits other than termination benefits and equity compensation benefits, which are payable after the completion of employment.

Pre-settlement risk
Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING Group has to replace the contract by making a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk (potential or expected risk) is the cost of ING Group replacing a trade in the market.

This credit risk category is associated with dealing room products, such as options, swaps, and securities financing transactions. Where there is a mutual exchange of value, the outstanding amount is generally based on the replacement value (mark-to-market) plus potential future volatility concept, using an historical seven-year time horizon and a 99% confidence level.

Private placement
A placement in which newly issued shares or debentures come into possession of a limited group of subscribers who are prepared to buy the new securities.

Projected unit credit method
This has to do with employee benefit plans, such as retirement plans. It's an actuarial valuation method that considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Probability of default (PD)
The likelihood that a customer or counterparty will default.

Problem loans
In line with IFRS, if a borrower defaults on payment for more than 90 days, or a customer is likely to default payment, the particular loan and all other positions will be regarded as problem or non-performing loans.

Qualifying asset (related to borrowing costs)
An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Recognition
The process of incorporating in the balance sheet, or profit and loss account, an item that meets the definition of an element and satisfies the following criteria for recognition:
- It's probable that any future economic benefit associated with the item will flow to or from the enterprise; and
- The item has a cost or value that can be measured reliably.

Recoverable amount
The higher of an asset's fair value less costs of disposal and its value in use.

Recovery plan
As a consequence of the global financial crisis, ING Bank has set up an all-encompassing recovery planning process. It aims to improve the bank's readiness and decisiveness to tackle financial crises on its own.

Redemption value
With respect to investments in fixed-interest securities, the amount payable on the maturity date.

Regulatory capital (RC)
The minimum amount of capital that a bank is required to hold in order to absorb unexpected losses. RC is calculated using regulatory approved internal models.

Remuneration Committee
The Remuneration Committee, consisting of members of the Supervisory Board, advises the Supervisory Board on aspects such as the terms and conditions of employment of Executive Board members and senior managers of ING and its subsidiaries. This includes their remuneration, as well as the policies and principles that the employment terms and conditions are based on.

Repurchase agreement (Repo)
The sale of a financial instrument combined with an agreement to repurchase the same instrument at a future date.

Resolution plan
Resolution planning sets out which action needs to be taken if the bank is found to be failing in order to continue its critical functions and avoid significantly adverse effects on financial stability while minimising public financial support. The Single Resolution Board (SRB) and the National Resolution Authorities (NRAs) are responsible for resolution planning and resolution of a bank and to that end determine the strategy for ING, based on information that ING provided on critical functions, the financial, legal, operational, and organisational structure and internal and external interdependencies.

Return on equity (ROE)
The return on equity is the net result as a percentage of average equity. It's used as a measurement of a company's profitability and efficiency.

Reverse repurchase agreement (Reverse repo)
The purchase of a financial instrument with the agreement to sell it at a specific future date.

Risk Committee
The Risk Committee, consisting of members of the Supervisory Board, assists the Supervisory Board in monitoring the risk profile of the company, as well as the structure and operation of the internal risk management and control systems.

Risk-weighted assets (RWA) under Basel I
Assets that are weighted for credit risk according to a formula used by the Dutch Central Bank (De Nederlandsche Bank), which conforms to the capital adequacy guidelines of the BIS (Bank of International Settlements). On- and off-balance-sheet items are weighted for risk, with off-balance-sheet items converted to balance-sheet equivalents (using credit conversion factors) before being allocated a risk weight.

Risk-weighted assets (RWA) under Basel II
Assets that are weighted for credit and market risk in accordance with the Basel II methodology. The risk-weighted assets are calculated using internal models approved by the Dutch Central Bank (De Nederlandsche Bank). Regulatory capital requirements for operational risk are calculated without the use of risk-weighted assets, but are included in the total risk-weighted assets reported. In the CRR/CRD IV, the term RWA is replaced by 'Total Risk Exposure Amount', but for now we follow common usage.

Settlement risk
Settlement risk arises when there is an exchange of value (funds, instruments or commodities) for the same or different value dates or times, but the receipt won't be verified or expected until ING Group has paid or delivered its side of the trade. The risk is that ING Group delivers, but the counterparty doesn't.

Significant influence
The power to participate in the financial and operating policy decisions of an entity, but not to have control over these policies. Significant influence may be gained by share ownership, statute or agreement.

Stakeholder
A stakeholder is a person or group with an interest in ING. We distinguish the following groups: customers (individuals, families, small businesses, large corporations, financial institutions, governments, public-private entities and supranational agencies), capital providers, employees, supervisors, regulators, civil society organisations, citizens and society at large.

Stress testing
Stress testing examines the effect of exceptional but plausible scenarios on the capital position of ING. Stress testing can be initiated internally or be external parties such as the European Central Bank.

Structured entity
An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Subsidiary
An entity that is controlled by another entity.

Sub-sovereign supranationals and agencies (SSA)
SSAs comprise, among others, multilateral development banks, regional governments, local authorities and US agencies. Under certain conditions, SSA bonds may qualify as 'Level 1 High Quality Liquid Assets' for LCR.

SSA categories are defined per:
a. The EU-regulation (EU) 575/2013 CRR, which defines exposure classes in Article 112 – Article 132 ('CRR');
b. The exemption list in Article 2 of the directive 2013/36/EU ('CRD IV'); and
c. Delegated act on Liquidity Covered Ratio (EU) 680/2014 (Directive on 'LCR').

Sustainable assets under management / socially responsible investments
Assets of customers registered at ING Bank that are defined as sustainable following an assessment of environmental, social and governance (ESG) parameters / criteria.

Sustainable engagement score
The extent to which employees are motivated, enabled and energised to perform at their best and help ING to succeed.

Sustainable transitions financed
Sustainable transitions financed describes the business that we do with clients who are environmental outperformers in their sectors as well as projects that provide sustainable solutions. The definition by which projects should be tagged as a sustainable solution or by which a client is tagged as an environmental outperformer is determined by ING sector strategies and consists of:
a. ING Groenbank: total assets on the balance sheet
b. Loans to Renewable energy: Renewable energy projects include biomass, geothermal, hydro, solar, offshore and onshore wind power generation.
c. Loans to Sustainable Real Estate: Sustainable Real Estate projects include the financing of sustainable buildings (certified with a BREEAM, LEED, HQE or DGNB, or with an EPC label of C or higher)
d. Loans to other sustainable projects: Other sustainable projects include energy efficiency, greenhouse gas reduction, climate change mitigation, waste management, water efficiency, public transport and social welfare.

e. Loans to environmental outperformers: Clients that are identified as environmental outperformer either by an independent reputable data provider or by ING client due diligence "Know Your Customer" process

Swap contracts
Commitments to settle in cash at a specified future date, based on differentials between specified financial indices as applied to a notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party.

Tier 1 capital
The Tier 1 capital of an institution consists of the sum of the common equity Tier 1 capital and additional Tier 1 capital.

Tier 1 ratio
Reflecting the Tier 1 capital of ING Bank as a percentage of its total risk-weighted assets.

Tier 2 capital
Tier 2 capital shall consist of the following:

a. Capital instruments and subordinated loans where the conditions laid down in Article 63 (CRR) are met;
b. The share premium accounts related to instruments referred to in point (a.);
c. For institutions calculating risk-weighted exposure amounts in accordance with Chapter 2 of Title II of Part Three, general credit risk adjustments, gross of tax effects, of up to 1,25 % of risk-weighted exposure amounts calculated in accordance with Chapter 2 of Title II of Part Three of the CRR; and
d. For institutions calculating risk-weighted exposure amounts under Chapter 3 of Title II of Part Three, positive amounts, gross of tax effects, resulting from the calculation laid down in Articles 158 and 159 up to 0.6 % of risk-weighted exposure amounts calculated under Chapter 3 of Title II of Part Three of the CRR.

Total loss-absorbency capacity (TLAC)
The minimum loss-absorbing and recapitalisation standard that the Financial Stability Board (FSB) issued for Global Systemically Important Banks (G-SIBs). The TLAC standards aim to bolster G-SIBs' capital and leverage ratios, ensuring critical functions to continue without threatening financial market stability or requiring further public financial support.

Trading portfolio
Comprises financial instruments held to obtain short-term transaction results, to facilitate transactions on behalf of customers or to hedge other positions in the trading portfolio.

Transfer risk
Probability of loss due to currency conversion (exchange) restrictions imposed by a foreign government that make it impossible to move money out of the country.

Treasury bills
Generally, these are short-term debt certificates issued by a central government. Dutch Treasury Certificates are regarded as Dutch Treasury Bills.

Treasury shares
An entity's own equity instruments, held by the entity or other members of the consolidated group.

Underlying result
Underlying result is a financial performance measure used by ING Group to evaluate the results of its banking segments and is derived by excluding the following from IFRS-EU: special items, the impact of divestments and Legacy Insurance.

Value at risk (VaR)
Value at risk is a technique that uses the statistical analysis of historical market trends and volatilities to estimate the likelihood that a given portfolio's losses will exceed a certain amount.

The VaR for market risk quantifies, with a one-sided confidence level of 99%, the maximum overnight loss that could occur due to changes in risk factors (e.g. interest rates, equity prices, foreign exchange rates, credit spreads, implied volatilities) if positions remain unchanged for a time period of one day. Note that risk due to DVA and CVA sensitivities is not covered in this trading risk measure. Next to general market movements in these risk factors, VaR also takes into account market data movements for specific moves in e.g. the underlying issuer of securities.

The impact of historical market movements on today's portfolio is estimated, based on equally weighted observed market movements of the previous year. ING Bank uses VaR with a 1-day horizon for internal risk measurement, control and backtesting, and VaR with a 10-day horizon for determining regulatory capital.

Value in use
The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Variance-covariance
A model to calculate value at risk, assuming that changes in risk factors are normally distributed jointly and that the change in portfolio value is linearly dependent on all risk factor changes.

Warrant
A financial instrument that gives the holder the right to purchase ordinary shares.

General information

ING Publications

- ING Group Annual Report, in English
- ING Bank Annual Report
- Annual Report on Form 20-F, in English (in accordance with SEC guidelines)

The publications can be downloaded on the internet: www.ing.com, button 'Publications'. The printed version of the Annual Report on Form 20-F, in English, can be ordered here.

This Annual Report contains the Reports of the Executive Board and Supervisory Board as well as the Annual Accounts and other information for the financial year 2016 in their original language (English).

ING Groep N.V.

Bijlmerplein 888, 1102 MG Amsterdam
P.O. Box 1800, 1000 BV Amsterdam The Netherlands
Telephone: +31 20 5639111 Internet: www.ing.com

Commercial Register of Amsterdam, no. 33231073

Written and produced by

ING Groep N.V.

Designed by

Smidswater, Den Haag

Photography

Boards, CEO and Chairman: Sander Stoepker;
Cover and the rest of the photography: Izarin and Van Der Linde Photography - film

Disclaimer

Certain of the statements contained herein are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to a number of factors, including, without limitation: (1) changes in general economic conditions, in particular economic conditions in ING's core markets, (2) changes in performance of financial markets, including developing markets, (3) potential consequences of European Union countries leaving the European Union or a break-up of the euro, (4) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit and capital markets generally, including changes in borrower and counterparty creditworthiness, (5) changes affecting interest rate levels, (6) changes affecting currency exchange rates, (7) changes in investor and customer behaviour, (8) changes in general competitive factors, (9) changes in laws and regulations and the interpretation and application thereof, (10) geopolitical risks and policies and actions of governmental and regulatory authorities, (11) changes in standards and interpretations under International Financial Reporting Standards (IFRS) and the application thereof, (12) conclusions with regard to purchase accounting assumptions and methodologies, and other changes in accounting assumptions and methodologies including changes in valuation of issued securities and credit market exposure, (13) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (14) changes in credit ratings, (15) the outcome of current and future legal and regulatory proceedings, (16) ING's ability to achieve its strategy, including projected operational synergies and cost-saving programmes and (17) the other risks and uncertainties detailed in this annual report of ING Groep N.V. (including the Risk Factors contained therein) and ING's more recent disclosures, including press releases, which are available on www.ING.com. Many of those factors are beyond ING's control.

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

Projects may be subject to regulatory approvals. Insofar as they could have an impact in Belgium, all projects described are proposed intentions of the bank. No formal decisions will be taken until the information and consultation phases with the Work Council have been properly finalised.

This document does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities in the United States or any other jurisdiction.