ING Group Annual Report 2017

Empowering people

ING

Our customers' world isn't standing still and neither is ours. Rapid technological advances and digitalisation are changing their behaviour. They now expect the same personal, instant, relevant and seamless experience from their bank that they get from other digital providers. To keep meeting their expectations, we're speeding up our digital transformation. So we build a bank that will be relevant for our customers, now and in the future.

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

Contents

Report of the Executive Board

ING at a glance	3
CEO statement	6
The world around us	9
Our strategy and how we create value	16
Improving the customer experience	23
Our business	28
Our people	38
Risk and capital management	42
Composition of the Executive Board and Management Board Banking	51
ING Shares	52
About this report	55
Independent auditor's assurance report	57

Corporate governance

Chairman's statement	61
Report of the Supervisory Board	63
Corporate governance	70
Dutch Corporate Governance Code Statement by the Executive Board	83
Report of the ING Continuity Foundation	84
Conformity statement	85
Section 404 Sarbanes-Oxley Act	86
Report of independent registered public accounting firm	87
Remuneration report	88
Works councils	100

Consolidated annual accounts

Consolidated statement of financial position	103
Consolidated statement of profit or loss	104
Consolidated statement of comprehensive income	106
Consolidated statement of changes in equity	107
Consolidated statement of cash flows	110
Notes to the consolidated annual accounts	112
Risk management	223
Capital management	289

Parent company annual accounts

Parent company annual accounts	295

Other and additional information

Independent auditor's report	309
Articles of Association - Appropriation of results	315
Risk Factors	316
Non-financial appendix	337
Non-GAAP measures	354
General information	355

ING at a glance

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

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 are our businesses in mature markets in the Benelux where we have strong market positions in retail and wholesale banking. We're implementing an operational integration of Belgium and the Netherlands as part of our strategy to provide a uniform customer experience based on a digital-first model, enhance operational excellence and create greater cost efficiency.

Challengers are our businesses in markets where we aim to build a full banking relationship digitally distributed at low cost via platforms like Model Bank, which we are developing for several European banking markets, and Welcome, in Germany. 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 franchises to fund expansion of Wholesale Banking in these markets.

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

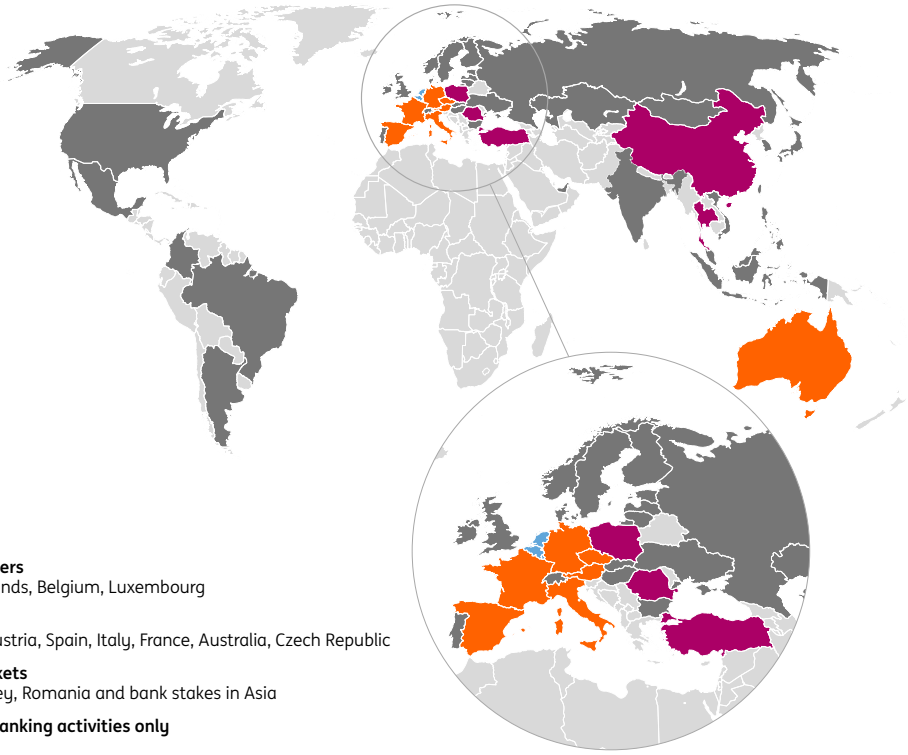
Wholesale Banking provides corporate and financial institutions with specialised lending, tailored corporate finance and debt and equity market solutions. We also offer working capital solutions, payments and cash management and trade and treasury services to help them achieve their business goals. We support our clients' international needs with local presence in more than 40 countries.

Our customers

37.4 million
(year-end 2017)

Our employees

54,000+
(year-end 2017)



Performance highlights

Non-financial key figures

	2017	2016	2015
Net Promoter Score Retail Banking (number of countries with number one ranking, rolling average)[1]	7	7	7
Total number of Retail Banking primary relationships (in million, year-end)[1,2]	10.8	9.9	9.2
Climate Finance (lending outstanding in EUR billion, year-end)[3]	14.6	-	-
Social Impact Finance (lending outstanding in EUR billion, year-end)[3]	0.5	-	-
Sustainable assets under management (in EUR billion, year-end)	4.8	3.3	2.6
Number of customers that felt financially empowered (in million, year-end)[1]	25.4	23.9	20.5
Human Capital Return on Investment indicator	2.51	2.59	2.48
Retail Banking system availability in the Netherlands and Belgium (in percentage)[1,4]	99.7	-	-
Wholesale Banking system availability (in percentage)[1,4]	100	-	-

Consolidated result[5]

in EUR million	2017	2016	2015
Net result attributable to ING Group's shareholders	4,905	4,651	4,010
Underlying net result Banking	4,957	4,976	4,219
Underlying result before taxation Banking	7,199	7,028	5,959
of which underlying income	17,704	17,458	16,552
of which underlying operating expenses	9,829	9,456	9,246
of which underlying addition to loan loss provision	676	974	1,347

Balance sheet

in EUR billion, year-end	2017	2016	2015
Total assets ING Groep N.V.[6]	846	845	1,005
Total assets ING Groep N.V.[7]	846	845	842
Shareholders' equity ING Groep N.V.	50	50	48
Customer lending ING Groep N.V.[7,8]	574	561	533
Customer deposits ING Groep N.V.[7]	540	523	501

Other indicators

	2017	2016	2015
Effective underlying tax rate (in %)	30.0	28.1	28.0
Risk-weighted assets ING Group (EUR billion, year-end)	310	314	321
Underlying risk costs in bps of average RWA	22	31	44

Our financial goals

	Ambition 2020	2017	2016	2015
Common equity Tier 1 ratio fully loaded ING Group	> Prevailing fully-loaded requirements	14.7%	14.2%	12.7%
Leverage ratio ING Group[9]	>4%	4.7%	4.8%	4.4%
Underlying cost/income ratio	50-52%	55.5%	54.2%	55.9%
Underlying return on equity ING Group	Will provide more clarity in 1H18	10.2%	10.1%	8.6%
Dividend per share (in euros)	Progressive dividend	0.67	0.66	0.65

Share information

	2017	2016	2015
Net result per share (in euros)	1.26	1.20	1.04
Shareholders' equity per share (end of period in euros)	12.97	12.84	12.36
Dividend per share (in euros)	0.67	0.66	0.65
Price/earnings ratio	12.1	11.1	12.0
Price/book ratio (end of period)	1.18	1.04	1.01

1 Subject to reasonable assurance by KPMG. Throughout the report indicated with Ⓐ. See 'Independent auditor's assurance report', page 57.
2 200,000 additional primary customers due to restatement in 3Q2017 in Poland; historical numbers have been restated.
3 A description of ING's Climate Finance and Social Impact Finance, see www.ing.com/17ar01.
4 Scope is not comparable to availability reported for 2016 and 2015.
5 For further explanation of non-GAAP measures, see 'Additional Information' section of the Annual Report.
6 ING changed its accounting policy for the netting of cash pooling arrangements in the second quarter of 2016. In accordance with IFRS, the comparable amounts for 2015 were adjusted.
7 The comparable 2015 cash-pooling balances in Customer lending and Customer deposits are still presented on a net basis in order to provide consistent information to its users.
8 Customer lending is defined as: loans and advances to customers -/- securities at amortised costs -/- provision for loan losses.
9 The leverage ratio of ING Group according to the Delegated Act (including grandfathered securities) takes into account the impact of grossing up the notional cash pool activities.

Non-financial review

7
Top rankings out of 13 countries

Net Promoter Score Retail Banking[1]
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.

14.6 bln
Climate Finance

0.5 bln
Social Impact Finance

Responsible finance
In 2017, we matured and strengthened our approach by introducing a responsible finance portfolio, replacing our Sustainable Transitions Financed. At the end of 2017, Climate Finance amounted to EUR 14.6 billion and Social Impact Finance amounted to EUR 0.5 billion.

4.8 bln

Sustainable Assets under Management (SAuM)
Sustainable Assets under Management increased to EUR 4.8 billion, up by EUR 1.1 billion of new business. This underlines our clients' appetite for products and services that apply sustainability criteria.

25.4 mln
customers felt financially empowered

Financial empowerment[1]
Since 2015, we have been measuring our efforts to improve the financial behaviour of our customers and society. In 2017, 25.4 million people felt financially empowered as a result of interactions with our financial empowerment initiatives.

2.51

Effective employer Human Capital ROI
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 2.51 in 2017 compared to 2.59 in 2016.

99.7%
Retail Banking in the Netherlands and Belgium

100%
Wholesale Banking

System availability[1]
We strive to maintain a high level of system availability of our online payments channels. For 2017, weighted system availability for Retail customers in the Netherlands and Belgium was 99.7%. For Wholesale Banking customers, system availability was 100% globally.

Financial review

+ 5%

Net result ING Group
The increase reflects a stable underlying net result from Banking, whereas the 2016 result included the negative impact from special items (restructuring charges related to the digital transformation programmes), in part offset by the positive net result from the discontinued insurance operations. ING sold its final stake in NN Group in April 2016.

- 0.4%

Underlying net result Banking[5]
The underlying net result was stable as higher interest results, increased fee income and lower risk costs were offset by lower one-off gains and volatile items, higher expenses (mainly due to investments in strategic projects and higher costs to support business growth) and a higher effective tax rate. Commercial performance was robust with 4.8% net growth in the core lending book.

10.2%

ING Group's underlying return on equity[5]
ING Group's underlying ROE was 10.2% in 2017, broadly in line with 2016. Although more clarity is now available following the agreement on Basel 'IV', it is still too early to announce a Group ROE target.

-31%

Addition to the loan loss provision
Risk costs declined to 22 bps of average RWA (which is below ING's through-the-cycle risk cost average of 40-45 bps), driven by a benign credit environment in most markets where ING is active.

14.7%

Fully loaded CET1 ratio ING Group
The CET1 ratio improved from 14.2% at year-end 2016, due to an increase in CET1 capital combined with lower RWA as positive risk migration and FX impacts more than offset the impact from volume growth and model updates. The increase in CET1 capital was driven by net profit, partly offset by the proposed dividend payments and a decline in reserves.

55.5%

Underlying cost/income ratio[5]
The cost/income ratio increased from 54.2% in 2016, as income growth was outpaced by higher expenses. This was mainly due to higher expenses to support business growth and increased investments in strategic projects; the related benefits will materialise later. ING remains committed to the Ambition 2020 target of 50-52%.

CEO statement
Building the bank of the future

ING delivered strong commercial growth and financial results in 2017, and we continued to empower customers with a differentiating experience. We also made good progress laying the foundations for the ING of the future. With disruption in banking increasing, we're accelerating the implementation of our Think Forward strategy to deepen and expand the customer relationship.

At ING, our purpose is to empower people to stay a step ahead in life and in business. This guides us as we shape our own business to serve our customers and continue to excel for them in the future.

In 2017, we again saw rapid growth in interactions with customers through mobile devices. With our Customer Promise to be clear and easy, available anytime and anywhere, to empower and to keep getting better, we've established ourselves as a leader in digital banking.

Across the bank we see many examples of how we are putting our purpose and Customer Promise into practice. In many retail countries we offer easy-to-access digital tools that help customers make smart choices when deciding between savings and investment options, empowering them to achieve their current and longer-term goals. We're also making banking easier, like in Germany, where we offer time-saving features such as a fully digital, three-step account opening process and a digital income check that allows fast loan approvals even when that income is at another bank.

Solid performance in 2017 in Wholesale Banking demonstrated the skills that differentiate us in the market. These include sector expertise in industry lending and expertise in areas like payments and cash management, working capital solutions and financial markets that support the financial resilience of clients. We'll further develop Wholesale Banking as a client-focused franchise that offers a consistent experience across borders. This includes moving to a stronger sector organisation and strengthening our international network with more resources in Asia and the Americas.

Customer numbers are rising. In 2017, the overall number of retail customers increased to 37.4 million, up more than four million since the launch of the Think Forward strategy in 2014. The number of primary relationships – customers with a current account with recurring income and at least one other product – grew to 10.8 million. We're on track to meet our ambition of 14 million primary customers by 2020. We were rated number one in terms of NPS in seven of our 13 retail markets in 2017.

2017 results

These strong relationships with customers helped to drive ING's robust commercial growth and financial results in 2017. ING recorded a full-year 2017 net profit of EUR 4,905 million, an increase of 5.5 percent year-on-year. Our net core lending to customers grew by almost EUR 27 billion, or 4.8 percent, and net customer deposits rose by EUR 19 billion compared to year-end 2016. Lending growth came from all regions, except the Netherlands, which saw a decline in mortgages. The growth was well diversified, with strong growth in the retail activities in Belgium and the Challengers & Growth Markets, but also from Industry Lending and Working Capital Solutions within Wholesale Banking. Income increased, driven by resilient interest margins and higher fee income and despite lower one-off gains and volatile items. Risk costs declined further due to the benign credit environment in most markets where ING is active. Expenses rose mainly due to an acceleration in digital investments and higher costs to support business growth. Our capital base strengthened, with ING Group's CET1 ratio improving to a robust 14.7 percent at year-end 2017. ING's underlying return on equity was with 10.2 percent broadly in line with 2016.

Reflecting these strong results, the Board proposes to pay a total 2017 dividend of EUR 0.67 per ordinary share, subject to shareholder approval at the AGM in April 2018. This is in line with our goal of paying a progressive dividend over time, while maintaining healthy capital levels.

Building the ING of the future

ING's strong 2017 performance came against a backdrop of challenges for the banking sector. Low interest rates are pressuring margins from savings and lending activities. New regulatory rules are increasing capital costs for core activities like mortgages and industry lending. But the most significant development is digitalisation and how it is shaping customer expectations and the competitive landscape.

Banking products have become commoditised; and I firmly believe the customer experience will be the key future differentiator. The standard is now being set by digital disruptors. Among them fintechs, who are applying a superior digital experience with low-cost online delivery to compete for key areas of banks' value chains. The biggest digital disruptors are now serious contenders, like Google and Apple in the area of payments, and China's Alibaba and Tencent (owner of WeChat) that both now have banking licenses.

These developments are an important opportunity for ING. This digital trend, with its direct interaction with customers in a personal, instant, relevant and seamless way based on standard products, plays more to ING's strengths and experience than to that of any other incumbent. The fast growth ING is experiencing shows we're succesfully applying our own two decades of experience as digital disruptors with ING Direct.

I believe digital 'ecosystems' are where customers will spend their time in the future. At ING, we aim to be part of these ecosystems and also to be a go-to platform for all our customers' financial needs, open to third-party providers of financial and other relevant offerings.

To achieve that, we're accelerating the Think Forward strategy and transforming our organisation. Our ambition is to build a scalable digital banking platform across borders that provides customers with the same clear and easy experience wherever they interact with us; one that can integrate into other digital platforms to serve customers where they need us. We're developing the data skills so we really know our customers and can provide the personal and relevant service they expect. This will be the basis of a strong brand that earns customer loyalty and sets us apart from competitors.

These ambitious changes aren't possible without a strong culture of innovation. We foster that through our PACE methodology. It combines elements of Lean, Agile Scrum and Design Thinking and uses fast experimentation and customer validation to cut the time to market for innovations and other improvements. Our innovative approach includes our own internally incubated fintechs. Like Yolt, whose aggregation app is in beta testing in the UK and growing rapidly. And the Payconiq payments app that we launched in Belgium and plan to roll out in the Netherlands and Luxembourg.

Partnerships with over 100 fintechs are speeding up our own pace of innovation. In late 2017, we launched the EUR 300 million ING Ventures fund to invest in start-ups and companies that have already gained some market traction. These investments are aligned to our strategy of providing a differentiating customer experience.

At the same time that we transform ING and prepare for the future, we must also ensure that our day-to-day operations meet the highest standards and that we continue to live up to the expectations of customers and society. This includes ensuring that critical non-financial risk areas, such as customer due diligence and anti-money laundering measures, stay top of mind and are supported by a structural approach and strong foundations.

Supporting a sustainable world

Banks have a major role to play in supporting the sustainable development and responsible behaviour and policies. This is something we're committed to at ING, and something I personally feel very strongly about. In 2017, ING financed sustainable projects in areas including renewable energy, water management and public service infrastructure.

Banks can't create a sustainable world alone, but they can have a real impact. We decided in 2017 to focus our sustainability efforts on contributing to a low-carbon and self-reliant society. We think this will have the most impact both for our customers and society. This also supports our commitment to the UN Sustainable Development Goals, particularly on sustainable and inclusive economic progress (goal 8) and on sustainable consumption and production (goal 12).

For businesses, this includes increasing financing for responsible companies while reducing financing for carbon-intensive sectors, continuing our involvement in the circular economy and increasing financing aimed at promoting social progress. For customers, our approach to promoting a self-reliant society includes providing them with tools and insights that improve their financial decision-making and resilience. We do this as well for the general public through the Think Forward initiative, an independent expert platform researching consumer behaviour and developing solutions to help them make better financial choices.

ING continued to be recognised in 2017 for our commitment to sustainability. We were again included in the Dow Jones Sustainability Index's (DJSI) World Index and Europe Index for banks, scoring 89 out of 100, compared to an industry average of 58. And the non-profit global environmental disclosure platform CDP again named ING a global leader in the corporate response to climate change.

Regulation

On the regulatory side, there were a number of important developments in 2017. The first is PSD2, the EU payment services directive that is opening Europe's payments industry to non-banks. This will greatly increase competition and promote innovation in areas like mobile and internet payment services. But in practice non-banks are less strictly regulated than banks, particularly in areas like customer due diligence, fraud and cyber-security risks, as well as the use of commercial and payment data. It's important to address this lack of a level playing field, both in the interests of customer security and to promote fair competition, especially with the powerful global tech firms.

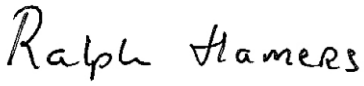
Secondly, Basel 'IV' rules were agreed that introduce common capital floors for various types of lending. The idea behind these floors is to promote a level playing field. However, because they fail to take default experience and differences in legal systems into account, they achieve the opposite of a level playing field and will increase the cost of borrowing, for instance in areas like mortgages. This will ultimately impact the important role banks play in facilitating economic growth.

Another issue is bank taxes. Introduced following the financial crisis to compensate for the perceived advantage banks gained by receiving state support, these taxes have now been abolished in a number of eurozone countries. We regret that the Netherlands has not yet followed suit. This puts Dutch banks at a competitive disadvantage compared to many of their European peers.

The way forward

I am proud that ING was named Best Bank in the World 2017 by *Global Finance* magazine, which cited in particular our digital leadership and strong innovation culture. This prestigious award recognises the many achievements that we've made through the creativity, hard work and commitment of ING's talented employees around the world.

In a world in flux, finding the way forward can at times be challenging, but I'm confident that at ING we have the vision, entrepreneurship, drive and financial strength to turn today's achievements into success in the future. I'd like to express my appreciation to our customers and shareholders for their continued confidence in ING. And I wish to sincerely thank our employees for all their hard and excellent work in 2017. They inspire me every day.



Ralph Hamers
Chief Executive Officer ING Group

5 March 2018

The world around us

The world around us is constantly changing. This chapter highlights several trends that have a major impact on our own operating environment, as well as on 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.

Increased global economic momentum

Economic momentum picked up further in 2017, outpacing the global economic growth seen in 2016.

In the United States, growth has remained strong. This is now the second-longest economic expansion since the end of World War II. At the same time inflation has stayed low, allowing the Federal Reserve to follow a very gradual path of interest rate increases.

In the euro area, all member states' economies are growing. The eurozone's economic performance was particularly positive, as the area recorded its lowest unemployment rate in nine years and economic confidence reached pre-crisis levels.

In the United Kingdom, economic growth has slowed, against a background of continued uncertainty about the future relationship with the European Union. The economy in Asia remained strong with growth rates of the advanced economies in that region generally accelerating. Growth in major emerging-market economies has improved overall, helped by a rebound in some commodity producers that experienced recessions in 2015–16.

Rates increase, but remain low

Longer-term government bond yields rose somewhat compared to their 2016 lows on the back of a strengthening global economy, the Fed's US rate increases and the anticipated end to exceptionally easy monetary policy elsewhere.

However, with inflation in most developed economies staying low, longer-term yields remained modest while equity markets in advanced economies performed well and corporate credit spreads were at, or close to, their tightest levels since the beginning of 2008. Volatility was subdued despite increased geopolitical tensions around North Korea.

Euro on the rise

The euro rose against the US dollar in 2017, propelled by the strengthening economic outlook in the euro area, diminishing political uncertainty and expectations about the tapering of quantitative easing in the euro area.

Regulatory landscape and continuing uncertainty

Continued delays around the Basel 'IV' discussions (i.e. the revisions to Basel III) addressing the variability of banks' internal models, which weren't finalised until December 2017, led to ongoing international uncertainty. This had an impact on strategic planning and business decisions for many banks.

At a European level, the Single Supervisory Mechanism continued to strengthen its supervisory role through the ECB. This was reflected in the priorities it set for 2017: business models and profitability drivers; credit risk, with a focus on non-performing loans and risk concentrations; and risk management.

The Single Resolution Board adopted its first resolution decisions for banks from Italy and Spain. Meanwhile the resolvability of banks has been further improved by building up loss-absorption buffers. European global systemically important banks are advancing their bail-in issuances and will likely meet the internationally agreed total loss-absorbing capacity (TLAC) standards per 2022. Resolution authorities have provided European banks with initial targets for minimum requirement for own funds and eligible liabilities (MREL). These targets will be reviewed once the ongoing discussions on the bank recovery and resolution directive (BRRD) and the review of capital requirements regulations (CRR) have been finalised.

The Single Resolution Fund is also showing a steady increase. The size of the fund is now almost EUR 18 billion, aiming to meet the target requirement of EUR 55 billion in 2023. Despite the fact that the discussion on the European Deposit Insurance Scheme (EDIS) didn't show much progress throughout 2017, the completion of the Banking Union gained political momentum. In the course of 2018, further steps are expected to ensure its completion by 2019. We would also welcome a deepening of the Economic and Monetary Union, which would help to enhance economic and financial stability in the eurozone.

The range and complexity of non-prudential regulation (regarding other things than financial strength) continues to increase. Regulation is becoming more stringent in areas like customer due diligence, and transaction monitoring to detect and report money laundering (AML), terrorist financing and fraud. Individual country laws and specific regulations often prevent cross-border information sharing, between public and private authorities and between private parties. This restricts the effectiveness of bank systems and is most evident when large financial institutions operate a global compliance model.

ING will participate in a public/private sector partnership initiated by Europol and the Institute of International Finance. This high-level forum aims to find better ways to share information within existing laws.

In general, ING continues to favour a more harmonised European approach to regulations. This would help to align the customer experience across borders and could accelerate the digitalisation of ING's banking services.

ING's regulatory costs increased to EUR 901 million from the already elevated level of EUR 845 million in 2016. This was due to ING's contribution to local deposit guarantee schemes, the European resolution fund and bank taxes.

2017 marked the kick-off of Brexit negotiations. ING is monitoring these closely to make Britain's exit from the EU as smooth as possible for our business and customers.

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. Technology giants, payment specialists, retailers, telecommunication companies, crowd-funding initiatives and aggregators are all entering the market for traditional banking services. Our customers, in turn, are more willing to consider these offers.

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.

With our long track record and strong brand, we believe we are well placed 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 continue to work hard to win their hearts and minds, demonstrating our concern for them and all our stakeholders. We aim to be even clearer about the strategic choices we make.

The diagram at the bottom of this page shows what we perceive to be our strengths, weaknesses, opportunities and threats based on assessments by management.

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

Societal challenges

In our view, both climate change and the so-called fourth industrial revolution can lead to societal changes.

The effects of climate change, including the growing scarcity of water, food, energy and other material resources, pose daunting social and environmental challenges. The causes and the solutions to these challenges are complex, but we already know that they will change traditional business models.

Our perceived strengths, weaknesses, opportunities and threats

Strengths

- Strong and trusted brand with positive recognition based on our differentiating customer experience in many countries
- Leader in digital banking
- Among leaders in sustainability
- Balance sheet quality and stable funding base
- Global network provides competitive advantage
- Diversified business model
- Agile way of working

Weaknesses

- High interest-income dependency
- Lower efficiency compared to disrupters (e.g. tech giants)
- Diversity challenges

Opportunities

- Leverage our customer trust and reputation
- Improve the customer experience by accelerating innovation and becoming more agile
- Embed data-driven culture
- Create scalable cross-border banking platform
- Leverage expertise in digital delivery of advice and support aimed at improving customer decision-making
- Increasing market for Sustainable Finance
- Preferred banking partner for fintechs

Threats

- Cybercrime
- Potential competition from new entrants to the market
- Low interest-rate environment
- Expected Basel 'IV' impact on our lending franchise
- Increasingly complex regulatory environment leading to heightened execution and non-compliance risk
- Lack of international level playing field in many relevant areas, like equity buffers, bank taxation, data (PSD2), remuneration
- Financial sector continues to have an unfavourable public image in many countries

Business models, but more importantly people's lives, will also be influenced by the so-called fourth industrial revolution – fast-changing technology such as artificial intelligence that will cause many jobs to change, be relocated or eliminated altogether.

We believe in taking the long view and in going beyond just mitigating the harm related to these challenges – we want to drive sustainable progress. Banks can bring about change through their financing choices. We aim to use our position to help lead the global transition to a low-carbon and self-reliant society, tackling climate change and the fourth industrial revolution.

What matters most to our stakeholders

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

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

See the 'Non-financial appendix' for a detailed process description of the 2017 materiality assessment.

Overall results show that non-financial topics continue to gain importance. We saw for example that both stakeholders and ING's management still regard innovative business developments as one of the most important topics. This includes disruptive technologies across industries, the threat from small fintechs as well as giants such as Facebook and Google, and the opportunities that advanced data analytics provide in serving our customers.

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

Responsible finance and investment policies, strongly influenced by external developments around topics such as climate change and human rights, gained visibility both inside and outside of ING. Stakeholders expect ING to have a long-term vision on where we can make the biggest impact. We see our purpose – to empower people to stay a step ahead in life and in business – as inherently sustainable. ING focuses on using our position as a global bank to spur environmental and social progress, empowering a low-carbon and self-reliant society.

Also gaining importance across stakeholder groups is the topic of enhancing customer financial capabilities. Stakeholders find that banks have a responsibility to increase the financial knowledge of their customers. We see this as part of the way we empower people to stay a step ahead.

Customers expect targeted/personalised explanation of products and services based on their needs. They also expect ING advisors to have good knowledge of products and services and to explain them in an easy and transparent way.

Usability and accessibility of products and services were deemed more important in 2017. We aim to keep improving our mobile and online offering as we focus on improving the customer experience. Banking products have become increasingly commoditised – there is little to differentiate one savings account or transactions service from another. Instead, customers choose their bank for the experience it offers. For ING, this means being clear and easy, available anytime and anywhere and most of all empowering – putting customers in the driver's seat when it comes to their own finances. This topic of 'usability and accessibility of products and services' could be a game-changer for ING, given our strategy.

Read more in the 'Our business' chapter.

Overview material topics

Customer centricity

- A Innovative business developments
- B Customer privacy and data ethics
- C Enhancing customer financial capabilities
- D Stability of IT systems and platforms
- E Usability and accessibility of our products and services

Economic contribution

- F Financial performance
- G Pricing of products and services
- H Managing risks (financial risks and non-financial risks)

Responsible business practices

- I Corruption prevention
- J Responsible finance and investment policies
- K Transparency

Human capital

- L Diversity and equal opportunities

Opportunities & Risks	Material topic	Our approach and performance	More information
Customer centricity			
Opportunities: • Focus on improving customer experience by accelerating innovation and becoming more agile. • Digital delivery of advice and support aimed at improving customer decision-making. • Scalable cross-border banking platform to make online interaction personal, instant, seamless and relevant. • Embed data-driven culture. **Risks:** • Technology is removing a number of barriers to entry that once insulated financial services. • Cybercrime, fraud and cyber-security risks arising due to growing digitalisation across banking.	A **Innovative business developments** Innovate to adapt and remain relevant.	In 2017, ING launched a EUR 300 million venture capital fund to deepen fintech partnerships and accelerate the pace of innovation. ING had more than 100 fintech partners by the end of 2017, 21 of which ING invested in. Our annual Innovation Bootcamp attracted 786 ideas from 22 countries.	*Innovation section in the 'Improving the customer experience' chapter.*
	B **Customer privacy and data ethics** Our duty to handle customers' data with the utmost care and only process personal data for specific business purposes.	Our approach can be summarised as: the right people using the right data for the right purpose. We set up ethical committees in the ING countries in 2017 as well as a framework for dealing with dilemmas related to how we use data.	*Data section in the 'Improving the customer experience' chapter.* *Balancing our responsibilities: Innovative business developments vs. data ethics section in the 'The world around us' chapter.*
	C **Enhancing customer financial capabilities** Helping people make smarter financial decisions with transparent tools, tailored offers and expert advice.	In 2017, 25.4 million people felt financially empowered. Ⓐ	*Financial empowerment section in the 'Our business (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.	For 2017, ING's weighted system availability for Retail customers in the Netherlands and Belgium was 99.7%. For Wholesale Banking customers, system availability was 100% globally. Ⓐ	*Reliability and stability section in the 'Improving the customer experience' chapter.*
	E **Usability and accessibility of our products and services** Stand out by making banking personal, instant, seamless and relevant to our customers.	Across ING, digital channels account for 98% of contact with retail customers.	*Digital first section in the 'Our business' chapter.* *Differentiating experience section and Financial empowerment section in the 'Our business (Retail Banking)' chapter.*
Economic contribution			
Opportunities: • Leveraging a stable funding base and balance sheet quality. • Competitive advantage due to global presence. • Utilising specific, in-depth knowledge of financial services, knowledge of customers and rigorous risk-management. • Generating fee-based income. **Risks:** • Interest rates are increasing, but remain low. • Business and strategic impact due to 'Basel IV'. • Executions risks because of increasingly complex regulatory environment. • Lack of an international level playing field	F **Financial performance*** Being a financially healthy and stable company is important to stakeholders and us.	ING Group recorded robust commercial growth and strong financial results in 2017, with a full-year 2017 net profit of EUR 4,905 million, an increase of 5.5 percent year-on-year. We continue to perform well against most of our Ambition 2020 targets, including those for capital, leverage ratio and dividend.	*Performance highlights table in 'ING at a glance' chapter* *'Our strategy and how we create value' chapter.*
	G **Pricing of products and services** Fair pricing of products and services is important for our competitiveness in the marketplace.	We actively manage our interest rate risk exposure and successfully maintained the net interest margin on our core lending in 2017. To manage this challenge moving forward, we are proactively developing new offerings at fair pricing that help empower our customers and generate fee-based income, while our transformation programmes will help us to bring down our cost/income ratio to our target range of 50-52% by 2020. By end-2017 our total number of retail customers stood at 37.4 million, and primary relationships rose by more than 900,000 during 2017 to 10.8 million. We are on schedule to meet the target of 14 million primary clients by 2020.	*Fair pricing section in the 'Our business' chapter.*

* The financial topics are covered by KPMG's audit of the consolidated annual accounts. See page 309 for the 'Independent auditor's report'.

Opportunities & Risks	Material topic	Our approach and performance	More information
Economic contribution			
	H **Managing risks (financial risks* and non-financial risks)** Managing risks is at the heart of what we do. Safe banking requires strong risk management, both financial and non-financial.	The NPL ratio, non-performing loans (NPLs) expressed as a percentage of lending credit outstandings, decreased to 1.9% at the end of 2017 from 2.1% at the end of 2016. ING's loan-to-deposit ratio, excluding securities that are recorded at amortised costs, remained unchanged at 1.05. Risk costs decreased to EUR 676 million from EUR 974 million in 2016. In addition to financial risks, ING also monitors and has controls aimed at mitigating non-financial risks such as IT & cybersecurity, operations and compliance to rules, regulations, laws as well as the ethical norms.	*'Risk and capital management' chapter.*
Responsible business practices			
Opportunities: • Growing market for sustainable finance, shift in financing towards a low-carbon economy and societal challenges. • Transparency shows that banks have nothing to hide and are open to discussions, strengthing trust and reputation. **Risks:** • Banks should adequately consider environmental and social risks within their day-to-day business decisions. • Financial sector continuous to have an unfavourable public image in many countries. • Corruption and decreased transparency leads to increasing reputational risks.	I **Corruption prevention** ING's role and activities in preventing corruption practices.	ING has a zero-tolerance policy on bribery and corruption. Through e-learning modules, awareness sessions and reading materials, we train employees on non-financial risk topics, including money laundering, terrorist financing, sanction and export control compliance, conflicts of interests, miss-selling and corruption. ING has started a bank-wide financial and economic crime (FEC) enhancement programme that aims to address shortcomings identified in Know Your Customer (KYC) processes.	*Compliance risks section in 'Notes to the Consolidated annual accounts'.* *Key developments section in the 'Risk and capital management' chapter.* > *www.ing.com/17ar02*
	J **Responsible finance and investment policies** Clear policies and direction guiding our finances and investments towards societal challenges and low-carbon economy.	We promote activities that we believe have a positive impact on society through responsible financing and by increasing sustainable investments (SAuM). In 2017, our financing to Industry ESG leaders (IESGL) was EUR 5.5 billion, climate finance was EUR 14.6 billion, and social impact finance was EUR 0.5 billion. In 2017, our SAuM was EUR 4.8 billion. Furthermore, we strengthened our Environmental and Social Risk (ESR) framework, which guides decisions for client engagement and assessing finance proposals. We continuously revisit both the relevance of our policies and effective application in practice.	*Responsible finance section in the 'Our business' chapter.* *Sustainable investments section in the 'Our business' chapter.* *Environmental and Social Risk management section in the 'Risk and capital management' chapter.*
	K **Transparency** Being transparent about our investments, products and services, and other topics.	In 2017, we published a detailed breakdown of our entire portfolio, approximately EUR 775 billion (as per 31 December 2016), detailing the amount we finance per sector.	*Balancing our responsibilities section in the 'The world around us' chapter.* *Simplified balance sheet in the 'Non-financial appendix'.* > *www.ing.com/17ar03*
Human capital			
Opportunities: Diversity within companies attracts talent, helps to understand customers better, increases engagement and supports sound business decisions. It is also linked to better financial performance. **Risks:** Losing talented employees, or not having a diverse group of employees, could lead to sub-optimal financial performance as well as affect a company's reputation.	L **Diversity and equal opportunities, preventing discrimination** Ensuring ING's employees are diverse and have equal career opportunities.	The number of female managers and female managers of managers remained fairly stable. Of our managers, 39 percent are female (38 percent in 2016) while for managers of managers, 29 percent are female – the same as in 2016.	*Who we are section in the 'Our people' chapter.*

* The financial topics are covered by KPMG's audit of the consolidated annual accounts. See page 309 for the 'Independent auditor's report'.

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.

Innovative business developments vs. data ethics

In today's digital world, customers expect high-quality products and services that are easy to use, relevant to them, provide better insights, make their lives easier and reduce daily tasks. ING innovates continuously to meet these requirements.

Still, customers are growing concerned about boundaries when sharing personal information, particularly when it comes to their financial data. Where does it stop? At what point does processing and analysing data infringe too much on their private life?

While the legal boundaries currently differ per country, social and cultural context also play an important role in determining the personal boundaries for our customers. Regulations such as the General Data Protection Regulation (GDPR) in the EU are welcome to harmonise and clarify under which circumstances companies should collect, use and process data.

We're transparent about the way we handle our customers' data and seek their consent where it is necessary. But is this enough? We understand the sensitivities around data collection and privacy and the need to comply with legal and regulatory requirements. For ING, the concept of data ethics often precedes or goes beyond rules and regulations.

Earning and keeping the trust of our customers is of paramount importance. Customers trust us to keep their – and our – data safe. We believe that data ethics should be an integral part of our culture, behaviour and decision-making processes.

To achieve this we are introducing a data ethics framework across the bank. This includes specifying values and principles for customers and employees to make sure dilemmas are treated consistently throughout ING; establishing values and principles in all areas involving data analytics; establishing data ethical committees across businesses and countries; engaging with stakeholders; increasing awareness among employees; and periodically assessing our performance.

Data offers countless opportunities, but we must be very careful about how we use it.

Transparency vs. customer privacy

It's clear to us that our stakeholders want to know more about where and to whom we lend money. Yet there is sometimes a conflict of interest between greater portfolio transparency and customer confidentiality/privacy.

Transparency has gained importance with international initiatives such as TCFD (Task Force on Climate-related Financial Disclosures) and the UNGP (United Nations Guiding Principles Reporting Framework), and Dutch initiatives such as the Banking Covenant on Human Rights backed by the government, the Dutch Banking Association and NGOs.

In 2017, we published a full breakdown of our entire portfolio as at year-end 2016, approximately EUR 775 billion, itemising amounts for the sectors we finance. This is in line with the Dutch Banking Association's Transparency Protocol, which ING helped to create as part of a working group of banks. It tells a transparent story about how diverse and global we are.

If we receive a specific request for information, customer interest comes first. We strive to be as transparent as possible in line with local and international rules and regulations. Unless restricted by such rules and regulations, we aim for optimal transparency, asking for customer consent when required. We feel that this balances different stakeholder interests as much as possible.

Financing energy vs. climate change

We want to help lead the global transition to a low-carbon, climate-resilient economy. As a large global bank we feel we can have greater impact by helping our clients with their own transition to less carbon-intensive business models.

The world is transitioning step by step, but the fact is that the economy (and a number of countries in particular) can't yet do without fossil fuels, which ING also finances. There is still too little renewable energy, and experts haven't yet been able to develop an efficient and affordable means of storing sustainable energy.

The Paris Agreement commits nations to a scenario where the rise in global temperatures remains within 2 degrees, with an ambition to achieve a 1.5-degree scenario. Some are calling for action based on this 1.5-degree scenario.

On the one hand, the International Energy Association estimates in its 2017 Energy Outlook that in a 2-degree scenario, almost half of global energy demand will still be met by oil and gas in 2040. On the other hand, there is an ever-increasing pressure from civil society to immediately stop financing sectors affecting climate change. What position should ING take?

We know our greatest impact is in our financing. ING has financed billions of euros of wind farms, solar energy, and geothermal power production, for example, but also fossil fuels.

We try to find a balance between societal expectations and economic reality. As we assess potential clients and deals, our approach is to have a dialogue and support them in improving their environmental and social impact where possible. Our response to funding requests is often, 'yes, but…', outlining improvements that the company will have to make first. Our Environmental and Social Risk policies also guide us. We sharpened our coal policy and will accelerate the reduction of our financing to coal power generation, with the ambition to reduce our exposure to close to zero by 2025.

ING believes that we can play a responsible role in enabling society's orderly and affordable transition to a low-carbon economy by continuing to finance select projects in the oil and gas industry, alongside our increasing support for investment in renewable energy and energy efficiency.

Cooperation vs. competition

Change is happening at a faster pace than ever. Today's emerging trend can become the norm in two years and be obsolete a year later.

New companies with innovative business models can upend decades of common business practice. Conventional wisdom on what comprises an industry or sector is being questioned.

There is a trend toward open online platforms incorporating third-party offerings and the rise of digital ecosystems where people network, shop, bank and do many other things in one place. This is challenging banks to re-think and expand their business models to allow in partners, including ones from outside the financial world, who can enhance the customer experience.

We at ING believe that all future plans should be driven by our customers' expectations and needs in terms of use, information and accessibility. This includes partnering with other banks, fintechs and parties outside the world of finance. But there is a line to be drawn between where we cooperate and where we compete.

The Payconiq app exemplifies the cooperation approach. This began as a fintech within ING, seeking to make payments easier for customers and retailers. We rapidly realised that this mission was only achievable with critical mass. We decided to partner with other banks and subsequently share ownership with them. While Payconiq partly disrupts our existing payments business, it also shows we proactively deal with changes affecting our markets. It also works, as the platform is used by 35,000 merchants in Belgium and is expanding to multiple countries. Our actions demonstrate our determination to make a real impact for customers in this area by spurring evolution in the industry. However, in other situations we choose to create our own solutions, without partners.

Within financial services, although it may seem like there is a stark choice to be made between cooperation and competition, they sometimes coexist – and feed off each other.

Embracing digitalisation vs. equal regulations for all parties

Just as consumers can now easily shop online, they should also have digital access to the full scope of banking services from the comfort of their own homes – from opening a current account to taking out a mortgage loan.

ING embraces digitalisation and, on the one hand, welcomes new entrants to the market. On the other hand, many of these new entrants (fintechs) aren't subject to the same regulations as banks.

Within Europe, we still see differences in member states' regulatory requirements on anti-money laundering, banking secrecy, e-signatures, language requirements, etc.

Current local legislation sometimes restricts customer on-boarding and can limit our ability to offer the easy and convenient experience that consumers have grown to expect. This legislation can sometimes inhibit innovation altogether. Fintechs aren't yet required to adhere to these requirements and can easily on-board customers using 'derived identification'.

In the current new financial world, a level playing field is needed so all players can embrace and work towards innovative products with more or less the same regulatory challenges.

Read more on some of the dilemmas ING faces and how we approach them in the 'Issues table' (Non-financial appendix).

Our strategy and how we create value

ING's progress since launching the Think Forward strategy in 2014 confirms that we are heading in the right direction. With the trends we identified at that time continuing and even intensifying, we are accelerating the implementation of our strategy to remain relevant for customers in the future and to continue to provide them with a differentiating experience.

Since the launch of the Think Forward strategy in 2014, ING has achieved strong business growth, increasing customer numbers and robust financial performance. Our progress on these fronts confirms the relevance of our strategic direction.

At the heart of the Think Forward strategy is our purpose to empower people to stay a step ahead in life and in business and the Customer Promise to be clear and easy, available anytime and anywhere, to empower and to keep getting better.

A healthy increase in customer deposits and strong growth in core lending since the launch of the strategy show the appeal of our proposition to customers. This has also strengthened our business by providing more stable and attractive funding, better returns through own-generated assets and more diversified lending geographically and over segments.

The growth in overall customer numbers is being outpaced by even faster proportional growth in the important category of retail primary relationships, those customers with a current account and recurring income and at least one other product with us. This growth has been spurred by continuous improvements to the customer experience, leading to more customer interaction, which in turn helps us to know customers better and tailor offerings better to their needs. We are on track to achieve our ambition to serve 14 million primary customers by 2020.

Accelerating the Think Forward strategy

We developed the Think Forward strategy in response to trends that have not only continued to impact our world and the banking industry but which we now see intensifying.

Digitalisation is increasing, changing how people interact with service providers and their expectations as customers. Fintechs and other new entrants to the market are taking advantage of new regulations and the easy access and low-cost delivery available through the internet to compete for key parts of banks' value chains. Tech giants like China's Alibaba and Tencent (owner of WeChat) now even have full banking licences, making them direct competitors of banks. And continued low interest rates and increasing regulation are pressuring banks' profitability. Banks need to look beyond traditional business models for new ways to offer value to customers.

At ING, we believe banking products and services are becoming commodities. The only way to differentiate in the future will be through the customer experience. Customers' expectations are being set by the personal, instant, relevant and seamless experience provided by digital platforms like Amazon, Apple, Facebook and Google. These leaders offer access to platforms where customers connect to one another and to businesses and where they spend more and more of their time.

To remain relevant to customers we need to create a similar experience, one that is uniform wherever and through whatever channel they do business with us. We aim to be the go-to and open platform for all our customers' financial needs, including providing relevant third-party offerings. And a platform that can integrate into other digital ecosystems so we are there for customers and other users wherever they need financial advice and services online.

To achieve this, we are accelerating our Think Forward strategy and transforming our organisation. Key to this is working toward one global and scalable IT infrastructure with a modular approach for easy plug-and-play connections. We are on course to implement one global approach to data management. And we will support this with one Way of Working. We believe this will help us collaborate better across borders and innovate much faster and at lower cost. As a first step, we are converging businesses with similar customer propositions that can benefit from economies of scale and a more standardised approach.

Culture is crucial to achieving our ambitions. We need a culture that puts the customer at the centre of what we do. And also one that fosters innovation. We accelerate innovation through ING's own PACE methodology, which combines Lean Start-up, Agile Scrum and Design Thinking methods and encourages fast experimentation based on customer feedback. Our annual Innovation Bootcamps also encourage employees to come up with initiatives to improve the customer experience and compete for seed funding. And we partner with numerous fintechs to improve the customer experience and accelerate our own pace of innovation.

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 strategy in a clear and visual way.

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

Going agile

The world is changing quickly, and so too are customer expectations. At ING we're working to speed up the pace of innovation for the customer. Multidisciplinary teams, like the Dutch team above, pool their skills to speed up time to market for new products and services. Teams use customer feedback to create a continuous cycle of improvement.

Elements of our strategy

Our Think Forward strategy was launched in 2014. It guides everything we do. This section describes the strategy and includes references to examples and additional information on 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 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 Financial Markets) and the percentage of relationships where we are the client's lead finance provider.

Read more in the 'Our business' chapter.

Material topics: financial performance, pricing of products and services, enhancing customer financial capabilities, transparency.

2. Develop data analytics

The relationship between banks and their customers is increasingly a digital one. Digitalisation challenges banks to maintain intimacy with a customer whom 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. Analytic skills are essential for serving customers in a digital world and also for preventing fraud, improving operational processes, reducing risks and generating services that go beyond traditional banking. At ING, we recognise that excelling at data management is a core competency if we are to realise our ambition to create a personal digital experience for customers. We are on course to implement one global approach to data management to ensure we maximise the potential of this key resource. An international Advanced Analytics team based in Frankfurt and Amsterdam acts as a centre of excellence, and local advanced analytics teams operate in country and business units. Our chief data management officer oversees the implementation of global data management together with local data officers.

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

Material topics: customer privacy and data ethics, managing risks (financial risks and non-financial risks).

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

Evolving customer expectations, new technologies and new competitors are transforming banking. Through innovation, we can increase efficiency, improve the customer experience and gain competitive advantage. We do that, for example, through ING's own PACE innovation methodology and employee-driven Innovation Bootcamps. To speed up the pace of innovation we also partner with outside parties, including fintechs.

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

Material topics: innovative business developments, usability and accessibility of 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. To be successful, banks need to expand the concept of what a bank is and what it means to customers. Our payments value chain is already under threat from many bank and non-bank players. We are responding by creating an open digital platform. It will include relevant offers from third parties and provide a complete financial overview for customers in one place, including of their holdings at other institutions so they are empowered to make better financial decisions. We also aim to find ways to be relevant to customers earlier in their purchasing decision-process, such as not only offering a mortgage, but also connecting customers via our platform to real estate listings and other things they need when buying a new house, like insurance, legal advice and even a removal company. ING is developing and looking into initiatives in numerous beyond banking value spaces, including the circular economy, the 'silver' economy (ageing population), housing and mobility.

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

Material topics: innovative business developments, responsible finance and investment policies.

Enablers

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

1. Simplify and 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. We are introducing one Way of Working based on end-to-end, multidisciplinary

teams that provide customer improvements from design to product delivery at lower cost and with shorter time to market than previously required. We have already introduced this in the Netherlands and will gradually implement it company-wide, initially focusing on all product and service delivery units by end-2018. We are also implementing target operating models (TOMs) to streamline our Finance, HR, IT, Procurement and Risk functions.

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

Material topics: usability and accessibility of our products and services.

2. Operational excellence

Operational excellence requires continuous focus. We need to ensure that ING's operations provide a seamless and flawless customer experience. Our operational excellence vision concentrates on 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.

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

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

3. Performance culture

A strong performance culture is crucial to achieving the bank's ambitions and delivering on our Customer Promise. To do this, we focus on a number of areas, including stepping up leadership capabilities and building the engagement and capabilities of employees across the organisation. ING believes in a direct link between employee engagement and business performance and our ability to serve customers. Our performance management process encourages employees to take personal responsibility for their performance and development. ING supports employees with training and professional and personal development. To promote the leadership behaviours needed to achieve ING's strategy, tailor-made leadership training has been developed for top managers and also for all people managers within ING globally.

We are also committed to accelerating the development of diversity and strengthening an inclusive culture in ING where everyone can be themselves. We believe that there is a clear link between diversity and better financial performance. Differences in gender, age, background, sexual orientation, physical ability and religious beliefs enable us to solve problems and respond to challenges in different ways. We have a range of initiatives in place to do this, including our global diversity manifesto which applies to all of our more than 54,000 employees. The manifesto sets out what diversity means at ING, why it's important, and what employees and managers can do to make a difference.

Read more in the 'Our people' chapter.

Material topics: diversity and equal opportunity.

4. Lending capabilities

Broadening and diversifying our lending capabilities to continue to grow client franchises is our fourth strategic enabler. To do so, we are seeking opportunities in Retail, SME and Consumer Lending segments, as well as focusing on Wholesale Banking lending growth in our Challengers & Growth Markets businesses and in our specialised Industry Lending franchise. In 2017, we continued to grow and diversify lending at healthy margins, with strong growth in the retail activities in Belgium and the Challengers & Growth Markets, but also from Industry Lending and Working Capital Solutions within Wholesale Banking. We also partnered with fintechs to extend innovative instant lending solutions for SMEs to France and Italy following an earlier successful introduction in Spain.

Read more in the 'Our Business' chapter.

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

How we create value

At ING we believe that it is our role 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. We want to be the bank of the future and therefore take the long-term view, to inform our decisions and priorities in the shorter term.

As part of our Think Forward strategy and purpose to empower people, ING launched its 2022 sustainability goals, bringing sustainability and innovation together to deliver on our customer promises. We see it as our responsibility to address the long-term global challenges arising from climate change and the so-called fourth industrial revolution. Over the next five years we'll focus our efforts and our business where it matters most – on climate resilience and social resilience to empower people to stay ahead.

The value creation model on pages 21-22 illustrates what we do to create value with our stakeholders in society through our unique Customer Promise. The framework of the international Integrated Reporting Council and the six capitals defined in it, serve as a basis for this model.

External trends

- Intensifying digitalisation and cybercrime
- New entrants to the market
- Lack of international level playing field
- Low interest rates depressing banks' interest margins
- Digital platforms opening up to more than one provider
- A need to reduce operating costs
- Risks and opportunities from transition to a low carbon economy
- Complex regulatory and political landscape

Value in

Value out

Impact on society

A self-reliant society

- Financially empowered people who contribute to a healthy economy.
- A diversity programme that empowers colleagues from all backgrounds.
- Empowered corporate clients with strong social and human rights policies and practices, meaning better business for society.
- Empowered adolescents through our Power for Youth programme with UNICEF.

A low-carbon society

- Increased financing for responsible companies, enabling them to get ready for tomorrow's economy.
- Reduced environmental impact by decreasing financing for carbon-intensive sectors.
- Creating a platform and attention for sustainable business opportunities and the businessmodels of the future, including the circular economy.
- Reduced environmental impact of our own operations.

Value in

Our people

54,000+ employees worldwide

- EUR 76 million spent on training and development
- Strong belief in diversity
- 1,500 managers trained on Think Forward Leadership Experience to support strategy roll-out

Financial

Trusted financial partner

- Over 37 million customers entrust us with their payments and deposits
- EUR 50.4 billion shareholders' equity and EUR 148.9 billion debt securities in issue, bank deposits and subordinated loans

Innovation

Move fast, fail fast

- Launch of ING Ventures, a EUR 300 million venture capital fund for fintechs
- Over 4,600 employees trained on PACE, ING's new way to innovate

Our planet

Sustainable development

- ING supports the UN Sustainable Development Goals
- ESR Framework applied to WB corporate loans
- ING is an RE100 member and a Circular Economy 100 (CE100) corporate member of the Ellen MacArthur Foundation

Empower

Clear and easy

Providing payments & transaction services

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

Facilitating savings & lending

Differentiating customer experience

Keep getting better

Anytime, anywhere

Value out

Products & services

Platform thinking

- 98% of interactions with retail customers via digital channels
- Retail system availability for the Netherlands and Belgium of 99.7% Ⓐ

Our people

Agile, engaged and empowered

- ING received top employer recognition in 7 countries
- ING in the healthiest 25% of organisations in the Organisational Health Index
- Jobs may be impacted by the acceleration of the Think Forward strategy
- 39% of women in management positions

Financial

Strong financial position

- Leverage ratio of 4.7% - 2020 target is >4%
- Cost/income ratio 55.5% - 2020 target is 50-52%
- Common equity Tier 1 ratio fully loaded of 14.7%

Innovation

Beyond traditional banking

- 139 Active fintech partnerships and investments
- Joined circular economy platform Madaster
- EUR 800 million in digital transformation investments
- 786 ideas submitted to Innovation Bootcamp

Social & network

Empowering customers

- Increase in primary relationships to almost 11 million
- Customers in 7 out of 13 countries rank ING #1 in terms of NPS Ⓐ
- 25.4 million customers feel financially empowered by ING Ⓐ
- EUR 574 billion in customer loans

Our planet

Enabling a low-carbon society

- EUR 14.6 billion in Climate finance
- EUR 5.5 billion in finance to Industry ESG leaders
- ING launches sustainable improvement loan, rewarding corporate clients for their sustainability achievements

Improving the customer experience

Customers are spending more time online and on their smartphones. They expect banking to be the same personal, instant, relevant, seamless and borderless experience that they have there. Recognising this, and inspired by a new breed of digital disruptors who are redefining financial services, ING is preparing for a future in the platform age.

We believe that tomorrow's successful businesses will be those that find relevant roles on the preferred platforms of their customers – or create relevant platforms themselves. And businesses that focus relentlessly on providing a compelling and consistent customer experience, empowering people to be self-reliant and take control of their own situations.

While no-one knows for certain what the future holds for the financial sector, our vision is of a digital, mobile-first platform and one in which multiple players use each other's platforms to offer new and different products and services that extend beyond banking.

For instance, house buyers could arrange a mortgage, insure their home and all its contents, digitally sign the contracts and even connect to a removal company.

Beyond banking offers new revenue opportunities for ING. We are exploring areas such as housing, mobility, data management and storage, the circular economy and the silver economy (ageing population). This has led to initiatives like circular economy leasing platform Papayagogo and TrustX, which uses algorithms to detect fraud at SMEs.

Platforms

In many ways platform thinking is an extension of what we have always done: empower people to take control of their own situations. Like traditional marketplaces, platforms connect suppliers with consumers. The difference is that platforms are enabled by technology, which can be used to achieve huge scale at near-zero costs. And there's a data layer that helps create scale and efficiencies, increasing the value created for all participants. The data itself has high value. Banks can use it to develop new products and services and personalise the user experience.

Another feature of platforms is that they are generally 'open' – using APIs (application program interfaces) to allow third parties to provide complementary goods and services, thereby strengthening the network effects and making them more appealing to users, which in turn attracts more merchants.

ING is working towards becoming such an open banking platform – the go-to place for all people's financial needs. To reach this ambition requires an innovative culture and a willingness to connect and cooperate with others. We also have to work the same everywhere, be operationally excellent, be efficient and comply with regulations. This will allow us to continue empowering people in life and business and deliver on our Customer Promise: clear and easy, anytime, anywhere and to keep getting better.

Business transformation

We are running several programmes to unite similar businesses and bring us closer to our overall goal of one mobile-first digital platform offering a uniform and superior customer experience. The main business transformation programmes are:

- Orange Bridge, to unite Belgium and the Netherlands, combining their strengths for a more consistent experience, with one integrated banking platform and a harmonised business model.
- Welcome, to digitalise ING in Germany and create a go-to financial platform offering its own and third-party services.
- Model Bank, harmonising retail banking in five European countries on one borderless, scalable platform.
- WTOM, further digitalising and standardising Wholesale Banking products, processes and customer propositions across all continents.

Supporting these programmes are the target operating models (TOMs) uniting support services globally such as HR, Finance, IT, Procurement, and Risk, and the enablers, the so-called foundations: IT, global data management, process management, shared services and ING's one agile Way of Working (WoW).

Transformation management

Managing transformation is the task of the chief transformation officer and the Global Transformation Office. In early 2017, we launched a bank-wide transformation management method with standardised tools and processes. These include quarterly business reviews to improve prioritisation, gated processes and 90-day delivery cycles. All are designed to ensure the execution of our Think Forward strategy and ultimately lead to a better impact on our customers and other stakeholders.

Retaining our full focus on customers while running so many programmes simultaneously is challenging and requires transparency, discipline and a willingness to make hard choices. Prioritising what is best for the bank, rather than for a specific business unit or country, can involve trade-offs in terms of local priorities and autonomy.

Running a transformation of this scale is complex and involves many interdependencies. Our transformation management method helps us navigate through the complexity, remove impediments when they arise and re-plan, while minimising adverse impacts and keeping the bank safe and secure. Strong governance and two-way communication about the transformation build ownership across the bank and encourage employee engagement.

Bleep, bleep!

Artificial intelligence (AI) in many forms will play an important part in ING's future. From actual robots, like ING's Ginger - here helping teach children about the value of money - to machine learning, predictive algorithms and more. This will boost the efficiency of our digital-first model, helping it to evolve into a true competitive advantage.

Technology

Information technology is crucial for ING's platform ambitions. Without IT we cannot merge our systems and build one global platform, enable scalability and create value for the customer in an online digital world. It enables programmes such as ING Private Cloud, data lakes and TouchPoint Architecture and contributes to major strategic programmes such as Model Bank and Welcome.

In 2017, we launched a target operating model for IT that aims to create both scale and speed as well as cost efficiency and growth. This is being done by moving to one global technology platform with one common backlog, in line with the Think Forward strategy. It will help ING achieve consistency and collaborate globally across all platforms and implement one agile Way of Working.

TouchPoint Architecture (TPA) is a client-centred approach to streamlining ING's global IT architecture. It moves away from focusing primarily on products to improving the customer experience. TPA helps simplify and standardise ING's banking applications and supports the creation of a modular system with fewer constraints and limitations. This modularity is a big step towards a globally scalable banking platform that offers customers everywhere a consistent experience and a truly global proposition. TPA unlocks our global scalability, leverages innovation across the group and speeds up the time to market and to volume. The first TPA components were released for production in 2017.

ING Private Cloud (IPC) is ING's global digital platform for storing and processing data and running IT services such as mobile phone apps. It's the first step towards giving customers everywhere a consistent experience in a secure and reliable way. IPC standardises our IT infrastructure globally, simplifies and streamlines existing processes and centralises data storage in so-called data lakes so it is available to the right people at the right time. ING currently runs daily services on close to 4,000 virtual machines. The focus in 2017 was on improving operational stability and security. We also rolled out a number of new services to increase the scope of IPC within ING's infrastructure landscape.

Reliability and stability

An excellent customer experience relies on ING always being available when and where customers need us. Given ING's digital ambitions, we continually strive to improve the availability of our online channels (internet and mobile). In 2017, ING recorded 99.7 percent weighted system availability towards Retail customers in the Netherlands and Belgium Ⓐ. In addition, system availability toward Wholesale customers globally was 100% Ⓐ. In 2016, system availability was 99.75 percent for Retail and Wholesale Banking customers combined. We aim to expand our reporting on system availability in the future.

Data

A digital bank is driven by data. We use it to improve processes and make better management decisions. Crucially data provides meaningful customer insights to better understand our customers and develop innovative data-driven products that personalise and improve their experience.

However, raw data in itself has little value. To be meaningful, it has to be sorted, harmonised and put into context. Global data management is therefore a key priority to ensure the availability, quality, integrity, usability and control and governance of our data. To standardise our data definitions and data models, we introduced a common data language called ING Esperanto in 2016. Our aim is for 95 percent of our data to be in ING Esperanto by end-2019.

Data privacy

People entrust banks with confidential information that they expect us to keep safe. It's of paramount importance that we maintain that trust. We aim to comply with our legal obligations around data protection, 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 it for specific business purposes. Our approach can be summarised as: the right people use the right data for the right purpose.

We set up ethical committees in the ING countries in 2017 and a framework for dealing with dilemmas related to how we use data. This could in future lead to an ethical proposition that empowers customers to manage their own data and gives ING a competitive advantage.

Whenever we process data for services or offers we consider the wishes of our customers and corporate clients. In cases where we rely on consent, the customer can withdraw it at any time. All business units have adopted the global data protection policy (GDPP), which qualifies as binding corporate rules. This was revised in 2017 to meet new EU General Data Protection Regulation 2016/679 and will be effective from May 2018, once approved by the regulators. This regulation increases transparency requirements and enables our customers to be in control of their personal data. In each business unit and at bank level, a data protection executive is responsible for GDPP compliance and compliance with local privacy laws. Local data protection officers provide expertise and support.

Security

Our holistic approach to countering the complex and constant threat of cybercrime combines prevention with detection and rapid response. We provide e-banking fraud awareness training for employees and clients, which, in addition to maturing controls, has contributed to stabilising e-banking fraud damages at low levels across our organisation. Advanced analytics capabilities play a key role in combatting criminal activity. Pattern recognition and advanced algorithms help to predict and detect, and thus prevent, fraudulent activity.

We continuously invest in our security organisation and systems to protect our data and that of our customers. We have created a cybercrime resilience control environment designed to predict, protect against, detect, respond to 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. In September 2017, ING set up a Financial Cybercrime Expertise & Response Team (FinancialCert) with two other Dutch banks to jointly tackle cybercrime in the Netherlands and share real time information for a faster response.

ING's responsible disclosure programme encourages ethical hackers to report vulnerabilities they might discover in ING's online services.

Operational excellence

We promise customers we'll keep getting better. One way is by simplifying and standardising our core end-to-end processes. Some processes are internal, such as for HR and compliance, others impact customers directly, like mortgages, lending and payments. Making them easier will lead to a superior customer experience, higher quality processes and greater efficiency. For example, we are rolling out a uniform way of handling and processing card transactions from a single hub in Poland. The system was introduced in France in 2017, with Czech Republic to follow in 2018.

Robotics and automisation help to eliminate waste, reduce variability and digitalise customer journeys. We team up with fintechs, for example to digitalise on-boarding and certify e-signatures. In 2017, we extended the scope and coverage of the global process management programme launched in 2016. It helps countries identify and share best local practices and implement improvements. So far it has been applied in Poland, France, Turkey and Germany, leading to improved processes in consumer lending, SME lending and mortgages. We also introduced a global modelling tool to improve customer journeys from the customer perspective.

Shared services

We're centralising operational and IT tasks in shared service centres. In 2017, ING set up a fully-owned service company called ING Business Shared Services BV (IBSS). Our shared service centres in Katowice, Bucharest, Bratislava and Manila fall under this new entity. IBSS teams provide deep IT and operations expertise and apply innovations arising from our global technology and processes-based digitalisation, robotics and artificial intelligence. We believe this will allow us to respond faster to customer needs, improve our capabilities and boost the efficiency of our digital-first model, helping it to evolve into a true competitive advantage. IT and Wholesale Banking are among the first business units to transfer activities to these specialist, centralised pools.

Way of Working

To respond faster to changing customer demands, encourage an innovative mindset and engage our employees, we introduced ING's one agile Way of Working (WoW) in 2017. It unites our people in multi-disciplinary, cross-functional teams and empowers them to collaborate more easily across the organisation. WoW has been introduced in the Netherlands, followed by Poland, Romania, Austria, and the COO Finance business unit. Belgium started working this way in January 2018 and Germany and Wholesale Banking are preparing to roll it out. Uniting so many different cultures is a challenge that requires a cultural shift, guided by our Orange Code behaviours. We organise monthly bootcamps to train WoW 'ambassadors' from the countries and business units. In 2017, these were attended by more than 120 people.

Innovation

ING's approach to innovation is built around making banking more personal, instant, relevant and seamless for customers; stimulating a culture that is open to new ideas; and connecting and cooperating with others to innovate faster.

Our priority is to empower customers and provide a superior experience on open platforms connected to others offering services beyond banking. Think of how Uber links to Google maps and how paying for the service at the end of the journey is seamless – an experience that is the same in all parts of the world. Innovations like this are disrupting traditional business models and reinventing them for a new generation of users.

To stay relevant banks have to innovate. Competition is already fierce and is set to increase in 2018 when the new European payments directive (PSD2) opens banking up to anyone offering a financial service. Potentially this could be a game-changer, especially if the likes of Google, Facebook, Apple or Amazon decide to enter this space.

It also offers opportunities for banks who have much to learn from these newcomers. ING is doing just that by partnering with fintechs and setting up accelerators to develop new solutions that meet our customers' needs and advance our strategy.

Innovation culture

ING uses a structured process called PACE to accelerate innovation internally. PACE is a combination of Lean Start-up, Agile Scrum and Design Thinking methods. The PACE Accelerator is an intensive 18-week programme that speeds up the time to market by testing ideas for new products and services and validating them with customers through experimentation. In 2017, the Pace Accelerator was active in four business units and the ING Customer Experience Centre in Amsterdam. In 2017, we initiated the PACE Everyday programme to teach employees how to innovate in their daily work. It ran in 10 business units.

ING's annual Innovation Bootcamps encourage employees to come up with new ways to improve the customer experience and compete for seed funding. Almost 800 ideas from 22 countries were submitted for the fourth edition in 2017. The winners were Banking of Things, Covered and FlexiLiving. These three ideas will now be further developed to test their viability.

Ideas originating from ING's Legal team were recognised at the 2017 FT European Innovative Lawyer Awards. The initiatives aim to improve the Legal function, for example by using artificial intelligence and electronic signatures.

The Innovation Fund finances concepts developed by the business units, particularly when these can be shared and replicated in other countries. It supported 31 initiatives in 2017. These include BuyRely, Orange Assistant, Easy Trading Connect, Direct Lease, Startarium, and Katana. Since 2014, the fund has financed 53 ideas in total. In addition, the Chief Innovation Office supports initiatives such as money management platform Yolt, Spanish payments app Twyp and Payconiq.

Payconiq, a mobile payments app originating from ING's Innovation Lab and used in partnership with other banks, is now accepted by over 35,000 merchants in Belgium. It is fast gaining traction in the market. In August 2017, we announced it will expand into Luxembourg and launch in the Netherlands with several partner banks.

To speed up ING's transformation into an innovation-enabled organisation, we set up the Global Innovation Council in early 2017. It replaces the Innovation Fund Steering Committee. The council defines and aligns our innovation priorities and measures our progress. In addition, there are six local innovation councils for our businesses in Australia, Belgium, Germany, Poland, Spain and Wholesale Banking.

Connect and cooperate

ING works with fintechs to harness the potential of technologies such as blockchain, data analysis and artificial intelligence. We collaborate with specialists on solutions that will really make banking easier. For example, we partnered with online wealth manager Scalable Capital to offer customers in Germany digital investment management services, also known as robo-advice.

To deepen fintech partnerships and accelerate the pace of innovation, we launched ING Ventures in October, a EUR 300 million venture capital fund. It will invest mainly in start-ups whose technologies and propositions we can adopt or embed to move even faster. In return, they benefit from our strong brand, extensive network and large customer base.

At the end of 2017, ING had 139 fintech partners, 21 of which we invested in. These include Spain's Fintonic, a cross-bank aggregation app with 400,000 users in Spain and Latin America. Money management platform Yolt is ING's own internal fintech. Launched for testing in 2016 and released in June 2017, Yolt now has over 100,000 users in the UK. It introduced new features, for example to help users make savings on their energy bills and international money transfers.

Other fintech partnerships include Kabbage for instant SME lending, Cobase, a multibank platform for corporates, Twisto for instant consumer finance and Scalable, a so-called robo-advisor for retail customers who want to make investments.

In 2017, we made progress in harnessing the potential of blockchain, both with the R3 banking consortium and in partnership with others. In November, we announced a new collaboration to digitalise energy commodities trading on a secure, real-time blockchain-based platform. It is expected to be operational at end-2018. And earlier in the year, Easy Trading Connect – a former Innovation Bootcamp winner – successfully completed its first commodity trade finance trial with Société Générale and trading house Mercuria. It reduced the time to process a transaction from three hours to 25 minutes, proving that blockchain technology can greatly improve efficiency, lower costs and reduce risks and delays. A soybean trade in January 2018 demonstrated the potential of the Easy Trading Connect platform in the agricultural commodities sector.

In the spirit of cooperation we shared a blockchain breakthrough with the developer community as an open source solution that others can contribute to. ING announced in November it had developed a new code, known as a 'zero-knowledge range proof' that adds a layer of cryptography to protect the privacy of blockchain users.

ING also has incubators where we link start-ups with internal teams to develop ideas into viable products and services. These incubators are in Belgium (Fintech Village), the ING Innovation Studio at our Customer Experience Centre (ICEC) in Amsterdam, the Innovation Centre in Poland, as well as in Turkey and Germany. Products that emerged from these collaborations include Payconiq and Yolt.

Not all our collaborations lead to new products and we have stopped 34 partnerships, mostly after unsuccessful or unsatisfactory proofs of concept.

Our business

We grew our Wholesale and Retail Banking customer bases in 2017, lent more to customers and they entrusted us with more of their savings. At the same time we made major investments to accelerate our Think Forward strategy and create a differentiating customer experience. One that makes banking clear and easy, anytime, anywhere and puts customers in the driving seat when it comes to their finances.

Who we are

ING's Retail business serves 37.4 million customers. Through the Wholesale Banking business we also serve corporate clients and financial institutions.

Our Market Leaders businesses in the Netherlands, Belgium and Luxembourg are mature businesses with strong Retail and Wholesale Banking positions. Our Challengers businesses are in Australia, Austria, the Czech Republic, France, Germany, Italy and Spain. Here we aim to build a full bank relationship, digitally distributed at low cost via platforms like Model Bank, which we are developing for several European retail markets, and Welcome, in Germany. Our Growth Markets businesses are those in expanding economies with above-average growth potential: Poland, Romania and Turkey. ING also has stakes in the Bank of Beijing (China), TMB (Thailand) and Kotak Mahindra Bank (India).

In most retail banking markets we offer a full range of banking products and services, covering payments, savings, investments and secured and unsecured lending.

For corporate clients and financial institutions we provide specialised lending, tailored corporate finance and debt and equity markets solutions. We also offer working capital, payments and cash management and trade and treasury services to help them achieve their business goals.

> *More information about our Wholesale Banking services is available at www.ingwb.com.*

Differentiating experience

Our Think Forward strategy anticipated the trends shaping our industry. We foresaw that digitalisation would change people's expectations about the products and services they use. These expectations are based on their frequent interactions online and on their smartphones, where they connect with each other and the brands that they love.

Companies are no different. They too expect one seamless, cross-border, global experience and instant processes. They are increasingly impatient with anything that takes time. At the same time, they look for partners who can challenge them on their strategy and add real value to their business.

If we want to remain relevant to our customers we have to be where they are. We have to find ways to empower them on their preferred platforms and meet their needs with a clear and easy experience.

In 2017, we continued our journey to future-proof our business and bring customers a differentiating experience. This involves harmonising and streamlining our products and processes and using advanced data capabilities to deepen and expand our relationships with customers. We are aiming to create a uniform experience by uniting our businesses on digital platforms to be a place where people can go for all their finance-related needs. And we are innovating and teaming up with others to offer new and different services, both our own and those of others.

We believe we are on the right track. In 2017, ING was named the Best Bank in the World by *Global Finance* magazine – recognition of our efforts to provide a truly outstanding customer experience.

Challenging environment

Persistently low interest rates are threatening the traditional banking business model, making it important to develop new customer propositions that generate new revenue streams.

On top of that, heavier capital requirements under so-called Basel IV and ever increasing regulation are pushing down on returns. In 2017, regulatory costs were EUR 56 million higher year-on-year and made up 9.2 percent of ING's total underlying expenses (8.9 percent in 2016).

The new European payments directive PSD2 in 2018 will have economic repercussions. Banks will face higher IT and security costs and a potential loss of retail payments revenue. More importantly, PSD2 will open up the payments market to new competitors, including non-banks. Competition is fierce. Already we see fintechs disrupting banking and claiming profitable parts of the value chain that were once the sole domain of banks. Not to mention the big tech platforms who can really change the game for banks. Apple Pay, for example, is gaining more than a million users a month, while China's Tencent (owner of WeChat) and Alibaba have banking licences and their own online banks. To remain relevant we need to find new revenue models, more efficient ways of doing things, and team up with others to bring customers a new and differentiating experience faster.

Fair pricing

With deposits at the European Central Bank already earning negative interest rates we have to continuously balance our customer expectations with the prices we offer to remain profitable. To address this trade-off we actively manage our exposure to interest rate risk and develop new offerings at fair prices that generate fee-based income.

It's a kind of magic

At ING we aim to make banking clear and easy and as smooth as possible for our customers. Still, customers can run into difficulties. When they do, we try to help with 'acts of kindness', like a small payment, a gift, a toy for a child. Either to compensate the customer for an inconvenience from our side, or just to assist when we know they need a helping hand.

ING is working hard to avoid being forced to implement negative rates on retail deposits. For some time, we have charged a negative interest rate to financial institutions and corporate clients with high cash balances in their euro current accounts. If the low interest environment continues we may need to consider further action and expand the scope of Wholesale Banking clients that will be charged.

On the Retail side, other solutions would need to be found, such as higher margins on lending or implementing other fees, which could reduce market transparency. From our point of view, none of these are desirable because they have the potential to conflict with customers' expectations about fair pricing.

Charging customers a fair price for our products and services increases their accessibility and is important for our competitiveness in the marketplace. To ensure prices are fair, we ask customers to rate our products and services and provide feedback in online communities as part of our global Product Approval and Review Process.

Knowing our customers

Data is an important asset that helps us improve the customer experience and earn the strategically important primary relationship. We rely on data to understand what customers want and need. We use these insights to personalise our customer interactions and empower customers to make their own financial decisions. Our customer-facing platforms offer multiple touch points to interact with customers and collect data that we use to define customer journeys, for example when and where they choose to do their banking, the device they use and the services they prefer. We test our insights with feedback from customers to continuously improve our services.

It is also vital that we know our customers from a regulatory and risk perspective. But gathering the information we need can be inconvenient for them, which is counter-productive to a positive customer experience. This is especially challenging when we have to approach the same customer several times because regulations demand that certain data is screened off internally by Chinese walls. However, ING takes its regulatory responsibility seriously and does not want to compromise on compliance. Instead, we have to ensure the process is as unobtrusive and easy as possible. We also take every precaution to protect customer data and privacy.

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

Primary relationships

In June 2017, ING reached its 10 millionth primary retail customer. Earning the primary relationship is a strategic priority and we value these relationships because they lead to customers who are more satisfied, more loyal and subsequently choose ING for more of their banking needs. And the more people do with us, the more data we can collect to understand their needs and the better the experience we can provide using these insights: a virtuous circle.

In Retail Banking, we define primary customers as those with multiple ING products, including a current account into which they deposit a regular income, such as a salary. The number of primary customers choosing ING as their main bank is growing twice as fast as the total number of retail customers. At the end of 2017, we had 10.8 million primary retail customers, up from 9.9 million in 2016. The aim is to extend this by a million primary customers a year to reach 14 million by 2020.

Wholesale Banking is also looking to grow its primary clients. This means being their lender of choice and having an appropriate volume of flow products in Transaction Services, Working Capital Solutions and Financial Markets. Industry Lending teams took a leading role in 61 percent of transactions in 2017. While pursuing growth, we will maintain a prudent risk profile and diversified portfolio within our risk appetite.

Retail Banking in 2017

To continue delivering on its strategic priorities and purpose, ING is combining its strengths in its various retail markets and moving towards shared digital banking platforms that will offer customers a uniform differentiating experience and empower them to stay a step ahead in life and in business.

We use the Net Promoter Score (NPS) to measure our progress. Our aim is to achieve a number one NPS ranking, with a 10-point lead over our main competitors in each Retail Banking market. Based on a rolling average of our NPS scores in 2017, ING was ranked number one in seven of our 13 markets and was second in a further four. Ⓐ

Our Customer Promise

ING innovates in pursuit of a better customer experience, both on its own and with partners. We believe this is what attracts people to ING as their main bank and we work hard to improve this experience and deliver on our Customer Promise to be clear and easy, anytime and anywhere, empower people and keep getting better.

We are also looking at services that go beyond banking and generate alternative sources of revenue. In Germany, for example, ING introduced Immowert2Go, a mobile app enabling potential homeowners to find a property's value by submitting a photo and at the same time apply for a mortgage. And we partnered with online wealth manager Scalable Capital to offer retail customers digital investment management services, also known as robo-advice.

To keep our promise to make banking easier, we premiered fully digital instant personal loans in Romania, making it possible for almost 1.3 million active customers here to obtain a personal loan in an end-to-end online process that takes as little as 15 minutes. Customers in Poland, Spain and Turkey can also get loans instantly online without the need to submit proof of income. Credit risk assessments are done within minutes.

And small and medium-sized businesses in France and Italy can now get approval for a loan of up to EUR 100,000 in just 10 minutes. The new instant online lending platform for SMEs was developed with five fintech partners, each covering part of the loan process. These include Kabbage, with whom we developed a similar offering in Spain in 2015. The new service, launched in October, is part of our strategy to increase lending to this customer segment.

Meanwhile Twyp Cash, which allows customers in Spain to withdraw cash from supermarkets, petrol stations and other merchants, continues its growth and is now used by 275,000 customers. We extended the mobile payment app to non-ING customers in November, triggering approximately 20,000 downloads on the first day.

Digital first

Customers are spending more time online and especially on their smartphones. In the Netherlands, ING welcomed its three millionth mobile app user in August 2017 and registered 18,000 new users in one week, the highest weekly inflow yet. This helped us exceed our initial 2017 target of 520,000 new mobile users in the Netherlands by 15.9 percent.

Across ING, digital channels account for 98.4 percent of contacts with retail customers (98.0 percent in 2016), while mobile phone interactions rose 37 percent to 1.76 billion in 2017 from 1.28 billion in 2016.

We introduced several new apps in 2017 that cater to the needs of mobile customers, who use their phones to shop, socialise and stream content instantly and seamlessly. In Germany, 'Banking to go' makes transfers easier and more personal using touch ID and the customer's own five-digit pin. Developed by a German-Dutch team using existing components, the app was tested by around 5,000 customers before going live in May 2017. We also introduced an aggregation service in Germany that allows customers to see all their bank accounts on one app, also those with other banks.

In Belgium, we partnered with other banks and telecom companies to launch Itsme, an app offering users a digital ID that allows them to log in securely, share data or sign documents and transactions on their phones.

In March, we debuted contactless mobile payments in Poland. Customers here can now use their Android smartphone to pay for goods or services via the Moje ING mobile app. The 'MasterCard on your phone' service was developed in less than a year by teams from Poland, the Netherlands and Spain with generic components that can be used by other ING countries. Customers in Poland can also use their mobile phones to buy and sell currencies. They can access the ING Kantor electronic platform via an FX module on the Moje ING mobile app (or the ING Business app for corporates). It makes currency transactions easy and convenient with 24/7 availability.

Of course, customer experience doesn't only have to be digital. In Belgium, we opened the first ING branch that feels like home, modelled on the concept unveiled in 2016 in the Netherlands. Here customers can get personal banking advice, have a coffee, use it as a workplace or hold their own business or community meetings. ING plans another 15 of these branches by 2020. An optimised branch network supports our digital-first ambitions. When designing Belgium's branch network coverage our priority was to stay close to our customers and improve our service to make it extremely personal and very easy. At the same time, we had to consider a number of factors, not least the integration of Record Bank. In places where both banks had branches in close proximity, we chose to keep only one. The 15 planned 'Client Houses' will provide customers with personal banking advice in an enjoyable environment.

Financial empowerment

ING wants to empower people to make the right financial decisions and become self-reliant. This contributes to a healthy economy and helps drive social progress. In addition to clear and easy products and services, anytime and anywhere, it's about providing the right information and tools at the right time and making an impact in communities by giving people the skills to become financially self-sufficient.

Take tools like our Orange Assistant in Turkey, a mobile app that gives users more control over their money by notifying them when a payment – or even a birthday – is due. It can automatically transfer money, for example to a florist to buy a gift. Users set their own customised notifications and 'smart actions'. The idea originated at an earlier edition of ING's Innovation Bootcamp. To date, 18,000 users have created nearly two million separate notifications, for example when money enters or leaves their account, and when their credit card statement is ready.

In 2017, we launched the THINK website, where ING analysts share their insights on a range of economic and financial matters to help people make better decisions.

Turkey launched a YouTube channel in June called 'Para Mevzuları' (Money Stuff). Here ING shares videos that increase financial literacy by helping people understand more about money, saving and finances. It attracted 44,000 subscribers and 6.5 million views in its first month.

In Australia we launched ING Everyday Round Up – a digital money jar for loose change that makes saving easier and more convenient. It allows customers to round up card purchases to the nearest dollar and moves the difference to their savings account. The tool hit 40,000 activations within the first fortnight. It mirrors the Smart Saver launched in Poland in 2016, an example of sharing best practice between ING businesses.

The ING Dreamstarter programme in Australia empowers social entrepreneurs through scholarships, crowdfunding and grants for businesses that create a positive change in their communities. In 2017, it had

1,701 supporters and contributed more than AUD 330,000 to 11 Dreamstarter businesses, of which over 60 percent was crowd-funded. This brings its total funding since it started in 2014 to more than AUD 1.5 million for 70 businesses. In 2017, Dreamstarter Gifts that Give was initiated to encourage Australians to buy socially responsible gifts and support Dreamstarter businesses, which delivered product sales of over AUD 30,000 in six weeks.

To help people who are financially excluded, ING's activities include offering microfinance to SME clients in Turkey, education and research. In addition, ING subsidiary Groenbank invested EUR 6 million in cooperative society Oikocredit to extend financial inclusion in Africa.

ING continued its partnership with UNICEF's Power for Youth to reach 335,000 adolescents in six less-developed countries by 2018, equipping them with financial knowledge and skills to build a brighter future.

Financial empowerment interactions with customers and non-customers increased significantly again in 2017 and 25.4 million people said they felt financially empowered Ⓐ (23.9 million in 2016). This means we achieved our 2020 target of reaching 25 million people. Our new ambition is to reach 34 million people by 2022.

Why people make financial decisions

In an increasingly complex world that offers so many choices, it's easy for people to be overwhelmed. ING's Think Forward Initiative (TFI) brings together economists and behavioural scientists to investigate how and why people make financial decisions. It uses its insights to develop tools that help people make informed choices about their money. Launched in 2016 with the Centre for Economic Policy Research, Dell/EMC, Deloitte and Dimension Data, TFI expects its first solutions in early 2018. These include a tool called Jaap's money calendar to help people spend more wisely; the MoneyMagic app motivating users to save; and an app that uses financial data and social media to help users make a logical decision about whether they can afford a specific purchase, rather than an emotional one.

Sustainable investments

We can help our customers contribute to a more sustainable world through sustainable investing. We select companies whose activities consider people, society and the environment. They preferably offer solutions for the sustainability challenges our world faces. We believe these companies will outperform on return and impact in the long term.

Our assessment excludes companies in specific sectors, such as coal mining, or that exhibit controversial behaviour, such as violations of human rights.

ING has provided customers with sustainable investment solutions (SI) since 1999. These can be dedicated portfolios, structured products or investment funds, and cover all asset classes. SI is available to customers in Belgium, Luxembourg, Germany and the Netherlands. At the end of 2017, sustainable assets under management (SAuM) were EUR 4.75 billion. This represents 3.75 percent of ING's total assets under management.

Read more about Sustainable Assets under Management in the 'Non-financial appendix'.

Awards

ING's digital leadership and focus on innovation and customer experience have been recognised externally with awards in several Retail markets. These include Best Brand of the Year 2017 in Luxembourg. ING in Poland collected *Global Finance* magazine's Digital Bank of Distinction award for the mid-corps segment, while in Romania ING was named the Most Innovative Bank for the second year running at the MasterCard Bank of the Year gala. In Germany, ING was rated Most Popular Bank for the 11th consecutive year by readers of business magazine *€uro* and Interhyp as the Best Mortgage Provider for the 12th time in a row. And in France, ING was the only financial institution to win the Excellence Client Prize, awarded to companies providing a great customer experience.

Financial performance in 2017

Retail Banking recorded a strong set of 2017 results. Net profit rose to EUR 3,363 million from EUR 2,671 million in 2016, when result was negatively affected by the restructuring charges related to the digital transformation programmes announced in October 2016. Underlying net result (excluding special items) rose 2.1 percent to EUR 3,363 million from EUR 3,294 million in 2016. The underlying result before tax increased 3.1 percent to EUR 4,722 million in 2017.

The higher pre-tax result was driven by lower risk costs, reflecting positive economic conditions in most markets. Underlying income increased slightly as higher net interest income and strong fee income (supported by continued volume growth and a bigger retail customer base), was largely offset by a decline in investment and other income due to lower one-offs and volatile items (2016 included a EUR 200 million gain on the sale of Visa shares and higher revenues from Bank Treasury). Customer lending increased by EUR 9.4 billion to EUR 398.9 billion compared with a year ago. Adjusted for currency impacts and excluding Bank Treasury and the WestlandUtrecht Bank (WUB) run-off portfolio, net growth in Retail's core lending book was EUR 14.2 billion. Net customer deposits (also excluding Bank Treasury and currency impacts) grew by EUR 17.9 billion in 2017.

Underlying operating expenses increased 2.1 percent compared with 2016. Excluding regulatory costs, expenses were up 1.8 percent, mainly related to strategic projects and selective business growth in the Retail Challengers & Growth Markets, and higher expenses in Retail Belgium after the one-off expense adjustment in 2016. These increases were largely offset by lower expenses in Retail Netherlands supported by the benefits

from the ongoing cost-saving initiatives. The underlying cost/income ratio increased to 56.9 percent from 56.0 percent in 2016.

Market Leaders

Retail Netherlands

The underlying result before tax of Retail Netherlands rose 31.6 percent to EUR 2,243 million from EUR 1,705 million in 2016. This was due to lower risk costs and the benefits from cost-saving initiatives, while income was slightly up supported by higher commission income.

Underlying income rose 0.7 percent to EUR 4,468 million. The interest result was 1.2 percent lower, mainly caused by a decline in lending volumes and margin pressure on current accounts, partly offset by higher margins on savings. More than holf of the fall in lending volumes was due to a further decline in the WUB run-off portfolio, including the continued transfer of WUB mortgages to NN Group. Net core lending (excluding the WUB portfolio and Bank Treasury-related products) declined by EUR 2.5 billion, primarily in mortgages, whereas the decline in other lending was limited. Net customer deposits (excluding Bank Treasury) grew by EUR 4.6 billion. Commission income rose by EUR 55 million, or 10.1 percent, primarily in current account fees. Investment and other income was up EUR 20 million.

Underlying operating expenses declined 13.6 percent on 2016, mainly driven by the benefits from the cost-saving initiatives, while 2016 included additional provisioning for Dutch SME clients with interest rate derivatives and higher restructuring costs.

Risk costs declined to EUR 13 million, or 3 basis points of average risk-weighted assets, from EUR 171 million in 2016, reflecting the positive economic conditions in the Netherlands and strong housing market.

Retail Belgium

Retail Belgium includes Record Bank and ING in Luxembourg. The underlying result before tax of Retail Belgium fell 18.3 percent to EUR 785 million in 2017, compared with EUR 961 million in 2016. The decline mainly reflects lower net interest income and higher expenses, partly offset by lower risk costs and increased fee income.

Underlying income decreased to EUR 2,473 million from EUR 2,573 million in 2016. The interest result declined 4.9 percent to EUR 1,842 million, mainly due to lower margins on savings and current accounts, and lower pre-payment and renegotiation fees on mortgages; this was partly offset by volume growth in lending. The net production in customer lending (excluding Bank Treasury) was EUR 4.7 billion, of which EUR 3.2 billion was in mortgages and EUR 1.5 billion in other lending. The net inflow in customer deposits was EUR 1.4 billion compared with year-end 2016. Commission income rose 6.0 percent, predominantly higher investment product fees. Investment and other income fell by EUR 29 million, as 2016 included a gain on the sale of Visa shares. Operating expenses rose by EUR 146 million, or 10.2 percent to EUR 1,584 million, mainly due to higher external staff expenses related to the transformation programmes and the EUR -95 million one-off expense adjustment in 2016.

Risk costs dropped by EUR 71 million to EUR 104 million, or 30 basis points of average risk-weighted assets. The decrease was fully in business lending, while risk costs for mortgages and consumer lending were broadly stable.

Challengers & Growth Markets

Retail Germany

Retail Germany includes Interhyp and ING in Austria. The underlying result before tax decreased 17.6 percent to EUR 869 million, compared with EUR 1,055 million in 2016. The decrease was primarily caused by higher expenses; income was slightly lower, whereas risk costs resulted in a net release.

Underlying income decreased slightly to EUR 1,891 million in 2017 from EUR 1,923 million in 2016, when it was supported by a gain on the sale of Visa shares. Net interest income rose 0.9 percent following continued business growth, partly offset by lower interest margins on most products. The net production in customer lending (excluding Bank Treasury and movement in the mortgage hedge) was EUR 2.7 billion, of which EUR 1.7 billion was in mortgages and EUR 1.0 billion in consumer lending. Net inflow in customer deposits (excluding Bank Treasury) was EUR 3.8 billion in 2017. Commission income rose 17.5 percent to EUR 215 million, with investment products as one of the key drivers. Investment and other income was EUR 79 million lower, mainly due to negative hedge results and the EUR 44 million gain on the sale of Visa shares in 2016.

Operating expenses increased 16.5 percent to EUR 1,032 million, from EUR 886 million in 2016. In addition to EUR 30 million higher regulatory costs, this increase was mainly due to a higher headcount to support business growth, higher costs related to the acquisition of primary customers and investments in strategic projects (including the Welcome transformation programme).

Risk costs were EUR -10 million in 2017 (compared with EUR -18 million in 2016), reflecting a benign credit environment in the German market and model updates for consumer lending and overdrafts.

Retail Other

Retail Other consists of the other Challenger countries & Growth Markets, including the stakes in Asia. The underlying result before tax decreased 3.8 percent to EUR 825 million in 2017, from EUR 858 million in 2016, which was supported by a EUR 109 million gain on the sale of Visa shares.

Total underlying income increased by EUR 169 million, or 5.9 percent, to EUR 3,028 million. Excluding the gain on Visa shares in 2016, underlying income grew by 10.1 percent. This increase was driven by strong commercial results across most countries. Net interest income rose 15.7 percent to EUR 2,437 million due to continued volume growth and higher margins on

lending, partly offset by lower margins on savings and current accounts. The net production (excluding currency effects and Bank Treasury) in customer lending was EUR 9.3 billion, of which EUR 5.1 billion was in mortgages and EUR 4.2 billion in other lending (mainly consumer loans). The net production in customer deposits was EUR 8.1 billion. Commission income rose 20.0 percent on the back of continued client and volume growth in most countries. Investment and other income was significantly lower, as the previous year included a EUR 109 million gain on Visa shares, but also a EUR 32 million gain from the reduction of ING's stake in Kotak Mahindra Bank.

Operating expenses increased by EUR 196 million, or 11.4 percent, to EUR 1,919 million. This increase was mainly due to increased staff and marketing expenses in most countries to support business, as well as higher investments for strategic projects.

The addition to the provision for loan losses was EUR 284 million, or 58 basis points of average risk-weighted assets, compared with EUR 278 million, or 57 basis points, in 2016. The slight increase was mainly attributable to higher risk costs in Poland, Spain and (to a lesser extent) Australia, partly offset by declines in Italy and Turkey.

Wholesale Banking in 2017

The future of Wholesale Banking is about clients and their experience. It's all about what they want: advice, data driven insights, sector knowledge. We already took steps in this direction in 2017 and will take it further in 2018 with a new organisational structure that supports a client-led approach, using data and technology to anticipate clients' needs and move to seamless and fast processes for a truly differentiating experience.

Through the Wholesale Banking Target Operating Model (Wholesale TOM) we have made progress towards a digital, streamlined and simplified organisation. But with so many newcomers entering this space and disrupting our core business, we realised we need to do more. In 2017, we redefined our short-term priorities and further united our business across regions and countries to collaborate more effectively, innovate faster and bring clients uniform services and relevant, proven solutions through their preferred channel, while moving to open banking platforms.

Among other things, we will strengthen our sector focus and international network, putting more resources into Asia and the Americas. We are also strengthening our advisory functions including core banking services, such as Debt Capital Markets and Corporate Finance, and will enhance and further integrate our daily banking propositions, such as payments and cash management, trade finance, working capital solutions, overdraft and FX transactions.

In support of these changes, we will roll out ING's one agile Way of Working across Wholesale Banking.

Wholesale Banking is an important contributor to the success of ING's Think Forward strategy. Over the past five years, Wholesale Lending assets have grown by more than 30 percent and pre-tax results by more than 70 percent. We expect lending growth to continue as we support clients in their business needs. To better anticipate on these needs we will increase our investments in our data-analytic capabilities and strengthen our research coverage to help clients stay ahead of their competition. And we will support them in becoming more sustainable.

InsideBusiness

We extended the InsideBusiness platform to Russia, Ukraine and Poland. It is now used by around 12,500 business clients in 20 European countries, compared to fewer than 500 in 2016. Clients can access their Wholesale products and services via a single log-in, making banking clear and easy and simplifying and streamlining the IT landscape. New services added to InsideBusiness in 2017 include fingerprint login for the iOS and Android app and digital signatures for service request documents. It also offers electronic mark-to-market reports for 4,000 Financial Markets clients; gives clients the ability to draw down on loans and to manage proof of payments and incoming direct debits, as well as make digital Trade Finance transactions in Belgium and the Netherlands.

Virtual cash management

In the third quarter, ING introduced virtual bank accounts that allow treasurers to manage their cash across borders from a single bank account. Other virtual cash management products involve multiple virtual accounts. ING's solution gives treasurers full insight, access and control of their company's cash position and enhances strategic decision-making.

We are also preparing to launch Cobase, an independent ING venture offering companies a multi-bank platform with a single point of access to all their bank accounts and financial services from all their providers, not only ING. It includes a central payments hub, cash management and treasury modules.

Blockchain

Innovation is integral to ING's ambitions and technological advances such as blockchain continue to lead to new products and product improvements. Being a big organisation, ING's size can work against it when speed is of the essence. That's why we also team up with others – start-ups and fintechs – to innovate from the outside in. These include collaborations with the banking consortium R3 and others to digitalise trade and commodity finance on a blockchain platform, as well as using blockchain to process foreign exchange trades and Trade Finance transactions. ING is also working with R3 and HQLAx on a digital assets exchange to manage liquidity more effectively and cost efficiently.

In February, our Easy Trading Connect blockchain prototype carried out its first live oil trade, which showed the significant speed, cost and risk benefits of the technology. In January 2018, the platform was extended

to agricultural commodities, with a US-China soybean trade demonstrating its potential in a sector with complex and rigorous documentation chain flows.

In November, ING announced a breakthrough to protect the privacy of users in the blockchain. The new code, known as a 'zero-knowledge range proof' adds a layer of cryptography that is 10 times more efficient than existing technologies. In the spirit of cooperation, ING has made it available as an open-source solution, allowing other developers to contribute to it.

Drawing on our data capabilities to bring clients the right solutions at the right time, we are working on one that analyses data from past bond trades to price trades accurately in real time.

In addition to harnessing new technologies, we are also looking at developing services that go beyond banking. For example, we're working with behavioural scientists in London and Amsterdam to develop a cybersecurity solution for corporate clients. The ING Digital Trust tool aims to modify the behaviour of the client's employees – usually a key vulnerability when it comes to protecting companies' digital information – through a series of 'gamification' campaigns. It is currently being tested by three clients and will be available in 1Q2018.

Responsible finance

Although ING's own operations have been climate neutral for a decade, we can make our biggest contribution to a sustainable future through financing. We are committed to better understanding the impact of our lending activities and working with our clients to drive progress towards a low-carbon and self-reliant society.

We aim to double our funding to companies and sectors that are helping to keep global warming below two degrees Celsius. We will do this by increasing our Climate Finance portfolio two-fold by 2022 compared to 2017. This includes funding projects that advance renewable energy, the circular economy and help combat climate change. We will also double our Social Impact finance by lending to projects that lead to, for example, affordable housing or basic infrastructure. And we will double lending to environmental, social and governance (ESG) industry leaders by 2022 compared to 2017.

These ambitions replace the former Sustainable Transitions Financed (STF) portfolio ambition to increase STF to EUR 35 billion by 2020. As we already came close to achieving this in 2016, we matured and strengthened our approach in 2017. The result is our responsible finance portfolio, which transparently demonstrates our contribution through financing to key social and environmental domains.

But we can't do this alone. We need clients and key partnerships. For example, we work with the Ellen MacArthur Foundation, a global thought leader on the circular economy, to expand our knowledge and network on this topic and unlock business opportunities. And we are a member of the World Economic Forum's Climate Leaders Alliance, an informal network of CEOs committed to climate action and delivering on the Paris Agreement.

Client classification[1,3,5]

	EUR bln	% of Total 2017
Industry ESG leaders	5.5	3.4%

Type of transactions[2,3,4,5]

	EUR bln	% of Total 2017
Climate finance	14.6	9%

Type of transactions[2,3,4,5]

	EUR bln	% of Total 2017
Social impact finance	0.5	0.3%

1 The outcomes are based on industry classifications of ESG ratings provider Sustainalytics.
2 If criteria are strengthened, the new criteria are applied from the moment they are implemented. Outcomes of transactions finalised prior to such changes remain 'as is' at the time they were completed.
3 The amounts reported under the three categories may overlap with one another. For example, a transaction may be both environmentally and socially impactful. The category Outstandings should not be added up.
4 A list of sub-categories that are in scope of the methodology/definition but that have zero-to-low exposure can be found in the non-financial appendix.
5 All figures listed in Outstandings are as of 4Q 2017 and the denominator is WB lending services.

In 2017, ING joined the Madaster circular economy platform, which has a digital 'materials passport' to stimulate the use of recyclable materials and reduce waste.

ING Real Estate teamed up with ING Groenbank on a green loan to convert a former power plant into a sustainable 'A' energy label innovation hub. And we helped finance one of Australia's largest solar plants to meet the country's growing demand for renewable energy.

In Austria, ING teamed up with Kommunalkredit, a specialist bank for infrastructure financing, on a EUR 300 million social covered bond to support projects such as schools, universities, hospitals and social housing. It's the first of its kind in Austria and the second social covered bond in the market.

It's not just technology that drives innovation. ING works closely with clients to find sustainable solutions for the challenges they face and to put our sustainability ambitions into action. In 2017, we collaborated on several sustainable financing firsts: the first loan linking the interest rate to the client's sustainability performance and rating (the better the company does on sustainability, the lower the interest rate); the first green hybrid bond ever, raising EUR 1 billion to fund wind energy in the Netherlands and Germany; and the UK's first green bond in the public utilities sector (water).

Since it was introduced in April for Philips, the Sustainable Improvement Loan has won several awards and has been used with other clients, such as Belgian post operator bpost.

Challenges and opportunities

In addition to investing billions of euros in wind farms, solar energy and geothermal power production to support the energy transition, ING will not only stop providing lending services to new coal-fired power plants or coal mines but will also accelerate the reduction of financing to thermal-coal power generation with the ambition of bringing this close to zero by 2025. We reduced our lending outstanding for thermal coal power generation by 18 percent at the end of 2017 compared to a year ago and have the ambition to continue this reduction trend.

Read more in the 'Non-financial appendix' for the full power generation portfolio disclosure.

However, society still relies on fossil fuels because there is not yet enough renewable energy being generated, nor is there an efficient and affordable way of storing it. This is both a challenge and an opportunity, for example for companies developing battery technology. ING engages in strategic dialogue with clients to influence change. We talk about the challenges they face and help them identify opportunities.

We see opportunities arising from the final recommendations of the G20 global Taskforce on Climate-related Financial Disclosures (TCFD). We believe it will encourage investors to shift to more low-carbon and climate-smart options as companies become more transparent about reporting on the financial implications of climate change – an important step towards delivering on the commitments of the Paris Agreement to keep global warming below two degrees Celsius.

Read more in the 'Non-financial appendix' for an overview of ING's climate-related disclosures.

Strengthening our operations

In the past years, the Wholesale TOM programme has contributed to a more integrated business, easier processes and a more consistent experience for clients on a global digital platform.

It has united operational services in two strategic centres in Bratislava and Manila, supporting our ambition to improve and standardise Wholesale Banking. For example, we now offer Financial Markets clients collateral management services from one hub that provides a single unified offering. This consolidation of expertise enables us to test new artificial intelligence and robotics solutions to optimise client services. For example, we are preparing to launch ING's first Wholesale Banking chatbot – called Bill – on InsideBusiness. And we are working with fintech Axyon.AI on a tool that applies neural networks to make financial predictions. We will invest even more in automation and robotics to make processes faster and smoother in the future.

Migrating certain services to shared service centres is not new to ING, but it is time consuming and can potentially disrupt our service, contrary to our Customer Promise. We do it because, in the long term, it means we keep getting better. We believe it will allow us to respond faster to new client needs, improve IT capabilities and boost the efficiency of our digital-first model, helping it to evolve into a true competitive advantage.

We are also introducing a global operating model for Lending Services. Implementing the advanced funding model in Singapore and Hong Kong in the second half of the year changed the Asian funding model and led to a EUR 3.5 million reduction in funding cost on the Asia portfolio.

In addition, we increased global collaboration with virtual sector teams that support clients across countries and products to offer holistic, integrated solutions that enable them to stay a step ahead in business. To facilitate this collaborative approach even further we are rolling out one way of working based on Agile principles.

Awards

In 2017, ING was named best Benelux brokerage house at the Extel awards for the European equities investment industry. A market survey by FI Metrix ('2017 International Commodity Traders Study') showed ING has become a dominant provider in commodity finance, based on its image (55 percent of respondents rated it the most positive brand image in the market compared to 24 percent in 2013), institutional performance, relationship penetration, product market share and delivery. Overall, league table positions in EMEA and Western Europe continued their upward trend in 2017, supported by continued strong performance in Industry Lending.

International network

One of ING's strengths is our international Wholesale Banking network, which spans over 40 countries in Europe, Asia and the Americas. In 2017, we broadened our relationship with clients in Asia and expanded our Americas footprint with an office in Bogota, Colombia.

This is in line with our decision announced in November 2017 to put more emphasis on the regions while shifting our focus to a stronger sector organisation from the current largely product-based orientation. In the past years, ING has grown into a sector specialist in lending areas such as Metals and Mining, Trade and Commodity Finance and Technology, Media and Telecom. Our new structure will help us deliver a consistent client approach across the Americas, Asia and Europe and become even more relevant to our clients as we support them in their business needs. These organisational changes will be implemented in January 2018.

Financial performance in 2017

Wholesale Banking posted good 2017 results on the back of continued strong performance in Industry Lending, steady volume growth across industries and products, and a low level of risk costs. The net result rose to EUR 1,950 million from EUR 1,754 million in 2016, which included restructuring charges and impairments related to the digital transformation programmes. Excluding these charges, underlying net result rose by EUR 47 million, or 2.5 percent, to EUR 1,950 million. The underlying result before tax was EUR 2,846 million, up 6.7 percent from 2016, driven by income growth in Industry Lending and General Lending & Transaction Services, and lower risk costs. This was in part offset by higher expenses.

Industry Lending posted an underlying result before tax of EUR 1,966 million, up 13.2 percent compared with 2016, due to continued business growth in Structured Finance and Real Estate Finance with attractive margins, higher fee income and lower risk costs. The underlying result before tax from General Lending & Transaction Services rose 22.5 percent to EUR 751 million, due to higher income and lower risk costs. Income was supported by volume growth in Working Capital Solutions and General Lending, partly offset by some pressure on margins.

Financial Markets' underlying result before tax fell to EUR 82 million from EUR 134 million in 2016. This decline was mainly due to higher expenses, in part due to higher regulatory costs and investments in IT infrastructure. Income was stable, despite a very weak fourth quarter in 2017. Excluding CVA/DVA impacts (EUR -36 million in 2017 versus EUR -71 million in 2016) income declined by EUR 34 million. The underlying result before tax of Bank Treasury & Other fell to EUR 47 million from EUR 185 million in 2016. In addition to lower Bank Treasury results, this decline was mainly caused by higher risk costs (primarily related to the Italian lease run-off portfolio) and some litigation provisions. This was partly offset by higher sale results in the run-off businesses, including a EUR 97 million gain on the sale of an equity stake in the real estate run-off portfolio.

Underlying income of Wholesale Banking increased 5.6 percent to EUR 5,922 million, compared with 2016, driven by volume growth in lending and the aforementioned gain on the sale of an equity stake. Wholesale Banking's net core lending book (adjusted for currency impacts and excluding Bank Treasury and the Lease run-off portfolio) grew by EUR 12.7 billion in 2017. The net inflow in customer deposits (excluding currency impacts and Bank Treasury) was EUR 1.1 billion. The interest result rose 3.9 percent on 2016, whereas commission income increased by 10.5 percent. Investment and other income was EUR 64 million higher, driven by the gain on the sale of an equity stake.

Underlying operating expenses increased 8.6 percent to EUR 2,792 million, mainly due to higher headcount to support business growth, increased additions to litigation provisions and higher regulatory costs.

Risk costs declined to EUR 284 million, or 19 basis points of average risk-weighted assets, from EUR 368 million, or 24 basis points in 2016. The relatively low risk costs in 2017 were supported by several larger net releases for clients and only a few larger new additions, and was realised despite higher risk costs for the Italian lease run-off portfolio.

Our people

Banking is changing. Customers are changing. And so is ING and its people. ING's response to change starts with the acceleration of the Think Forward strategy. From a people perspective, we are stepping up our leadership capabilities and strengthening professional skills while building engagement and capabilities across the organisation.

We do this in two ways: by creating a differentiating employee experience, and by developing greater leaders and better managers who will energise and engage others to implement our purpose and strategy.

In this chapter, we outline our people strategy with employee stories depicting the changing face of ING.

Who we are

ING has over 54,000 employees in more than 40 countries. ING people are diverse and dynamic, adapting and developing in line with the business and our environment. Traditional banking skills are still important, but so is customer intelligence and being data and technology savvy. Our people are creating a differentiating customer experience that doesn't always depend on face-to-face interaction.

At ING we value diversity and believe we cannot implement our strategy without it. We are committed to accelerating diversity so our employee base mirrors the clients we serve.

ING has a diversity manifesto that applies to all employees worldwide. It sets out our position and aims to foster an inclusive culture.

Challenges in diversity

Different diversity challenges exist in each location and business unit. In several markets, such as the Benelux, we need to do more to make gender balance more representative, in particular in leadership positions. ING, like many other financial organisations, is facing this challenge.

This year, the number of female managers and female managers of managers remained fairly stable. Of our managers, 39 percent are women (38 percent in 2016) while for managers of managers, 29 percent are female – the same as in 2016.

Creating a better balance continues to be a priority. A range of initiatives to promote the inclusion of women in leadership positions has been implemented. This includes:

- Diverse interview and decision panels as part of 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.
- Supporting flexible working.

'Papa' leave and rainbow families

In 2017, ING in the Netherlands announced that, from 2018, it will offer new fathers and non-biological parents the right to take one month's paid leave after the arrival of their child with the option for a further three months of unpaid leave immediately afterwards.

ING also introduced the global Rainbow Families project to eliminate any gaps in its policies for lesbian, gay, bisexual and transgender (LGBT) employees.

In October, ING was recognised externally for its LGBT workplace inclusion at the Workplace Pride Awards, achieving a top-tier score.

How we work

Creating a differentiating employee experience starts with ING's distinctive culture: entrepreneurial, open, collaborative, innovative and energetic. Who we are and how we work are set out in the Orange Code. Putting 'integrity above all', it comprises:

- **Our values.** The non-negotiable promises we make to the world no matter what.
  - We are honest.
  - We are responsible.
  - We are prudent.
- **Our 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.

A worldwide survey conducted amongst ING colleagues in the third quarter showed that 100 percent of employees were aware of the Orange Code and 82 percent of employees felt equipped to live up to it.

The Orange Code is supported by a compliments tool, kudos, that allows employees to give each other compliments based on Orange Code behaviours. Since its launch in July 2016, over 200,000 compliments have been given by 30,000+ users of the tool. Kudos was also named Innovation of the Year at the Digital Communication Awards 2017.

Employees are introduced to the Orange Code early with new joiners invited to complete a global online e-learning introduction module that explains more about ING's culture, how we work and what we expect from employees. This is further emphasised and reinforced by the compulsory e-learning for all employees as part of the global Promoting Integrity Programme.

Our Orange Code behaviours are included within the performance management process and discussed throughout the year. They are also linked to our Employee Value Proposition, which forms the basis of all people-related programmes. Through these activities, our aim is to develop a culture that is focused on long-term value creation.

Creating a differentiating employee experience

ING believes there is a direct link between employee engagement, business performance and an ability to serve customers. It's why we are committed to a positive employee experience from the moment someone applies for a job to the moment they leave.

Employees take personal responsibility for becoming the very best they can be. Our approach to performance management supports this. In 2017, 99 percent of employees took part in a formal performance management process.

Our ING Step up Performance Management practice aims to empower employees and make them more personally accountable for their own development and performance. From 1 January 2018, more than 90 percent of employees will have their performance managed according to the new approach.

ING allocates a budget for employees for training, professional development and personal development. We spent EUR 76 million on training and development in 2017. And a wide range of global and local training programmes are made available to strengthen employee capabilities and help them become the best they can be.

Global surveys

ING regularly measures employee engagement and is committed to acting upon employee suggestions. This is done globally in one of two ways:

- The Winning Performance Culture (WPC) survey concentrates on employee engagement, looking at how engaged, enabled and energised employees feel. The next WPC will take place in 2018.
- The Organisational Health Index (OHI) assesses ING's ability to adapt and renew itself to be successful in the long run. The last OHI took place at the end of 2017.

Over 29,000 (53 percent of employees) responded to the OHI. Results were very positive overall with organisational health having improved across all nine 'health outcomes'. This places ING's organisational health in the upper quartile of a large cross-industry benchmark. We have improved considerably in innovation and learning, which now scores in the top 10 percent of the benchmark.

Creating greater leaders and better managers

Think Forward Leadership programmes have been tailor-made to develop the leadership capabilities ING needs to achieve its strategy. The Think Forward Leadership Programme is designed for top-level executives and the Think Forward Leadership Experience is for all people managers globally. Around 1,500 leaders and managers attended these programmes in 2017, with a further 4,000 employees targeted to participate in 2018. Phase-two programmes are now being developed.

The International Talent Programme (ITP) is designed to ensure the bank has the right talent in the right place to meet future needs. The programme selects and develops top graduates who are ambitious, international and have high growth potential. In 2017, ING recruited 135 ITP trainees from 14 countries.

People planning for the future

Like all companies, ING needs to plan its future resource needs carefully to stay a step ahead. This means that occasionally we restructure activities in line with business requirements, in some instances leading to job losses, job changes or job location changes. In October 2016, we announced plans to start a path of convergence towards one digital banking platform, which would impact around 7,000 employees, mostly in Belgium and the Netherlands. These transformation programmes are ongoing.

As part of this, ING also continues to look at different ways to help improve operational processes across the bank so that it can service client demands rapidly and efficiently. Sometimes this means activities are transferred to shared service centres, for example in Bratislava or Bucharest, or outsourced to external providers. This is not new for ING, having already standardised and streamlined some Wholesale Banking and IT operations. Such decisions are always made with the utmost care and consideration with a full risk assessment process undertaken at Management Board level.

When employees are impacted by these changes, we are committed to treating them with respect and care and doing our utmost to help them develop their skills to find new job opportunities – whether inside or outside ING.

At the same time, in line with business strategy, we continually work to improve people planning. We are developing our people analytics and intelligence capabilities to aid business performance and employee well-being. A project to transform HR – HR Unite – (HR TOM) includes introducing a new people services organisation with one global HR system and one standard set of processes for people metrics. This will concentrate on ensuring a differentiating employee experience as well as making it much easier to report strategically on people issues ING-wide.

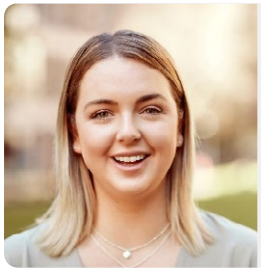
Commitment to human rights

ING upholds the rights proclaimed in the Universal Declaration of Human Rights and aims to respect human rights in all operations globally. We uphold freedom of association for all employees and recognise the right to collective bargaining as laid down by International Labour Organisation Convention numbers 87 and 98. Where countries have weaker labour laws, ING abides by its own human rights policy developed in accordance with this convention.

ING seeks to judge employees only on their merit and skills. Our policy is not to discriminate on social origin, gender, age, background, sexual orientation, physical ability or religious beliefs.

We are aware that even though we have a strong track record, there are still issues that require attention – including diversity, which continues to be a challenge. By respecting human rights and increasing efforts in diversity, we believe we are strengthening our workforce and our business. To underline our commitments and progress in this area, we aim to publish our first Human Rights Report in 2018.

The customer care specialist



Name: Bella Ozegovic
Country: Australia
Joined ING: 2015
Role: Customer care specialist.

I joined ING fresh out of high school after a friend who worked there recommended it to me. She loved the job and the company.

Initially, I worked in the contact centre, but moved to ING's new Customer Lounge when it opened in August. Here I assist clients with their new or existing Orange Everyday savings, mortgage and business accounts.

ING's working culture is customer-orientated with a strong team dynamic. Everyone is happy to help and I feel comfortable with my colleagues. It is a positive and healthy environment. In my two years, I've had many trainings and been given much support and mentoring from more senior employees.

From day-one, the Orange Code has been at the core of my job. To me it's about the way teams work together, allowing everyone to participate in meetings without judgment.

Honesty and trust are very important in my job. I think it's important to be authentic with a customer, especially when selling products. Obviously it's the main role of my job, but I really do enjoy helping a customer. It's a great feeling being able to fix something that somebody is stressed about. Conversely, it can be very frustrating when there are processes and procedures in place that a customer is not happy with, but policies and procedures are there for a reason and it's not always something we can change.

The IT specialist

Name: Alejandro Enrique Romero Jiménez
Country: Spain
Joined ING: 2006
Role: IT specialist, currently leading the infrastructure chapter for Model Bank.

When I first looked to join ING in Spain I knew it was different from any other bank. It seemed to be driven by young people trying to challenge the status quo. That made me want to become part of it.

We create the underlying infrastructure for the Model Bank transformation programme. We make sure that from a technical and operational standpoint everything goes smoothly when the newly-installed solutions are integrated with existing ones.

Our team in Madrid has more than 12 different nationalities, so it's very diverse. To me, diversity is not about gender or colour but about different approaches. The way people are brought up in different cultures and with different values means they approach the same problem or topic in different ways.

The global surveys that all employees are asked to complete are important, especially the fact that managers want to know what we think. In Spain, a number of improvements have been made following the last year's employee engagement survey. It's good to know your opinion counts.

The chief economist

Name: Marieke Blom
Country: The Netherlands
Joined ING: 2013
Role: Chief economist for ING in the Netherlands. Manages a team of 18 economists and analysts.

ING found me four years ago. I came to the interview heavily pregnant. Combining work with children is not easy but ING is flexible enough to help me make it work. I have Wednesday afternoons off and bring my kids to school four days a week. I make up the time in the evening, sometimes weekends.

I've always liked the atmosphere here. People are goal-orientated, but in a good way. They strive to make a difference. So much work gets done.

Change is the norm. We're in a constant state of flux. It can be a challenge managing that. Clients are continually

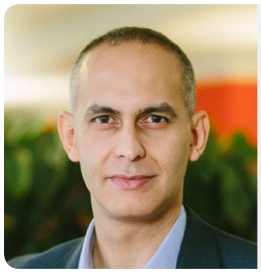
changing too. As a team, we must adapt to those client changes. Part of our economic analysis is to make things clear and easy even though economics is complex.

What gives me the most satisfaction is how our economic analysis leads to decision-making for clients. Our challenge is to help customers make better decisions so that they can stay ahead in what they do.

What frustrates me is we're a part of a big organisation. Sometimes it takes a great deal of time and internal processes to produce what we do. The end result is high quality and immediately has a big impact, but it does take a long time to get there.

Aside from the Think Forward leadership programme and the various trainings I do as part of my goals for the year, I completed the Promoting Integrity Programme, a compulsory online training to increase awareness around integrity and dilemmas. Every Dutch employee is also required to take the Banker's Oath, committing to maintain high standards of ethical behaviour.

The data cruncher



Name: Mouad El Ghazi
Country: Germany
Joined ING: 2017
Role: Head of customer intelligence.

My role and that of my team of data analysts is to turn data into tailored solutions for customers. This happens through analytics, modelling and smart data integration from various sources to sharpen the customer profile. We then know our customers better and provide them with the right products and services instantly at the right moment.

With big data and real-time technologies and processes we can empower customers in their financial decisions. Understanding their needs through data is an important skill in banking. We should care about data, turn it into valuable knowledge and create added value for customers.

I believe there are two main changes impacting any business – digitalisation and agility. I'm happy both play a crucial role in ING's strategy.

Despite only joining in June, I am aware of the Orange Code and how it describes our values and the way we act together. This is important to me as a believer in teamwork and collaboration to meet any challenge and deliver the best customer experience.

As a manager, it's my responsibility to encourage my team to use the opportunities ING offers to help them achieve a work/life balance.

The graduate

Name: Simon Dispa
Country: Belgium
Joined ING: 2016
Role: Member of the Retail Transformation Programme.

I joined ING for many reasons. Most important was the reputation and quality of the International Talent Programme (ITP). It is known as one of the best traineeships in Belgium. I also wanted a role in one of the biggest transformations in the banking industry. ING is a pioneer.

This is my second rotation in the ITP. I'm in charge of implementing the branch network of a new distribution model. We are changing the way we interact with and serve customers. We're offering more online and remote solutions and extending our availability. My first rotation was in a branch, so I have a clear view on what customers expect.

ING offers much more than a job. It promotes diversity and gives us the opportunity to learn, develop our skills and challenge ourselves. Collaboration, openness and agility are at the heart of every project. Belgium is introducing the one Way of Working and I've attended several training days with people from many different departments.

I get the most satisfaction from positive feedback from customers. Although I don't have any direct contact with customers anymore, I'm still working in their interests to improve the way we serve them.

Awards

ING was again recognised as one of the world's leading employers by both the Top Employers Institute and Great Place to Work.

In February 2017, ING gained Top Employer status for Europe and individual recognition in Belgium, France, Italy, Poland, Spain and the United Kingdom.

In Germany, ING was ranked by Great Place to Work as the third best employer in the category 2,001 to 5,000 employees and ING-owned mortgage broker Interhyp was also listed in the category 501 to 2,000 employees.

ING Services Polska was named the 'Best IT workplace in Poland 2016' by Computerworld magazine, based on a survey of 3,500 respondents.

Risk and capital management

Risk and Capital Management focuses on managing our risks in line with our risk appetite, strengthening our capital base and supporting businesses as ING implements the Think Forward strategy. In a dynamic environment with changing customer behaviour, increasing regulatory requirements, emerging competitors and new technologies, ING needs to continuously develop its risk and capital management. Managing risks and capital effectively and efficiently is crucial to ING's sustained profitability.

Managing risks to protect and enable our business

ING is engaged in activities that entail risk taking, every day, throughout our business. ING is sensitive to multiple financial risks, such as credit losses in our lending and banking transactions, gains and losses from market risk in our trading positions, and liquidity or funding risks through financial management. Many of these are managed and controlled through models, which automatically introduce risk themselves.

Besides these financial risks, across our business, ING is subject to non-financial risks associated with IT and cybersecurity, operations and compliance to rules, regulations, laws as well as the ethical norms that are generally considered to apply to our people and activities by society at large. Non-financial risks can also arise throughout the relationship with our clients should issues emerge that are irreconcilable with our Environmental and Social Risk framework.

Risk management at ING is directed and overseen by the independent Risk Management function. The function's primary roles are to properly identify, measure and manage risks in normal and stressed economic conditions, and to oversee our business activities to ensure they are consistent with both our strategy and our appetite for risk.

The overall amount of risk that ING is willing to take is set out in the Risk Appetite Framework and the Non-Financial Risk Framework. Within these frameworks, we monitor a range of risk metrics to make sure that our risk profile is in line with our appetite for risk. The Risk Appetite Framework, which is approved by the Executive Board, is designed to be able to withstand market volatility and stress, while meeting strategic goals and regulatory requirements. This framework is complemented with a Non-Financial Risk Framework that includes compliance risk and operational risk. Both frameworks combine various financial and non-financial risk disciplines into a single converged approach and provide the businesses with a clear and fair view on their risks and the way these are managed. This view allows the Executive Board and senior management to form an opinion on the adequacy of internal risk management and control systems regarding the risks they face while pursuing the Executive Board's strategy. In addition, ING has a process in place regarding internal control over financial reporting. Both frameworks, including underlying assumptions and metrics, are regularly reviewed to ensure they stay relevant in a constantly changing environment. ING conducts bank-wide and portfolio- specific stress tests to ensure strength and resilience in specific market conditions, by taking part in regulators' as well as our own internal stress tests.

For more information on risk appetite and stress tests, please refer to the Risk Appetite Framework, the Non-Financial Risk Framework and the Stress testing sections of the 'Risk Management' chapter, part of the consolidated annual accounts of this Annual Report.

For more information on Internal control over financial reporting, please refer to the 'Section 404 Sarbanes-Oxley Act' part of Corporate governance.

Tax risks are managed in a prudent manner. Tax policies, procedures and a tax control framework have been implemented to support management in mitigating potential tax risks. Internal monitoring, control and reporting of tax-related risks takes place on a permanent basis with regular reporting to various stakeholders. Tax risk management is subject to Corporate Audit testing and evaluation. In the Netherlands, ING has opted for co-operative tax compliance ('horizontaal toezicht'), which implies overall transparency and disclosure of relevant tax risks to the Dutch tax authorities.

While continuing our efforts to comply with applicable laws and regulations, it remains a significant operational challenge for banks to meet all these requirements within the strict timelines. ING faces the risk of failures in compliance, especially in areas where the 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. Implementing the processes and procedures necessary for effective compliance has significant implications for IT systems and data, as people who have the necessary knowledge and skills are scarce.

In the area of compliance risk, the Compliance Risk Management function has established a control framework based on laws and regulations, as well as on the standards for non-financial risks as set out in the ING's internal control framework. To support management in mitigating compliance risks, it actively trains and advises the business in managing compliance risks. Topics include money laundering, terrorist financing, sanction and export control compliance, conflicts of interest, misselling, corruption, protection of customers' interests, the Foreign Account Tax Compliance Act (FATCA), the Common Reporting Standard (CRS), and US withholding tax and information reporting regulations.

Where an ING employee suspects any irregularity or misconduct within ING that leads to or could lead to a violation of ING's Orange Code, ING Policies and/or any law, regulation or code, our Whistleblower Policy provides for anonymous reporting, via internal or external channels, alongside normal reporting channels. In 2017, ING recorded 100 alleged irregularities in accordance with its Whistleblower Policy, including 19 reports of suspected breachs of Orange Code or unethical behaviour.

› *For details please refer to the Pillar 3 report at www.ing.com/17ar*

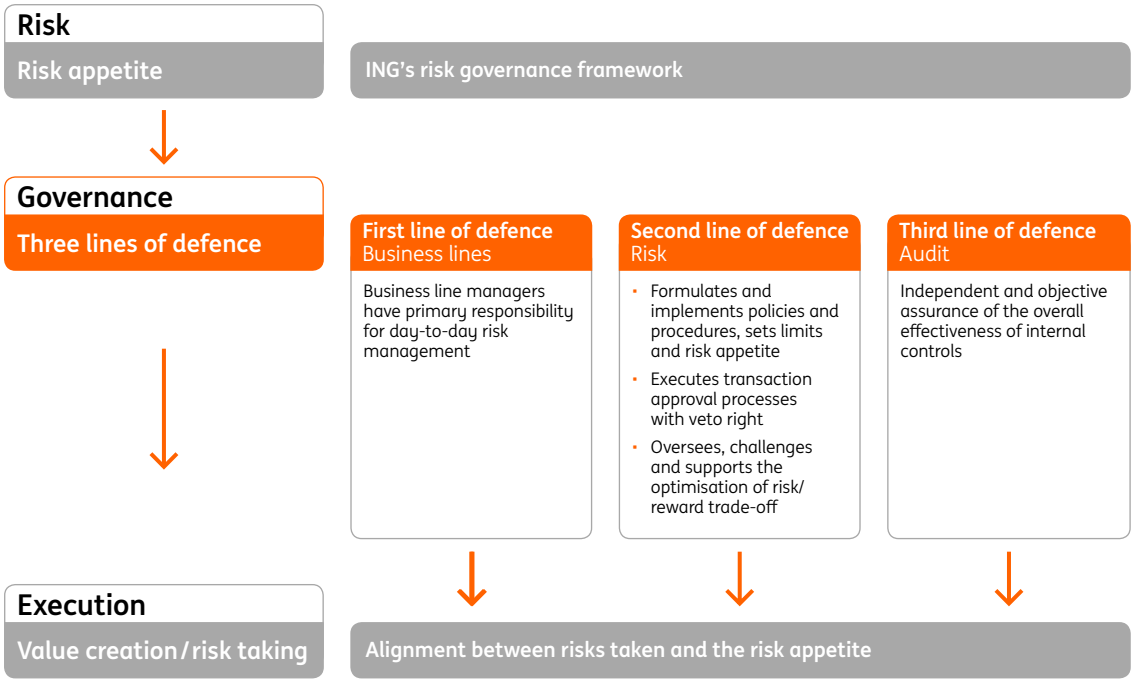
ING has designed controls intended to mitigate the compliance risks associated with the above-mentioned risk areas. The effectiveness of the controls is tested periodically, and senior management recognises its responsibility to ensure our processes comply with applicable laws and regulations, ING's internal policies, procedures and the Orange Code.

Further, given the heavy reliance on IT systems in financial institutions, controls that monitor the various aspects of IT risk, such as integrity, availability and confidentiality, are embedded in ING's risk and control framework.

In connection with the introduction of the ING Way of Working, Operational Risk Management and Information Risk Management have established new risk governance that adopts the ING Way of Working to ensure effective non-financial risk management within various entities. To enable business lines to manage their risk linked to the increasing sourcing activities within ING, the sourcing policy has been updated to cover generic key control objectives for mitigating and monitoring key risks. An integrated top-down/bottom-up emerging risk assessment is performed to identify and monitor developments that may have an impact on ING's strategy and risk profile, like changes in the global environment, customer needs and expectations, local/global regulatory requirements and the effectiveness of our response to technological developments.

User Access Management (UAM) remains an important element of our control framework to mitigate unauthorised and/or inappropriate access to our data and information. ING Bank is building on its cybercrime resilience, further enhancing the control environment to protect, detect and respond to e-banking fraud, DDoS and targeted attacks.

ING's most important risks and control measures are regularly reported to and discussed by the Risk Committee of the Supervisory Board. Both financial and non-financial risk reports are reviewed in detail, including the status of ING's metrics with regard to solvency, liquidity, funding, credit, market risk and non-financial risks. In addition, the design and the operation of the Risk Appetite Framework and the Non-Financial Risk Framework are discussed annually with the Risk Committee and the full Supervisory Board, whereas the design and the operation of internal controls over financial reporting are discussed annually with the Audit Committee and the Supervisory Board. As part of this process shortcomings in Know Your Customer processes were identified in these control systems and discussed with the Risk committee and the full Supervisory Board. Also an area of improvement that was identified in IT risk was discussed. ING is vitally dependent on its IT infrastructure for the reliability and continuity of its operations. Although IT and digitalisation are seen as opportunities for ING to distinguish itself from



competitors, it also imposes risks. The risks imposed by ING's IT infrastructure are reporting outside the tolerance levels that ING has committed itself to. Therefore actions have been identified to improve IT systems and processes in order to increase the efficiency and effectiveness of the IT infrastructure and the reliability and continuity of the IT processing. These improvements have already lowered IT-related risks, but additional efforts are needed to ensure that the IT infrastructure will report within the defined risk appetite statement.

For more information on non-financial risks, please refer to 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 three lines of defence principle provides a clear division of activities and defines roles and responsibilities for risk management at different levels within ING and at different stages in the lifecycle of risk exposures.

The commercial departments of the various business lines, which have the primary responsibility for day-to-day risk management, form the first line of defence. They are accountable for identifying, recording, reporting and managing the risks that occur while conducting their activities, including originating loans and taking deposits, within applicable frameworks and the institution's limits. They also ensure that the right controls and assessments are in place to mitigate them.

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 and guidelines, implement and operate control frameworks, and decide on risk acceptance. They also aim to ensure compliance with internal and external requirements on an individual and consolidated basis. Furthermore, they support the commercial departments and act where necessary to keep the risk profile within the defined risk appetite. The CRO is a member of the Executive Board and the Management Board Banking, ensuring that risk remains a continuing topic for the leadership team.

Corporate Audit is our third line of defence. It provides an independent assessment of the internal controls over the risks to ING's business processes and assets, including risk management activities performed in both the first and second lines of defence.

We believe these three layers in combination are necessary for a strong risk and control environment.

For more information on material risks, please refer to the 'Top and emerging risks' section of the 'Risk Management' chapter, part of the consolidated annual accounts of this Annual Report, and the risk factors section of the 'Additional information' chapter of this Annual Report.

Enhancing a proactive risk management function

Our business and operating environment is changing with trends such as changing customer behaviour, increasing regulatory requirements, emerging competitors and new technologies.

Regulation continues to broaden and deepen. As a result of the economic crisis, rules and regulations governing banks are developing rapidly. These are largely in response to public sentiment that's ever less tolerant of bank failures and the use of public money to rescue banks. The additional prudential rules in the form of revisions to Basel III, announced in December 2017, consisting of among others a revision to the standardised approach to credit risk, the introduction of a capital floor based on standardised approaches and limits in the use of internal models, require banks to keep larger amounts of capital. These rules and regulations also require us to supply more detailed, bank-wide information to central banks and regulators.

Customer expectations are increasing in line with changing technology. Banks are responding through automation. This is allowing them, for example, to provide customers with instant retail and corporate credit offers, as well as a simple, rapid, online account-opening process. A large proportion of our customers already uses digital channels to communicate with us and for many it's the only channel they use to contact ING.

With developing technology and digitalisation, new risk categories are emerging. That makes it vital for the risk function to adapt so it can detect and manage new risks. Over the past few years, ING has enhanced its frameworks in areas including model risk and cybersecurity risk. At the same time, technology and advanced analytics are enabling new risk-management techniques and helping the risk function make better risk decisions at lower cost.

For more information on the risk management function please refer to the 'Risk Management' chapter, part of the consolidated annual accounts of this Annual Report.

Part of ING's Think Forward Strategy aims to increase the pace of innovation to serve changing customer needs. To do this, ING is either partnering, investing or building various platforms (e.g., Yolt, Kabbage, Scalable Capital, Payconiq). These innovations empower ING's clients to stay a step ahead.

ING announced in 2017 the launch of ING Ventures, a EUR 300 million fund aimed at investing in fintech companies and accelerate the pace of innovation. ING considers partnering with and investing in fintechs as a key element of its innovation strategy. ING Ventures will build on the success that the current approach has already brought over the past three years, which has led to over 100 strategic fintech partnerships and investments globally.

While it will adopt investment methods and portfolio management based on venture capital structures, the aim will not be to achieve a solely financial goal. The fund will focus on start-ups and companies that have already gained some market traction. The companies it will invest in are generally, but not exclusively, fintechs active in countries where ING has a presence or where ING has the intention to expand. As a responsible financial institution, ING ensures that these platforms are aligned with ING's risk appetite and standards. Furthermore, ING is putting in place a dedicated risk control framework for ING Ventures aimed at properly identifying, measuring and managing the risks arising from its activities.

Key developments in 2017

We look back on a year with a modest acceleration in global growth, amid tighter regulation and macroeconomic uncertainties. Very low interest rates put pressure on our business model by squeezing interest income. Geopolitical and economic instability persisted in several geographical areas, as did volatility in commodity prices. The fear of a 'hard Brexit' (no agreement with the EU on an orderly exit of the UK, leaving uncertainties on access to the single market and customs union) and other nationalistic and populist tendencies remained present. Data breaches and related cyber-attacks continued to be major threats worldwide. And climate change remained a challenge to the sustainability of societies and economies around the world.

In 2017, ING's balance sheet demonstrated its resilience. Our loan book continued to grow and our capital and liquidity buffers improved. We experienced healthy lending growth and declining risk costs resulting from an improving macro-economic environment and active management of our non-performing loans (NPLs). The NPLs expressed as a percentage of lending credit outstandings further improved. The NPL ratio decreased to 1.9 percent at the end of 2017 from 2.1 percent at the end of the previous year. This decrease was caused by a EUR 1.1 billion reduction in NPLs, mainly in business lending in the Netherlands, residential mortgages in the Netherlands and General Lending & Transaction Services, combined with an increase in total credit outstandings. Risk costs decreased to EUR 676 million from EUR 974 million in 2016, driven by a benign credit environment in most markets where ING is active.

ING managed its liquidity position on a consolidated level well above minimum requirements. The total issuance of long-term debt amounted to EUR 10.5 billion, including EUR 7.6 billion of long-term senior unsecured debt and EUR 2.1 billion of CRD IV eligible Tier 2 securities. In 2017, ING started issuing Tier 2 and senior unsecured instruments at its resolution entity ING Groep N.V. in order to improve the loss absorbing capacity for the purposes of TLAC/MREL regulations. ING faced a further decline in interest rates, but was able to keep its net interest margin stable. ING's loan-to-deposit ratio, excluding securities that are recorded at amortised costs, remained unchanged at 1.05.

With regard to climate change, the Task Force on Climate-related Financial Disclosures (TCFD) published a report in June 2017 with recommendations on climate related disclosures. The TCFD provides guidance to support large organisations in developing climate-related financial disclosures consistent with its recommendations and recommended disclosures. For risk management, one of the thematic areas, the recommendation is to describe the processes so readers of climate-related financial disclosures can evaluate an organisation's overall risk profile and risk management activities.

For an overview of ING's climate-related disclosures see the 'Non-financial appendix'.

Corruption prevention is high on ING's agenda. The responsible behaviour embedded in our Orange Code values is the basis of our approach to Compliance Risk Management, which includes training of employees on integrity-related topics and compliant behaviour. ING has started a bank-wide enhancement programme for its financial and economic crime policy to address shortcomings identified in Know Your Customer (KYC) processes and to ensure a consistent approach and quality for business unit KYC processes.

As disclosed previously, ING is currently the subject of criminal investigations by Dutch authorities, as well as a related information request from US authorities, regarding various requirements related to client on-boarding, money laundering and corrupt practices.

For more information, please refer to the 'Risk Management' chapter, part of the consolidated annual accounts of this Annual Report and to Note 45 in the 'legal proceedings' part of the consolidated annual accounts.

Integrity and transparency in financial markets are essential for public and investor confidence. In light of the revised Markets in Financial Instruments Directive European legislation (MiFID II) that will come into effect in January 2018, ING revised various MiFID II-related policies and procedures. It also issued a new Investors Protection & Markets Policy and Minimum Standards. A central programme continued in 2017 to support ING's commitment to adhere to the revised legislation and to create consistency throughout the organisation with respect to complying with the legal requirements. As part of the central project, a MiFID II awareness e-learning has been developed and launched to targeted staff in 2017.

The fourth anti-money laundering directive, as issued by the European Union, has been incorporated into the update of the ING Financial Economic Crime Policy and Minimum Standards. The fourth directive builds on its predecessor by establishing an Ultimate Beneficial Owner (UBO) register at national level (with the potential to share the information within the European Economic Area) and provides for a stronger approach towards the application of due diligence on ING's customers. The implementation deadline for the Directive was 26 June

2017. The implementation of the directive into Dutch law was expected in July 2017, but has been delayed, probably until early 2018. ING started to implement several KYC enhancements in 2017.

In 2017, the Compliance Risk Management function released a new, comprehensive policy covering all US withholding tax and information reporting regulations.

Cybercrime is a continuing threat to companies in general and to financial institutions in particular. Attacks are often global in scale; their frequency and intensity are increasing. Threats posed by Distributed Denial of Service (DDoS), targeted attacks (also called Advanced Persistent Threats) and ransomware are of particular concern. ING is building on its cybercrime resilience, further enhancing the control environment to protect against, 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. ING is also strengthening its global cybercrime resilience, including through strong collaboration against cybercrime with financial industry peers, law enforcement authorities, government (e.g. National Cyber Security Center) and internet service providers (ISPs).

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 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.

Dakota Access Pipeline – what happens when concerns are raised after ESR due diligence has taken place?

ING was one of 17 banks financing the Dakota Access Pipeline. When presented with the funding request, ING carefully screened the project according to laws and regulations, as well as ING's environmental and social risk policy framework. The US government had issued all necessary permits, an independent legal review confirmed the project complied with all laws and regulations, and an independent contractor hired to do further due diligence also gave us a green light. ING's share in the project was USD 120 million.

After we learned that the indigenous Standing Rock Sioux community disagreed with the processes followed in the granting of licenses/permits we requested - together with other lenders - that a separate independent human rights expert review the permitting process, with a specific focus on the impacts on indigenous peoples. We discussed with Standing Rock Sioux the possibility to continue monitoring developments closely and continue trying to positively influence the development of the project or to distance ING from the project. After these discussions ING decided to pursue the transfer of the loan, which was fully supported by the Standing Rock Sioux.

See more information at www.ing.com/17ar08

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

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

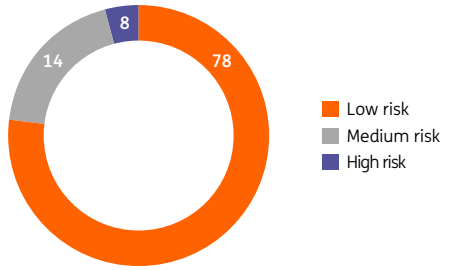
The ESR policy framework applies to all business conduct globally. The Wholesale Banking segment (approx. 35.7 percent of ING's assets) is the initial focus of our assessments and is where we promote active ESR dialogue, since Wholesale clients run a more substantial risk of facing environmental and 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. A simplified version of the ESR policy framework, following the same rationale and principles, also applies to ING's retail activities for mid-corporates and SMEs.

The ESR policy framework in action

We screen all ING Wholesale Banking clients during the lifetime of our relationship. The ESR policy framework incorporates assessment tools that are used in ING's mainstream processes and systems. It's 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.

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

Overall ESR risk distribution of corporate client engagements Client Assessment (in%)



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 needed.

In 2017, 3,354 wholesale engagements were assessed under the ESR policy framework. Engagements categorised as ESR low (78%) and medium risk (14%) were managed by local and regional risk management, whereas engagements categorised as ESR high risk (8%) required specialised advice by the ESR department headquartered in Amsterdam. In 2017, this department issued 358 recommendations following in-depth ESR assessments. Of these, 60.3% were positive, 21.2% negative and 18.5% were positive subject to conditions to improve social and/or environmental performance. These conditions play an important role in helping clients transition towards improved environmental and social performance on the ground.

The ESR policy framework follows mainstream approval processes and it's applied by well-trained and mandated people. In 2017, 288 of our risk, front-office and compliance colleagues participated in ESR-dedicated trainings around the globe. Training included classroom sessions at ING offices in Amsterdam and other locations around the globe.

Key updates to the ESR Framework

The framework is reviewed on a regular basis to ensure we adequately identify and manage not only existing but also new environmental and social risks. In 2017, changes to the framework included:

Thermal coal policy: two years ago, ING announced its commitment to not finance new coal-fired power plants or thermal coal mines worldwide. We also committed not to finance any new clients whose business is reliant for more than 50 percent on operating coal-fired power plants. In 2017, as part of ING's efforts to support the transition to a low-carbon economy, ING decided to further sharpen the policy regarding the financing of thermal coal. The policy, which came into effect in December 2017, speeds up the reduction of our financing of thermal-coal power generation, with the ambition to bring it close to zero by 2025, and includes the following commitments:

- All existing clients in the utilities sector should have reduced their reliance on thermal coal to close to zero (<5% installed capacity) by the end of 2025 for us to continue the relationship beyond that time.
- New clients in the utilities sector will only be admitted if the client's reliance on coal is 10 percent installed capacity or less, and the client has a strategy to reduce its coal percentage to close to zero by 2025.
- We will phase out our lending to individual coal-fired power plants by the end of 2025.

Enhanced human rights due diligence: following regulatory changes in some EU jurisdictions (e.g. UK Modern Slavery Act, the French Plan de Vigilance, etc.), and as part of our strong commitment to respect human rights, we have increased human rights policy and track record checks for all our corporate clients globally. This analysis will help us determine which transactions require further human rights analysis and action. This information will also be used for future reporting and increased transparency on human rights, which we expect will be soon required by more regulators.

The ESR policy framework contributed to ING being ranked among leaders in the DJSI World Index and the DJSI Europe, key benchmarks for sustainable investors.

Developing best practice

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

- **ING and the Equator Principles (EPs):** The process for updating the EPs, a risk management framework, currently adopted by 91 financial institutions to determine, assess and manage environmental and social risk in projects, was formally announced in November 2017. ING is an EP steering committee member and will be actively involved in the review of the principles, which are considered market best practice. The process aims for a targeted update of the EPs – 'EP4' – that will consider key issues of scope of applicability, such as human rights (including the rights of indigenous peoples), and climate change.

- **Stakeholder engagement on Human rights:** We engaged in several Dutch multi-stakeholder platforms to implement the Dutch Banking Sector Agreement on International Responsible Business Conduct Regarding Human Rights. Our progress and analysis of salient human rights issues will be reported in a dedicated Human Rights report in 2018. In the international arena, ING remained engaged in the Thun Group, an informal group of bank representatives that work together to raise awareness of the UN Guiding Principles on Business and Human Rights (UNGP) within the banking sector, and how they can be applied across the range of different banking activities. In 2017, the group published a second discussion

paper addressing the meaning and reach of UNGP 13b in a corporate and investment banking context, and providing additional guidance around Principle 17. ING's leading role in human rights is reflected by our participation as a formal advisory member to the OECD on responsible business conduct in our sector.

- **Responsible Ship Recycling Standards:** in cooperation with other international ship financing banks, ING launched the Responsible Ship Recycling Standards. In doing so, the banks hope to raise awareness of the importance of improving the end-of-life stage of ships.

By taking part in the above-mentioned initiatives, we aim to contribute our viewpoint and those of our clients, employees and other stakeholders in order to shape a consensus and develop clear guidelines that can serve as a standard for our industry.

Regulatory developments

An agreement was reached on Basel 'IV' in December 2017. While some elements still require more clarity, we believe the fully loaded Basel 'IV' impact may lie in the range of a 15–18 percent increase in risk-weighted assets (RWA) by 2027. This does not take into account possible management actions. TRIM (targeted review of internal models) may result in earlier impact on RWA via Pillar 2. The implied impact on capital ratios does not take into account any potential changes to the systemic risk buffer or Pillar 2 requirements. Note this also assumes the current asset mix to be the same in 2027, as well as modeled RWA based on the current economic environment. With a long implementation phase and the transposition into EU regulation still pending, some question marks remain on how this will shape up. ING is confident that it will meet the final requirements and as before we will continue executing our strategy for our clients and delivering growth at good returns.

The impact of the implementation of IFRS 9 per 1 January 2018 is limited. It is currently expected that the IFRS 9 impact at transition on ING Group's CET1 ratio, taking into account the existing regulatory provision shortfall, will be a reduction of approximately 18 basis points. The impact on CET1 capital is mainly caused by the change in the classification and measurement of a part of the liquidity portfolio.

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) is expected to comply with the total loss absorption capacity (TLAC) term sheet published by the Financial Stability Board (FSB) in November 2015.

By providing guidelines regarding the Supervisory Review and Evaluation Process (SREP) the EBA is raising the bar for the internal capital adequacy assessment process (ICAAP) and enhancement of the capital management framework.

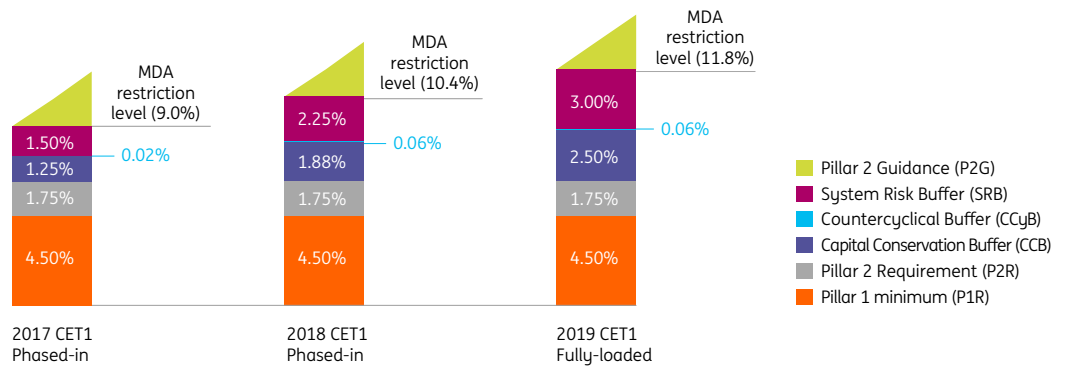
The EBA published a Q&A on minority interests highlighting the issue of externally placed own funds from a subsidiary and their availability for the purposes of loss absorption at the consolidated level. This recalibration will largely disappear over time as ING will mainly issue capital instruments from the Group in the future.

Requirement and Guidance for 2017 and 2018 Pillar 2 requirements

One specific element of Basel III is the possible restriction on distributable items. 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. The Pillar 2 requirement in the SREP 2017 decision is split into:

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

ING Group SREP/CET1 requirement



The European Central Bank (ECB) decision on the 2016 SREP set the transitional (phased-in) common equity Tier 1 requirement for ING Group at 9.02% in 2017. For 2018 the SREP requirement will be 10.4%. This requirement consists of a 4.5% Pillar 1 requirement, a 1.75% Pillar 2 requirement, a 1.875% Capital Conservation Buffer (CCB), Countercyclical Buffer (CCyB) of 0.06% (based on December 2017 positions) and the 2.25% Systemic Risk Buffer (SRB). This excludes Pillar 2 guidance, which is not disclosed.

ING Group's phased-in (transitional) common equity Tier 1 ratio of 14.7% at 31 December 2017 is well in excess of the 2017 requirement.

The CCB and the SRB are scheduled to phase in 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% in 2017 to 11.8% 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. With a fully-loaded Group CET1 ratio of 14.7% as at 31 December 2017, ING is already in compliance with the current, fully-loaded requirement of 11.8%.

Capital developments at ING Group

The capital position further strengthened in 2017 reflecting strong profitability based on core lending growth and complemented with further optimisation of the capital structure. At both consolidated and entity level, ING has sufficient buffers to withstand certain adverse scenarios without breaching currently applicable and possible future requirements. ING is confident this position will allow us to continue to successfully execute our Think Forward strategy and support business growth, at the same time that we pay a progressive dividend to shareholders and provide a healthy return to bondholders.

ING Group's fully-loaded CET1 ratio was 14.7% at the end of 2017. The proposed dividend, to be paid in April 2018, has already been excluded from ING Group's capital base, in line with regulatory requirements. The Group's phased-in CET1 ratio at the end of the year increased by 0.6%-point from the previous year to 14.7%, as risk-weighted assets decreased slightly (mainly due to positive risk migration and FX impact) and available CET1 capital increased by EUR 1.1 billion compared with year-end 2016. This excludes a reserve of EUR 1.7 billion for the final dividend over 2017.

In 2017, a total of USD 2.1 billion grandfathered additional Tier 1 instruments were redeemed. ING Groep NV did not issue additional Tier 1 instruments during the year. In 2017, EUR 1.0 billion ING Bank Tier 2 bonds were exchanged for ING Group Tier 2 notes at similar terms. In addition ING Groep NV issued EUR 1.8 billion of Tier 2 bonds and EUR 0.4 billion of Tier 2 private placements in Japanese Yen and USD. To improve the loss absorbing capacity for TLAC/MREL regulations, ING Groep NV issued EUR 6 billion of senior HoldCo debt in 2017.

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

Dividend

ING Group's dividend policy aims to pay a progressive dividend that 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 2.6 billion, or EUR 0.67 per ordinary share, over the financial year 2017. This is subject to the approval of shareholders at the Annual General Meeting in April 2018. Taking into account the interim dividend of EUR 0.24 per ordinary share paid in August 2017, the final dividend will amount to EUR 0.43 per ordinary share and will be paid fully in cash. The total amount of EUR 1.7 billion is completely covered by the remaining balance of 'interim profits not included in CET1 capital' at year-end 2017.

Bank Recovery and Resolution Directive

Since its adoption by the European Parliament in 2014, the Bank Recovery and Resolution Directive (BRRD) has become effective in all 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 case 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 comprehensive recovery plan that it believes ensures the bank's readiness and supports 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. The completeness, quality and credibility of the updated plan is assessed annually by ING's regulators.

G-SIBs will be required to meet the TLAC requirement alongside the minimum regulatory requirements set out in the Basel III framework. Specifically, the TLAC term sheet requires ING to meet a minimum TLAC requirement including buffer requirements of at least 21.5% of the resolution group's risk-weighted assets (TLAC RWA Minimum) as from 1 January 2019 and at least 23.5% as from 1 January 2022. Also, 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. No buffer requirements will come on top of the leverage requirement.

At the end of January 2017, the Single Resolution Board (SRB) informed ING that it supports the designation of ING Group as the single point of entry for resolution purposes. 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. The SRB has not yet set legally binding MREL requirements. Any potential (higher) shortfall related to legally binding

MREL requirements, new regulatory initiatives and balance sheet growth will be met with additional Group issuance.

A consistent approach to capital management

ING Group's overall approach to capital management is intended to ensure that capital is adequate to cover the (economic) risks at all levels and to ensure compliance with regulations. ING Group challenges these levels constantly to ensure its optimal use. The continued strength of ING's capital position, the adequacy of our financial position and our risk management effectiveness are essential to achieving our purpose to empower people and businesses to realise their goals, as well as to increase ING's lending capabilities, pay dividend on common shares to shareholders and invest in new technologies and best practices. In this way, ING aims to deliver shareholder returns while it also invests 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 ING Group as well as ING 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 our Think Forward strategy for continued commercial growth, an improved customer experience and a 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 participated in the 2017 EU-wide stress test that the ECB conducted in order to assess the sensitivity towards interest rate risk in the banking book. In addition, ING started preparing for the 2018 EU-wide stress test that will be conducted by the European Banking Authority (EBA) in cooperation with the ECB. This stress test will be based on the 2017 year-end financial position and will also reflect the impact of IFRS 9 for determining loan loss provisions in adverse circumstances.

Composition of the Executive Board and Management Board Banking

Ralph Hamers

Koos Timmermans

Steven van Rijswijk

Isabel Fernandez Niemann

Roel Louwhoff

Aris Bogdaneris

Roland Boekhout

R.A.J.G. (Ralph) Hamers (51)

CEO ING Group and chairman of the Executive Board ING Group, CEO ING Bank 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 and was reappointed on 8 May 2017. His responsibilities include Innovation, Legal, Corporate Strategy, Corporate Human Resources, Corporate Communications, and Corporate Audit Services.

J.V. (Koos) Timmermans (57)

CFO ING Group and member of the Executive Board ING Group, CFO and vice-chairman ING Bank and member of the Management Board Banking

Koos Timmermans was appointed as chief financial officer (CFO) and member of the Executive Board of ING Group as of 8 May 2017. He also serves as vice-chairman ING Bank and member of the Management Board Banking, having been appointed to those roles as of 1 October 2011. He is responsible for ING's finance departments, capital management, bank treasury, tax, investor relations, sustainability, and regulatory and international affairs.

S.J.A. (Steven) van Rijswijk (47)

CRO ING Group and member of the Executive Board ING Group, CRO ING Bank and member of the Management Board Banking

Steven van Rijswijk was appointed a member of the Executive Board of ING Group and as member of the Management Board Banking as of 8 May 2017 and chief risk officer (CRO) as of 1 August 2017. He is responsible for all of ING's risk management departments.

M.I. (Isabel) Fernandez Niemann (49)

Head of Wholesale Banking and member of the Management Board Banking

Isabel Fernandez was appointed to the Management Board Banking as of 1 September 2016 and appointed head of Wholesale Banking as of 1 November 2016. She is responsible for ING's wholesale banking activities globally and for the research department.

R.M.M. (Roel) Louwhoff (52)

COO/CTO and member of the Management Board Banking

Roel Louwhoff was appointed as chief operations officer (COO) member of the Management Board Banking as of 1 May 2014. He was also appointed chief transformation officer (CTO) per 1 October 2016. Roel Louwhoff is responsible for operations, IT (including standardisation), data management, information security, process management, and procurement.

A. (Aris) Bogdaneris (54)

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.

R.B. (Roland) Boekhout (54)

Head of Market Leaders and member of the Management Board Banking

Roland Boekhout was appointed to the Management Board Banking as of 8 May 2017. He is also head of Market Leaders, responsible for ING's retail banking and wholesale banking in the Benelux and advanced analytics.

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, Brussels and New York (NYSE). Options on ING Group ordinary shares or in the form of American depository receipts (ADRs) are traded on the Euronext Amsterdam Derivative Markets and the Chicago Board Options Exchange.

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 the publication date of this report, 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.

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

Authorised and issued capital

in EUR million	Year-end 2017	Year-end 2016
Ordinary shares		
– authorised	147	147
– issued	39	39
Cumulative preference shares		
– authorised	46	46
– issued	-	-

Number of shares in issue and shares outstanding in the market

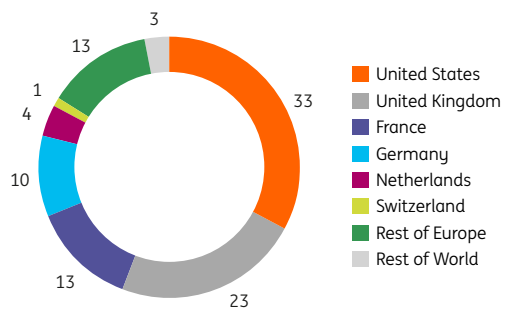
in millions	Year-end 2017	Year-end 2016
Ordinary shares	3,885.8	3,878.5
Own ordinary shares held by ING Group and its subsidiaries	0.9	0.6
Ordinary shares outstanding in the market	3,884.8	3,877.9

Prices of ordinary shares

Euronext Amsterdam by NYSE Euronext in EUR	2017	2016	2015
Price – high	15.98	13.73	15.90
Price – low	12.93	8.55	10.35
Price – year-end	15.33	13.37	12.45
Price/earnings ratio[1]	12.1	11.1	12.00
Price/book value ratio	1.18	1.04	1.01

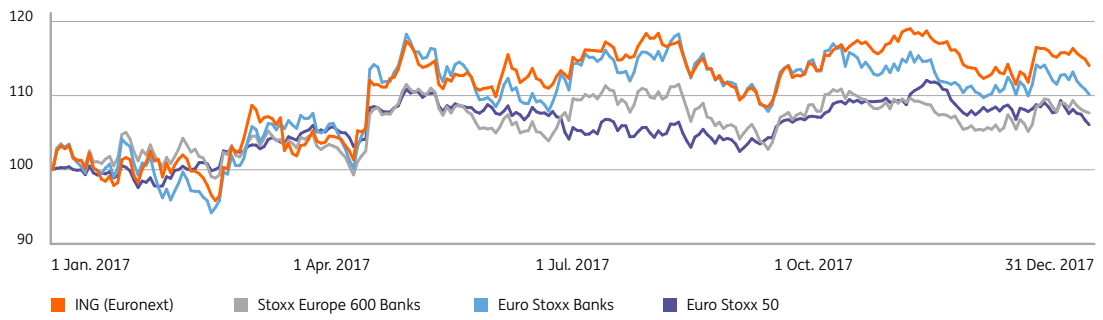
1 Based on the share price at year-end and the earnings per ordinary share for the financial year.

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



1 These figures based on 4Q 2017 estimates of institutional share ownership provided by IPREO and includes ordinary shares represented by American depository receipts.

One-year price development of ING ordinary shares



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 2017

	Standard & Poor's		Moody's		Fitch Ratings	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
ING Groep N.V.	A-	Stable	Baa1	Stable	A+	Stable
ING Bank N.V.	A+	Stable	Aa3	Stable	A+	Stable
– Short term	A-1		P-1		F1	

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 2017 scores and rankings in key sustainability benchmarks show our progress and are as follows:

External reviews of our sustainability performance[1]

	2017	2016	2015	2014
Dow Jones Sustainability Indices (RobecoSAM)	Score: 89 (out of 100) Included in World and Europe Index	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
Sustainalytics[2]	Score: 85 (out of 100) Position: 7 (out of 341 financial peers)	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)
CDP (Carbon Disclosure Project)[3]	Score: A for climate leadership Position: Included	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
FTSE4Good Index Series	Position: Included	Position: Included	Position: Included	Position: Included
Transparantie Benchmark (NL)	Score: 187 Position: 22 (out of 482)	Score: 186 Position: 20 (out of 512)	Score: 181 Position: 14 (out of 461)	Score: 172 Position: 18 (out of 409)
MSCI ESG	Score: A	Score: A	Score: BBB	Score: BBB

1 Some benchmarks we reported on in previous years are not included as they are not relevant any more given our new status as a standalone bank.
2 Ranked 7th and first in our market capitalisation peer group out of 341 listed banks in November 2017.
3 Starting 2016, CDP no longer separates disclosure and performance scores. A represents highest possible score across disclosure, awareness, management, leadership evaluation.

Important dates in 2018[1]

23 April	2018 Annual General Meeting
25 April[2]	Ex-date for final dividend 2017 (Euronext Amsterdam)
26 April[2]	Record date for final dividend 2017 entitlement (NYSE)
26 April[2]	Record date for final dividend 2017 entitlement (Euronext Amsterdam)
3 May[2]	Payment date final dividend 2017
9 May	Publication results 1Q2018 (Euronext Amsterdam)
11 May[2]	Payment date final dividend 2017 (NYSE)
2 August	Publication results 2Q2018
6 August[2]	Ex-date for interim dividend 2018 (Euronext Amsterdam)
7 August[2]	Record date for interim dividend 2018 entitlement (Euronext Amsterdam)
13 August[2]	Record date for interim dividend 2018 entitlement (NYSE)
14 August[2]	Payment date interim dividend 2018 (Euronext Amsterdam)
21 August[2]	Payment date interim dividend 2018 (NYSE)
1 November	Publication results 3Q2018

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

› *For more information, see the calendar at www.ing.com/17ar9.*

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*

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About this report

Our stakeholders need both financial and non-financial information to assess our ability to create value in the short, medium and long term. We believe that integrated reporting is the broad-based framework our stakeholders need to make decisions that are long term, inclusive and purposeful.

Our approach to integrated reporting

In our view, a balanced integrated report contains information on our economic performance and also on the impact of our organisation on society and the environment. By disclosing 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 for the long term. Our ambition is to further integrate financial and non-financial information in a concise and connected report.

Governance and responsibility

The contents of ING's integrated annual reports are compiled with active input from business experts, vetted by senior managers, discussed and approved annually by members of the Management Board Banking, Executive Board and Supervisory Board. The final approval is given by the Supervisory Board.

Report content 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 as well as risks and opportunities, applicable regulation and trends.

As a financial institution, we recognise that we have a direct economic, social and environmental impact, but also a significant indirect impact, through credit, loans and investments. ING's Sustainability Reporting Protocol describes our impact across our material topics and stakeholder groups. Additionally, we report our impact in the value chain on pages 21 and 22.

We continually listen to key stakeholders and adapt our strategy and reporting to meet their evolving expectations. As part of our materiality analysis, we have consulted key stakeholder groups – retail and business clients, investors, employees, academia, civil society organisations, and financial regulators – in a structured stakeholder dialogue. The results of our materiality analysis are used to define the content of our reporting. The report including materiality disclosure is reviewed and approved by the Executive Board.

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

Audience

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 and society at large. In addition, a clear and easy overview of key figures and impacts in 2017 is available at www.ing.com.

Sustainability rating agencies and analysts can find data on non-financial key performance indicators in the 'Non-financial appendix'.

Reporting guidelines

This integrated annual report, including the Non-financial Appendix, is prepared in accordance with the GRI Standards: Comprehensive option and supplementing Financial Services Sector Disclosures, as well as the Dutch Accounting Standard 400. The content and quality criteria specified by the guidelines (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 (IIRC) served as a reference in drawing up the content for this report, particularly for our value creation model in which we have included the main capitals as input for our business.

Data compilation and boundaries

All financial data in this integrated report are extracted or derived from, and in line with, our annual accounts. The non-financial performance data published in this report cover five key topics: sustainable business, customers, human resources, environment and community investment. We extract or derive data on sustainability-related business activities, customers and human resources from our business systems, in line with the data in our annual accounts. Data on the topics environment and community investment are collected through an online data management system. The centralised data processing team at ING Group validates and processes the environmental data from our operations worldwide in collaboration with an independent, third-party consultancy.

Scope and boundaries

Through our materiality assessment we ensure that all identified material economic, social and environmental topics are addressed in this report. The report covers the period 1 January to 31 December 2017 and is published on 8 March 2018. The data and content of this report and Non-financial Appendix aim to provide a concise, accurate and balanced account of ING's economic, social and environmental performance in 2017. 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.

> *The scope and data collection process of key performance indicators is detailed in ING's non-financial data reporting protocol. See www.ing.com/17ar10*

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 in the Report of the Executive Board as defined in the table on pages 12 and 13 and in the Non-financial appendix for the year 2017. The topics with asterisk (*) in this table are out of scope for non-financial assurance.

This year KPMG has also audited, and provided a reasonable level of assurance, on the 'What matters most to our stakeholders' section (page 11), the data for the Net Promoter Score for Retail Banking, the feeling of Financial empowerment and system availability. The data with a footnote (1) on page 4 is within the reasonable assurance scope.

See the 'Independent auditor's assurance report' on page 57. The chapters 'Risk and capital management' and 'Remuneration report' are an integral part of the audited consolidated annual accounts.

KPMG audited the financial statements 2017 of ING Group.

See the 'Independent auditor's report' on page 309.

Furthermore, KPMG audited ING Group's internal control over financial reporting as of 31 December 2017, 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 independent registered public accounting firm' on page 87.

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:

- aims
- 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 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' chapter starting on page 70 and the 'Dutch Corporate Governance Code Statement by the Executive Board' on page 83 are incorporated by reference in this Report of the Executive Board.

Amsterdam, 5 March 2018

The Executive Board

Independent auditor's assurance report

Independent auditor's assurance report

To: the Annual General Meeting of Shareholders and the Supervisory Board of ING Groep N.V.

Our conclusion and our opinion

We have:

- reviewed the non-financial information in the Report of the Executive Board as defined in the table on pages 12 to 13 and in the 'Non-financial appendix' (hereafter: the Non-financial Information); and
- audited the 'What matters most to our stakeholders' section (pages 11 to 13) and the data for the Net Promoter Score for Retail Banking, the Feeling of Financial Empowerment and the System Availability, marked with the symbol Ⓐ in the Report of the Executive Board and the 'Non-financial appendix' (hereafter: the Four Specific Topics);

of ING Groep N.V. (hereafter: ING Group) based in Amsterdam, The Netherlands. A review is aimed at obtaining a limited level of assurance. An audit engagement is aimed at obtaining reasonable assurance.

Based on our procedures performed, nothing has come to our attention that causes us to believe that the Non-financial Information is not prepared, in all material respects, in accordance with the GRI Sustainability Reporting Standards and the applied reporting criteria as described in the section 'About this report'.

Furthermore, in our opinion the Four Specific Topics are prepared, in all material respects, in accordance with the applied reporting criteria as described in the section 'About this report'.

Basis for our opinion and our conclusion

We have performed our review on the Non-financial Information and our audit on the Four Specific Topics in accordance with Dutch law, including Dutch Standard 3000A 'Assurance Engagements other than Audits or Reviews of Historical Financial Information (attest engagement).

Our responsibilities under this standard are further described in 'Our responsibilities for the review of the Non-financial Information and audit of the Four Specific Topics' 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 assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion and our opinion.

Scope of the group review and audit

ING Groep N.V. is the parent company of a group of entities. The Non-financial Information and the Four Specific Topics incorporate the consolidated information of this group of entities.

Our procedures consisted of both procedures at ING group level and at country level. Our selection of countries in scope of our procedures is primarily based on the country's individual contribution to the consolidated information.

By performing our procedures at country level, together with additional procedures at group level, we have been able to obtain sufficient and appropriate assurance evidence about the group's reported information to provide a conclusion about the Non-financial Information and an opinion on the Four Specific Topics.

Our 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 and our audit of the Four Specific Topics. 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 and our audit of the Four Specific Topics as outlined above within the scope of our engagement as a whole and in forming our conclusion and opinion thereon, and we do not provide a separate conclusion or opinion on these matters.

Materiality

Description
The reporting criteria applied require to identify the material topics, which include financial and non-financial topics. Material topics are those topics for which both omission or information could influence stakeholders' decisions. ING Group improved the materiality analysis process in 2017 by increasing the scope of their qualitative stakeholder sessions to define which Non-financial information to be included. The Materiality Analysis process is subject to significant management judgement and was therefore identified as a significant area for our procedures.

Our response
We obtained an understanding of the process that ING Group executed to identify and prioritize the topics, including the Non-financial Information, to be reported in the Report of the Executive Board. We evaluated the steps in the process, held interviews with key personnel and also conducted a media search and a peer benchmark to assess potential material other topics to be included and compared these with ING Group's materiality assessment. We reviewed the results from ING Group's materiality analysis against the information on this process reported.

Our observation
We found the materiality analysis process that ING Group executed during 2017 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 and the Non-financial appendix.

System Availability

Description
ING Group's strategic focus includes improving the customer experience. ING has identified the stability and reliability of IT systems and platforms as a material topic. The related performance is monitored by the KPI 'System Availability'. This KPI is reported for retail customers in the Netherlands and Belgium and wholesale customers globally. Considering the business importance of this indicator and the reliance on IT systems in place, we identified System Availability as an important indicator for our audit.

Our response
We obtained an understanding of the data collection process, evaluated the steps in the process and the tooling used for monitoring, tested the effectiveness of the relevant controls for the Netherlands and Belgium and wholesale customers globally. In addition, we assessed the applicability, clarity and consistency of the definitions applied and re-performed the internal process of aggregation and calculation of the reported indicator. Furthermore, we read the whole Report of the Executive Board to ensure it provides a clear, consistent and balanced reflection of ING Group's progress regarding System Availability. Finally, we assessed the adequacy of disclosure in relation to System Availability as marked with the symbol Ⓐ in the Report of the Executive Board.

Our observation
We found the data collection process for the System Availability indicator for retail customers in the Netherlands and Belgium and wholesale customers globally to be sufficiently solid to enable accurate and complete reporting. We also found that the disclosure in relation to System Availability in the Report of the Executive Board is adequate.

Responsible Finance

Description
ING Group reports on Responsible Finance for the first time in 2017, replacing the indicator Sustainable Transitions Financed. Responsible Finance is defined by a set of three KPIs, being financing to Industry ESG leaders, climate finance and social finance.
Responsible Finance was significant to our review since we identified that it serves as a material set of indicators for ING to monitor its performance and the impact of its lending activities and because the assessment is inherently subject to assumptions and judgement on the basis of the criteria and definitions.

Our response
We evaluated 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, such as extractions of systems and contracts for selected transactions classified as Responsible Finance. Finally, we reviewed whether the criteria, assumptions and limitations regarding Responsible Finance are sufficiently explained in the Non-financial Information.

Our observation
We observed that the definitions and criteria for Responsible Finance as described in the internally developed reporting framework are sufficiently applied and that the assumptions and limitations are adequately explained in the Non-financial Information.

Unexamined prospective information

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

Consistency with other non-financial information included in other parts of the Report of the Executive Board

In addition to the Non-financial Information and our assurance report thereon, the Report of the Executive Board contains other non-financial information.
Based on the following procedures performed, we conclude that the other non-financial information included in other parts of the Report of the Executive Board is consistent with the Non-financial Information reviewed or audited and does not contain material misstatements.

We have read the other parts of the Report of the Executive Board. Based on our knowledge, and understanding obtained through our assurance procedures on the Non-financial Information we have considered whether other non-financial information included in other parts of the Report of the Executive Board contains material misstatements.

The scope of the procedures performed is substantially less than the scope of those performed in our assurance procedures on the Non-financial Information.

Responsibilities of the 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 Sustainability Reporting Standards and the applied reporting criteria as described in the section '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 that is free from material misstatement, whether due to fraud or error.

The Supervisory Board is responsible for overseeing ING Group's reporting process.

Our responsibilities for the review of the Non-financial Information and the audit of the Four Specific Topics

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

Procedures performed in an assurance engagement to obtain a limited level of assurance are aimed to determine the plausibility of information and are less extensive than a reasonable assurance engagement. The level of assurance obtained in review engagements is therefore substantially less than the level of assurance obtained in an audit engagement.

Our audit on the Four Specific Topics has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.
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 Non-financial Information, including the Four Specific Topics. The materiality affects the nature, timing and extent of our review and audit procedures and the evaluation of the effect of identified misstatements on our conclusion and opinion.

We apply the 'Nadere voorschriften kwaliteitssystemen' (Regulations on quality management systems) 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.

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

Our review and audit engagement included, among others, the following procedures:
- Performing an analysis of the external environment, obtaining an understanding of relevant social themes 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 Non-financial Information in scope.

In addition our audit included, among others, the following procedures:
- Evaluating the reliability of external experts in providing input data for the Net Promoter Score and the Feeling of Financial Empowerment
- Test the design and implementation and operating effectiveness of IT relevant controls for the indicator on System Availability.

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

From the matters communicated with the Supervisory Board we determine the key assurance matters: those matters that were of most significance in the review of the Non-financial Information and the audit of the Four Specific Items. We describe these matters in our assurance report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not mentioning it is in the public interest.

Amstelveen, 5 March 2018

KPMG Accountants N.V.
M.A. Hogeboom RA

Chairman's statement

2017 was a successful year for ING. Much progress was made in building the ING of tomorrow. ING is recognised as a leader in the digital banking experience. The bank also continued to support the development of a sustainable world. The Supervisory Board believes in ING's journey of transformation to create a business that excels for our customers now and in the future. We actively supported and challenged the Executive Board and Management Board Banking in 2017 to make this a reality.

Effective execution

The world around us is in constant flux. Increasing digitalisation, disruption in banking, changing customer expectations and new regulation make it all the more important to renew the bank in all its aspects. The differentiator of the future in banking will not be products and services, but rather a superior customer experience.

ING has made progress in accelerating its transformation programmes in order to deliver an even more uniform and superior experience across borders and serve customers better. We can all be proud of what's been achieved so far. In this report you can find many examples of how the bank is creating and co-creating better customer experiences, for example in partnership with fintechs; and also how ING is contributing to a more sustainable world through its financing of sustainable projects and continued involvement in the circular economy. ING is aware of the important role banks can play in creating a better world and is taking concrete steps to realise that. For instance, ING recently announced its ambition to reduce its exposure to coal power generation to close to zero by 2025.

Building the bank of the future is a major undertaking and there is still much more to be done. Competition is fierce, including from new entrants to the market. There's no time to lose. ING is in a relatively good position, as illustrated by the Best Bank in the World award that it received from *Global Finance* magazine in 2017. But there's a need to go faster. We believe ING has a good strategy in place. The challenge now is to execute that with speed.

As Supervisory Board, we challenge, supervise and advise the Executive Board and Management Board Banking with respect to the company's strategy. We do that by making sure decision-making is timely as well as of high quality. An important part of that is ensuring proper delegation of responsibilities and that our role facilitates and does not block decision-making.

The extensive contacts between the Supervisory Board, the Executive Board and Management Board Banking ensure that we have a shared perspective on how ING needs to move forward. Still, dilemmas remain. Speed is important, but so too is pacing. If we move too fast we risk overloading people – they need to have the opportunity to reskill themselves to be aligned and productive in the new situation. We also have to make sure that we have the right talent in the right places to support change.

It's also important not to lose sight of the day-to-day business. Particularly in a time of change, ING needs to remain vigilant so that it continues to meet the expectations of customers and society. This includes ensuring that the business meets the highest standards in non-financial risk areas like customer due diligence and anti-money laundering measures.

Permanent education

The task of the Supervisory Board is to look at the total picture and to have a holistic view. It's important to have good insights and understanding of all the relevant topics and developments that contribute to ING's strategy. To do that, we need to stay informed and upgrade our own skills and knowledge as needed.

The permanent education of the Supervisory Board in 2017 took a number of forms. We participated in a number of educational sessions on specific topics. We had meetings with senior managers and their teams to be updated on business activities and to share information. And we also visited offices. In addition, the chairmen of all Supervisory Board committees and I had many additional one-to-one meetings with managers and specialists within ING.

It's our job to balance the interests of all stakeholders, and to make sure we have an open dialogue. For that we need to have a good understanding of what stakeholders think and how their thinking can change. In 2017, we had contacts with a range of stakeholders in order to have a good understanding of the impact that Executive Board and Management Board Banking actions and proposals have on them. In September 2017, I joined one of ING's road shows to the UK to meet with

investors and analysts and to exchange views on topics such as governance and sustainability in the context of ING's strategy and performance. We also interact with stakeholders during the Annual General Meeting and through the workers' council. These interactions enable us to learn which matters are most important to our stakeholders and how we can best align their interests with ING's business.

Regulation

The increase in regulation and the speed of regulatory change are both important topics for ING and were prominent on the agenda of the Supervisory Board in 2017. One of our concerns is that there still isn't a level playing field, both between banks and between banks and new non-bank entrants to the market, particularly in Europe. With regard to the agreement on the new 'Basel IV' rules, we're concerned about the reasonableness of some measures. Those include the application of standard capital floors for mortgages instead of default experience, which will make this form of lending that is so important to society more expensive.

Changing role

Our role as Supervisory Board has changed in recent years. We see that committee meetings are becoming more important as more topics are being dealt with by the different committees, involving more in-depth discussions. This is due to the rapid pace of change in areas like digitalisation and customer behaviour. It also reflects the increase in regulation and the more frequent contact with regulators like the Dutch central bank (DNB) and the European Central Bank (ECB). But it is also because the Supervisory Board is even more closely involved, for example in monitoring risks.

Although we see that in recent years the tasks of the Supervisory Board and the Executive Board and Management Board are converging in some areas, we still believe that a two-tier board has the advantage of more clearly defining the supervisory and executive roles.

In 2017, the composition of the Supervisory Board changed. We said goodbye to Isabel Castella and Ann Sherry. We welcomed Hans Wijers and Jan Peter Balkenende, who were appointed to the Supervisory Board as per the end of the Annual General Meeting on 8 May 2017. Their appointments became effective as per September 2017. We also welcomed Margarete Haase, whose appointment will become effective as per 1 May 2018.

We strive for a Supervisory Board composition with two-thirds of members having financial experience and background and one-third being generalists. We aim to have 30% female membership within the Supervisory Board. We met those goals at the beginning of 2017. However, due to the unexpected departure of Ann Sherry we are now in the process of restoring the balance, which is regrettably taking more time than we expected.

Successful journey

As Supervisory Board members, we are very aware of the hard work that ING's employees put in every day to give customers the best possible service and experience. And we realise what an achievement it is to deliver such impressive commercial and financial results at the same time that the business is going through a major transformation. We're proud of how ING works to live up to its purpose and transform its business to serve customers better in the future.

I will step down as Chairman of the Supervisory Board immediately following the AGM in 2018. When I came on board in 2009, ING was in the midst of a crisis. Now, nine years later, through the hard work of employees, loyalty of customers and support of stakeholders, ING is in many ways among the frontrunners in banking. I am really impressed by the results achieved so far and also feel very grateful to the people who made this all happen, despite difficult times. It's my sincere wish that ING's journey of success will continue in the future.

Jeroen van der Veer
Chairman of the Supervisory Board

5 March 2018

Report of the Supervisory Board

The Supervisory Board and its committees focused in 2017 on supporting and challenging ING's management to promote the success of the Think Forward strategy and of ING's transformation. In a time of rapid technological, market and regulatory change, the SB also shared its experience and skills to contribute to ING's financial and organisational health for the benefit of all stakeholders, and it further enhanced its own knowledge to be able to play its important role in the future.

The Supervisory Board met nine times in 2017. On average, 99 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 oversee 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. 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 Supervisory Board only reflection moment on the to-be-dealt-with agenda items and to provide an opportunity for airing concerns in advance of the regular meetings. The Supervisory Board members continued to interact with senior management outside the regular Supervisory Board meetings for discussion and information sharing. This included speed-meet sessions, which contribute to a better mutual understanding of and alignment on what matters most to ING and the Supervisory Board. To take the interaction even further, the Supervisory Board met with local country management teams and several senior managers during its annual business visit. After having visited the local teams in the US and Asia in the previous two years, in September 2017 the Supervisory Board's focus was the Benelux, where it met with the local teams in Amsterdam and Brussels. It will continue this practice of meeting with local teams in the future. The Supervisory Board finds it important to strike a balance between the interests of all the stakeholders and to maintain an open dialogue on this with all sections within ING.

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 2018 Annual General Meeting as part of the 2017 Annual Report.

Apart from having closely monitored the financial results in 2017, the Supervisory Board's main focus points were the acceleration of the bank's Think Forward strategy, including building a globally scalable digital platform, partnering with fintechs, sustainability, capital requirements, Know-Your-Customer enhancement programme, IT and cybersecurity, and developments in regulation and banking supervision. Furthermore, the Supervisory Board discussed on a regular basis the status of the criminal investigation by Dutch authorities regarding various requirements related to client on-boarding, money laundering and corrupt practices. It also discussed the related information requests received by ING Group from US authorities.

Please refer to the legal proceedings paragraph set out in Note 45 to the consolidated annual accounts of ING Group for more information.

Attendance

	SB	RiCo	AC	NCGcom[4]	RemCo
Van der Veer (chairman)	9/9	5/5	-	5/5	6/6
Lamberti (vice-chairman)	9/9	4/5	4/5	-	-
Balkenende[1]	2/2	2/2	-	-	-
Boyer	9/9	5/5	5/5	-	-
Breukink	9/9	-	-	5/5	6/6
Castella[2]	4/4	-	3/3	1/1	-
Gheorghe	9/9	4/5	-	-	-
Reibestein	8/8	5/5	5/5	-	6/6
Sherry[3]	1/2	-	-	2/2	-
Wijers[1]	1/2	-	1/1	1/2	2/2
Total attendance rate[5]	99%	93%	96%	93%	100%

1 Balkenende's and Wijer's SB membership became effective as of 1 September 2017.
2 Castella stepped down immediately after the 8 May 2017 AGM.
3 Sherry stepped down as of 14 September 2017.
4 NomCo and CoGo became a joint committee (NGCcom) after the 8 May 2017 AGM. The figures represent the aggregate of NomCo, CoGo and NCGcom.
5 The figures exclude observers. In case an SB member cannot join a meeting, he/she will at all times continue to receive all meeting materials to allow him/her to provide feedback in advance.

Also, the (results of the) continuous dialogue between ING and external supervisors was a standard agenda item throughout the year.

Permanent education

The annual Supervisory Board Knowledge Day, that took place on 12 January 2017, focused on the art of banking in an increasingly digitalised world. On the agenda were sessions related to transformation management, cybersecurity, data management, advanced analytics and ethics, robotics and artificial intelligence. The Supervisory Board was also updated on developments regarding ING's annual talent review achievements, including a trend analysis.

In September 2017, the Supervisory Board together with the management board, visited the offices in Amsterdam and Brussels for three days, allowing it to get a better understanding of the Benelux business activities and how these relate and contribute to ING's strategy. There was special focus on Orange Bridge, ING's transformation programme for ING in the Netherlands and ING in Belgium. Other sessions included an economic overview of the Benelux area, an introduction to ING's Fintech Village in Brussels and deep dives on various themes related to ING's operations in the Benelux.

A number of other educational sessions on specific topics were organised for the Supervisory Board throughout the year, including on corporate governance, ING's technology platforms, risk management (with a focus on the process of pricing assets and liabilities, and use of external ratings), non-financial risk including compliance, performance and recognition management, as well as on remuneration practices, ECB supervision, the (potential impact of) new regulation (such as 'Basel IV', IFRS 9/15/16 and the Payment Services Directive 2), non-financial risk, partnering with fintechs, transformation management, and sustainability focusing on how ING contributes to accelerating financial empowerment.

Strategy based on long-term value creation

In 2017, ING continued to work on implementing its Think Forward strategy based on long-term value creation. In late 2016, ING announced it would accelerate the implementation of the strategy, focusing on investing in our digital transformation, creating a scalable banking platform and realising EUR 900 million of gross cost savings by 2021.

The global transformation programme approved in 2016 was further 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.

Throughout the year, the Supervisory Board discussed the progress of this programme and, as part of this, had an active dialogue with the management board. ING's strategy, together with the transformation programme, includes an overarching view and a number of initiatives to further improve the customer experience, further grow primary customers and lending, and increase efficiency. Other 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 and risk management. The Supervisory Board acknowledges it is important to take into account the duty of care towards those stakeholders of the bank who may be impacted by the transition.

Financial and risk reporting

ING's Annual Report, for the third time in integrated form, was reviewed and the annual accounts and the SOX 404 Report (in relation to our Annual Report on Form 20-F) were approved. Also approved was the proposal to pay a final 2016 dividend of EUR 0.66 per share based on the fact that ING is comfortably ahead of prevailing fully-loaded requirements and well positioned for future regulatory uncertainties. The dividend proposal was approved by the Annual General Meeting of Shareholders on 8 May 2017. The quarterly results were reviewed and discussed in January, May, August and October 2017, including the relevant press releases. The full-year financial results were discussed in March. These discussions included the related press releases and also reports from the external auditor. The Executive Board's assessment of the adequacy and effectiveness of the risk management and control systems was also discussed. The payment of an interim 2017 dividend of EUR 0.24 per ordinary share, which was declared on 2 August 2017, was also discussed.

The (draft) agenda for the 2018 Annual General Meeting was discussed and approved, including the publication of the booklet on the 2017 application of the Dutch Banking Code and the new Dutch Corporate Governance Code.

The Supervisory Board approved the annual review of the risk appetite framework that reflects recent regulatory changes. This included updates to the solvency risk appetite statements (RASs) taking into account the draft Supervisory Review and the draft ECB SREP decision. Also, the sector concentration RAS was added as this was a new boundary in the new system in which RASs are divided into boundaries and supporting instruments. The Supervisory Board was informed in detail throughout the year of the potential risks for ING, including those relating to Brexit and to political and economic developments in various countries and regions, and discussed how these could best be mitigated.

KPMG, in its role as ING's external auditor, audited ING's 2017 accounts and financial statements. As part of the standard procedures, KPMG declared itself independent from ING, in compliance with applicable rules and regulations.

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 have become shorter and the granularity of the data being

requested has increased. In addition, local requirements need to be met. ING aims to safeguard that all reporting processes and data quality remains up to standard. The aggregate impact of upcoming regulatory reporting and additional capital requirements is expected to be substantial. The Supervisory Board also received updates on the possible impact on ING of the new Dutch coalition agreement.

Internal Supervisory Board meetings

During the internal meetings of the Supervisory Board in 2017 (with the CEO in attendance, except when the annual self-evaluation of the Supervisory Board or matters concerning the CEO were discussed), the Executive Board and Management Board Banking performance assessments were discussed and approved. The variable remuneration proposals for the employees in scope were also discussed and decided on. Furthermore the Executive Board and Management Board Banking annual targets were reviewed and 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. ING's talent and succession planning were also discussed including the outcome of the Annual Talent Review. Remuneration was another recurring agenda item. The Supervisory Board approved the update of ING's Remuneration Regulations Framework 2017 in line with various regulatory changes.

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 in previous years, an independent external party facilitated the 2017 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 were based on those from the previous year and were designed in such a way that a comparison between two consecutive years could be made. As in 2016, input was also requested from several executives who regularly interact with the Supervisory Board and attend Supervisory Board meetings. Following completion of the questionnaires in December 2017, bilateral meetings were held in January 2018 between the chairman of the Supervisory Board and each member. For the chairman, the vice-chairman held a meeting with the other Supervisory Board members before 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 Board and Management Board Banking members present). In general, the performance of the committees was rated highly 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 Supervisory Board's role as challenger and counterbalance to the Executive and Management Board.

Audit Committee meetings

The Audit Committee met five times in 2017. 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 internal and external auditor reports, the management letter, and capital management-related matters. The Audit Committee also reviewed the press releases related to the periodic results, the Annual Report, the 6-K and 20-F forms and the SOX404 Report, and discussed and approved the internal audit plan.

Specific attention was paid to a variety of other, related topics, such as IFRS 9 and legal proceedings, remediating open control deficiencies in the areas of for example user access and change management, loan loss provisioning and suspense accounts, as well as non-financial risk relevant for the financial reporting, and the capital adequacy and liquidity adequacy statements on ING's capital and liquidity position. In addition the updated internal audit charter, the annual assessment of the internal audit function, the financial control enhancement plan, the quarterly whistleblower report and the auditor reports were areas of attention.

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. He also met with different senior managers.

Risk Committee meetings

The Risk Committee met five times in 2017, compared with four times in previous years. On average, 93 percent of the members were present at the scheduled meetings. 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, including the status of ING's metrics with regard to solvency, liquidity, credit risk, country risk, market risk and non-financial/compliance risk. Stress-testing scenarios, including the impact of Brexit and of a potential break-up of the eurozone were also discussed.

Furthermore, in 2017 the Risk Committee discussed the updates of the bank-wide Know Your Customer enhancement programme, IT risk within risk appetite, and the status of the criminal investigation by Dutch authorities, as well as the related information request from US authorities, regarding various requirements related to client on-boarding, money laundering and corrupt practices. The latter continues to be an important topic for ING. While transforming its organisation, ING needs to ensure that critical non-financial risk areas stay top of mind. It needs to continue to build a strong foundation with structural solutions so it lives up to the trust our clients and society at large put in ING.

The alignment of responsibilities of the Risk Committee and the Remuneration Committee were also discussed resulting in an updated remuneration regulations framework.

A wide range of other topics were discussed, such as the annual review of the risk appetite. In relation to the Risk Appetite Framework, the solvency risk appetite statements (RASs) were updated taking into account the draft ECB SREP decision. Also, the sector concentration RAS was added, as this was a new boundary in the new system in which RASs are divided into boundaries and supporting instruments. Other topics were leveraged finance, the bank-wide Know Your Customer programme, and the remuneration regulations framework (for the risk elements). Also, other future risks and various stress-test scenarios were examined, ranging from regulatory uncertainty to continued low interest rates.

The number and importance of topics dealt with led to there being an additional Risk Committee meeting in 2017. It was agreed to continue this practice in the future. During this extra meeting, risk modelling developments and their potential capital impact and model validation, the assessment of the effectiveness of ING risk functions, and the results of the continuous dialogue between ING and external supervisors related to risk management were discussed.

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

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

Nomination and Corporate Governance Committee meetings

It was decided to merge the Nomination Committee and Corporate Governance Committee as per 9 May 2017. This is in line with the practice at other institutions that have comparable board meeting governance and structures in place. A separate Corporate Governance committee was created several years ago in connection with the corporate governance review whose recommendations were approved by the AGM in 2016, following which there was no longer a need for such separate committee. Before this merger, the Nomination Committee met once, with no absentees. The Corporate Governance Committee also met once, with no absentees. After the merger, the Nomination and Corporate Governance Committee met an additional three times in 2017. On average, 93 percent of the members were present at the scheduled meetings.

The Nomination and Corporate Governance Committee discussed future succession scenarios in general terms for the Executive Board and the Management Board Banking, 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, taking ING's diversity policy into account. Following the unexpected early resignation of Ms Ann Sherry as Supervisory Board member from 14 September 2017 because of personal circumstances, the Nomination and Corporate Governance Committee started the process of finding a successor. In cooperation with an external agency, a short list of potential candidates was compiled. Finding a suitable candidate is challenging, as various requirements must be met in relation to the composition of the Supervisory Board, regulatory requirements, outside positions, independence, no conflicts of interest, availability, etc.

In addition, the outcomes of 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 areas. Special attention was also paid to performance management and how to enhance the process and its effectiveness by 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 2017 for various reasons.

In 2017, the Committee discussed the agenda for the 2017 Annual General Meeting and the proposed topics for the 2018 Annual General Meeting, including the publication of the booklet on the application of the Dutch Banking Code.

During the year the Committee also discussed the (implementation of the) new Dutch Corporate Governance Code. The final version of the revised code was published on 8 December 2016 and was embedded in Dutch law on 7 September 2017. The implications for ING were assessed in 2017 and have been embedded in ING's governance to the extent needed and applicable.

Furthermore, the Committee discussed Executive Board, Management Board Banking and Supervisory Board charters that were updated in the light of the new Dutch Corporate Governance Code requirements. Also the profiles of the Executive Board and Supervisory Board were updated due to new Dutch Corporate Governance Code requirements. This will be added as a discussion item to the agenda of the Annual General Meeting on 23 April 2018.

The committee also discussed the results of the continuous dialogue between ING and external supervisors related to corporate governance, and in order to meet the requirements of various stakeholders a diversity and competence matrix was developed for members of the Executive Board, Management Board Banking and Supervisory Board to show the various elements in the composition of these boards (see page 69). Furthermore, an updated version of the ECB suitability matrix was assessed. This can be used when proposing new executive and non-executive board members for appointment.

Remuneration Committee meetings

In 2017, the Remuneration Committee met six times. On average, 100 percent of the members were present at the scheduled meetings.

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 and 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 annual targets for the Executive Board and the Management Board Banking members were approved.

Furthermore, the Committee discussed the application of a variable remuneration cap of 200 percent (instead of 100 percent) for select (no more than one percent of) ING global staff, as approved in the 2017 Annual General Meeting. Furthermore, the deferral period of the variable remuneration in the remuneration policy for members of the Executive Board needed to be amended from three years to five years in accordance with EBA guidelines, which was also brought to the attention of stakeholders during the 2017 Annual General Meeting. The ING Bank remuneration regulations framework was updated as part of an annual review. This included the alignment of responsibilities of the Risk Committee and the Remuneration Committee in light of regulatory changes. In light of the renewal of the CLA and the employee changes in the Netherlands, the social plan was also discussed. Furthermore, the disclosure of the CEO pay ratio was discussed and approved for inclusion in this Annual Report, following the requirements of the new Dutch Corporate Governance Code.

Throughout the year the Remuneration Committee approved Identified Staff/High Earner-related remuneration matters, based on ING's accompanying governance framework.

Composition of the Executive and the Management Board Banking

At the Annual General Meeting on 8 May 2017, two changes to the Executive Board were proposed and approved. Koos Timmermans was appointed as Executive Board member to succeed Patrick Flynn as CFO as per 8 May 2017, immediately following the Annual General Meeting. Steven van Rijswijk was appointed as Executive Board member as per 8 May 2017, immediately following the Annual General Meeting. He succeeded Wilfred Nagel as CRO as per 1 August 2017. Furthermore, Ralph Hamers was reappointed as CEO for four additional years. On 8 May 2017 Roland Boekhout was appointed as member of the Management Board Banking, to succeed Koos Timmermans as head of Market Leaders, immediately following the Annual General Meeting.

Composition of the Supervisory Board

At the Annual General Meeting on 8 May 2017, Isabel Martín Castellá stepped down, having reached the ING age limit for Supervisory Board members. Furthermore, Hans Wijers, Jan Peter Balkenende and Margarete Haase were appointed to the Supervisory Board. Jan Peter Balkenende started as an observer per 9 May 2017. His membership became effective (i.e. granted voting power) as per 1 September 2017. He also became a member of the Risk Committee. The membership of Hans Wijers became effective per 1 September 2017 and he then also became a member of the Audit Committee, the Nomination and Corporate Governance Committee, and Remuneration Committee. As per 1 October 2017, Margarete Haase has been present as an observer at the meetings of the Audit Committee, Supervisory Board and Internal Supervisory Board. Her membership will become effective as per 1 May 2018. By then she will have reduced her (non) executive directorships meeting the CRD IV requirements. Margarete Haase has also completed an extensive induction programme. Robert Reibestein and Hermann-Josef Lamberti were reappointed; the appointment term will end as per the end of the 2021 Annual General Meeting. Jeroen van der Veer was reappointed; the appointment term will end as per the end of the 2018 Annual General meeting as it is the intention of the Supervisory Board that Hans Wijers will succeed Jeroen van der Veer as chairman of the Supervisory Board at that time. In 2017, Ann Sherry became a member of the Nomination and Corporate

Eric Boyer de la Giroday

Mariana Gheorghe

Hermann-Josef Lamberti

Robert Reibestein

Jeroen van der Veer

Henk Breukink

Hans Wijers

Margarete Haase (per 1 May 2018)

Jan Peter Balkenende

Governance Committee and remained in that position until her unexpected resignation as an ING Supervisory Board member per 14 September 2017 because of personal circumstances. A suitable replacement is (still) being searched for.

Furthermore, during 2017 all three newly appointed members to the Supervisory Board completed an extensive, tailor-made induction programme as agreed upon with the ECB. As an enhancement to the previous induction programmes, this year external experts, in addition to internal experts, also contributed to the programme.

Read more in the 'Corporate governance' chapter on the composition of the Supervisory Board committees at year-end 2017.

The Nomination and Corporate Governance 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 and other factors.

The members of the Supervisory Board are requested to assess annually whether or not they are independent as set out in the Corporate Governance Code 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 2017. Eric Boyer de la Giroday 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 member of the Executive Board of ING Groep N.V. 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.

Diversity and Competence Matrix (as at 31 December 2017)[1]

	Diversity			Competencies				
Name	Year of birth	Gender	Nationality	Executive Experience	International Experience	Banking, Finance, Audit, Risk	Operations and/or IT	Corporate Governance
Management Board								
Ralph Hamers (EB/MBB)	1966	M	Dutch	▪▪	▪▪	▪▪	▪	▪▪
Koos Timmermans (EB/MBB)	1960	M	Dutch	▪▪	▪	▪▪	▪	▪▪
Steven van Rijswijk (EB/MBB)	1970	M	Dutch	▪▪	▪	▪▪	▪	▪
Roland Boekhout (MBB)	1963	M	Dutch	▪▪	▪▪	▪▪	▪	▪▪
Aris Bogdaneris (MBB)	1963	M	Canadian	▪▪	▪▪	▪▪	▪▪	▪
Isabel Fernandez (MBB)	1968	F	Spanish	▪▪	▪▪	▪▪	▪	▪
Roel Louwhoff (MBB)	1965	M	Dutch	▪▪	▪▪	▪	▪▪	▪
Supervisory Board								
Jeroen van der Veer (chair)	1947	M	Dutch	▪▪	▪▪	▪	▪▪	▪▪
Herman-Josef Lamberti (vice-chair)	1956	M	German	▪▪	▪	▪▪	▪▪	▪
Jan Peter Balkenende	1956	M	Dutch	▪	▪▪	▪	▪	▪▪
Eric Boyer de la Giroday	1952	M	Belgian	▪▪	▪	▪▪	▪	▪▪
Henk Breukink	1950	M	Dutch	▪	▪▪	▪	▪	▪▪
Mariana Gheorghe	1956	F	Romanian/ British	▪▪	▪▪	▪▪	▪	▪▪
Margarete Haase[2]	1953	F	Austrian	▪▪	▪▪	▪▪	▪	▪▪
Robert Reibestein	1956	M	Dutch	▪	▪▪	▪▪	▪	▪
Hans Wijers	1951	M	Dutch	▪▪	▪▪	▪	▪▪	▪▪

1 This represents the relative positioning of the individual board members in the context of the total board composition.
2 Ms Haase observer as of 1 October 2017; her SB membership will become effective per 1 May 2018.
▪ Limited/some to average experience in the area.
▪▪ (Had been) accountable and (had) executed over several years.

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 2017. Important milestones were the steps taken towards creating a globally scalable digital platform for customers and further digitalising our offering. This took place against a backdrop of increasing regulation, legal and Know Your Customer requirements.

The Supervisory Board would like to thank all ING employees for their contribution in realising these achievements and for continuing to serve the interests of customers, shareholders and other stakeholders of ING.

Additional information

'Corporate governance' chapter and the 'Remuneration report' chapter for more information, which are deemed to be incorporated by reference here.

Amsterdam, 5 March 2018

The Supervisory Board

Corporate governance

This chapter reports on the application of the Dutch Corporate Governance Code effective as from 1 January 2017, by 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 application of the Dutch Corporate Governance Code' dated 8 March 2018, (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 inhoud bestuursverslag')[1].

Recent developments

Legislative and regulatory developments

On 8 December 2016, the Monitoring Committee of the Dutch Corporate Governance Code published the final version of the revised Corporate Governance Code. The Corporate Governance Code became effective on 1 January 2017 ('Corporate Governance Code'). According to the decree with respect to the contents of the Annual Report, Dutch listed companies are required to report, on the basis of 'apply or explain' on their application of the principles and best-practice provisions of the code for the first time in their annual report for the financial year 2017.

Corporate Governance Codes

Compliance with the Corporate Governance Code

The Corporate Governance Code is the benchmark for ING's 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.*

ING's application of the Corporate Governance Code is described in the 2018 publication 'ING's application 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.

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 by ING Bank is described in the 'Application of the Dutch Banking Code by ING Bank N.V.', available on ING Group's website (www.ing.com). ING Group voluntarily applies the principles of the Banking Code regarding remuneration of the members of its Executive Board. 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 the 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. Supervisory board members 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 Risk Committee, Audit Committee, Nomination and Corporate Governance Committee, and Remuneration 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 an 'apply-or-explain' principle, offering the possibility of deviating from the Code.
- Consistent with Dutch law, 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.

1 Dutch Bulletin of Acts (Staatsblad) 2004, 747, most recently amended with effect from 1 January 2018: Dutch Bulletin of Acts 2017, 332.

- 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. These 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 84). 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 '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 continue 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, which 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 to new ordinary shares, both with and without pre-emptive rights for existing shareholders.

The set-up and content of the currently applicable share issue authorisation have been discussed with many investors, proxy advisors and other stakeholders and ING has taken into account their feedback. It 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 8 November 2018:

1. Up to 40 percent of the issued share capital in connection with a rights issue, being a share offering 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; plus
2. Up to 10 percent 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 purpose of this share issue authorisation is to delegate the power to issue new ordinary shares to the Executive Board. Accordingly, the Executive Board is authorised to issue new ordinary shares without first having to obtain the consent of the General Meeting – which in the Netherlands is subject to a statutory convocation period of at least 42 days. This authorisation gives the ING Group flexibility in managing its capital resources, including regulatory capital, while taking into account shareholders' interests to prevent dilution of their shares. It particularly enables ING Group to respond promptly to developments in the financial markets, should circumstances so require. The Executive Board and the Supervisory Board consider it in the best interests of ING Group to have the flexibility this authorisation provides.

This authorisation may be used for any purpose, including but not limited to strengthening capital, financing, mergers or acquisitions. However, the authorisation to issue ordinary shares by way of rights issue cannot be used for mergers or acquisitions on a stock-for-stock basis as this is incompatible with the concept of pre-emptive rights for existing shareholders.

In line with market practice, ING Group currently intends to include the following categories of shareholders in such 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, Luxembourg, Spain and the UK, where ING believed the vast majority of retail investors were located at that time);
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.

The share issue authorisation that will be proposed to the 2018 Annual General Meeting will be along the same lines as the currently applicable authorisation described above.

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 whereas the transfer of cumulative preference shares is subject to prior approval of the Executive Board. ING Group is not aware of the existence of any agreement pursuant to which the transfer of ordinary shares or depositary receipts for such shares is restricted.

Shares that are included in the Securities Giro Transfer system are transferred pursuant to the Securities Giro Transfer Act ('Wet Giraal Effectenverkeer'). A shareholder who wishes to transfer such shares, must instruct the securities intermediary where his 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 percent 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 shares ('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 52.

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 52 as per year-end 2017.

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, industry analysts and rating agencies.

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 may communicate with its shareholders, the investment community and the general public through earnings announcements, presentations and meetings with analysts, investors and the press.

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 ING Group'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 or in any contacts with the press 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 or contacts with the press 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 2017, 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 18 industry conferences during 2017. In total, there were approximately 800 meetings (including conference calls) with institutional investors and/or analysts during 2017. Conference presentations and face-to-face meetings with investors and/or analysts took place in 37 different cities across the globe.

The geographical distribution of ING Group's investor base is diverse: an estimated 33% of our shares are held in the United States, 23% in the United Kingdom, 13% France, 10% Germany, 4% in the Netherlands, 1% Switzerland, 13% in Rest of Europe and 3% in Rest of the World. These figures are based year-end 2017 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.

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 provided in the Dutch Civil Code, implementing the BRRD, ING Group's Articles of Association permit this convocation period to shorten 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.

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. 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 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 ADR 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 in person, or may grant a proxy in writing to a third party to attend the meeting and to vote on their behalf. Prior to a General Meeting, 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 has been 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. In accordance with the Corporate Governance Code, the draft minutes of the General Meeting are 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). By exception to 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 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. The Articles of Association exclude the waiver of the latter requirement in a second General Meeting. Thus it is ensured 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 as approved by the Supervisory Board.

> *The Executive Board Charter is available at www.ing.com/17ar11.*

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 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).

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.

ING aims for the Executive Board of ING to consist of a diverse selection of persons with executive experience, preferably gained in the banking sector, experience in corporate governance of large stock-listed companies and experience in the political and social environment in which such companies operate. In addition, there should be a good balance in the experience and affinity with the desired nature and culture of the business of ING. ING strives to have at least 30% of the seats held by women, and at least 30% of the seats by men.

These guidelines, that relate to the composition of the Executive Board, are laid down in the Executive Board Profile. Based on this profile, the Supervisory Board is responsible for selecting and nominating candidates for appointment or reappointment to the Executive Board. During 2017, two new members were appointed to the Executive Board. The current members have been with ING in several positions and therefore jointly possess the right experiences and affinity with ING's activities, culture and market environment. In the wider Management Board Banking a female board member was appointed in 2016. Currently, there are no female members in the Executive Board, although that ambition of gender diversity remains unchanged. This remains a key topic for the Supervisory Board with respect to

succession planning and future appointments to the Executive Board.

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.

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 95 of the 'Remuneration report'.

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, current term expires in 2021)

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. He is also responsible for the following departments: Innovation, Legal, Corporate Strategy, Corporate HR, 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[1]:

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 Directors of the Institute of International Finance, Inc. and non-executive member of the board of Foundation Royal Concertgebouw Orchestra Amsterdam.

J.V. (Koos) Timmermans), Chief Financial Officer ('CFO')

(Born 1960, Dutch nationality, male; appointed in 2017, term expires in 2021)

Koos Timmermans has been a member of the Executive Board and CFO of ING Group since 8 May 2017. 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, tax management, investor relations and business performance reporting and analysis, among which measuring adherence to financial targets. Furthermore he is responsible for Bank Treasury, Sustainability, and Regulatory & International Affairs. Before becoming CFO, he was head of Market Leaders, responsbile for ING's operations in the Benelux, and between 2007 and 2011 he was CRO of ING Group. Before joining ING in 1996 he worked for IBM's European treasury in Ireland and ABN AMRO Bank in the area of financial markets. Koos Timmermans graduated from Erasmus University Rotterdam (the Netherlands) in 1986 with a master's degree in economics.

Relevant positions pursuant to CRD IV:

Member and CFO of the Executive Board of ING Groep N.V., member, CFO and vice-chairman of the Management Board of ING Bank N.V., member of the Management Board of ING Support Holding B.V. and member of the Supervisory Board of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ('FMO', Entrepreneurial Development Bank).

Other relevant ancillary positions:

Vice-chairman of the Management Board of the Nederlandse Vereniging van Banken (NVB), member of the Supervisory Board Stadsherstel Amsterdam N.V. and member of the Supervisory Board of Amsterdam Institute of Finance.

1 The fourth EU Capital Requirements Directive 2013/36/EU

S.J.A. (Steven) van Rijswijk, Chief Risk Officer ('CRO')

(Born 1970, Dutch nationality, male; appointed in 2017, term expires in 2021)

Steven van Rijswijk has been a member of the Executive Board since 8 May 2017. He was appointed CRO on 1 August 2017. He is also a member and CRO of the Management Board Banking. Before becoming a member of the Executive Board, Steven van Rijswijk was global head of Client Coverage within ING Wholesale Banking. Steven van Rijswijk joined ING in 1995 in the Corporate Finance team holding various positions in the areas of Mergers & Acquisitions and Equity Markets. Steven van Rijswijk holds a master's degree in business economics from Erasmus University Rotterdam (the Netherlands).

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.

Changes in the composition

On 8 May 2017, the General Meeting appointed Koos Timmermans and Steven van Rijswijk as members of the Executive Board of ING Group, succeeding Patrick Flynn and Wilfred Nagel respectively.

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. The Articles of Association exclude the waiver of the latter requirement in a second General Meeting. Thus it is ensured 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).

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.

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 three years prior to such appointment.

The Supervisory Board of ING shall consist of a mix of persons with executive experience, preferably gained in the banking sector, experience in corporate governance of large stock-listed companies and experience in

the political and social environment in which such companies operate. In the selection of Supervisory Board members, ING is striving for a balance in nationality, gender, age, and educational and work background. In addition, there should be a balance in the experience and affinity with the nature and culture of the business of ING and its subsidiaries. More specifically ING strives to have at least 30% of the seats held by women, and at least 30% of the seats by men. These guidelines, that relate to the composition of the Supervisory Board, are laid down in the Supervisory Board Profile. Based on this profile, the Supervisory Board is responsible for selecting and nominating candidates for appointment or reappointment to the Supervisory Board.

With respect to gender diversity, in the course of 2017 two female board members (Isabel Martín Castellá and Ann Sherry) stepped down from the Supervisory Board and one female member (Margarete Haase) was appointed. From January up to May the percentage of females exceeded 30% of the total composition, with an annual average of 28%. Considering the appointment of Margarete Haase and further measures to be taken, the preferred composition in terms of gender will be adhered to as soon as reasonably possible.

We believe that the Supervisory Board, diversity wise, is well-balanced. in terms of other relevant diversity aspects. Overall, the preferred emphasis on members with a financial or banking background has been maintained, although for 2017 it was decided to attract two new members (Hans Wijers and Jan Peter Balkenende) with a broader, more generic background, having experience in the political and social environment as well. In terms of nationality, the ratio between Dutch and non-Dutch nationals in 2017 was on average 50%-50%.

Other diversity related aspects are also taken into consideration in light of the overall SB composition (see 'Report of the Supervisory Board' chapter, page 69).

Term of appointment of members of the Supervisory Board

As a general rule, Supervisory Board members step down from the Supervisory Board in the fourth, eight, 10th and 12th year after their initial appointment. They are eligible for re-appointment in the fourth year after their initial appointment and, with explanation, also in the eight and 10th year.

Under special circumstances the Supervisory Board may, with explanation, deviate from this general rule, for instance to maintain a balanced composition of the Supervisory Board and/or to preserve valuable expertise and experience. 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 Supervisory Board 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

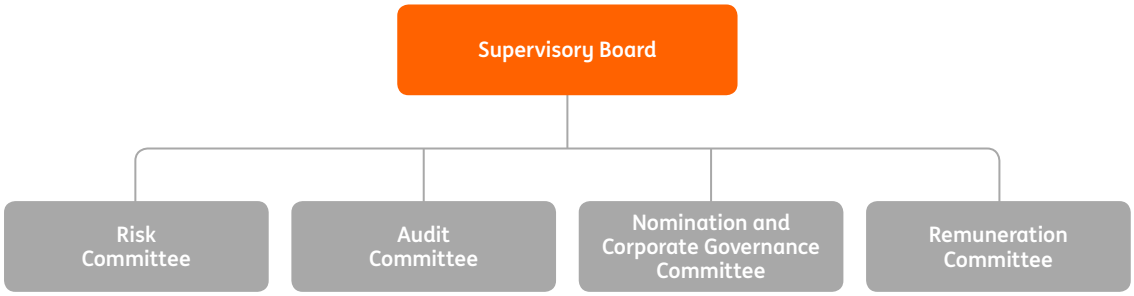
In accordance with the Corporate Governance Code, transactions involving members of the Supervisory Board in which there are material conflicting interests are disclosed in the Annual Report.

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 the 'Remuneration report' chapter (page 98).

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 2017. Eric Boyer de la Giroday is not considered independent because of his former 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 independent.



Committees of the Supervisory Board

On 31 December 2017, the Supervisory Board had four committees: the the Risk Committee, the Audit Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee. An organisational chart of the four committees of the Supervisory Board can be found above.

The organisation, powers and conduct of the Supervisory Board are detailed in the Supervisory Board Charter that can be found on www.ing.com/17ar12.

Separate charters have been drawn up for the Risk Committee, the Audit Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee. These charters are available on the website of ING Group (www.ing.com). A short description of the duties for the four Committees follows below.

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 2017, the members of the Risk Committee were: Robert Reibestein (chairman), Jan Peter Balkenende, Eric Boyer de la Giroday, Mariana Gheorghe, Hermann-Josef Lamberti and Jeroen van der Veer.

The Audit Committee assists and advises 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 2017, the members of the Audit Committee were: Hermann-Josef Lamberti (chairman), Eric Boyer de la Giroday, Robert Reibestein and Hans Wijers. Following the unforeseen departure in September 2015 of Carin Gorter, the Supervisory Board has determined that no member of the Audit Committee is an "audit committee financial expert" as defined by the SEC. The Supervisory Board subsequently sought to identify further members of the Audit Committee who would also qualify as an "audit committee financial expert" as defined by the SEC. This resulted in the proposed appointment of Margarete Haase; the Supervisory Board has determined that she is an "audit committee financial expert" as defined by the SEC. Margarete Haase was appointed as a member of the Supervisory Board at the General Meeting in May 2017.

In light of the planned reduction of the number of her directorships at other companies, the appointment of Margarete Haase will become effective as per 1 May 2018 (as decided by the Supervisory Board in January 2018). Following the effectiveness of her appointment, Margarete Haase will also be a member of the Audit Committee. As per 1 October 2017 she already has been present as an observer at the meetings of the Audit Committee and the Supervisory Board. Eric Boyer de la Giroday is a financial expert as defined in the Dutch 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 Nomination and Corporate Governance Committee's tasks include advising the Supervisory Board on the composition of the Executive Board and Supervisory Board and assisting the Supervisory Board in monitoring and evaluating the corporate governance of ING as a whole and the reporting thereon in the Annual Report and to the General Meeting, and advises the Supervisory Board on improvements. On 31 December 2017, the members of the Nomination and Corporate Governance Committee were: Jeroen van der Veer (chairman), Henk Breukink and Hans Wijers.

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 2017, the members of the Remuneration Committee were: Henk Breukink (chairman), Robert Reibestein, Jeroen van der Veer and Hans Wijers.

› *The composition of the Supervisory Board Committees can be found on ING Group's website www.ing.com/17ar13.*

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 98. 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 98. Transactions by members of the Supervisory Board in these shares are subject to the ING regulations regarding insiders.

> *ING regulations regarding insiders are available on the website of ING Group www.ing.com/17ar14.*

Information on members of the Supervisory Board

J. (Jeroen) Van der Veer (Chairman)

(Born 1947, Dutch nationality, male; appointed in 2009, term expires in 2018)
Former position: 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 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:
Chairman of Stichting Het Concertgebouw Fonds (foundation) and chairman of the Supervisory Council of the Delft University of Technology, and senior advisor at Mazarine Energy B.V.

H.J.M. (Hermann-Josef) Lamberti (Vice-Chairman)

(Born 1956, German nationality, male; appointed in 2013, term expires in 2021)
Former position: 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., chairman of the Supervisory Board of Addiko Bank and director of Frankfurt Technology Management GmbH.

As at 31 December 2017 Hermann-Josef Lamberti holds one executive and three non-executive positions. As per section 91 of CRD IV, this exceeds the maximum of (non-)executive positions allowed for (under section 3:8 of the Dutch Financial Supervision Act), i.e. one non-executive position too many. In consultation with the European Central Bank ('ECB') and based on the aforementioned article a request has been submitted to the ECB to authorise Hermann-Josef Lamberti to hold one additional non-executive position in order to comply with the board limitation rules.

J.P. (Jan Peter) Balkenende

(Born 1956, Dutch nationality, male; appointed in 2017, term expires in 2021)
Former position: partner EY (on corporate responsibility).

Balkenende started as an observer for the Supervisory Board until 1 September 2017.

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Groep N.V./ING Bank N.V. per 1 September 2017.

Other relevant ancillary positions:
Professor of governance, institutions and internationalisation of Erasmus University Rotterdam (the Netherlands), external senior adviser to EY, Chairman of the Advisory Board of the International Advisory Board (IAB) Rotterdam, member of the Supervisory Board of Goldschmeding Foundation, chairman of the Board of Maatschappelijke Alliantie (the Netherlands) and chairman of the Advisory Board of Noaber Foundation.

E.F.C.B. (Eric) Boyer de la Giroday

(Born 1952, Belgian nationality, male: appointed in 2014, term expires in 2018)
Former position: member of the Executive Board of 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 non-executive chairman of the Board of Directors of ING Belgium S.A./N.V.

Other relevant ancillary position:
Non-executive director of the board of directors of the Instituts Internationaux de Physique et de Chimie fondés par Ernest Solvay, asbl.

H.W. (Henk) Breukink

(Born 1950, Dutch nationality, male; appointed in 2007, term expires in 2019)
Former position: 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., non-executive director of Brink Groep B.V. and executive director of Executive Development Dialogue B.V.

M. (Mariana) Gheorghe

(Born 1956, Romanian nationality, female, appointed in 2015, term expires in 2019)
Former position: international banker with the European Bank for Reconstruction.

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, chairwoman of the Supervisory Board of OMV Petrom Gas and member of the Supervisory Board of OMV Petrom Global Solutions.

M. (Margarete) Haase
(Born 1953, Austrian nationality, female; appointed in 2017, term expires in 2021)
Former position: member of the Executive Board of Daimler financial services.

Margarete Haase started as an observer for the Audit Committee and the Supervisory Board on 1 October 2017, until her outside positions would meet the CRD IV requirements; her membership will become effective as per 1 May 2018. As observer she is present at the Supervisory Board and Audit Committee meetings, however, as an observer she does not participate in the decision-making.

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Groep N.V./ ING Bank N.V. (effective per 1 May 2018), chief financial officer and member of the Executive Board of Deutz AG, member of the Supervisory Board and chairwoman of the Audit Committee of Fraport AG, Member of the Supervisory Board and chairwoman of the Audit Committee of ZF Friedrichshafen AG.

Other relevant ancillary positions:
Chairwoman of the Employers Association of Kölnmetall and member of the German Corporate Governance Commission.

R.W.P. (Robert) Reibestein
(Born 1956, Dutch nationality, male; appointed in 2012 as an observer, full member as of 2013, term expires in 2021)
Former position: 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 (the Netherlands).

G.J. (Hans) Wijers
(Born 1951, Dutch nationality, male, appointed in 2017, term expires in 2021)
Former position: Chief Excecutive Officer and Member of the Executive Board of AkzoNobel N.V.

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Groep N.V./ ING Bank N.V. per 1 September 2017, chairman of the Supervisory Board and chairman of the preparatory committee and selection & appointment committee of Heineken N.V., non-executive director and deputy chairman of the Board of Directors and chairman of the corporate and social responsibility committee of Royal Dutch Shell Plc, and member of the Supervisory Board of Hal Investments Plc.

Other relevant ancillary positions:
Chairman of the Supervisory Board of Het Concertgebouw N.V. and chairman of the board of Vereniging Natuurmonumenten (the Netherlands)

Changes in the composition
In May 2017, the General Meeting appointed Jan Peter Balkenende, Margarete Haase and Hans Wijers to the Supervisory Board. During 2017, Isabel Martin Castellá retired and Ann Sherry stepped down 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 86 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 ECB 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 termination 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 Dutch Financial Supervision Act and the Corporate Governance Code.

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 is required to 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 2017, to audit the effectiveness of internal control over financial reporting on 31 December 2017, 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 and for a number of non-financial KPI's reasonable assurance, about whether this information is free from material misstatement. The sustainablility information is of strategic importance to ING.

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 Risk Committee and of the Audit Committee and attended and addressed the 2017 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 detailed information. This overview is periodically evaluated by the Audit Committee throughout the year.

› *More information on ING Group's policy on external auditor independence is available on the website of ING Group www.ing.com/17ar15.*

Dutch Corporate Governance Code Statement by the Executive Board

In accordance with best practice provision 1.4.3 of the 2016 Dutch Corporate Governance Code, the Executive Board of ING Groep N.V. states that it is responsible for the design, implementation and functioning of ING's internal risk management and control systems.

ING's internal risk management and control is a process, effectuated by the Executive Board, senior management, and other personnel. It is designed to mitigate risks and provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial and non-financial information;
- Compliance with laws, regulations and internal policies, and the ING Values as part of the Orange Code;
- Safeguarding of assets, identification and management of liabilities; and
- Strategic goals of ING Groep N.V.

The Risk and Capital Management section as part of the Report of the Executive Board and the Risk Management paragraph as part of the consolidated annual accounts elaborate on ING's identified financial and non-financial risks (such as credit risk, market risk, operational risk, compliance risk, funding & liquidity risk and business risk) and how these risks are managed. These sections provide insight into the potential impact on the results of ING Groep N.V. that come forth from these identified risks. The design and functioning of the internal risk management and control systems is based on the Risk Appetite Framework and the Non-Financial Risk Framework. Both frameworks, explained in details in the Risk Management paragraph as part of the consolidated Annual Accounts, combine various financial and non-financial risk disciplines into a single converged approach and provide the businesses with a clear and fair view on their risks and the way these are managed. This view allows the Executive Board and senior management to form an opinion on the adequacy of internal risk management and control systems regarding the risks they face while pursuing the Executive Board's strategy. In addition, ING has a process in place regarding internal control over financial reporting for which the CEO and CFO of ING Groep N.V. issue a statement regarding ING's financial reporting risks, i.e. Section 404 of the Sarbanes-Oxley Act in this Annual report.

The design and the operation of the internal risk management and control systems are discussed annually with the Risk Committee and the full Supervisory Board, whereas the design and the operation of internal control over financial reporting are discussed annually with the Audit Committee and the Supervisory Board. As part of this process, shortcomings in Know Your Customer processes were identified and discussed with the Risk committee of the Supervisory Board.

In discharging the responsibility, the Executive Board has made an assessment of the effectiveness of the ING Groep N.V.'s internal control and risk management systems. Based on this assessment, the Executive Board states that during the year under review:

- the report of the Executive Board in the ING Group Annual report 2017 provides sufficient insights into shortcomings in the effectiveness of the internal risk management and control systems;
- those systems provide reasonable assurance that the ING Group Annual report 2017 does not contain material inaccuracies;
- based on the current state of affairs, it is justified that the ING Group Annual report 2017 is prepared on a going concern basis; and
- the report of the Executive Board in the ING Group Annual Report 2017 states those material risks and uncertainties that are relevant to the expectation of ING Groep N.V.'s continuity for the period of twelve months after the preparation of this report.

It should be noted that the above does not imply that these systems and procedures provide absolute assurance to ING as to the realisation of financial and strategic business objectives, or that internal risk management and control systems can prevent or detect all misstatements, inaccuracies, errors, fraud and non-compliances with legislation, rules and regulations.

Amsterdam, 5 March 2018

R.A.J.G. (Ralph) Hamers
CEO, chairman of the Executive Board

J.V. (Koos) Timmermans
CFO, member of the Executive Board

S.J.A. (Steven) van Rijswijk
CRO, member of the Executive Board

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.

ING Continuity Foundation is entitled to acquire cumulative preference shares to be newly issued, on the understanding that, following the issue, the number of cumulative preference shares issued may be no more than one third of the total number of shares issued. This entitlement is vested in the Articles of Association of ING Groep N.V.

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 2017 the board of ING Continuity Foundation (the 'Board') held two meetings, on 25 April and 29 November.

The composition of the Board is currently as follows:
Sebastian Kortmann, chairman of the Board,
Rob van den Bergh, reappointed as of 2 February 2017,
Allard Metzelaar, reappointed as of 10 May 2017 and
Wim van Vonno.

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, 5 March 2018

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 that 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. 2017 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. 2017 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 2017 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, 5 March 2018

R.A.J.G. (Ralph) Hamers
CEO, chairman of the Executive Board

J.V. (Koos) Timmermans
CFO, member of the Executive Board

S.J.A. (Steven) van Rijswijk
CRO, member of the Executive Board

Section 404 Sarbanes-Oxley Act

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 to Section 404 of the Sarbanes-Oxley Act (SOX 404).

These regulations require that the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") 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 that the Company's internal control over financial reporting was effective as of 31 December 2017. 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.

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 or disposition of our assets that could have a material effect on our 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 agree of compliance with the policies or procedures may deteriorate.

The Executive Board assessed the effectiveness of internal control over financial reporting as of 31 December 2017. 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 disclosure and financial reporting was effective as of 31 December 2017.

Attestation Report of the Registered Public Accounting Firm

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.

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the period covered by this Annual Report that have materially affected or are reasonably likely to materially affect, our internal controls over financial reporting.

Amsterdam, 5 March 2018

R.A.J.G. (Ralph) Hamers
CEO, chairman of the Executive Board

J.V. Timmermans
CFO, member of the Executive Board

Report of independent registered public accounting firm

Report of independent registered public accounting firm

To: the shareholders and the Supervisory Board of ING Groep N.V.

Opinion on Internal Control Over Financial Reporting

We have audited ING Groep N.V. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statements of financial position of the Company as of December 31, 2017 and 2016, the related consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes (collectively, the consolidated financial statements), and our report dated March 5, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company'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 control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

Definition and Limitations of Internal Control Over Financial Reporting

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 generally accepted accounting principles, 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.

Amstelveen, March 5, 2018

KPMG Accountants N.V.

Remuneration report

ING's remuneration policy is designed to ensure that we offer well-balanced remuneration so we can recruit, engage and retain highly qualified staff and live up to our responsibilities towards our stakeholders. ING's global remuneration policy complies with all relevant international and local legislation and regulations.

Remuneration policy ING

We have a global remuneration policy in place applicable to all staff across our more than 40 countries.

In setting the level of remuneration we look at a number of varying factors. These include:

- The complexity of work
- The scope of responsibilities
- The international character of the group
- Risk alignment
- The (inter)national laws and regulations
- Specifics of the particular labour market
- Other long-term objectives of ING and its stakeholders.

The remuneration principles below apply to all staff:

ING's Remuneration Policy Principles

Business strategy and company goals
ING's remuneration policy is aligned with business strategy and company goals.

Long-term value creation
ING's remuneration policy contributes to long-term value creation of the company and supports a focus on the long-term interests of its stakeholders, including all staff, customers and shareholders.

Risk and controls
Risk management is an enabler of long-term value creation. ING ensures the remuneration policy is properly correlated with its risk profile and the interest of its stakeholders.

Performance driven
ING operates a robust performance management process linked to remuneration to steer and motivate all staff to deliver on ING's strategic goals and prevent rewarding for failure.

Responsible and fair
ING acts responsibly and treats staff fairly across the globe.

Sustainable
ING supports sustainable recruitment, engagement and retention of all staff.

Total direct compensation

Total direct compensation is the total of fixed and variable remuneration, excluding benefits such as pension and allowances.

ING aims to provide total direct compensation levels for expected business and individual performance which, on average, are at the median of the markets in which we operate, benchmarked against relevant peer groups.

Variable remuneration

The awarding of variable remuneration, where applicable, is primarily focused on long-term value creation and based on individual, business line and bank-wide performance criteria.

For Identified Staff (i.e. staff that is considered to have a material impact on the risk profile of ING) a deferral scheme applies to their variable remuneration and a substantial part (50-100%) of their variable remuneration is awarded in equity. A minimum of 40% of variable remuneration is deferred over a period of three to five years with a tiered vesting schedule.

Shareholders' mandate

ING's Remuneration Policy is compliant with (inter)national laws and regulations. The Dutch law, Wet Beloningsbeleid Financiële Ondernemingen (hereafter: WBFO) sets various requirements, especially with respect to variable remuneration. These include requirements for mandatory holdback and claw back provisions, variable remuneration caps, special conditions linked to retention, sign on, severance payments and the requirement that variable remuneration must be based for at least 50% on non-financial performance. ING applies all these requirements.

Under the WBFO, financial institutions are permitted to set a variable remuneration cap higher than 100% of fixed remuneration for employees outside of the European Economic Area (EEA), provided that the higher cap is approved by their shareholders and does not conflict with the institution's capital adequacy requirements.

In 2017 approval was given at the Annual General Meeting of Shareholders (AGM) to continue with an increased maximum percentage of up to 200%, outside the EEA, for a period of five performance years, from 2017 to 2021. ING uses this facility very rarely and for no more than 1% of employees worldwide.

Risk mitigating measures

ING applies measures to mitigate risk relating to variable remuneration. Our remuneration policy takes into consideration risk, capital, liquidity and the likelihood and timing of earnings. Measures include pre-award and post-award risk assessments of 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 the company performance at bank, business line and individual levels, as well as a solvency test.

In addition, risk requirements apply to a small number of staff members that are considered Risk Takers. These risk requirements set the minimum standards to be met during the performance year. Deviation from these standards may lead to downward adjustment of variable remuneration, a so called Risk Modifier.

The post-award risk assessment process analyses whether the outcomes of the initial pre-award risk assessment process were correct. This can, and in certain situations must, result in a downward adjustment of variable remuneration by applying a holdback (i.e. forfeiture of up to 100% of the awarded and unvested variable remuneration) and/or claw back (surrender of up to 100% of the paid or vested variable remuneration).

To ensure the autonomy of staff in control functions (positions within Legal, Risk, Finance, Compliance, Audit and HR), the functional line is in the lead for the performance assessment. Where financial performance targets are included, they must be based on the financial performance of the bank.

The total amount of variable remuneration awarded to all employees over 2017 was EUR 403,1 million, compared to total staff expenses of EUR 5,202 million. Variable remuneration includes both individual and collective variable remuneration such as profit sharing arrangements agreed with relevant trade unions.

In 2017, there were 14 employees, working in the Corporate Staff (COO, CRO, CFO), Wholesale Banking and Retail Banking business lines, to whom total annual remuneration (including employer pension contributions and any severance payments made) of EUR 1 million or more was awarded. Most of these employees work outside of the Netherlands.

Performance Management

Our remuneration approach is strongly linked to performance management.

We introduced the new performance management standard 'Step Up' which aims to improve the performance of the bank by moving us from a retrospective review process to a real-time improvement process. As of January 2018 this standard applies to all staff [1].

The main elements of the Step Up performance management framework are:

- **Stretch Ambitions:** positive 'stretch' of job expectations and behaviours that are inspiring, stretch employees further than their daily job and contribute to the performance of ING.
- **No single rating system:** every single ING employee and manager receives an evaluation (excellent, well done, improvement required) on each of the three performance dimensions: Job expectations, Orange Code and Stretch Ambitions.
- **Recognition management:** an approach that empowers managers to decide on a continuous basis the right mix of recognition both financial and non-financial.
- **Validation sessions:** ensures alignment in target setting, mid-year review and year-end evaluation.
- **Continuous performance conversations:** enables performance improvement at individual and team level.

Performance is assessed against financial and non-financial indicators. Non-financial indicators aim to further improve ING's responsible and sustainable business practices and include one or more of the following:

- Customer satisfaction
- Risk management
- Stakeholder engagement
- Orange Code behaviours
- Workforce diversity
- Environmental and social criteria
- Sustainable business practices.

Risk mitigation measures may lead to an adjustment of the performance outcome and affect compensation.

Remuneration policy for the Executive Board

The Executive Board's remuneration policy is compliant with applicable laws and regulations and is in line with the remuneration principles that apply to all staff.

The current remuneration policy for the Executive Board was adopted at the AGM on 27 April 2010. Amendments to this policy were adopted at subsequent AGMs:

- On 9 May 2011 in response to new regulatory requirements
- On 12 May 2014 with respect to pensions for the Executive Board
- On 11 May 2015 in order to lower the maximum variable remuneration in line with legal requirements and specify that variable remuneration for the Executive Board be paid fully in shares
- On 8 May 2017 by extending the deferral period of the variable remuneration from three to five years.

Total direct compensation

Total direct compensation is the total of fixed and variable remuneration, excluding benefits such as pension and allowances. It is determined and reviewed periodically by the Supervisory Board taken into account a number of varying factors in particular the international market environment.

The Executive Board's total direct compensation is compared to Euro Stoxx 50 companies as the Euro Stoxx 50 benchmark includes similar organisations in terms of size and international scope. 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. The Executive Board's remuneration policy aims to award total direct compensation slightly below the median of the Euro Stoxx 50.

1 Except for non-Identified Staff in Germany because it is pending approval by the Works Council.

Variable remuneration

Compliant 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 and is fully paid out in shares.

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. If performance is below target, the variable component will be decreased, potentially to zero. The performance targets for the Executive Board are annually pre-determined by the Supervisory Board to ensure delivery of ING's strategy. The Executive Board remuneration policy aims to support long-term value creation by means of deferral, retention, holdback and claw back mechanisms.

40% of total variable remuneration is awarded upfront in the year following the performance year. The remainder (60%) is deferred. In accordance with guidelines issued by the European Banking Authority (EBA) as per 2017, the variable remuneration of the Executive Board members is subject to tiered vesting over a period of five years. In 2017, approval was given at the AGM to extend the deferral period for the variable remuneration for Executive Board members from three to five years, with one fifth vesting each year. This will be applied for the first time in 2018 with respect to variable remuneration over performance year 2017.

Both the upfront and deferred part of variable remuneration are fully awarded in shares. To all share awards granted to Executive Board members in their capacity as board member a minimum retention period of five years from the date of conditional grant of the shares and one year from the vesting date applies. However, they are allowed to sell part of their shares on the date of vesting to pay tax on the vested share award. Fully awarding variable remuneration in shares, in combination with an extensive deferral and retention period, enables us to link remuneration with ING's long-term value creation.

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 EUR 103,317 per year for 2017. As is the case for all employees who participate in the Dutch Collective Defined Contribution pension plan who earn a salary above this 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 below).

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). This may also include banking and insurance benefits from ING 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

All current members of the Executive Board have a commission contract for an indefinite period of time including an appointment or reappointment period of four years as approved at the AGM. In the case of an involuntary exit, Executive Board members are eligible for an exit arrangement. These arrangements are subject to specific requirements (e.g. limited to a maximum of one year of base salary, no reward for failure).

Supervisory Board discretion to review the policy and the remuneration paid

In accordance with the Executive Board's remuneration policy as adopted at the AGM and as described in this chapter, the Supervisory Board annually determines the actual remuneration for the Executive Board members based on the advice given by the Remuneration Committee of the Supervisory Board.

The Remuneration Committee is among others responsible for the preparation of decisions to be taken by the Supervisory Board regarding remuneration of individual members of the Executive Board. Remuneration proposals for the individual Executive Board members are drawn up in accordance with the applicable Executive Board remuneration policy and cover the following aspects: remuneration structure, the amount of the fixed and variable remuneration components, the performance criteria used, scenario analyses that are carried out and, if and when considered appropriate, the internal pay relativities. The Remuneration Committee takes note of individual Executive Board members' views with regard to the amount and structure of their own remuneration, including the aspects as mentioned above.

It is the responsibility of the Supervisory Board to take into account the interests of all stakeholders, as well as long-term value creation, business continuity and sustainable growth, when determining the Executive Board's remuneration.

The legal, regulatory and market environment is continually changing and this may 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 and obligation in specific cases to impose holdback and/or claw back on variable remuneration awarded to a member of the Executive Board based on the same criteria that apply to all staff. It also has the authority to adjust variable remuneration if application of the predetermined performance criteria results in an undesired outcome. The Supervisory Board also has decision-making authority in situations that are 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 circumstances subject to approval by the Supervisory Board.

2017 Remuneration Executive Board

In this section we have included the compensation details of the current and former Executive Board members relating to the period that they were members of the Executive Board.

The Executive Board's remuneration for 2017 is in accordance with the Executive Board's remuneration policy. The policy specifies that total direct compensation should be slightly below the median of comparable positions in the Euro Stoxx 50 peer group. For the CRO and CFO total direct compensation is in line with this ambition. For the CEO however, the total direct compensation is lagging behind and is significantly below the median of the CEO benchmark.

For the Supervisory Board, this remains a point of concern. In order to ensure continued delivery on customer promises, strategic priorities and key financial and non-financial targets, ING needs to be able to attract the best talent for its Executive Board.

In line with the revised Dutch Corporate Governance Code, the internal ratio of the Executive Board members' remuneration and that of a representative reference group was determined. For this ratio, ING deems most relevant the total direct compensation of the CEO compared to the average total direct compensation of all approximately 54,000 ING employees worldwide. For the CEO a ratio of 1:33 applies. For the sake of transparency we also calculated the ratio of the total direct compensation of the other Executive Board members compared to the average total direct compensation of all ING employees. On that basis for the other EB members (CFO/CRO) a ratio of 1:23 applies.[1]

In 2017, Patrick Flynn stepped down from the Executive Board immediately after the AGM 2017 that was held on 8 May 2017 as his appointment term ended without having been proposed for reappointment. In line with applicable regulations, a severance payment equal to 100% of his base salary (i.e. EUR 1,203,600) was granted. Wilfred Nagel decided to retire from the Executive Board. His employment contract ended at 31 January 2018. No severance payment was granted.

2017 Executive Board base salary

In 2017 the Supervisory Board decided to increase the base salary of the CEO by 3% with effect from 1 January 2017. The base salary of the other Executive Board members remained the same in 2017.

2017 Executive Board performance indicators

As indicated in the remuneration policy, the performance of the Executive Board is assessed based on financial and non-financial indicators. For 2017, performance indicators applied included the following:

Performance indicators[2]	
Non-financial performance indicators	**Financial performance indicators**
▪ The accelaration of the Think Forward strategy: improving customer experience and enabling commercial growth ▪ Driving innovation to create a differentiating customer experience ▪ Realising a bank-wide high performance culture through the Step Up Performance Management and Think Forward Leadership programmes ▪ Proceeding on digital transformation programmes to improve customer experience and realise further efficiency gains ▪ Increasing ING's social and environmental impact through our sustainability activities	▪ Underlying net result ▪ Underlying return on IFRS equity ▪ Common equity Tier 1 ratio ▪ Underlying operating expenses ▪ Underlying cost/income ratio

2017 Executive Board performance evaluation

The table on the next page highlights key achievements, collectively accomplished by the Executive Board in 2017 in the areas mentioned, reflecting both the overall ambitions of ING and the specific performance targets agreed with the Supervisory Board at the beginning of 2017. Although not everything is accomplished, the following points were successful.

1 Total direct compensation comprises fixed base salary and variable remuneration, excluding benefits such as pension arrangements, and allowances. Since both the CRO and CFO were appointed in 2017 variable remuneration has been calculated based on the at target percentage.
2 The combined performance indicators of the Executive Board members.

Key achievements	

Strategy implementation	▪ **Accelerated the Think Forward Strategy** by growing customer bases in Wholesale and Retail Banking and major investments made to create a differentiating customer experience.
	▪ Comprises of the four major **digital transformation programmes**:
	  ▪ **Orange Bridge:** Redeployment process applied to around 5,000 staff; cross-border agile way of working implemented; merger of ING Belgium and Record Bank well on track.
	  ▪ **Welcome:** Fully digital current account opening launched; back office and call centre automation increased.
	  ▪ **Model Bank:** new multi-country customer interaction platform currently being reviewed.
	  ▪ **Wholesale Banking TOM:** Consolidation of FM trading activities on track; continued roll-outs for a common global IT lending platform.
	▪ **Ranked number one in Net Promoter Scores** relative to competitors in 7 of 13 retail markets.

Capability development	▪ All executives and around 1,500 managers participated in the phased roll-out of the **Think Forward Leadership** programme that amplifies the behaviours and skills leaders and managers need to reach our goals and unite ING. ▪ Global roll-out of the **Step Up Performance Management** programme to strengthen ING's performance culture (roll-out to be completed in 2018). ▪ Recognised for our continuous efforts to drive success through **diversity and inclusion** (e.g. financial services ranked number one in LGBT workplace inclusion at the Workplace Pride Awards and included in the Bloomberg Gender Equality Index).

Innovation	▪ New initiatives developed and aligned with partners to improve the customer experience, including:
	  ▪ A digital money jar called **Everyday Round Up** by ING in Australia that rounds up card purchases and puts the difference straight into the customer's savings account (40,000 activations within the first two weeks).
	  ▪ A **Digital Shoebox** added to the mobile banking app for small business customers that links receipts and bills directly to transactions.
	  ▪ A new tool in Wholesale Banking called **Katana** that helps bond traders make faster and sharper pricing decisions using data visualisation and predictive analytics.
	  ▪ Re-entering the UK retail banking market with the introduction of **Yolt**, a free mobile app to help people keeping track of their finances.
	  ▪ Establishment of **ING Ventures**, a EUR 300 million fund that will invest in start-ups and companies that have already gained some market traction. ING Ventures will help accelerate the pace of innovation, one of our priorities.
	  ▪ Establishment of a partnership with online wealth manager **Scalable Capital** in Germany, expanding ING's offering to customers with digital investment management services, also known as robo-advice.
	▪ A couple of major milestones achieved in the **blockchain** area, including:
	  ▪ Development of a code known as **'zero-knowledge range proof'** (ZKRP) that is ten times more efficient in keeping information private on a ledger.
	  ▪ Together with other industry players started work on a new venture to create a real-time blockchain-based digital platform to **manage physical energy commodities transactions** from trade entry to final settlement.

Sustainability	▪ **Sustainable Investments** launched of EUR 100 million in capital to support sustainable 'scale-ups' with a proven concept and positive environmental impact. ▪ Announced acceleration of reducing our exposure to coal power generation to close to zero by 2025 in order to support the **transition to a low-carbon economy**. ▪ Demonstrated **excellent performance on sustainability** in the ratings (e.g. ING remained a sustainability leader in the banks industry group with a score of 85 out of 100 by sustainability research leader Sustainalytics and scored 89 out of 100 in the Dow Jones Sustainability Indices compared to an average industry score of 58).
Financial performance	▪ **Increased** number of new retail customers by 1.6 million to 37.4 million; number of primary relationships up by 0.9 million to 10.8 million. ▪ **Achieved** net profit of EUR 4,905 million, up 5.5% from 2016. Underlying net profit is EUR 4,957 million, broadly flat on 2016 (EUR 4,976 million), notwithstanding persistent pressures from the low interest rate environment. ▪ **Grew** core lending by EUR 26.9 billion (+4.8%); increased customer deposits by EUR 19.0 billion (+3.6%). ▪ **Realised** underlying return on equity for ING Group of 10.2%, up from 10.1% in 2016. ▪ **Improved** CET1 ratio of ING Group to 14.7%. ▪ Underlying operating expenses (excluding regulatory costs) moved from EUR 8.6 billion in 2016 to EUR 8.9 billion in 2017. Cost/Income ratio changed from 54.2% in 2016 to 55.5% in 2017.

2017 Executive Board variable remuneration

The performance of the Executive Board is evaluated against financial and non-financial performance indicators. Variable remuneration in 2017 of the CFO and CRO was mainly based on non-financial performance indicators. The variable remuneration in 2017 for the CEO was based for more than 50% on non-financial performance indicators. As evidenced by the table above, the collective performance of the Executive Board members was broadly on target. There were minor differences in achievement of personal targets. This explains why variable remuneration for the CEO was calculated at 17% for the CFO at 13% and for the CRO at 13%.

The table below shows the remuneration awarded to the individual Executive Board members with respect to the performance years 2017, 2016 and 2015.

Total direct compensation of the individual members of the Executive Board

	2017		2016		2015	
amounts in euros (rounded figures)	amount	number of shares	amount	number of shares	amount	number of shares
Ralph Hamers (CEO)						
Base salary	1,713,000		1,663,000		1,630,000	
Variable remuneration (fully in shares)[1]	293,000	18,547	316,000	23,092	293,000	28,404
Koos Timmermans (CFO)[2]						
Base salary	781,000		-		-	
Variable remuneration (fully in shares)[1]	104,000	6,612	-	-	-	-
Steven van Rijswijk (CRO)[2]						
Base salary	781,000		-		-	
Variable remuneration (fully in shares)[1]	104,000	6,584	-	-	-	-
Patrick Flynn (former CFO)[2]						
Base salary	423,000		1,204,000		1,180,000	
Variable remuneration (fully in shares)[1]	63,000	4,010	217,000	15,838	153,000	14,850
Wilfred Nagel (former CRO)[2]						
Base salary	702,000		1,204,000		1,180,000	
Variable remuneration (fully in shares)[1]	-	-	217,000	15,838	189,000	18,278

1 The number of shares is based on the average ING share price on the day on which the 2017 year-end results were published. The shares will be awarded in May 2018.
2 Koos Timmermans and Steven van Rijswijk were appointed to the Executive Board immediately following the 8 May 2017 AGM, while Patrick Flynn and Wilfred Nagel left as per the end of the 8 May 2017 AGM and 1 August 2017 respectively. Thus the figures for Koos Timmermans, Steven van Rijswijk, Patrick Flynn and Wilfred Nagel reflect a partial year as an Executive Board member.

In 2017 no holdback or claw back was applied to paid, unvested or vested variable remuneration of any of the Executive Board members.

Pension costs

Members of the Executive Board participate in the Collective Defined Contribution (CDC) pension plan as part of the Executive Board remuneration policy. In 2017 pension accrual only applies to salary up to an amount of EUR 103,317. The table below shows the pension costs of the individual members of the Executive Board in 2017, 2016 and 2015.

Pension costs of the individual members of the Executive Board

amounts in euros (rounded figures)	2017	2016	2015
Ralph Hamers	30,000	26,000	25,000
Koos Timmermans[1]	19,000	-	-
Steven van Rijswijk[1]	19,000	-	-
Patrick Flynn[1]	10,000	26,000	25,000
Wilfred Nagel[1]	17,000	26,000	25,000

1 Koos Timmermans and Steven van Rijswijk were appointed to the Executive Board as per 8 May 2017, while Patrick Flynn and Wilfred Nagel left as per 8 May 2017 and 1 August 2017 respectively . Thus the figures for Koos Timmermans, Steven van Rijswijk, Patrick Flynn and Wilfred Nagel reflect a partial year as an Executive Board member.

Benefits

The individual members of the Executive Board receive other emoluments, including savings allowances for the loss of pension benefits for salary above EUR 103,317 for 2017, employer contributions to savings schemes, reimbursement of costs related to home/work commuting, costs associated with the company car and costs associated with housing and schooling (for expats).

The other emoluments amounted in 2017, 2016 and 2015 to the following costs.

Other emoluments

amounts in euros (rounded figures)	2017	2016	2015
Ralph Hamers	624,000	553,000	473,000
Koos Timmermans[1]	290,000	-	-
Steven van Rijswijk[1]	274,000	-	-
Patrick Flynn[1]	181,000	403,000	433,000
Wilfred Nagel[1]	247,000	370,000	322,000

1 Koos Timmermans and Steven van Rijswijk were appointed to the Executive Board as per 8 May 2017, while Patrick Flynn and Wilfred Nagel left as per 8 May 2017 and 1 August 2017 respectively. Thus the figures for Koos Timmermans, Steven van Rijswijk, Patrick Flynn and Wilfred Nagel reflect a partial year as an Executive Board member.

Long-term incentives awarded in previous years

In 2017, no long-term incentives (other than the shares disclosed in the table on page 96, were awarded to the Executive Board members.

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 2017, 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 2016	Exercised in 2017	Waived or expired in 2017	Outstanding as at 31 December 2017	Grant price in euros	Vesting date	Expiry date
Ralph Hamers	14,889	0	14,889	0	€ 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
Koos Timmermans	46,157	0	46,157	0	€ 24.72	22 Mar 2010	22 Mar 2017
	56,405	0	0	56,405	€ 19.53	15 May 2011	15 May 2018
	20,675	0	0	20,675	€ 14.36	17 Sep 2011	17 Sep 2018
Steven van Rijswijk	1,640	0	1,640	0	€ 24.72	22 Mar 2010	22 Mar 2017
	3,971	0	3,971	0	€ 24.72	22 Mar 2010	22 Mar 2017
	2,770	0	0	2,770	€ 16.66	13 Mar 2011	13 Mar 2018
	9,044	0	0	9,044	€ 16.66	13 Mar 2011	13 Mar 2018
	1,688	0	0	1,688	€ 2.90	19 Mar 2012	19 Mar 2019
	11,658	0	0	11,658	€ 2.90	19 Mar 2012	19 Mar 2019
	2,318	0	0	2,318	€ 7.35	17 Mar 2013	17 Mar 2020
	10,694	0	0	10,694	€ 7.35	17 Mar 2013	17 Mar 2020
Patrick Flynn	-	-	-	-	-	-	-
Wilfred Nagel	9,530	0	9,530	0	€ 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 subject to a tiered vesting over a period of five years (for awards in 2017 and before), of which the ultimate value of each deferred share will be based on ING's share price on the vesting date (the opening share price).

For the Executive Board members the following shares vested during 2017:

Shares vested for the Executive Board during 2017

	Shares	Granting date	Vesting date	Nr. of shares granted[4]	Nr. of shares vested	Vesting price
Ralph Hamers[1]	LSPP Deferred share units[2]	27 March 2013	27 March 2017	25,812	3,443	€ 13.60
	LSPP Deferred share units[2]	27 March 2014	27 March 2017	6,215	828	€ 13.60
	LSPP Deferred shares	11 May 2016	11 May 2017	28,404	5,680	€ 15.45
	LSPP Upfront shares	11 May 2017	11 May 2017	23,092	9,237	€ 15.45
Koos Timmermans[1]	LSPP Deferred shares	14 May 2014	14 May 2017	32,267	6,454	€ 15.35
	LSPP Deferred shares	13 May 2015	13 May 2017	30,012	6,002	€ 15.35
	LSPP Deferred shares	11 May 2016	11 May 2017	18,278	3,655	€ 15.45
	LSPP Upfront shares	11 May 2017	11 May 2017	15,838	6,335	€ 15.45
Steven van Rijswijk[3]	-	-	-	-	-	-
Patrick Flynn[3]	-	-	-	-	-	-
Wilfred Nagel	LSPP Deferred shares	11 May 2016	11 May 2017	18,278	3,655	€ 15.45
	LSPP Upfront shares	11 May 2017	11 May 2017	15,838	6,335	€ 15.45

1 Shares granted to Ralph Hamers in March 2013 and in March 2014 and Koos Timmermans were awarded for their performance in positions prior to their appointments to the Executive Board.
2 Deferred share units of Ralph Hamers are cash settled instruments of which the ultimate value will be based on ING Group's share price at the vesting date.
3 Shares granted to Steven van Rijswijk and Patrick Flynn did not vest in 2017 in their capacity as an Executive Board Member.
4 Number of shares granted includes both deferred and upfront part awarded at the granting date.

As recognised in the profit or loss statement of 2017, the expenses per Executive Board Member (active on 31 December 2017), whilst serving on the Executive Board, amount to EUR 2.6 million for the CEO, EUR 1.4 million for the CFO and EUR 1.1 million for the CRO.

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 2017, 2016 and 2015.

Loans and advances to the individual members of the Executive Board

amounts in thousands of euros	2017			2016			2015		
	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	1.4%	-	2,499	2.6%	-	2,499	2.5%	-
Koos Timmermans	182	6.2%	-	-	-	-	-	-	-
Steven van Rijswijk	-	-	-	-	-	-	-	-	-

Loans and advances of former members of the Executive Board who are not included in the table above amounted to nil in 2017, EUR 350,000 in 2016 and EUR 500,000 in 2015.

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 2017, 2016 and 2015.

ING shares held by members of the Executive Board

number of shares	2017	2016	2015
Ralph Hamers	58,094	50,216	44,182
Koos Timmermans	84,349		
Steven van Rijswijk	59,914		

The number of ING shares of former members of the Executive Board who are not included in the table above amounted to nil in 2017, 211,468 in 2016 and 200,791 in 2015.

2018 Remuneration Executive Board

More and more shareholders are calling for Executive Boards to be long-term oriented in their decision making. This change in the market enables further alignment of interests that Executive Boards need to serve, between for instance shareholders, society and regulations. This is also the objective of the recent focus in the Dutch Corporate Governance Code, by proposing a long-term orientation of Executive Boards, incentivised by increasing the shareholding of executives in the companies they serve and to hold these as long-term investments. At the same time, Dutch banking regulations limit the variable reward for Executive Boards to a maximum of 20% of fixed salary.

In line with their responsibility to execute the Executive Board remuneration policy of compensating slightly below the median of the Euro Stoxx 50, the Supervisory Board undertook an annual review of Executive Board Remuneration levels against this policy that has been approved at the AGM in 2010. The remuneration levels of the members 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. Data shows that the market median remuneration level of the Euro Stoxx 50 benchmark has further increased and, as a consequence, the gap with the remuneration of the CEO position has further widened. Over the past few years the Supervisory Board repeatedly expressed their concern about this as ING needs to be able to attract and retain the best (international) talent for its Executive Board. Based on the outcome of the annual review the Supervisory Board decided that it needs to act now . The Supervisory Board wants to ensure that the policy as approved by the AGM is lived up to both to the letter and to the spirit of it.

Reflecting on the past five years, ING has more than exceeded market expectations, evidenced amongst others by very robust financial results and position, a strengthened capital base, relatively high customer satisfaction levels in the many markets ING operates in, relatively high scores in the biennial Organisational Health Index and the Winning Performance Culture employee engagement survey, its track record on sustainability and the many accolades ING received over the years.

To determine the appropriate level of total remuneration (fixed + variable remuneration) for the CEO position, the Supervisory Board requested an external remuneration consultant to provide an update of the Euro Stoxx 50 benchmark. This showed median total remuneration of EUR 4,900,000, consisting of fixed remuneration of EUR 1,300,000 and variable remuneration of EUR 3,600,000. The Supervisory Board also requested a modified benchmark that would take into account the fact that ING's fixed remuneration for Executive Board members is higher than the benchmark, whilst variable remuneration is significantly lower, due to the regulatory cap of 20% on variable remuneration. This modified benchmark takes into account that one Euro fixed remuneration is 'worth' more than one Euro of variable remuneration. This led to a modified median benchmark of EUR 3,255,000, representing a more prudent approach. The graphs on the following page show both benchmarks.

Based on this information and carefully balancing all stakeholder interests, the Supervisory Board agreed to propose at the AGM the following amendments to the Executive Board remuneration policy:

(i) the introduction of a new fixed remuneration component, called 'fixed shares'. In addition to its authority under the existing Executive Board remuneration policy to increase the total direct compensation to a level just below the median of the Euro Stoxx 50, the Supervisory Board may now also decide to increase the gross cash base salary of a member of the Executive Board in the form of 'fixed shares', with a value up to a maximum of 50% of the gross cash base salary. In case of fixed shares, each month, one-twelfth of the agreed value will be mandatorily converted into fixed shares against the prevailing share price for that month (i.e. the opening price of the first trading day of shares listed on Euronext in that month), subject to a mandatory 'sell to cover', requiring the Executive Board member to sell as many shares as needed to settle any wage or income taxes due on these. The fixed shares component is solely tied to the role of the Executive Board member, the relevant market benchmark and is not subject to any performance condition (if performance conditions would have been set, the fixed shares

would count as variable compensation under the 20% cap). Once awarded, they cannot be taken away at a later stage, even though the value of these fixed shares will vary in line with variations in ING's share price. As per the Dutch Corporate Governance Code, a retention period of five years will apply from the date of conversion to fixed shares.

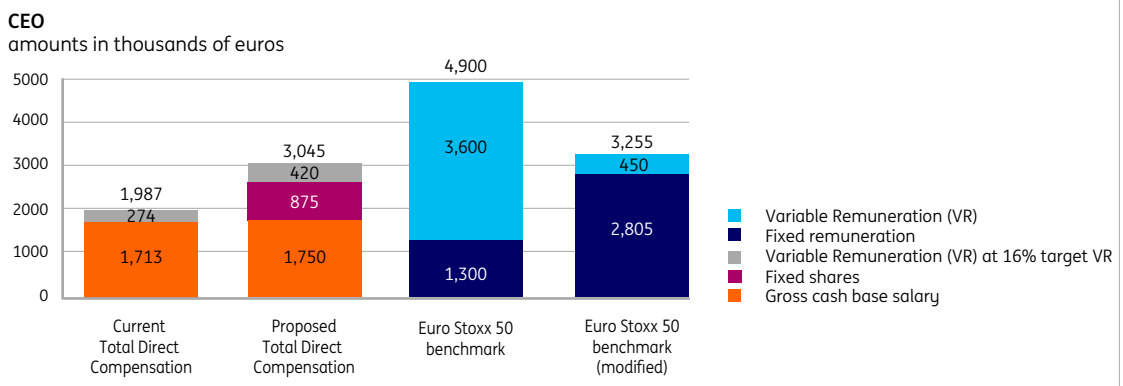
(ii) the Supervisory Board may decide that until the end of the tenure of an Executive Board member a mandatory minimum shareholding requirement up to one year gross cash base salary plus fixed shares will apply, including the principle 'once achieved, always achieved'.

The Supervisory Board has decided to change the remuneration for the CEO position as from 1 January 2018 as follows:

- Increase in gross cash base salary of 2.2% to EUR 1,750,000.
- Subject to approval at the AGM of the amendment to the remuneration policy, fixed shares with a value equal to 50% of the gross cash base salary
- Subject to approval at the AGM of the amendment to the remuneration policy, a mandatory minimum shareholding requirement will apply equal to one year gross cash base salary plus fixed shares.
- No change in variable remuneration, which continues to be capped at 20% of fixed remuneration (gross cash base salary plus fixed shares) with a target of 16% and which remains for 100% awarded in ING shares, significantly beyond the 50% that is minimally required by regulations.

The table below shows both current total remuneration and proposed new remuneration for the CEO. The fixed shares together with variable remuneration in shares and the mandatory shareholding requirement ensure full alignment of remuneration of the CEO position with shareholders and investors and are testament to the long-term view the Supervisory Board takes where it concerns executive remuneration. This is fully in line with the principles of the Dutch Corporate Governance Code and other relevant regulations.

Remuneration CEO position vs. Euro Stoxx 50 benchmark



This new remuneration level remains approximately 7% below the lower, 'modified' Euro Stoxx 50 benchmark and, thus, in line with the principles of the Dutch Banking Code and ING's Executive Board remuneration policy. It reflects the prudent approach taken by the Supervisory Board and the long-term sustainable character of ING's Executive Board remuneration policy.

In view of the fact that total remuneration levels of the other two Executive Board members, the CFO and the CRO, are much closer to the median of their relative market, the Supervisory Board decided not to adjust their remuneration this year.

The Supervisory Board will continue to monitor the development of international remuneration practices and will continue to support the Executive Board remuneration policy of compensating slightly below the median of the Euro Stoxx 50 benchmark.

Remuneration Supervisory Board

Supervisory Board remuneration policy

The remuneration policy for the Supervisory Board, as approved at the AGM on 25 April 2016, aims to:

- Provide a simple and transparent structure
- Bring remuneration levels in line with peers and with levels adequate to attract qualified (international) Supervisory Board members
- Align remuneration with increased responsibilities and time spent.

As per 9 May 2017, the Nomination Committee and Corporate Governance Committee merged. The remuneration of the combined commitee was brought in line with the other committees. The Supervisory Board remuneration policy for 2017 is shown below:

Supervisory Board remuneration structure	
amounts in euros	
Annual remuneration	
Chairman Supervisory Board	125,000
Vice Chairman Supervisory Board	95,000
Supervisory Board Member	70,000
Committee fees (annual amounts)	
Chairman Committee	20,000
Member Committee	10,000
Chairman Corporate Governance Committee (until 9 May 2017)	7,500
Member Corporate Governance Committee (until 9 May 2017)	5,000
Attendance fees (per meeting)	
Attendance fee outside country of residence	2,000
Attendance fee outside continent of residence	7,500

In addition, members of the Supervisory Board are reimbursed for their travel and business related expenses relating to ING.

2017 Remuneration Supervisory Board

The table below shows the remuneration, including attendance fees per Supervisory Board member.

2017 Remuneration Supervisory Board						
amounts in euros		2017		2016		2015
(rounded figures)	Remuneration[5]	VAT	Remuneration	VAT	Remuneration	VAT
Jeroen van der Veer	169,000	35,000	178,000	37,000	122,000	26,000
Hermann-Josef Lamberti	141,000		149,000		111,000	
Henk Breukink	105,000	22,000	115,000	24,000	83,000	17,000
Mariana Gheorghe	94,000		98,000		40,000	
Robert Reibestein	112,000	24,000	114,000	24,000	76,000	16,000
Isabel Martín Castellá[1]	46,000		114,000		92,000	
Eric Boyer de la Giroday	106,000		114,000		92,000	
Ann Sherry[2]	94,000		85,000			
Hans Wijers[3]	35,000	7,000				
Jan Peter Balkenende[4]	27,000	6,000				

1 Isabel Martín Castellá left the Supervisory Board as of 9 May 2017. The remuneration figures for 2017 reflect a partial year as a member of the Supervisory Board.
2 Ann Sherry was a member of the Supervisory Board from 25 April 2016 up to 14 September 2017. The remuneration figures for 2016 and 2017 reflect a partial year as a member of the Supervisory Board.
3 Hans Wijers was appointed to the Supervisory Board by the 8 May 2017 AGM. His Supervisory Board membership became effective as of 1 September 2017. The remuneration figures for 2017 reflect a partial year as a member of the Supervisory Board.
4 Jan Peter Balkenende was appointed to the Supervisory Board by the 8 May 2017 AGM. He joined the meetings of the Supervisory Board as an observer in between 9 May and 1 September 2017. His Supervisory Board membership became effective as of 1 September 2017. The remuneration figures for 2017 reflect a partial year as a member of the Supervisory Board.
5 Margarete Haase was appointed to the Supervisory Board by the 8 May 2017 AGM. She joined the meetings of the Supervisory Board as an observer since 9 May 2017. In light of the planned reduction of the number of her directorships, her appointment will become effective as per 1 May 2018 as decided by the Supervisory Board in January 2018. Hence there are no remuneration figures to report over 2017.

Compensation of former members of the Supervisory Board who are not included in the table above amounted to nil in 2017, EUR 36,000 in 2016 and EUR 160,000 in 2015.

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. As of 31 December 2017 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 2017, 2016 and 2015.

ING shares held by the members of the Supervisory Board

number of shares	2017	2016	2015
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	47,565

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 2017

number of stock options	Outstanding as at 31 December 2017	Expired in 2017	Outstanding as at 31 December 2016	Expired in 2016	Outstanding as at 31 December 2015	Expired in 2015
Eric Boyer de la Giroday	113,385	113,479	226,864	92,984	319,848	69,542

Works councils

Central works council Bank (COR) December 2017

E. (Edward) Boeijenga, ***chairman***
J. (Yoap) Brugmann, ***deputy chairman***
F.E. (Ferry) van Wezel, ***secretary***
Y.J. (Yvonne) Vork ***(works council support)***

J.P. (Jan) Driessen
P.E. (Egon) Gijsbers
I.M. (Michiel) van Lagen
A. (Arie) Noomen
M. (Margriet) Pel
J. (Judith) Roosken
M. (Michel) Rutte
M.T. (Marinus) Stoffers
J.H.C. (John) Stribos
E. (Erik) Timmerman
M. (Marcel) de Valk

European works council December 2017

Austria: Otmar Haneder, (deputy Ernst Szoeke)
Belgium: Jean Pierre Lambert, Herman van Eesbeek, Franck Goethals, Ahmed Sanhayi
Bulgaria: Andrew Nitov, (deputy Angela Licheva)
Czech Republic: Martina Žatecká, (deputy Alena Klaassenová)
France: Stephen Minary, (deputy Mourad Benzaaza)
Germany: Norbert Lucas (chairman), Andre Fioritto, (deputy Ulrich Probst)
Hungary: Géza Bodor (vice chairman), (deputy Beáta Vodli)
Italy: Claudio Casazza, (deputy Sami Zambon)
Luxembourg: Alain Back, (deputy Raphael Pasquarelli)
Netherlands: Maarten Kramer (secretary), Jan van Hest, Bert Woltheus, Judith Roosken, Wim van Huizen
Poland: Mariusz Cieslik, Jakub Dzianowicz, Arthur Banasik
Romania: Adrian Piscu, Magdalena Nitu, (deputy Vlad Pop)
Slovakia: Miroslav Fliega, (deputy Julius Kis)
Spain: Francisco Javier Díaz Mosquera (vice secretary), Javier Berraco Criado, (deputy Javier Losa Bordallo)
United Kingdom: Mark Foley, (deputy Moises Gerstein Alvarez)
Works council support: Miriam Rozenbrand, Karin van de Schouw

Contents

Consolidated annual accounts

Consolidated statement of financial position		103
Consolidated statement of profit or loss		104
Consolidated statement of comprehensive income		106
Consolidated statement of changes in equity		107
Consolidated statement of cash flows		110
Notes to the consolidated annual accounts		112
Notes to the accounting policies		
Reporting entity		112
Authorisation of the Consolidated annual accounts		112
Basis of preparation of the Consolidated annual accounts		112
1	Accounting policies	112
Notes to the Consolidated statement of financial position		
2	Cash and balances with central banks	132
3	Loans and advances to banks	132
4	Financial assets at fair value through profit or loss	132
5	Investments	134
6	Loans and advances to customers	136
7	Investments in associates and joint ventures	138
8	Property and equipment	140
9	Intangible assets	141
10	Other assets	143
11	Deposits from banks	144
12	Customer deposits	144
13	Financial liabilities at fair value through profit or loss	144
14	Provisions	145
15	Other liabilities	147
16	Debt securities in issue	148
17	Subordinated loans	148
18	Equity	150
Notes to the Consolidated statement of profit or loss		
19	Net interest income	157
20	Net commission income	158
21	Valuation results and net trading income	158
22	Investment income	160
23	Result on disposal of group companies	160
24	Other income	160
25	Staff expenses	161
26	Other operating expenses	164
27	Discontinued operations	165
28	Earnings per ordinary share	167
29	Dividend per ordinary share	168
Notes to the Consolidated statement of cash flows		
30	Net cash flow from investing activities	168
31	Changes in liabilities arising from financing activities	168
32	Cash and cash equivalents	168
Segment reporting		
33	Segments	169
34	Information on geographical areas	177

Additional notes to the Consolidated annual accounts
35 Pension and other post-employment benefits 184
36 Taxation 187
37 Fair value of assets and liabilities 190
38 Derivatives and hedge accounting 202
39 Assets by contractual maturity 205
40 Liabilities by maturity 206
41 Assets not freely disposable 207
42 Transfer of financial assets 208
43 Offsetting financial assets and liabilities 208
44 Contingent liabilities and commitments 213
45 Legal proceedings 214
46 Consolidated companies and businesses acquired and divested 216
47 Principal subsidiaries 217
48 Structured entities 218
49 Related parties 220
50 ING's Restructuring 222
51 Subsequent events 222
Risk management 223
Capital management 289

Parent company annual accounts

Parent company statement of financial position 295
Parent company statement of profit or loss 296
Parent company statement of changes in equity 297
Notes to the parent company annual accounts 299

Other information

Independent auditor's report 309
Articles of Association – Appropriation of results 315

Additional information

Risk factors 316
Non-financial appendix 337
Non-GAAP measures 354
General information 355

Consolidated statement of financial position

as at 31 December

in EUR million	2017	2016
Assets		
Cash and balances with central banks 2	21,989	18,144
Loans and advances to banks 3	28,811	28,858
Financial assets at fair value through profit or loss 4		
– trading assets	116,748	114,504
– non-trading derivatives	2,231	2,490
– designated as at fair value through profit or loss	4,242	5,099
Investments 5		
– available-for-sale	69,730	82,912
– held-to-maturity	9,343	8,751
Loans and advances to customers 6	574,535	563,660
Investments in associates and joint ventures 7	1,088	1,141
Property and equipment 8	1,801	2,002
Intangible assets 9	1,469	1,484
Current tax assets	324	314
Deferred tax assets 36	818	1,000
Other assets 10	13,087	14,722
Total assets	**846,216**	**845,081**
Liabilities		
Deposits from banks 11	36,821	31,964
Customer deposits 12	539,799	522,942
Financial liabilities at fair value through profit or loss 13		
– trading liabilities	73,596	83,167
– non-trading derivatives	2,331	3,541
– designated as at fair value through profit or loss	11,215	12,266
Current tax liabilities	750	546
Deferred tax liabilities 36	752	919
Provisions 14	1,713	2,028
Other liabilities 15	16,064	16,852
Debt securities in issue 16	96,086	103,234
Subordinated loans 17	15,968	17,223
Total liabilities	**795,095**	**794,682**
Equity 18		
Share capital and share premium	17,045	16,989
Other reserves	4,362	5,897
Retained earnings	28,999	26,907
Shareholders' equity (parent)	**50,406**	**49,793**
Non-controlling interests	715	606
Total equity	**51,121**	**50,399**
Total liabilities and equity	**846,216**	**845,081**

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Consolidated statement of profit or loss

for the years ended 31 December

in EUR million	2017	2017	2016	2016	2015	2015
Continuing operations						
Interest income	43,958		44,182		46,321	
Interest expense	-30,244		-30,941		-33,760	
Net interest income 19		13,714		13,241		12,561
Commission income	3,865		3,581		3,411	
Commission expense	-1,155		-1,148		-1,093	
Net commission income 20		2,710		2,433		2,318
Valuation results and net trading income 21		628		1,134		1,283
Investment income 22		192		421		123
Share of result from associates and joint ventures 7		178		88		492
Result on disposal of group companies 23		1		1		2
Other income 24		350		173		66
Total income		**17,773**		**17,491**		**16,845**
Addition to loan loss provisions 6		676		974		1,347
Staff expenses 25		5,202		5,039		4,972
Other operating expenses 26		4,627		5,575		4,354
Total expenses		**10,505**		**11,588**		**10,673**
Result before tax from continuing operations		**7,268**		**5,903**		**6,172**
Taxation 36		2,281		1,618		1,637
Net result from continuing operations		**4,987**		**4,285**		**4,535**
Discontinued operations 27						
Net result from discontinued operations						793
Net result from classification as discontinued operations						3
Net result from disposal of discontinued operations				441		-918
Total net result from discontinued operations		-		**441**		**-122**
Net result (before non-controlling interests)		**4,987**		**4,726**		**4,413**
Net result attributable to Non-controlling interests		82		75		403
Net result attributable to Equityholders of the parent		**4,905**		**4,651**		**4,010**

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Consolidated statement of profit or loss of ING Group - continued

in EUR million	2017	2016	2015
Net result attributable to Non-controlling interests			
– from continuing operations	82	75	69
– from discontinued operations			334
	82	**75**	**403**
Net result attributable to Equityholders of the parent			
– from continuing operations	4,905	4,210	4,466
– from discontinued operations		441	–456
	4,905	**4,651**	**4,010**

in EUR	2017	2016	2015
Earnings per ordinary share 28			
Basic earnings per ordinary share	1.26	1.20	1.04
Diluted earnings per ordinary share	1.26	1.20	1.03
Earnings per ordinary share from continuing operations 28			
Basic earnings per ordinary share from continuing operations	1.26	1.09	1.16
Diluted earnings per ordinary share from continuing operations	1.26	1.09	1.15
Dividend per ordinary share 29	0.67	0.66	0.65

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Consolidated statement of comprehensive income

for the years ended 31 December

in EUR million	2017	2016	2015
Net result (before non-controlling interests)	4,987	4,726	4,413
Other comprehensive income			
Items that will not be reclassified to the statement of profit or loss:			
Realised and unrealised revaluations property in own use	26	5	35
Remeasurement of the net defined benefit asset/liability 35	-29	-65	24
Items that may subsequently be reclassified to the statement of profit or loss:			
Unrealised revaluations available-for-sale investments and other revaluations	-283	61	-414
Realised gains/losses transferred to the statement of profit or loss	-92	-146	-92
Changes in cash flow hedge reserve	-525	77	-724
Transfer to insurance liabilities/DAC			601
Exchange rate differences	-864	-254	1,697
Share of other comprehensive income of associates and joint ventures and other income	-5	-14	-5
Total comprehensive income	**3,215**	**4,390**	**5,535**
Comprehensive income attributable to:			
Non-controlling interests	109		529
Equityholders of the parent	3,106	4,390	5,006
	3,215	**4,390**	**5,535**

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 2017	16,989	5,897	26,907	49,793	606	50,399
Unrealised revaluations available-for-sale investments and other revaluations		-293		-293	10	-283
Realised gains/losses transferred to the statement of profit or loss		-90		-90	-2	-92
Changes in cash flow hedge reserve		-514		-514	-11	-525
Realised and unrealised revaluations property in own use			26	26		26
Remeasurement of the net defined benefit asset/liability 35		-29		-29		-29
Exchange rate differences		-894		-894	30	-864
Share of other comprehensive income of associates and joint ventures and other income		138	-143	-5		-5
Total amount recognised directly in other comprehensive income		**-1,682**	**-117**	**-1,799**	**27**	**-1,772**
Net result from continuing and discontinued operations		153	4,752	4,905	82	4,987
Total comprehensive income		**-1,529**	**4,635**	**3,106**	**109**	**3,215**
Dividends 29			-2,564	-2,564		-2,564
Changes in treasury shares		-6		-6		-6
Employee stock option and share plans	56		21	77		77
Balance as at 31 December 2017	**17,045**	**4,362**	**28,999**	**50,406**	**715**	**51,121**

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 18 '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 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 29			-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 18 '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 29			-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 18 'Equity'.

Consolidated statement of cash flows

for the years ended 31 December

in EUR million		2017	2016	2015
Cash flows from operating activities				
Result before tax[1]		7,268	6,342	6,193
Adjusted for:	– depreciation and amortisation	520	536	634
	– change in provisions for insurance and investment contracts			–1,499
	– addition to loan loss provisions	676	974	1,347
	– other	703	1,495	–100
Taxation paid		–1,691	–1,603	–1,450
Changes in:	– loans and advances to banks, not available on demand	–3,126	–1,162	6,766
	– trading assets	–1,612	16,956	5,458
	– non-trading derivatives	–2,239	1,812	–303
	– other financial assets at fair value through profit or loss	441	–3,401	–256
	– loans and advances to customers	–20,505	–29,656	–23,030
	– other assets	–430	–915	549
	– deposits from banks, not payable on demand	6,320	–342	5,179
	– customer deposits	18,223	23,493	17,970
	– trading liabilities	–9,575	–5,634	–8,276
	– other financial liabilities at fair value through profit or loss	–565	–432	–1,582
	– provisions and other liabilities	339	90	2,977
Net cash flow from/(used in) operating activities		**–5,253**	**8,553**	**10,577**
Cash flows from investing activities				
Investments and advances:	– associates and joint ventures	–79	–49	–40
	– available-for-sale investments	–21,601	–27,003	–47,858
	– held-to-maturity investments	–3,609	–1,731	–3,457
	– property and equipment	–264	–351	–353
	– assets subject to operating leases	–40	–64	–37
	– investments for risk of policyholders			–2,417
	– other investments	–264	–288	–648
Disposals and redemptions:	– group companies (including cash in company disposed)[2]			–6,926
	– associates and joint ventures[3]	245	1,071	1,175
	– available-for-sale investments[4]	32,788	32,540	52,675
	– held-to-maturity investments	2,675	630	1,219
	– property and equipment	65	63	74
	– assets subject to operating leases	14	12	17
	– investments for risk of policyholders			7,566
	– loans	1,815	1,295	3,201
	– other investments	9	9	5
Net cash flow from/(used in) investing activities 30		**11,754**	**6,134**	**4,196**

Consolidated statement of cash flows of ING Group - continued

in EUR million	2017	2016	2015
Net cash flow from/(used in) operating activities	**–5,253**	**8,553**	**10,577**
Net cash flow from/(used in) investing activities 30	**11,754**	**6,134**	**4,196**
Cash flows from financing activities			
Proceeds from debt securities 31	95,458	106,174	139,424
Repayments of debt securities 31	-96,837	-123,748	-147,337
Proceeds from issuance of subordinated loans 31	2,331	2,070	3,159
Repayments of subordinated loans[5] 31	-2,343	-1,042	-6,092
Purchase/sale of treasury shares	7	10	34
Proceeds from NN Group divestments and related transactions			1,040
Dividends paid	-2,564	-2,521	-1,393
Net cash flow from/(used in) financing activities	**–3,948**	**–19,057**	**–11,165**
Net cash flow	**2,553**	**–4,370**	**3,608**
Cash and cash equivalents at beginning of year	16,164	20,379	17,113
Effect of exchange rate changes on cash and cash equivalents	260	155	-342
Cash and cash equivalents at end of year 32	**18,977**	**16,164**	**20,379**

1 Result before tax includes results from continuing operations of EUR 7,268 million (2016: EUR 5,903 million; 2015: EUR 6,172 million) as well as results before tax from discontinued operations of nil (2016: EUR 439 million; 2015: EUR 21 million).
2 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.
3 Disposals and redemptions – associates and joint ventures includes (2016: 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).
4 In 2016, 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.
5 In 2016, Repayment of subordinated loans includes 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.

As at 31 December 2017, Cash and cash equivalents includes cash and balances with central banks of EUR 21,989 million (2016: EUR 18,144 million; 2015: EUR 21,458 million). The increase in cash and balances with central banks reflects ING's liquidity management. Reference is made to Note 32 'Cash and cash equivalents'.

Comparison of the Consolidated statements of cash flow between 2017, 2016, 2015 is impacted by NN Group. Included in the 2015 statement of cash flow is the NN Group cash flows for five months until deconsolidation at the end of May 2015.

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Interest and dividend received and paid[1]

	2017	2016	2015
Interest received	45,014	44,814	47,055
Interest paid	-31,032	-31,703	-34,238
	13,982	**13,111**	**12,817**
Dividend received[2]	206	208	137
Dividend paid	-2,564	-2,521	-1,393

1 All interest and dividend paid and received from trading positions are included. 2016 and 2015 interest and dividend received have been restated to align to current year presentation.
2 Includes dividends received as recognized within Investment Income, from equity securities included in the Financial assets at fair value through profit or loss, and from Investments in associates and joint ventures.

Interest received, interest paid and dividends received are included in operating activities in the Consolidated statement of cash flow. Dividend paid is included in financing activities in the statement of cash flow.

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 2017, 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, as at and for the year ended 31 December 2017, were authorised for issue in accordance with a resolution of the Executive Board on 5 March 2018. 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) as adopted by the European Union (EU) and the relevant articles of Part 9 of Book 2 of the Dutch Civil Code.

IFRS as adopted by the EU are IFRS Standards and IFRS Interpretations as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) 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', d) Principles of valuation and determination of results and Note 38 'Derivatives and hedge accounting'.

The ING Group Consolidated annual accounts have been prepared on a going concern basis.

1 Accounting policies

ING Group has consistently applied its accounting policies to all periods presented in these Consolidated annual accounts.

a) Changes in IFRS effective in 2017

ING Group has applied a number of amendments to standards for the first time during the year ended 31 December 2017. The implementation of these changes had an insignificant impact on the consolidated financial position, net result, other comprehensive income, cash flows, and related disclosures of ING Group. The amendment to IAS 7 now requires a disclosure of changes in liabilities arising from financing activities, reference is made to Note 31 'Changes in liabilities arising from financing activities'. ING Group has not early adopted any other standard, interpretation or amendment which has been issued, but is not yet effective.

b) Upcoming changes in IFRS after 2017

Changes to IFRS effective in 2018 and onwards expected to have no significant impact on ING Group

The following published amendments are not mandatory for 2017 and have not been early adopted by the group. ING Group is still currently assessing the detailed impact of these amendments, however the implementation of these amendments is expected to have no significant impact on ING Group's Consolidated annual accounts.

The list of upcoming changes to IFRS, which are applicable for ING Group

Effective in 2018 (* - endorsed by the EU, the rest not yet endorsed by the EU):

- *Amendments to IFRS 2 'Share-based Payment': Classification and Measurement of Share-based payment transactions;
- Amendments to IAS 40 'Investment Property': Transfers of Investment Property;
- *Annual improvements cycle 2014 – 2016: Amendments to IAS 28 'Investments in Associates and Joint Ventures'; and
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'.

Effective in 2019 (not yet endorsed by the EU):

- IFRIC 23 'Uncertainty over Income Tax Treatments';
- Amendments to IAS 28: 'Investments in Associates and Joint Ventures': Long-term Interests in Associates and Joint Ventures;
- Annual improvements cycle 2015 – 2017: Amendments to IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements', IAS 12 'Income Taxes', IAS 23 'Borrowing Costs'; and
- Amendments to IAS 19: 'Employee Benefits': Plan Amendment, Curtailment or Settlement.

IASB has also issued IFRS 17 'Insurance Contracts' effective in 2021, however it is not applicable for ING Group.

Major new IFRSs

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 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting. The new requirements are effective for annual periods beginning on or after 1 January 2018 and will be applied by ING Group as of 1 January 2018. ING Group applies the classification, measurement, and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018, and has decided not to restate comparative periods and not to early apply the changed own credit risk requirements, as permitted by IFRS 9. In October 2017, the IASB issued an amendment to IFRS 9 with regard to prepayment features with negative compensation. This change allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortised cost or at fair value through other comprehensive income. The amendment will be effective for annual period beginning or after 1 January 2019. If the amendment is endorsed by the EU, ING will early adopt the amendment to IFRS 9 as of 1 January 2018 as permitted. Based on the assessments carried out, ING Group does not expect that this change will have an impact.

ING decided to continue applying IAS 39 for hedge accounting including the application of the EU carve out as explicitly permitted by IFRS 9. The revised hedge accounting disclosures as required by IFRS 7 'Financial Instruments: Disclosures' as per 1 January 2018 will be implemented across ING Group.

IFRS 9 program governance and status

The IFRS 9 program was initiated in 2015 and was set-up based on the three pillars of the IFRS 9 standard: Classification and Measurement, Impairment, and Hedge Accounting. These central work streams consisted of experts from Finance, Risk, Bank Treasury, Operations, and the Business. The IFRS 9 Technical Board consisted 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 was the key decision making body and consists of senior managers from Finance, Risk, Bank Treasury and Wholesale Banking Lending Services. The Management Board Banking and the Audit Committee were periodically updated about IFRS 9 and the key decisions.

In 2017 the program's focus was on:

- Performing three 'parallel runs' to test readiness of systems, processes and a number of controls for transition to IFRS 9 as per 1 January 2018;
- Developing and validating of the new expected credit loss models;
- Developing and implementing processes for staging and using forward looking economic guidance in the Expected Credit Losses models;
- Finalising technical interpretation of the IFRS 9 standard;
- Finalising the business model assessment and solely payments of principal and interest testing for Classification and Measurement purposes;
- Implementing and testing system changes;
- Updating the policies, governance, and control frameworks that are impacted by IFRS 9 and starting to embed these changes into everyday business and financial reporting cycles;
- Preparing the IFRS 9 transition disclosure plan.

During 2017, the IFRS 9 program was subject to reviews by supervisors and audits by ING's internal audit department.

ING has almost completed the implementation of IFRS 9. The main procedures that are in the process of being finalised are the transfer of program activities, further embedding internal controls in the processes, and the last model validations.

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 (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL):

1. The business model assessment, performed to determine how a portfolio of financial instruments as a whole is managed in order to classify the business model as Hold to Collect (HtC), Hold to Collect & Sell (HtC&S), or other; and
2. The contractual cash flow characteristics test, performed to determine whether the financial instruments give rise to cash flows that are Solely Payments of Principal and Interest (SPPI). Principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risk and costs as well as margin.

A financial asset is measured at AC if it is held within a HtC business model, the contractual cash flows are solely SPPI and if it is not designated as at FVPL. A financial asset is measured at FVOCI if it is held within a HtC&S business model, the contractual cash flows are solely SPPI and if it is not designated at FVPL. Financial assets not classified as AC or FVOCI are measured at FVPL.

ING's business models are based on the existing management structure of the bank, and refined based on an analysis of how businesses are evaluated and reported, how their specific business risks are managed and on historic and expected future sales. The SPPI testing was carried out on a sample basis conducted after the financial assets within the business models were stratified based on an analysis of product characteristics. In performing the SPPI testing, ING considered the contractual terms of the instruments. This included assessing whether the financial assets contained a contractual term that would change the amount or timing of contractual cash flows such that they would no longer be SPPI compliant. In making the assessment, terms such as the following were considered:

- Prepayment terms. For example a prepayment of an outstanding principal amount plus a penalty capped to three or six months of interest;
- Leverage features, which increase the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. An example is a Libor contract with a multiplier of 1.3;
- Terms that limit the groups claim to cash flows from specified assets – e.g. non-recourse asset arrangements. This could be the case if payments of principal and interest are met solely by the cash flows generated by the underlying asset, for example in real estate, shipping and aviation financing;
- Features that modify consideration for the time value of money. These are contracts with for example an interest rate which is reset every month to a one-year rate.

A number of key accounting policy choices were required for the Classification and Measurement of ING's financial assets, such as the level of permissible sales in a HtC business model, the FVOCI option for equity investments and accounting prepayments. The decision making process for such policy choices followed the IFRS 9 programme governance, with technical matters researched, decisions documented, and conclusions proposed by ING's IFRS 9 Technical Board for approval by the IFRS 9 Steering Committee.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of financial liabilities designated at FVPL are recognised in the statement of profit or loss (SOPL), whereas under IFRS 9 the fair value changes are presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in the statement of other comprehensive income (SOCI). Upon derecognition this Debt Valuation Adjustment (DVA) impact shall not be recycled from other comprehensive income (OCI) to the SOPL; and
- The remaining amount of change in the fair value is presented in the SOPL.

The impact of this change is that an amount of approximately EUR 0.2 billion will be reclassified within equity from Retained earnings to OCI.

Impact

As a result of the combined application of the business model analysis and SPPI test, the classification and measurement of the following portfolios will change:

- The most significant change is the reclassification of a part of the available-for-sale (AFS) investment portfolio, which will be split into a portfolio classified at AC and a portfolio at FVOCI. Approximately EUR 35.5 billion of debt securities previously classified at AFS under IAS 39 will be measured at AC based on the IFRS 9 HtC business model. The reclassification from AFS to AC will result in a reduction of the unrealised revaluation gains in equity at transition date of approximately EUR 0.6 billion.
- For a mortgage portfolio of EUR 3.4 billion, the measurement will change from AC to FVOCI as it meets the HtC&S business model requirements. As the fair value of the portfolio is higher than the AC, this wil have a positive impact on equity of EUR 0.2 billion.
- Approximately EUR 1.3 billion of debt securities and loans previously booked at AC or AFS will be measured at FVPL as the cash flows do not meet the SPPI test. This measurement change has a limited negative impact on equity at transition date.

Furthermore, there are a few portfolios for which only the classification on ING's Consolidated statement of financial position will change without impacting equity:

- ING has a portfolio of equity securities amounting to EUR 4.0 billion. For strategic equity instruments amounting to EUR 3.9 billion; ING has decided to apply the option to irrevocably designate these at FVOCI, instead of the IFRS 9 default measurement of FVPL. FVOCI equity investments will have no recycling of the revaluation reserve anymore to the SOPL upon disposal. For these instruments only dividend income continues to be recognised in the SOPL; and
- Certain reverse repurchase portfolios amounting to EUR 54.8 billion will be classified as financial assets 'Mandatorily at FVPL' instead of Held for trading. ING will use the fair value option for the related repurchase financial liabilities amounting to EUR 37.2 billion.

Impairment

The implementation of IFRS 9 has a significant impact on ING's impairment methodology. The Expected Credit Loss (ECL) model is a forward-looking model. The ECL estimates are unbiased, probability-weighted, and include supportable information about past events, current conditions, and forecasts of future economic conditions. ING's ECL model reflects three macroeconomic scenarios via a baseline, up and down scenario and include the time value of money. The model applies to on-balance sheet financial assets accounted for at AC and FVOCI such as loans, debt securities and lease receivables, as well as off-balance sheet items such as undrawn loan commitments, certain financial guarantees, and undrawn committed revolving credit facilities. Compared to the scope under IAS 39, the main change is the inclusion of off-balance sheet exposures and HtC&S financial assets. ING aligned the definition of credit impaired under IFRS 9 with the definition of default for prudential purposes.

ING's approach leveraged the existing regulatory capital models that use the Advanced Internal Ratings Based (AIRB) models for regulatory purposes. For other portfolios that use the Standardized Approach (SA) to calculate regulatory capital, ING developed new ECL models.

Three stage approach

ING Group will apply the IFRS 9 three stage approach to measure expected credit losses:

- Stage 1: 12 month ECL – No significantly increased credit risk
  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). For those financial assets with a remaining maturity of less than 12 months, a Probability of Default (PD) is used that corresponds to the remaining maturity.
- Stage 2: Lifetime ECL – Significantly increased credit risk
  In the event of a significant increase in credit risk since initial recognition, a provision is required for the lifetime ECL representing losses over the life of the financial instrument (lifetime ECL).
- Stage 3: Lifetime ECL – Defaulted
  Financial instruments that move into Stage 3 once credit impaired and purchases of credit impaired assets will require a lifetime provision.

Significant increase in credit risk

A financial asset moves from Stage 1 to Stage 2 when there is a significant increase in credit risk since initial recognition. ING Group established a framework which incorporates quantitative and qualitative information to identify this on an asset level applying a relative assessment. Each financial asset will be assessed at the reporting date on the triggers for significant deterioration. ING Group assesses significant increase in credit risk using:

- Delta in the lifetime default probability;
- Forbearance status;
- Watch list status. Loans on the watchlist are individually assessed for Stage 2 classification;
- Intensive care management;
- Internal rating;
- Arrears; and the
- More than 30 days past due backstop for Stage 1 to Stage 2 transfers.

The delta in lifetime probability of default is the main trigger for movement between Stage 1 and Stage 2. The trigger compares lifetime probability of default at origination versus lifetime probability of default at reporting date, considering the remaining maturity. Assets can move in both directions, meaning that they will move back to Stage 1 or Stage 2 when the Stage 2 or Stage 3 triggers are not applicable anymore (taking into account the regulatory probation periods). The stage allocation is implemented in the central credit risk systems.

Macroeconomic scenarios

ING has established a quarterly process whereby forward-looking macroeconomic scenarios and probability weightings are developed for ECL calculation purposes. ING applies predominantly data from a leading service provider enriched with the internal ING view. To reflect an unbiased and probability-weighted ECL amount, a baseline, an up-scenario and a down-scenario are determined. As a baseline scenario, ING applies the market-neutral view combining consensus forecasts for economic variables such as unemployment rates, GDP growth, house prices, commodity prices, and short-term interest rates. Applying market consensus in the baseline scenario ensures unbiased estimates of the expected credit losses.

The alternative scenarios are based on observed forecast errors in the past, adjusted for the risks affecting the economy today, and the forecast horizon. The probabilities assigned are based on the likelihoods of observing the three scenarios and are derived from confidence intervals on a probability distribution. The scenarios are adjusted on a quarterly basis.

As the inclusion of forward-looking macroeconomic scenarios requires judgement, a Macroeconomic scenarios team and a Macroeconomic scenarios expert panel were established. The Macroeconomic scenarios team is responsible for the macroeconomic scenarios used for IFRS 9 ECL purposes with a challenge by the Macroeconomic scenarios expert panel. This ensures that the macroeconomic scenarios are sufficiently challenged and that key economic risks, including immediate short term risks, are taken into consideration when developing the macroeconomic scenarios used in the calculation of ECL. The Macroeconomic scenarios expert panel is a diverse team composed of senior management representatives from the Business, Risk, Finance, and an external party.

Measurement
The calculation of IFRS 9 ECL leverages 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. These models are adjusted for 1) removal of embedded prudential conservatism (such as floors), 2) provide forward-looking point in time estimates based on macroeconomic predictions and 3) a 12 months or lifetime view of credit risk where needed. Lifetime features are default behaviour over a longer horizon, full behaviour after the default moment, repayment schedules and early settlements. For most financial instruments, the expected life is limited to the remaining maturity. For overdrafts and certain revolving credit facilities, such as credit cards, open ended assumptions are taken as these do not have a fixed term or repayment schedule.

To measure ECL, ING Group applies a PD x EAD x LGD approach incorporating the time value of money. 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 credit is applied. 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 till maturity. For Stage 3 assets the PD equals 100% and the Loss Given Default (LGD) and Exposure At Default (EAD) represent a lifetime view of the losses based on characteristics of defaulted facilities.

Impact
As a result of the new IFRS 9 impairment requirements, ING expects that the loan loss provisions (LLP) to increase by approximately EUR 0.6 billion (pre-tax). The split of the ECL to different stages of our portfolio is further detailed in the table below. The increase in the level of impairments due to the IFRS 9 transition is mainly the result of IFRS 9 Stage 2 loans for which lifetime expected credit losses need to be calculated.

Estimated IFRS 9 transition impact impairments as at 1 January 2018[1]

In billions of euros	IAS 39 LLP	IFRS 9 impairment stages	Estimated IFRS 9 ECL increase	Estimated IFRS 9 ECL
Incurred but Not Reported (IBNR)	0.7	Stage 1- 12 month ECL	0.1	0.4
		Stage 2 – Lifetime ECL	0.5	0.9
Individual provisions (ISFA, INSFA)	3.9	Stage 3 – Lifetime ECL	0.0[2]	3.9
Total	**4.6**	**Total**	**0.6**	**5.2**

1 Includes provisions for contingent liabilities
2 The change for Stage 3 financial assets is rounded.

IFRS 9 Impact on capital and other regulatory requirements
IFRS 9 will impact ING Group's reported capital as a result of the transition adjustments recorded in shareholders' equity on transition date. The Basel Committee on Banking Supervision (BCBS) pointed out that the treatment of provisions under both the SA and the AIRB frameworks remains, but allows jurisdictions the option to choose whether to apply a transitional arrangement for the impact of impairment under IFRS 9. As a result, the EU introduced transitional arrangements for mitigating the impact of the introduction of IFRS 9 impairment on own funds in the Capital Requirements Regulations (CRR). ING has decided not to apply the IFRS 9 impairment transitional arrangements. The increase in provisions will have limited impact on ING's CET1 ratio as for the AIRB portfolios it will be offset by the existing regulatory provision shortfall per 31 December 2017.

The estimated impact of the adoption of IFRS 9 on shareholders' equity is approximately EUR -0.9 billion and -18 basis points on CET1 capital ratio at implementation date 1 January 2018, consisting of:

Estimated impact of adopting IFRS 9 on shareholders' equity as at 1 January 2018

In billions of euros	Estimated impact on shareholders' equity
Loan loss provisions[1]	–0.4
Investment portfolio[2]	–0.6
Mortgages held in HtC&S portfolio[3]	0.2
Other[4]	–0.1
Total impact	**–0.9**

1 The EUR -0.4 billion is the post-tax impact on equity of the estimated IFRS 9 ECL increase amounting to EUR 0.6 billion. The capital impact is for the AIRB portfolios offset by the release of expected loss elements currently included in the calculation of regulatory capital per 31 December 2017.
2 Main impact of approximately EUR -0.6 billion from the reclassification of a part of the investment portfolio from the AFS (FVOCI) debt securities under IAS 39 to the HtC portfolio (AC) under IFRS 9.
3 A portfolio of mortgages will be measured at FVOCI under IFRS 9 instead of AC under IAS 39 resulting in an impact of approximate EUR 0.2 billion impact on CET1 capital.
4 This item mainly relates to the estimated impact of reporting loans and debt instruments at fair value through the SOPL because the cash flows of these assets do not represent SPPI.

The impact on other regulatory ratios is not expected to be material.

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. 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 deliver benefit from the customer's perspective. Revenue should either be recognised at a point-in-time or over-time depending on the service being delivered to the customer.

ING assessed the impact of IFRS 15 and expects that it will have no significant effect on ING Group's Net result and/or Other comprehensive income and Shareholders' equity.

IFRS 16 'Leases'

IFRS 16 'Leases' is effective for annual periods beginning on or after 1 January 2019 and has been endorsed by the EU. IFRS 16 is the new accounting standard for leases and will replace IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'. The new standard removes the distinction between operating or finance leases for lessee accounting, 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 planning to use the modified retrospective approach, however ING is still currently assessing the detailed impact of this standard.

c) Significant judgements and critical accounting estimates and assumptions

The preparation of the consolidated annual accounts requires management to make judgements in the process of applying its accounting policies and to use estimates and assumptions. The 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.

ING Group has identified areas that require management to make significant judgements and use critical accounting estimates and assumptions based on the information and financial data that may change in future periods. These areas are:

- The determination of the fair values of financial assets and liabilities;
- Loan loss provisions; and
- Provisions.

For further discussion of the significant judgements and critical accounting estimates and assumptions in these areas, reference is made to the relevant parts in section d) 'Principles of valuation and determination of results' and the applicable notes to the Consolidated annual accounts.

d) 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. Subsidiaries are entities controlled by ING Groep N.V. Control exists if ING Groep N.V. is exposed or has rights to variable returns and has the ability to affect those returns through the power over the investee. Control is usually achieved through situations including, but not limited to:

- Ownership, directly or indirectly, of more than half of the voting power;
- Ability to appoint or remove the majority of the board of directors;
- Power to govern operating and financial policies under statute or agreement; and
- Power over more than half of the voting rights through an agreement with other investors.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether ING 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.

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 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. 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.

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 annual accounts 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 annual accounts 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.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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 21 '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 18 '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.

Derecognition of financial liabilities
Financial liabilities are 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 designate a financial asset or a financial liability as such 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 using the effective interest method (where applicable) and the remaining changes in fair value of such instruments are recognised in Valuation results and net trading income in the statement of profit or loss.

Dividend income from equity instruments classified at fair value through profit or loss is generally recognised in Valuation results and net trading 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. 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 quoted 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 some categories of 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.

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.

Financial liabilities at amortised cost are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Liabilities in this category 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 liability 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.

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 the annual accounts.

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.

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 inputs 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 possible.

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 level.

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) to the uncollateralised derivatives based on the market price of funding liquidity.

Significant judgements and critical accounting estimates and assumptions:
Even if market prices are available, 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.

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.

Credit risk management classification and maximum credit risk exposure

Credit risk management disclosures are provided in the section 'Risk management – Credit risk' paragraph 'Credit risk categories'.

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'.

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 value is 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 annual accounts. The counterparty liability is included in Deposits from banks, Customer deposits, or Trading, as appropriate.

Securities purchased under agreements to resell (reverse repos) are not recognised in the statement of financial position. The consideration paid to purchase securities is 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 (loan loss provisions)
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 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 impairment loss 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.

Losses expected as a result of future events, no matter how likely, are not recognised.

The Group first assesses whether objective evidence of impairment (a loss event/trigger) 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 (a loss event/trigger) 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.

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.

Impairments on other debt instruments (Loans and held-to-maturity investments) are part of the loan loss provision as described above.

Significant judgements and critical accounting estimates and assumptions:
Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) for financial assets assessed for impairment both individually and collectively. Judgement is exercised in management's evaluation of whether there is objective evidence that an impairment loss on an asset has been incurred, 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.

ING Group estimates individual impairment provisions for individually significant financial assets that have objective evidence of impairment. The key judgement exercised in this area is determination of when an impairment event has occurred. Key assumptions in determining the amount of the individual provision are the expected future cash flows from the financial asset in question.

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.

Expected 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.

Reference is made to Note 6 'Loans and advances to customers' and the section 'Risk management – Credit risk' for further details.

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 is the ability to participate in the financial and operating policies of the investee. It generally results from a shareholding of between 20% and 50% of the voting rights or 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 long-term interests in the associate like uncollateralised loans that are neither planned nor likely to be settled in the foreseeable future, 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 done by independent qualified valuers or by internal valuers, 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 and the changes in fair value will be recognised in the statement of profit or loss. 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.

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.

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, including 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 recoverable amount of that group of CGUs. The carrying value is determined as the IFRS net asset value including goodwill. 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. When the carrying values need to be allocated between Retail and Wholesale, solvency (risk-weighted assets) are used as a basis. 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.

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 annual accounts. 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.

Fair value remeasurement of available-for-sale investments and cash flow hedges, are recognised directly in equity. Deferred tax related to this fair value remeasurement 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 is classified as discontinued operations. Upon classification of a business as held for sale and discontinued operations the individual income and expenses are presented within the 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.

Provisions, contingent liabilities and contingent assets
A provision is 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.

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.

A contingent liability is a possible obligation that arises 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 ING Group; or a present obligation that arises from past events but is not recognised because it is either not probable that an outflow of economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the statement of financial position, but are rather disclosed in the notes unless the possibility of the outflow of economic benefits is remote.

A contingent asset is a possible asset that arises 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 ING Group. Contingent assets are recognised in the statement of financial position only when realisation of the income that arises from such an asset is virtually certain. Contingent assets are disclosed in the notes when an inflow of economic benefits is probable.

Significant judgements and critical accounting estimates and assumptions:
The recognition and measurement of provisions is an inherently uncertain process involving using judgement to determine when a present obligation exists and estimates regarding probability, amounts and timing of cash flows.

ING Group may become involved in legal proceedings. The degree of uncertainty and the method of making the accounting estimate depends on the individual case, its nature and complexity. Legal cases are usually one of a kind. Judgment is required to estimate the probability of an unfavourable outcome and the amount of potential loss. For the assessment of litigation provisions the Group consults with legal experts. Even taking into consideration legal experts' advice, the probability of an outflow of economic benefits can still be uncertain and the amount provisioned can remain sensitive to the assumptions used which may have a broad range of outcomes. Reference is made to Note 14 'Provisions'. For legal proceedings where it is not possible to make a reliable estimate of the expected financial effect, that could result from the ultimate resolution of the proceedings, no provision is recognised, however disclosure is included in the annual accounts. Reference is made to Note 45 'Legal proceedings'.

Key assumptions for the reorganisation provision are in estimating the amounts and timing of cash flows as the announced transformation initiatives are implemented over a period of several years. Reference is made to Note 14 'Provisions'.

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.

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.

Liabilities arising from financing activities are debt securities and subordinated loans.

e) 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

	2017	2016
Amounts held at central banks	19,687	16,408
Cash and bank balances	2,302	1,736
	21,989	**18,144**

In 2017, the movement in Cash and balances with central banks reflects ING's liquidity management.

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	
	2017	2016	2017	2016	2017	2016
Loans	7,899	10,381	20,916	18,483	28,815	28,864
Cash advances, overdrafts and other balances	1	3	3	2	4	5
	7,900	**10,384**	**20,919**	**18,485**	**28,819**	**28,869**
Loan loss provisions	-1		-7	-11	-8	-11
	7,899	**10,384**	**20,912**	**18,474**	**28,811**	**28,858**

Loans include balances (mainly short-term deposits) with central banks amounting to EUR 4,032 million (2016: EUR 2,880 million).

As at 31 December 2017, Loans include receivables related to securities in reverse repurchase transactions amounting to EUR 4,637 million (2016: EUR 2,992 million) and receivables related to finance lease contracts amounting to EUR 65 million (2016: EUR 88 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 2017, the non-subordinated receivables amount to EUR 28,768 million (2016: EUR 28,790 million) and the subordinated receivables amount to EUR 43 million (2016: EUR 68 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

	2017	2016
Trading assets	116,748	114,504
Non-trading derivatives	2,231	2,490
Designated at fair value through profit or loss	4,242	5,099
	123,221	**122,093**

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	2017	2016
Equity securities	13,666	9,513
Debt securities	7,477	9,863
Derivatives	27,444	38,231
Loans and receivables	68,161	56,897
	116,748	**114,504**

As at 31 December 2017, Trading assets include receivables of EUR 67,138 million (2016: EUR 56,020 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 clients, 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. 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 13 'Financial liabilities at fair value through profit or loss' for information on trading liabilities.

Non-trading derivatives

Non-trading derivatives by type	2017	2016
Derivatives used in		
– fair value hedges	685	1,012
– cash flow hedges	617	438
– hedges of net investments in foreign operations	29	73
Other non-trading derivatives	900	967
	2,231	**2,490**

ING Group holds warrants for 35 million shares (2016: 35 million) and 7 million (2016: 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 2017, Other non-trading derivatives includes EUR 51 million (2016: EUR 175 million) and EUR 2 million (2016: EUR 19 million) related to warrants on the shares of Voya Financial Inc. and NN Group N.V. respectively. In 2017 ING sold warrants for 19 million of the shares in Voya Financial Inc. Reference is made to Note 21 'Valuation results and net trading income'.

Designated at fair value through profit or loss

Designated at fair value through profit or loss by type	2017	2016
Equity securities	4	3
Debt securities	1,739	1,669
Loans and receivables	2,499	3,427
	4,242	**5,099**

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 232 million (2016: EUR 260 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 -6 million (2016: EUR –8 million) and the change for the current year amounts to EUR 2 million (2016: EUR 1 million).

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 2017, Loans and receivables designated at fair value through profit or loss includes EUR 2,095 million (2016: EUR 3,001 million) with regard to reverse repurchase transactions.

5 Investments

Investments by type	2017	2016
Available-for-sale		
– equity securities - shares in third party managed structured entities	168	170
– equity securities – other	3,815	3,854
	3,983	**4,024**
– debt securities	65,747	78,888
	69,730	**82,912**
Held-to-maturity		
– debt securities	9,343	8,751
	9,343	**8,751**
	79,073	**91,663**

Exposure to equity securities

Available-for-sale equity securities - Listed and Unlisted	2017	2016
Listed	3,518	3,539
Unlisted	465	485
	3,983	**4,024**

Listed equity securities are primarily made up of Bank of Beijing and Mahindra Kotak Bank.

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	2017	2016
Available-for-sale investments	65,747	78,888
Held-to-maturity investments	9,343	8,751
Loans and advances to customers	5,099	7,471
Loans and advances to banks	265	952
Available-for-sale investments and Assets at amortised cost	**80,454**	**96,062**
Trading assets	7,477	9,863
Designated as at fair value through profit or loss	1,739	1,669
Financial assets at fair value through profit or loss	**9,216**	**11,532**
	89,670	**107,594**

ING Group's total exposure to debt securities included in available-for-sale investments and assets at amortised cost of EUR 80,454 million (2016: EUR 96,062 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	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Government bonds	34,844	41,985	7,462	6,688	828	858			43,134	49,531
Sub-sovereign, Supranationals and Agencies	17,215	20,484	1,255	1,613	245	267			18,715	22,364
Covered bonds	8,737	11,297	100	100	418	1,820	154	882	9,409	14,099
Corporate bonds	1,284	1,345			970	791			2,254	2,136
Financial institutions' bonds	1,701	2,020	311		429	351	107	70	2,548	2,441
ABS portfolio	1,966	1,757	215	350	2,209	3,384	4		4,394	5,491
Bond portfolio	**65,747**	**78,888**	**9,343**	**8,751**	**5,099**	**7,471**	**265**	**952**	**80,454**	**96,062**

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).

99% (2016: 97%) of the exposure in the ABS portfolio is externally rated AAA up to and including A-.

There are no borrowed debt securities recognised in the statement of financial position.

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	
	2017	2016	2017	2016	2017	2016	2017	2016
Opening balance	4,024	4,434	78,888	82,566	8,751	7,826	91,663	94,826
Additions	325	80	21,276	27,073	3,609	1,731	25,210	28,884
Amortisation			-146	-144	-46	-87	-192	-231
Transfers and reclassifications	7	-92					7	-92
Changes in unrealised revaluations[1]	21	363	-1,030	-102	-64	-70	-1,073	191
Impairments	-6	-13					-6	-13
Reversal of impairments			3				3	
Disposals and redemptions	-79	-682	-32,709	-30,483	-2,675	-630	-35,463	-31,795
Exchange rate differences	-308	-72	-535	-16	-232	-19	-1,075	-107
Changes in the composition of the group and other changes	-1	6		-6			-1	
Closing balance	**3,983**	**4,024**	**65,747**	**78,888**	**9,343**	**8,751**	**79,073**	**91,663**

1 Changes in unrealised revaluations include changes on hedged items which are recognised in the statement of profit or loss.

In 2017 available-for-sale debt securities decreased by EUR 13 billion and is mainly related to lower positions in Government bonds, Subsovereign Supranationals and Agencies, and covered bonds.

In 2017 ING participated in the private placement by Bank of Beijing (BoB). ING participated in the offering for an aggregate amount of around EUR 240 million representing 265 million shares.

In October 2016 ING sold 2.5% of Kotak Mahindra Bank shares representing a carrying value of EUR 456 million.

Reference is made to Note 22 'Investment income' for details on Impairments.

6 Loans and advances to customers

Loans and advances to customers by type

	Netherlands[1]		International[1]		Total	
	2017	2016	2017	2016	2017	2016
Loans to, or guaranteed by, public authorities	26,975	27,746	19,397	18,634	46,372	46,380
Loans secured by mortgages	121,702	126,885	204,883	195,328	326,585	322,213
Loans guaranteed by credit institutions	257	201	1,722	944	1,979	1,145
Personal lending	3,162	3,236	20,074	18,722	23,236	21,958
Asset backed securities			2,209	3,380	2,209	3,380
Corporate loans	38,208	39,670	140,461	134,092	178,669	173,762
	190,304	**197,738**	**388,746**	**371,100**	**579,050**	**568,838**
Loan loss provisions	-1,693	-2,349	-2,822	-2,829	-4,515	-5,178
	188,611	**195,389**	**385,924**	**368,271**	**574,535**	**563,660**

1 In 2017, Loans and advances to customers by type as at 31 December 2016 have been restated to conform to current year presentation.

As at 31 December 2017, Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 421 million (2016: EUR 47 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	2017	2016
Non-subordinated	574,055	562,363
Subordinated	480	1,297
	574,535	**563,660**

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	2017	2016
Maturities of gross investment in finance lease receivables		
– within 1 year	2,729	2,492
– more than 1 year but less than 5 years	6,215	6,282
– more than 5 years	2,897	3,114
	11,841	**11,888**
Unearned future finance income on finance leases	-1,082	-1,254
Net investment in finance leases	**10,759**	**10,634**
Maturities of net investment in finance lease receivables		
– within 1 year	2,474	2,210
– more than 1 year but less than 5 years	5,652	5,635
– more than 5 years	2,633	2,789
	10,759	**10,634**
Included in Loans and advances to banks	65	88
Included in Loans and advances to customers	10,694	10,546
	10,759	**10,634**

An allowance for uncollectable finance lease receivables of EUR 337 million as at 31 December 2017 (2016: EUR 282 million) is included in the loan loss provision.

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	
	2017	2016	2017	2016	2017	2016
Loans to, or guaranteed by, public authorities			3	7	3	7
Loans secured by mortgages	347	550	526	638	873	1,188
Loans guaranteed by credit institutions	2	2	7	12	9	14
Personal lending	118	122	746	620	864	742
Asset backed securities			9	2	9	2
Corporate loans and Credit Facilities	1,268	1,738	1,602	1,617	2,870	3,355
	1,735	**2,412**	**2,893**	**2,896**	**4,628**	**5,308**
The closing balance is included in						
– Loans and advances to banks	1		7	11	8	11
– Loans and advances to customers	1,693	2,349	2,822	2,829	4,515	5,178
– Other provisions other	41	63	64	56	105	119
	1,735	**2,412**	**2,893**	**2,896**	**4,628**	**5,308**

Changes in loan loss provisions

	2017	2016
Opening balance	5,308	5,786
Write-offs	-1,279	-1,494
Recoveries	59	94
Increase in loan loss provisions	676	974
Exchange rate differences	-136	-55
Changes in the composition of the group and other changes		3
Closing balance	**4,628**	**5,308**

Movement 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

2017	Interest held (%)	Fair value of listed invest-ment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	30	1,006	877	21,251	19,004	711	507
Other investments in associates and joint ventures			211				
			1,088				

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				

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 of ING Group's financial interest and other arrangements, such as participation in the Board of Directors.

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 33 million (2016: EUR 48 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

	2017	2016
Opening balance	1,141	962
Additions	79	49
Transfers to and from Investments/Other assets and liabilities	-1	75
Revaluations	-8	38
Share of results	178	91
Dividends received	-32	-37
Disposals	-245	-54
Impairments		-3
Exchange rate differences	-24	20
Closing balance	**1,088**	**1,141**

In 2017, Transfers to and from Investments/Other assets and liabilities of EUR -1 million (2016: 75 million) included EUR 5 million reclassification from Available-for-sale equity securities to associates (2016: EUR 82 million) and EUR -6 million reclassification from/to other assets and other liabilities (2016: EUR -7 million).

In 2017, Revaluations as presented in the table above of EUR -8 million relates to several smaller revaluations. In 2016 revaluations of EUR 38 million includes EUR 54 million relating to TMB, EUR 17 million relating to Equens SE, and EUR -31 million due to other revaluations.

In 2017, Share of results from associates and joint ventures of EUR 178 million as presented in the statement of profit or loss and the table above, is mainly attributable to results of TMB, EUR 67 million and a gain of EUR 97 million on the sale of shares in Appia Group Ltd UK.

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 2017, Disposals of EUR 245 million is mainly attributable to the sale of Appia Group Ltd UK of EUR 146 million and several other smaller divestments in associates. 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.

8 Property and equipment

Property and equipment by type

	2017	2016
Property in own use	774	881
Equipment	917	1,015
Assets under operating leases	110	106
	1,801	**2,002**

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

	2017	2016
Opening balance	881	982
Additions	5	9
Reclassifications		
- Transfers to and from Investment properties		8
	–	8
Amounts recognised in the statement of profit or loss for the year		
- Depreciation	–13	–15
- Impairments	–8	–64
- Reversal of impairments	24	5
	3	–74
Revaluations recognised in equity during the year	42	11
Disposals	–145	–38
Exchange rate differences	–12	–17
Closing balance	**774**	**881**
Gross carrying amount as at 31 December	1,324	1,656
Accumulated depreciation as at 31 December	–376	–504
Accumulated impairments as at 31 December	–174	–271
Net carrying value as at 31 December	**774**	**881**
Revaluation surplus		
Opening balance	256	273
Revaluation in the year	23	–17
Closing balance	**279**	**256**

The cost or the purchase price amounted to EUR 1,044 million (2016: EUR 1,400 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 495 million (2016: EUR 625 million) had property in own use been valued at cost instead of at fair value.

In 2017, disposals of EUR –145 million is mainly attributable to the sale of office buildings in Belgium.

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2017	2016	2017	2016	2017	2016
Opening balance	323	263	692	708	1,015	971
Additions	129	161	130	181	259	342
Disposals	-1	-5	-12	-20	-13	-25
Depreciation	-133	-137	-174	-178	-307	-315
Impairments			-2		-2	
Exchange rate differences	-8	-5	-5	-5	-13	-10
Changes in the composition of the group and other changes	-19	46	-3	6	-22	52
Closing balance	**291**	**323**	**626**	**692**	**917**	**1,015**
Gross carrying amount as at 31 December	1,275	1,274	2,249	2,432	3,524	3,706
Accumulated depreciation as at 31 December	-983	-950	-1,623	-1,740	-2,606	-2,690
Accumulated impairments as at 31 December	-1	-1			-1	-1
Net carrying value as at 31 December	**291**	**323**	**626**	**692**	**917**	**1,015**

9 Intangible assets

Changes in intangible assets

	Goodwill		Software		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Opening balance	903	985	571	567	10	15	1,484	1,567
Additions			72	93			72	93
Capitalised expenses			192	195			192	195
Amortisation			-173	-182	-6	-5	-179	-187
Impairments			-30	-45			-30	-45
Exchange rate differences	-87	-82		-1			-87	-83
Disposals			-9	-9			-9	-9
Changes in the composition of the group and other changes			25	-47	1		26	-47
Closing balance	**816**	**903**	**648**	**571**	**5**	**10**	**1,469**	**1,484**
Gross carrying amount as at 31 December	816	903	1,902	1,756	30	29	2,748	2,688
Accumulated amortisation as at 31 December			-1,225	-1,147	-23	-17	-1,248	-1,164
Accumulated impairments as at 31 December			-29	-38	-2	-2	-31	-40
Net carrying value as at 31 December	**816**	**903**	**648**	**571**	**5**	**10**	**1,469**	**1,484**

Goodwill

Goodwill is allocated to groups of cash generating units (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 2017	Goodwill 2016
Retail Belgium	Values in use	8.95%	1.30%	50	50
Retail Germany	Values in use	8.10%	1.30%	349	349
Retail Growth Markets[1,]	Fair value less cost of disposal	-	-	307	375
Wholesale Banking[1]	Values in use	9.54%	2.12%	110	129
				816	**903**

1 Goodwill related to Growth Countries is allocated across two groups of CGUs, EUR 307 million to Retail Growth Markets and EUR 90 million to Wholesale Banking (2016: EUR 375 million to Retail Growth Markets and EUR 109 million to Wholesale Banking). The fair value less cost of disposal is based on Level 1 and Level 2 inputs.

No goodwill impairment was recognised in 2017 (2016: nil). Changes in the goodwill per group of CGUs in 2017 is due to changes in currency exchange rates.

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 recoverable amount exceeds the carrying value of the CGUs for 2017 and 2016 and therefore no impairment is required.

Sensitivity of key assumptions

Key assumptions in the goodwill impairment test model are the Price-to-Book ratios, level 1 inputs (e.g. share price of a listed subsidiary), 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 477 million (2016: EUR 395 million).

10 Other assets

Other assets by type	2017	2016
Net defined benefit assets	542	609
Investment properties	65	65
Property development and obtained from foreclosures	137	184
Accrued interest and rents	4,528	5,588
Other accrued assets	753	884
Amounts to be settled	4,097	4,815
Other	2,965	2,577
	13,087	**14,722**

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	2017	2016
Property under development		
Property developed	63	109
Property obtained from foreclosures	74	75
	137	**184**
Gross carrying amount as at 31 December	417	469
Accumulated impairments as at 31 December	-280	-285
Net carrying value	**137**	**184**

The total amount of borrowing costs relating to Property development and obtained from foreclosures, capitalised in 2017 is nil (2016: nil).

Accrued interest and rents

As at 31 December 2017, the line item includes accrued interest of EUR 1,375 million (2016: EUR 1,939 million) on trading derivative assets and EUR 2,505 million (2016: EUR 2,773 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 15 'Other liabilities'. The remainder of the balance relates mainly to accrued interest on cash flow hedges, fair value hedges and other non-trading derivatives.

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 decrease in 2017 is attributable to lower market activity compared to prior year end.

Other

Other assets - Other relates mainly to other receivables in the normal course of business. For 2017, this includes a receivable at the Dutch level (from NN Group) regarding tax due by ING Australia Holdings Ltd related to the years 2007-2013, for which a full reimbursement is expected to be received from NN Group. In 3Q 2017 a receivable was booked for the tax amount of EUR 121 million. In 4Q 2017 a cash payment was received and reduced this amount due from NN Group to EUR 70 million.

Liabilities

11 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	
	2017	2016	2017	2016	2017	2016
Non-interest bearing	181		363	449	544	449
Interest bearing	17,230	13,778	19,047	17,737	36,277	31,515
	17,411	**13,778**	**19,410**	**18,186**	**36,821**	**31,964**

In 2016, ING participated in the new targeted longer-term refinancing operations (TLTRO II) with EUR 10.7 billion. In 2017, ING participated in the targeted longer-term refinancing operations (TLTRO II) with an additional EUR 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.

12 Customer deposits

Customer deposits

	2017	2016
Savings accounts	319,659	315,697
Credit balances on customer accounts	186,316	173,230
Corporate deposits	32,602	32,687
Other	1,222	1,328
	539,799	**522,942**

Customer deposits by type

	Netherlands		International		Total	
	2017	2016	2017	2016	2017	2016
Non-interest bearing	15,910	13,536	21,688	16,911	37,598	30,447
Interest bearing	151,302	151,446	350,899	341,049	502,201	492,495
	167,212	**164,982**	**372,587**	**357,960**	**539,799**	**522,942**

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.

13 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss

	2017	2016
Trading liabilities	73,596	83,167
Non-trading derivatives	2,331	3,541
Designated at fair value through profit or loss	11,215	12,266
	87,142	**98,974**

Trading liabilities

Trading liabilities by type	2017	2016
Equity securities	601	1,975
Debt securities	5,126	4,146
Funds on deposit	41,956	37,753
Derivatives	25,913	39,293
	73,596	**83,167**

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	2017	2016
Derivatives used in:		
– fair value hedges	1,089	1,888
– cash flow hedges	339	671
– hedges of net investments in foreign operations	71	33
Other non-trading derivatives	832	949
	2,331	**3,541**

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	2017	2016
Debt securities	8,985	10,736
Funds entrusted	1,691	969
Subordinated liabilities	539	561
	11,215	**12,266**

In 2017, 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 78 million (2016: EUR 50 million) and EUR 248 million (2016: EUR 170 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 10,742 million (2016: EUR 11,720 million).

14 Provisions

Provisions by type	2017	2016
Reorganisation provisions	1,097	1,482
Other provisions	616	546
	1,713	**2,028**

Reorganisation provisions

Changes in reorganisation provisions

	2017	2016
Opening balance	1,482	670
Additions	53	1,202
Unused amounts reversed	-58	-13
Utilised	-369	-365
Exchange rate differences	-1	-5
Other changes	-10	-7
Closing balance	**1,097**	**1,482**

ING Group recognised an additional reorganisation provision of EUR 1,032 million in 2016, for the intended workforce reductions per the intended digital transformation programmes. 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 2017, changes in the reorganisation provisions was mainly attributable to existing initiatives following the intended digital transformation programmes of ING Bank.

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	
	2017	2016	2017	2016	2017	2016
Opening balance	353	187	193	107	546	294
Additions	186	235	135	120	321	355
Unused amounts reversed	-90	-46	-73	-6	-163	-52
Utilised	-82	-28	-23	-19	-105	-47
Exchange rate differences	-3	-1	-8	-1	-11	-2
Other changes	1	6	27	-8	28	-2
Closing balance	**365**	**353**	**251**	**193**	**616**	**546**

In 2017, Other provisions – other includes a provision related to Letters of Credit/Guarantees of EUR 104 million. As at 31 December 2017, amounts expected to be settled within twelve months, amount to EUR 448 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 2017 and 2016, is a provision related to floating interest rate derivatives that were sold in the Netherlands. Also included in this line in 2017, is a provision recognised for reimbursement of expenses associated to the formalization of mortgages at ING Spain and a provision recognised for a discontinued business in ING Luxembourg. Reference is made to Note 26 'Other operating expenses' and Note 45 'Legal proceedings'.

15 Other liabilities

Other liabilities by type

	2017	2016
Net defined benefit liability	476	521
Other post-employment benefits	87	87
Other staff-related liabilities	504	498
Other taxation and social security contributions	479	495
Accrued interest	3,606	4,394
Costs payable	2,599	2,242
Share-based payment plan liabilities	23	26
Amounts to be settled	5,017	6,391
Other	3,273	2,198
	16,064	**16,852**

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 decreased compared to 31 December 2017 as a result of lower market activity.

Other

Other liabilities – Other relates mainly to year-end accruals.

16 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

	2017	2016
Fixed rate debt securities		
Within 1 year	29,296	27,208
More than 1 year but less than 2 years	7,084	12,151
More than 2 years but less than 3 years	7,629	7,365
More than 3 years but less than 4 years	8,369	7,893
More than 4 years but less than 5 years	5,411	8,674
More than 5 years	9,159	14,716
Total fixed rate debt securities	**66,948**	**78,007**
Floating rate debt securities		
Within 1 year	15,091	13,278
More than 1 year but less than 2 years	3,932	2,724
More than 2 years but less than 3 years	1,341	4,168
More than 3 years but less than 4 years	278	793
More than 4 years but less than 5 years	3,673	320
More than 5 years	4,823	3,944
Total floating rate debt securities	**29,138**	**25,227**
Total debt securities	**96,086**	**103,234**

In 2017, the decrease in Debt securities in issue of EUR 7.1 billion is mainly attributable to a decrease in long term maturity bonds of EUR 5.9 billion, a decrease of EUR 3.8 billion in certificates of deposit, a decrease of EUR 2.8 billion in covered bonds, and decrease in other debt securities in issue EUR 0.9 billion, partially offset by an increase in commercial paper of EUR 6.3 billion.

As at 31 December 2017, ING Group has unused lines of credit available including the payment of commercial paper borrowings relating to debt securities in issue of EUR 5,750 million (2016: EUR 12,015 million).

17 Subordinated loans

Subordinated loans by group companies

	2017	2016
ING Groep N.V.	8,253	7,203
ING Group companies	7,715	10,020
	15,968	**17,223**

Subordinated loans issued by ING Groep N.V. include loans 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

	2017	2016
Opening balance	17,223	16,411
New issuances	2,331	2,070
Repayments	-2,343	-1,252
Exchange rate differences and other	-1,243	-6
Closing balance	**15,968**	**17,223**

In February 2017, ING Groep N.V. issued EUR 750 million securities that qualify as subordinated CRD IV Tier 2 notes with coupon of 2.50% until 24 February 2024. In September 2017, ING Groep N.V. issued EUR 1,000 million securities that qualify as subordinated CRD IV Tier 2 notes with coupon of 1.625% until 26 September 2024. In April 2017 ING Groep N.V. issued EUR 1,000 million subordinated CRD IV Tier 2 securities replacing EUR 1,000 million subordinated Tier 2 securities issued by ING Bank N.V. In 2017 ING Groep N.V. issued other private placements with total notional amounts of JPN 22,000 million and USD 260 million.

In March, and October 2017 respectively, ING Groep N.V. redeemed the USD 1,100 million 7.20% perpetual and the USD 500 million 6.2% Perpetual Debt Securities. In September 2017 ING redeemed the USD 522 million Additional Tier 1 instrument issued by ING Capital Funding Trust III.

The average interest rate on subordinated loans is 4.73% (2016: 4.94%). The interest expense during the year 2017 was EUR 784 million (2016: EUR 816 million).

For additional information, reference is made to the Parent company annual accounts, Note 5 'Subordinated loans'.

Equity

18 Equity

Total equity

	2017	2016	2015
Share capital and share premium			
- Share capital	39	39	928
- Share premium	17,006	16,950	16,054
	17,045	**16,989**	**16,982**
Other reserves			
- Revaluation reserve: Available-for-sale and other	3,447	3,830	3,896
- Revaluation reserve: Cash flow hedge	263	777	666
- Revaluation reserve: Property in own use	203	204	326
- Net defined benefit asset/liability remeasurement reserve	-400	-371	-306
- Currency translation reserve	-1,663	-770	-538
- Share of associates and joint ventures and other	2,527	2,235	1,733
- Treasury shares	-15	-8	-18
	4,362	**5,897**	**5,759**
Retained earnings	**28,999**	**26,907**	**25,091**
Shareholders' equity (parent)	**50,406**	**49,793**	**47,832**
Non-controlling interests	715	606	638
Total equity	**51,121**	**50,399**	**48,470**

Share capital and share premium

Share capital

Share capital

	Ordinary shares (par value EUR 0.01)					
	Number x 1,000			Amount		
	2017	2016	2015	2017	2016	2015
Authorised share capital	14,729,000	14,729,000	14,500,000	147	147	3,480
Unissued share capital	10,843,210	10,850,516	10,629,817	108	108	2,552
Issued share capital	**3,885,790**	**3,878,484**	**3,870,183**	**39**	**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**
Issue of shares	7,306	
Issued share capital as at 31 December 2017	**3,885,790**	**39**

In 2017, ING Groep N.V. issued 7.3 million ordinary shares (2016: 8.3 million depositary receipts for ordinary shares, converted into ordinary shares per 26 July 2016 and 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 in 2016, it was decided to reduce the par value per ordinary share from EUR 0.24 (2015) 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 2017, 2016 and 2015 respectively, ING Groep N.V. issued nil, 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 17 '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: 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 2017, 3,886 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, at 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 2017, 0.9 million ordinary shares (2016: 0.6 million ordinary shares and 2015: 1.5 million - depositary receipts for ordinary shares) of ING Groep N.V. with a par value of EUR 0.01 (2015: 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	2017	2016	2015
Opening balance	16,950	16,054	16,046
Issue of shares	56	5	8
Transfer from issued share capital		891	
Closing balance	**17,006**	**16,950**	**16,054**

The increase in share premium, is a result of the issuance of ordinary shares 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	2017	2016	2015
Opening balance	3,830	3,896	6,838
Unrealised revaluations	-293	80	1,188
Realised gains/losses transferred to the statement of profit or loss	-90	-146	-94
Transfer to insurance liabilities/DAC			-254
Impact of deconsolidation of NN Group			-2,940
Impact of partial divestment of NN Group			-855
Changes in composition of the group and other changes			13
Closing balance	**3,447**	**3,830**	**3,896**

In 2017, the available-for-sale revaluation reserve decreased by EUR 383 million mainly due to the revaluation of shares in Bank of Beijing EUR -479 million, partly offset by revaluation of shares in Kotak Mahindra Bank EUR 302 million.

Following the purchase of VISA Europe by VISA Inc. in 2016, the available-for-sale equity securities were derecognised from the statement of financial position with a corresponding release of the available-for-sale revaluation reserve recognised in Equity of EUR 154 million. Reference is made to Note 7 'Share of results of associates and joint ventures, and Note 37 'Fair value of assets and liabilities'.

In 2015 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.

Revaluation reserve: Cash flow hedge

Changes in revaluation reserve: Cash flow hedge	2017	2016	2015
Opening balance	777	666	3,877
Changes in cash flow hedge reserve	-514	111	-65
Impact of deconsolidation of NN Group			-2,507
Impact of partial divestment of NN Group			-649
Changes in composition of the group and other changes			10
Closing balance	**263**	**777**	**666**

Revaluation reserve: Property in own use

Changes in revaluation reserve: Property in own use	2017	2016	2015
Opening balance	204	326	306
Unrealised revaluations	25	5	38
Impact of deconsolidation of NN Group			-9
Impact of partial divestment of NN Group			-3
Changes in composition of the group and other changes	-26	-127	-6
Closing balance	**203**	**204**	**326**

In 2017 and 2016 respectively the EUR -26 million and EUR -127 million is a transfer of revaluation reserve to retained earnings.

Reference is made to Note 27 'Discontinued Operations', 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	2017	2016	2015
Opening balance	-770	-538	-741
Unrealised revaluations	192	-76	-263
Impact of deconsolidation of NN Group			26
Impact of partial divestment of NN Group			8
Exchange rate differences	-1,085	-156	432
Closing balance	**-1,663**	**-770**	**-538**

Unrealised revaluations relates to changes in the value of hedging instruments that are designated as net investment hedges.

The hedging strategy is to hedge the CET1 ratio. The net decrease in currency translation reserve of EUR 893 million is mainly caused by exchange rate differences in TRY, USD and AUD, which are not or only partly hedged.

Reference is made to Note 27 'Discontinued Operations', 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	2017	2016	2015
Opening balance	2,235	1,733	1,483
Result for the year	153	124	131
Transfer to/from retained earnings	139	265	
Changes in composition of the group and other changes		113	119
Closing balance	**2,527**	**2,235**	**1,733**

Treasury shares

Changes in treasury shares

	Amount			Number		
	2017	2016	2015	2017	2016	2015
Opening balance	-8	-18	-46	600,634	1,464,025	4,302,122
Purchased/sold	-7	10	28	343,623	-863,391	-2,810,775
Share-based payments						-27,322
Closing balance	**-15**	**-8**	**-18**	**944,257**	**600,634**	**1,464,025**

Retained earnings

Changes in retained earnings

	2017	2016	2015
Opening balance	26,907	25,091	23,160
Transfer to/from share of associates and joint ventures reserves	-139	-265	
Result for the year	4,752	4,527	3,879
Impact of partial divestment of NN Group			-270
Dividend	-2,564	-2,521	-1,393
Coupon on Undated subordinated notes issued by NN Group			-19
Employee stock options and share plans	21	75	105
Changes in composition of the group and other changes	22		-371
Closing balance	**28,999**	**26,907**	**25,091**

In 2017, a cash dividend of EUR 2,564 million was paid to the shareholders of ING Group.

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.

For further information, reference is made to Note 29 'Dividend per ordinary share' and Note 27 'Discontinued Operations'.

Non-controlling interests

In 2015, Non-controlling interests decreased by EUR 7,434 million and was mainly related to the deconsolidation of NN Group. Reference is made to Note 27 'Discontinued Operations'.

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, Property in own use, and Net defined benefit asset/liability remeasurement reserve), 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 2017, an amount of EUR 1,478 million (2016: EUR 1,325 million; 2015: EUR 1,201 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.

Non 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:

Non-distributable reserves

	2017	2016	2015
ING Bank	7,603	7,310	6,824
Other	75	69	
Non-distributable reserves	**7,678**	**7,379**	**6,824**

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.

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. For an overview of the minimal capital requirements of ING Group refer 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

19 Net interest income

Net interest income	2017	2016	2015
Interest income on loans	18,352	18,407	19,185
Interest income on impaired loans	54	69	42
Negative interest on liabilities	500	175	64
Total interest income on loans	**18,906**	**18,651**	**19,291**
Interest income on available-for-sale securities	1,340	1,659	1,785
Interest income on held-to-maturity securities	154	97	101
Interest income on trading derivatives	16,108	16,081	17,130
Interest income on other trading portfolio	1,028	728	677
Interest income on non-trading derivatives (no hedge accounting)	594	623	788
Interest income on non-trading derivatives (hedge accounting)	5,690	6,213	6,394
Other interest income	138	130	155
Interest income	**43,958**	**44,182**	**46,321**
Interest expense on deposits from banks	301	283	302
Interest expense on customer deposits	2,665	3,160	4,177
Interest expense on debt securities	2,054	2,290	2,535
Interest expense on subordinated loans	784	816	901
Interest expense on trading derivatives	16,117	16,263	17,405
Interest expense on other trading liabilities	744	210	207
Interest expense on non-trading derivatives (no hedge accounting)	895	652	652
Interest expense on non-trading derivatives (hedge accounting)	5,946	6,720	7,181
Other interest expense	331	363	360
Negative interest on assets	407	184	40
Interest expense	**30,244**	**30,941**	**33,760**
Net interest income	**13,714**	**13,241**	**12,561**

In 2017, the modest increase in total average assets combined with an improvement of the net interest margin, lead to an increase of EUR 473 million in net interest income. The modest increase in total average assets was mainly attributable to an increase in customer lending and cash and balances with central banks, largely offset by a decline in investments.

In 2016, the increase in total average assets (with the cash pool balances until March 2016 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.

20 Net commission income

Fee and commission income	2017	2016	2015
Funds transfer	1,172	1,103	1,014
Securities business	532	497	570
Insurance broking	176	181	185
Asset management fees	116	91	74
Brokerage and advisory fees	548	477	436
Other	1,321	1,232	1,132
	3,865	**3,581**	**3,411**

Included in Other, are commission fees of EUR 209 million (2016: EUR 202 million; 2015: EUR 171 million) in respect of bank guarantees, commission fees of EUR 52 million (2016: EUR 44 million; 2015: EUR 30 million) in respect of underwriting syndication loans, structured finance fees of EUR 136 million (2016: EUR 110 million; 2015: EUR 87 million), and collective instruments distributed but not managed by ING of EUR 165 million (2016: EUR 145 million; 2015: EUR 145 million).

Fee and commission expenses	2017	2016	2015
Funds transfer	437	403	385
Securities business	150	166	158
Insurance broking	4	8	18
Asset management fees	5	5	2
Brokerage and advisory fees	192	166	140
Other	367	400	390
	1,155	**1,148**	**1,093**

21 Valuation results and net trading income

Valuation results and net trading income	2017	2016	2015
Securities trading results	656	-369	1,352
Derivatives trading results	59	706	600
Change in fair value of derivatives relating to			
- fair value hedges	700	241	1,243
- cash flow hedges (ineffective portion)	44	-16	31
- other non-trading derivatives	-1,185	1,692	-332
Change in fair value of assets and liabilities (hedged items)	-793	-167	-1,229
Valuation results on assets and liabilities designated at fair value through profit or loss (excluding trading)	-56	-79	372
Foreign exchange transactions results	1,194	-898	-820
Other	9	24	66
	628	**1,134**	**1,283**

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 2017 amounts to EUR -68 million (2016: EUR -232 million; 2015: EUR 147 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. 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 13 '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 19 'Net interest income'.

In 2017, Derivatives trading results includes EUR 47 million CVA/DVA adjustments on trading derivatives, compared with EUR 36 million CVA/DVA adjustment in 2016 (2015: EUR 98 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 13 'Financial liabilities at fair value through profit or loss'. Market conditions include in particular credit spread developments.

In 2017, 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 –107 million (2016: EUR –70 million; 2015: EUR 404 million), of which DVA adjustment on own issued notes in 2017 amounted to EUR –79 million (2016: EUR –50 million; 2015: EUR 163 million).

In 2017, Valuation results and net trading income includes EUR –52 million related to warrants on the shares of Voya and NN Group (2016: EUR 33 million; 2015: EUR –19 million). Reference is made to Note 4 'Financial assets at fair value through profit or loss'.

22 Investment income

Investment income	2017	2016	2015
Dividend income	**80**	**87**	**63**
Realised gains/losses on disposal of debt securities	64	107	123
Impairments of available-for-sale debt securities			-17
Reversal of impairments of available-for-sale debt securities	3		
Realised gains/losses and impairments of debt securities	**67**	**107**	**106**
Realised gains/losses on disposal of equity securities	48	236	67
Impairments of available-for-sale equity securities	-6	-13	-117
Realised gains/losses and impairments of equity securities	**42**	**223**	**-50**
Income from and fair value gains/losses on investment properties	3	4	4
Investment income	**192**	**421**	**123**

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 7 'Share of associates and joint ventures', and Note 18 'Equity'.

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		
	2017	2016	2015	2017	2016	2015
Retail Belgium			-5			
Wholesale Banking	-5	-8	-129	3		
Corporate Line Banking	-1	-5				
	-6	**-13**	**-134**	**3**	**-**	**-**

23 Result on disposal of group companies

Result on disposal of group companies	2017	2016	2015
Baring Private Equity Partners	1	1	7
ING Lease UK			-5
	1	**1**	**2**

In 2017, 2016 and 2015 the Result on disposal of group companies included realised deferred profits on divestments in prior periods related to Baring Private Equity Partners. In addition, 2015 includes 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 and 2015 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 27 'Discontinued operations', and Note 46 'Consolidated companies and businesses acquired and divested'.

24 Other income

In 2017, Other income of EUR 350 million (2016: EUR 173 million; 2015: EUR 66 million) includes EUR 121 million related to a tax charge at ING Australia Holdings Ltd, for which a full reimbursement is expected to be received from NN Group. Net operating lease income comprises income of EUR 24 million (2016: EUR 21 million; 2015: EUR 19 million) and depreciation of EUR 22 million (2016: EUR 19

million; 2015: EUR 17 million). The remainder of the Other income is mainly impacted by positive results on the sale of loans and property and increased renegotiations of mortgages.

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.

25 Staff expenses

Staff expenses

	2017	2016	2015
Salaries	3,273	3,224	3,221
Pension costs and other staff-related benefit costs	381	344	275
Social security costs	499	512	514
Share-based compensation arrangements	74	75	76
External employees	716	636	634
Education	76	70	68
Other staff costs	183	178	184
	5,202	**5,039**	**4,972**

Number of employees

	Netherlands			International			Total		
	2017	2016	2015[1]	2017	2016	2015[1]	2017	2016	2015[1]
Continuing operations - average number of employees at full time equivalent basis	13,141	13,660	14,586	38,363	38,283	38,134	51,504	51,943	52,720
Discontinued operations - average number of employees at full time equivalent basis			2,652			2,181			4,833
Total average number of employees at full time equivalent basis	**13,141**	**13,660**	**17,238**	**38,363**	**38,283**	**40,315**	**51,504**	**51,943**	**57,553**

1 Continuing operations - average number of employees includes, on an average basis, employees of the discontinued operations of NN Group as NN Group was deconsolidated from ING Group at the end of May 2015. Staff expenses for the five months ended 31 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 27 'Discontinued operations'.

Share-based compensation arrangements include EUR 69 million (2016: EUR 69 million; 2015: EUR 63 million) relating to equity-settled share-based payment arrangements and EUR 5 million (2016: EUR 6 million; 2015: EUR 13 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, which form part of the variable remuneration offering via the Long term Sustainably Performance Plan (LSPP). 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, with the exception of the upfront shares which are immediately vested upon grant. In addition to the employment condition, the performance shares require a performance condition that needs to be satisfied before a vest can occur. The number of ING shares that would ultimately be vested at the end of a performance period is dependent on ING's performance over that period. Upfront and deferred shares awarded to the Management Board members of ING Group (and NN Group in periods prior to 2015), as well as identified staff, have a retention obligation that must be adhered to upon vesting, a minimum retention of 12 months applies. ING has the authority to apply a hold back to awarded but unvested shares and a claw-back to vested shares.

In addition to the LSPP share awards, ING also pays a number of senior employees fixed shares. The number of shares are determined each month from a cash value that forms part of the employee fixed remuneration. The shares are immediately vested to the employee, but have a minimum holding requirement of two years before the employee can dispose of the shares. The fixed shares are not subject to holdback or clawback.

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 2017, 54,768 share awards (2016: 61,532; 2015: nil) were granted to the members of the Executive Board of ING Groep N.V., 104,449 share awards (2016: 170,749; 2015: 106,013) were granted to the Management Board Banking. To senior management and other employees 4,846,903 share awards (2016: 6,590,039; 2015: 6,088,240) were granted.

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)		
	2017	2016	2015	2017	2016	2015
Opening balance	25,574,912	37,311,131	52,559,607	15.53	17.54	16.95
Exercised	-2,216,764	-1,583,072	-3,251,420	5.89	5.40	5.97
Forfeited	-168,007	-244,959	-410,847	14.26	16.89	18.05
Expired	-8,048,161	-9,908,188	-11,586,209	24.18	24.67	18.13
Closing balance	**15,141,980**	**25,574,912**	**37,311,131**	**12.36**	15.53	17.54

As per 31 December 2017, total options outstanding consists of 10,156,219 options (2016: 16,861,694; 2015: 27,657,794) relating to equity-settled share-based payment arrangements and 4,985,761 options (2016: 8,713,218; 2015: 9,653,337) relating to cash-settled share-based payment arrangements.

The weighted average share price at the date of exercise for options exercised during 2017 is EUR 13.81 (2016: EUR 10.43; 2015: 13.62). 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	2017	2016	2015	2017	2016	2015	2017	2016	2015
0.00 – 5.00	2,294,423	3,086,449	3,817,765	1.21	2.21	3.22	2.88	2.88	2.89
5.00 – 10.00	3,754,542	5,248,657	6,213,999	2.21	3.21	4.21	7.38	7.37	7.37
10.00 – 15.00	110,086	137,706	139,841	0.71	1.71	2.72	14.35	14.35	14.35
15.00 – 20.00	8,982,929	9,460,529	10,061,265	0.21	1.21	2.21	16.84	16.83	16.87
20.00 – 25.00		7,295,027	7,608,639		0.23	1.24		24.62	24.62
25.00 – 30.00		346,544	9,469,622		0.38	0.30		25.42	25.17
	15,141,980	**25,574,912**	**37,311,131**						

All options outstanding are exercisable. As at 31 December 2017, the aggregate intrinsic value of options outstanding and exercisable is EUR 59 million (2016: EUR 64 million; 2015: EUR 68 million).

Cash received from stock option exercises for the year ended 31 December 2017 is EUR 10 million (2016: EUR 7 million; 2015: EUR 16 million).

Changes in share awards

	Share awards (in numbers)			Weighted average grant date fair value (in euros)		
	2017	2016	2015	2017	2016	2015
Opening balance	8,382,963	8,737,014	12,706,264	10.44	10.04	7.37
Granted	5,006,120	6,822,320	6,194,253	13.20	10.20	13.00
Performance effect	379,934	543,891	453,699	10.47	8.68	6.40
Vested	–6,328,318	–7,569,972	–10,374,131	11.40	9.65	8.38
Forfeited	–218,420	–150,290	–243,071	10.83	10.58	8.91
Closing balance	**7,222,279**	**8,382,963**	**8,737,014**	11.46	10.44	10.04

As at 31 December 2017 the share awards consists of 6,416,705 share awards (2016: 7,294,633; 2015: 7,485,634) relating to equity-settled share-based payment arrangements and 805,574 share awards (2016: 1,088,330; 2015: 1,251,380) 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 2017, total unrecognised compensation costs related to share awards amount to EUR 37 million (2016: EUR 41 million; 2015: EUR 45 million). These costs are expected to be recognised over a weighted average period of 1.4 years (2016: 1.4 years; 2015: 1.4 years).

26 Other operating expenses

Other operating expenses	2017	2016	2015
IT related expenses[1]	737	740	753
Office expenses	587	580	618
Advertising and public relations	455	404	418
Travel and accommodation expenses	178	169	166
External advisory fees	353	320	246
Audit and non-audit services	22	19	18
Postal charges	50	48	56
Depreciation of property and equipment	319	330	327
Amortisation of intangible assets	179	187	270
Impairments and reversals on property and equipment and intangibles	18	107	27
Regulatory costs	901	845	620
Addition/(unused amounts reversed) of provision for reorganisations and relocations	-5	1,189	165
Addition/(unused amounts reversed) of other provisions	167	213	7
Contributions and subscriptions	91	82	68
Other	575	342	595
	4,627	**5,575**	**4,354**

1 Computer costs is renamed to IT related expenses

Other operating expenses include lease and sublease payments in respect of operating leases of EUR 307 million (2016: EUR 310 million; 2015: EUR 281 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

Total audit and non-audit services include the following fees for services provided by the Group's auditor.

Fees of Group's auditor	2017	2016	2015
Audit fees	18	15	16
Audit related fees	1	1	1
Tax fees			1
Total[1]	**19**	**16**	**18**

1 The Group auditors did not provide any non-audit services except tax services in 2015. In 2016 and 2017 no non-audit services were provided.

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. Increase in audit fees in 2017 primarily relates to audit activities for the implementation of IFRS 9.

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 2017, are contributions to DGS of EUR 341 million (2016: EUR 316 million; 2015: EUR 233 million) mainly related to the Netherlands, Germany, Belgium, Poland, and Spain and contributions to the SRF of EUR 179 million (2016: EUR 176 million; 2015: EUR 143 million) related to National Resolution Funds.

In 2017 local bank taxes increased by EUR 30 million from EUR 351 million to EUR 381 million mainly due to a the full year Polish bank tax and higher taxes in the UK.

Addition/(unused amounts reversed) of provision for reorganisations and relocations

For Addition/(unused amounts reversed) on provision for reorganisations and relocations, reference is made to the disclosure on the reorganisation provision in Note 14 'Provisions'.

Tangible and Intangible impairments and reversals

Impairments and reversals of property and equipment and intangibles

	Impairment losses			Reversals of impairments			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Property and equipment	10	65	17	-24	-5	-14	-14	60	3
Property development	2	3	9				2	3	9
Software and other intangible assets	30	44	15				30	44	15
(Reversals of) other impairments	**42**	**112**	**41**	**-24**	**-5**	**-14**	**18**	**107**	**27**

In 2017, impairment losses on software and intangible assets mainly include software that was impaired to is Value in Use, related to the acceleration of the Think Forward Strategy.

In 2017, reversals of impairments on property and equipment, mainly include impairments on property in own use that were reversed following the sale of office buildings.

Other

Included in Other operating expenses – Other in 2017, is a net charge 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 reimbursement of expenses associated to the formalization of mortgages at ING Spain and a charge related to the provision recognised for a discontinued business in ING Luxembourg. Reference is made to Note 14 'Provisions' and Note 45 'Legal proceedings'.

Other operating expenses – Other in 2016 included a EUR 116 million one-off procured cost savings in Belgium.

27 Discontinued operations

Total net result from discontinued operations comprises the results from NN Group and Voya.

Total net result from discontinued operations

	2017	2016	2015
NN Group			793
Net result from discontinued operations	**-**	**-**	**793**
NN Group			3
Net result from classification as discontinued operations	**-**	**-**	**3**
NN Group		441	-1,241
Voya			323
Net result from disposal of discontinued operations[1]	**-**	**441**	**-918**
NN Group		441	-445
Voya			323
Total net result from discontinued operations (before non-controlling interests)	**-**	**441**	**-122**

1 The tax effect on the result on disposal of discontinued operations in 2016 is EUR 2 million (2015: nil).

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.

Net result from discontinued operations

	2017	2016	2015[1]
Total income			6,815
Total expenses			5,879
Result before tax from discontinued operations	–	–	**936**
Taxation			143
Net result from discontinued operations	–	–	**793**

1 NN Group.

Total comprehensive income for NN Group until deconsolidation at the end of May 2015 comprised EUR 1,718 million (attributable to equity holders of ING: EUR 941 million and to non-controlling interests: EUR 777 million). ING Group's interest in NN Group was 54.77% until deconsolidation at the end of May 2015.

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.

Net result from disposal of discontinued operations

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% 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 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.

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 shareholders' 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 46 'Consolidated companies and businesses acquired and divested'.

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

	2017	2016	2015[1]
Operating cash flow			–1,409
Investing cash flow			2,619
Financing cash flow			526
Net cash flow	**–**	**-**	**1,736**

1 NN Group.

28 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)		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Basic earnings	4,905	4,651	4,010	3,882.8	3,875.0	3,864.8	1.26	1.20	1.04
Basic earnings from discontinued operations		441	–456					0.11	–0.12
Basic earnings from continuing operations	**4,905**	**4,210**	**4,466**				**1.26**	**1.09**	**1.16**
Effect of dilutive instruments:									
Stock option and share plans				2.8	3.5	5.5			
				2.8	**3.5**	**5.5**			
Diluted earnings	4,905	4,651	4,010	3,885.6	3,878.5	3,870.3	1.26	1.20	1.03
Diluted earnings from discontinued operations		441	–456					0.11	–0.12
Diluted earnings from continuing operations	**4,905**	**4,210**	**4,466**				**1.26**	**1.09**	**1.15**

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.

29 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 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**
In respect of 2017		
– Interim dividend, paid in cash in August 2017	0.24	933
– Final dividend	0.43	1,670
Total dividend in respect of 2017	**0.67**	**2,603**

ING Groep N.V. is required to withhold tax of 15% on dividends paid.

Notes to the consolidated statement of cash flows

30 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'.

31 Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities

	2016	Cash Flows		Non cash changes					2017
		Additions	Redemptions / Disposals	Aquisitions	Amor-tisation	Other Changes	Changes in FV	Foreign exchange movement	
Debt securities in issue	103,234	95,458	-96,837		132	-40	-915	-4,946	96,086
Subordinated Loans	17,223	2,331	-2,343		46		-94	-1,195	15,968
Total Liabilities from financing activities	**120,457**	**97,789**	**-99,180**	**–**	**178**	**-40**	**-1,009**	**-6,141**	**112,054**

32 Cash and cash equivalents

Cash and cash equivalents

	2017	2016	2015
Treasury bills and other eligible bills	391	512	363
Deposits from banks/Loans and advances to banks	-3,403	-2,492	-1,442
Cash and balances with central banks	21,989	18,144	21,458
Cash and cash equivalents at end of year	**18,977**	**16,164**	**20,379**

Treasury bills and other eligible bills included in cash and cash equivalents	2017	2016	2015
Treasury bills and other eligible bills included in trading assets	5	126	228
Treasury bills and other eligible bills included in available-for-sale investments	386	386	135
	391	**512**	**363**

Deposits from banks/Loans and advances to banks	2017	2016	2015
Included in cash and cash equivalents:			
– deposits from banks	-8,563	-9,809	-10,312
– loans and advances to banks	5,160	7,317	8,870
	–3,403	**–2,492**	**–1,442**
Not included in cash and cash equivalents:			
– deposits from banks	-28,258	-22,155	-23,501
– loans and advances to banks	23,651	21,541	21,118
	–4,607	**–614**	**–2,383**
Total as included in the statement of financial position:			
– deposits from banks	-36,821	-31,964	-33,813
– loans and advances to banks	28,811	28,858	29,988
	–8,010	**–3,106**	**–3,825**

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 Banking 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 Banking.

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 Luxembourg), 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 (including Austria). 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.

The geographical segments for the Banking results are presented on page 175.

Specification of geographical segments

Geographical segments	Main countries
The 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 Banking 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 divestments. Legacy Insurance consists of the results from discontinued operations and the results from Insurance Other. Insurance Other reflects (former) insurance related activities that are not part of the discontinued operations.

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. The Corporate Line Banking includes the isolated legacy costs (mainly negative interest results) caused by the replacement of short-term funding with long-term funding during 2012 and 2013. 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 of ING Group and Management Board Banking.

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

Reconciliation between IFRS and Underlying income, expenses and net result

2017	Income	Expenses	Taxation	Non-Controlling interests	Net result[1]
Net result IFRS attributable to equity holder of the parent					4,905
Net result IFRS from continuing operations	**17,773**	**10,505**	**2,281**	**82**	**4,905**
Remove impact of:					
Special items[2]	-121		-121		0
Insurance Other[3]	53		1		52
Underlying[4]	**17,704**	**10,505**	**2,160**	**82**	**4,957**

1 Net result, after tax and non-controlling interests.
2 Special items in 2017, comprise a tax charge at ING Australia Holdings Ltd related to the years 2007-2013, for which a full reimbursement is expected to be received from NN Group.
3 Insurance Other comprises mainly the net result relating to warrants on the shares of Voya Financial and NN Group N.V.
4 Underlying figures are derived from figures according to IFRS by excluding the impact from divestments, special items, Insurance Other, and discontinued operations.

ING Group Total

2017	ING Bank N.V.	Other Banking[1]	Total Banking	Legacy Insurance	Total
Underlying income					
- Net interest income	13,782	-68	13,714		13,714
- Net commission income	2,714		2,714		2,714
- Total investment and other income	1,259	17	1,277		1,277
Total underlying income	17,755	-51	17,704		17,704
Underlying expenditure					
- Operating expenses	9,795	34	9,829		9,829
- Additions to loan loss provision	676		676		676
Total underlying expenses	10,472	34	10,505		10,505
Underlying result before taxation	**7,283**	**-84**	**7,199**		**7,199**
Taxation	2,182	-22	2,160		2,160
Non-controlling interests	82		82		82
Underlying net result	**5,019**	**-62**	**4,957**		**4,957**
Divestments					
Special items	0		0		0
Insurance Other				-52	-52
Net result IFRS (continuing operations)	**5,019**	**-62**	**4,957**	**-52**	**4,905**
Net result IFRS attributable to equity holder of the parent	**5,019**	**-62**	**4,957**	**-52**	**4,905**

1 Comprises for the most part the funding charges of ING Groep N.V. (Holding).

Reconciliation between IFRS and Underlying income, expenses and net result

2016	Income	Expenses	Taxation	Non-Controlling interests	Net result[1]
Net result IFRS attributable to equity holder of the parent					4,651
Net result from discontinued operations					-441
Net result IFRS from continuing operations	**17,491**	**11,588**	**1,618**	**75**	**4,210**
Remove impact of:					
Special items[2]		-1,157	358		799
Insurance Other[3]	-33				-33
Underlying[4]	**17,458**	**10,430**	**1,977**	**75**	**4,976**

1 Net result, after tax and non-controlling interests.
2 Special items in 2016 primarily comprise restructuring charges and impairments related to the intended digital transformation programmes as announced in October 2016.
3 Insurance Other comprises mainly the net result relating to warrants on the shares of Voya Financial and NN Group N.V.
4 Underlying figures are derived from figures according to IFRS by excluding the impact from divestments, special items, Insurance Other, and discontinued operations.

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	-799		-799		-799
Insurance Other				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).

For information on discontinued operations, reference is made to Note 27 'Discontinued operations'.

Reconciliation between IFRS and Underlying income, expenses and net result

2015	Income	Expenses	Taxation	Non-Controlling interests	Net result[1]
Net result IFRS attributable to equity holder of the parent					4,010
Net result from discontinued operations					456
Net result IFRS from continuing operations	**16,845**	**10,673**	**1,637**	**70**	**4,466**
Remove impact of:					
Divestments[2]	-367				-367
Special items[3]		-77	19		58
Intercompany eliminations between ING Bank and NN Group[4]	28	1	7		20
Insurance Other[5]	45	-4	5	2	42
Underlying[6]	16,552	10,593	1,668	72	4,219

1 Net result, after tax and non-controlling interests.
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 N.V.
6 Underlying figures are derived from figures according to IFRS by excluding the impact from divestments, special items, Insurance Other, and 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	367		367		367
Special items	-58		-58		-58
Intercompany eliminations between ING Bank and NN Group				-20	-20
Insurance Other				-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).

For information on discontinued operations, reference is made to Note 27 'Discontinued operations'.

c. Banking activities

Segments Banking by line of business

2017	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Other	Wholesale Banking	Corporate Line Banking	Total Banking
Underlying income							
– Net interest income	3,610	1,842	1,704	2,437	3,895	226	13,714
– Net commission income	601	408	215	384	1,108	–3	2,714
– Total investment and other income	257	224	–28	207	919	–301	1,277
Total underlying income	**4,468**	**2,473**	**1,891**	**3,028**	**5,922**	**–78**	**17,704**
Underlying expenditure							
– Operating expenses	2,212	1,584	1,032	1,919	2,792	290	9,829
– Additions to loan loss provision	13	104	–10	284	284	1	676
Total underlying expenses	**2,224**	**1,688**	**1,022**	**2,203**	**3,076**	**291**	**10,505**
Underlying result before taxation	**2,243**	**785**	**869**	**825**	**2,846**	**–369**	**7,199**
Taxation	566	296	241	188	881	–13	2,160
Non-controlling interests		–2	2	67	15		82
Underlying net result	**1,678**	**491**	**625**	**569**	**1,950**	**–356**	**4,957**
Special items						0	0
Net result IFRS	**1,678**	**491**	**625**	**569**	**1,950**	**–356**	**4,957**

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	Wholesale Banking	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**

Geographical segments Banking

2017	Nether-lands	Belgium	Germany	Other Challen-gers	Growth Markets	Wholesale Banking Rest of World	Other	Total Banking
Underlying income								
– Net interest income	4,537	2,099	2,172	1,527	1,515	1,636	227	13,714
– Net commission income	871	519	269	232	316	509	–3	2,714
– Total investment and other income	445	480	–17	22	296	245	–193	1,277
Total underlying income	5,853	3,098	2,424	1,781	2,127	2,390	31	17,704
Underlying expenditure								
– Operating expenses	2,930	2,063	1,154	1,142	1,126	1,113	301	9,829
– Additions to loan loss provision	3	160	–15	201	241	85	1	676
Total underlying expenses	2,933	2,223	1,140	1,344	1,367	1,198	301	10,505
Underlying result before taxation	**2,920**	**876**	**1,285**	**437**	**760**	**1,192**	**–270**	**7,199**
Taxation	708	369	407	145	151	379	–1	2,160
Non-controlling interests		–2	2		82			82
Underlying net result	**2,212**	**508**	**875**	**292**	**527**	**813**	**–269**	**4,957**
Special items							0	0
Net result IFRS	**2,212**	**508**	**875**	**292**	**527**	**813**	**–269**	**4,957**

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	Growth Markets	Wholesale Banking Rest of World	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**

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 2017, 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/tax jurisdiction.

Additional information by country

2017

Geographical area	Country/Tax jurisdiction	Name of principal subsidiary	Main activity	Average number of employees at full time equivalent basis	Total Income	Total assets	Result before tax	Taxation
The Netherlands	The Netherlands	ING Bank N.V.	Wholesale banking/Retail banking	13,141	5,757	241,379	2,301	639
Belgium	Belgium	ING België N.V.	Wholesale banking/Retail banking	8,893	2,957	119,400	1,009	408
	Luxembourg	ING Luxembourg S.A.	Wholesale banking/Retail banking	777	298	14,748	68	27
Rest of Europe	Poland	ING Bank Slaski S.A.	Wholesale banking/Retail banking	8,664	1,119	29,976	444	112
	Germany	ING DiBa A.G.	Wholesale banking/Retail banking	4,587	2,312	138,153	1,240	396
	Romania	Branch of ING Bank N.V.	Wholesale banking/Retail banking	1,968	314	5,940	135	23
	Spain	Branch of ING Bank N.V.	Wholesale banking/Retail banking	1,135	509	23,858	97	25
	Italy	Branch of ING Bank N.V.	Wholesale banking/Retail banking	838	336	16,728	-4	7
	UK	Branch of ING Bank N.V.	Wholesale banking	603	550	78,573	324	76
	France[1]	Branch of ING Bank N.V.	Wholesale banking/Retail banking	591	310	10,678	93	32
	Russia	ING Bank (Eurasia) Z.A.O.	Wholesale banking	270	136	1,607	78	20
	Czech Republic	Branch of ING Bank N.V.	Wholesale banking/Retail banking	245	66	5,641	16	3
	Hungary	Branch of ING Bank N.V.	Wholesale banking	146	32	1,003	-	2
	Slovakia	Branch of ING Bank N.V.	Wholesale banking	497	14	677	2	1
	Ukraine	PJSC ING Bank Ukraine	Wholesale banking	106	30	321	9	2
	Austria	Branch of ING DiBa A.G.	Wholesale banking/Retail banking	225	80	682	25	-1
	Bulgaria	Branch of ING Bank N.V.	Wholesale banking	70	9	268	-2	-
	Ireland	Branch of ING Bank N.V.	Wholesale banking	43	57	2,337	47	6
	Portugal	Branch of ING Bank N.V.	Wholesale banking	11	14	667	9	3
	Switzerland	Branch of ING België N.V.	Wholesale banking	204	224	9,737	145	38
North America	Canada	Belgian Overseas Agencies Ltd.	Wholesale banking	-	-	2	-	-
	USA	ING Financial Holdings Corp.	Wholesale banking	564	724	42,873	371	134
Latin America	Brazil	Branch of ING Bank N.V.	Wholesale banking	78	47	1,184	16	4
	Colombia	ING Capital Colombia S.A.S.	Wholesale banking	2	1	2	-	-
	Mexico	ING Consulting, S.A. de C.V.	Wholesale banking	8	1	2	-2	
Asia	China	Branch of ING Bank N.V.	Wholesale banking	81	35	2,298	7	-2
	Japan	Branch of ING Bank N.V.	Wholesale banking	35	33	2,238	17	11
	Singapore	Branch of ING Bank N.V.	Wholesale banking	512	297	25,803	133	9
	Hong Kong	Branch of ING Bank N.V.	Wholesale banking	108	94	7,850	55	7
	Philippines	Branch of ING Bank N.V.	Wholesale banking	604	18	322	6	2
	South Korea	Branch of ING Bank N.V.	Wholesale banking	82	55	4,602	21	6
	Taiwan	Branch of ING Bank N.V.	Wholesale banking	33	23	3,910	11	-
	Indonesia	PT ING Securities Indonesia	Wholesale banking	5	1	6	-	-
	Malaysia	Branch of ING Bank N.V.	Wholesale banking	5	-	29	-1	-
	India	Branch of ING Bank N.V.	Wholesale banking	-	1	2	1	-
	Turkey	ING Bank A.S.	Wholesale banking/Retail banking	5,221	741	13,798	267	54
	United Arab Emirates	Branch of ING Bank N.V.	Wholesale banking	10	-	-	-2	-
Australia	Australia	ING Bank (Australia) Ltd.	Retail banking	1,143	577	37,982	330	235
Other	Mauritius	ING Mauritius Ltd.	Investment management	-	1	939	-	-
Total				**51,504**	**17,773**	**846,216**	**7,268**	**2,281**

1 Public subsidies received, as defined in article 89 of the CRD IV, amounts to EUR 0.5 million.

Australia has a very high tax charge due to a tax charge at ING Australia Holdings Ltd related to the years 2007-2013, for which a full reimbursement is expected to be received from NN Group. Although the impact on net result was nil, this special item affected both the tax and 'other income' line in the Consolidated statement of profit or loss.
Due to the tax reforms in the US and Belgium, which resulted in a tax charge to record a reduction in deferred tax assets, the tax charge is significantly higher.
Austria, China, Singapore and Taiwan all have lower tax charges due to prior year adjustments.

Additional information by country

2016

Geographical area	Country/Tax jurisdiction	Name of principal subsidiary	Main activity	Average number of employees at full time equivalent basis	Total Income	Total assets	Result before tax	Taxation
The Netherlands	The 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 Corp.	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 Ltd.	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).

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/Tax jurisdiction	Name of principal subsidiary	Main activity	Average number of employees at full time equivalent basis	Total Income	Total assets[2]	Result before tax	Taxation
The Netherlands	The Netherlands[2]	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 Corp.	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 Ltd.	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.
2 Included in Total assets – the Netherlands, is EUR 2,153 million related to the Investment in associate held for sale, NN Group.

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

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.

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 are designed to comply with applicable local regulations governing investments and funding levels.

ING Group provides other post-employment 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.

Statement of financial position - Net defined benefit asset/liability

Plan assets and defined benefit obligation per country

	Plan assets		Defined benefit obligation		Funded Status	
	2017	2016	2017	2016	2017	2016
The Netherlands	408	414	568	576	–160	–162
United States	176	182	233	243	–57	–61
United Kingdom	1,864	1,983	1,326	1,377	538	606
Belgium	597	641	672	776	–75	–135
Other countries	161	117	341	277	–180	–160
Funded status (Net defined benefit asset/liability)	**3,206**	**3,337**	**3,140**	**3,249**	**66**	**88**
Presented as:						
-Other assets					542	609
-Other liabilities					–476	–521
					66	**88**

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 2017. 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

	2017	2016
Opening balance	3,337	3,141
Interest income	70	87
Remeasurements: Return on plan assets excluding amounts included in interest income	52	467
Employer's contribution	24	76
Participants contributions	2	2
Benefits paid	-186	-137
Exchange rate differences	-93	-299
Closing balance	**3,206**	**3,337**
Actual return on the plan assets	**122**	**554**

As at 31 December 2017 the various defined benefit plans did not hold any direct investments in ING Groep N.V. (2016: nil). During 2017 there were no purchases or sales of assets between ING and the pension fund.

ING does not manage the pension funds and thus receives no compensation for fund management. The pension fund has not engaged ING in any swap or derivative transactions to manage the risk of the pension funds.

No plan assets are expected to be returned to ING Group during 2018.

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	
	2017	2016	2017	2016
Opening balance	3,249	2,996	87	98
Current service cost	34	32	-3	-25
Interest cost	66	79	3	3
Remeasurements: Actuarial gains and losses arising from changes in demographic assumptions	-7	-17	9	10
Remeasurements: Actuarial gains and losses arising from changes in financial assumptions	71	498		
Participants' contributions	2	1		
Benefits paid	-189	-148	-1	-1
Past service cost		2		
Effect of curtailment or settlement	-3	-2		
Exchange rate differences	-83	-192	-8	2
Closing balance	**3,140**	**3,249**	**87**	**87**

Amounts recognised directly in Other comprehensive income (equity) were as follows:

Changes in the net defined benefit assets/liability remeasurement reserve

	2017	2016
Opening balance	–371	–306
Remeasurement of plan assets	52	467
Actuarial gains and losses arising from changes in demographic assumptions	7	17
Actuarial gains and losses arising from changes in financial assumptions	–71	–498
Taxation	–17	–51
Total Other comprehensive income movement for the year	**–29**	**–65**
Closing balance	**–400**	**–371**

In 2017, EUR 52 million Remeasurement of plan assets and EUR –71 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 –476 million (EUR –400 million after tax) as at 31 December 2017 (2016: EUR –483 million, EUR –371 million after tax).

Amounts recognised in statement of profit or loss related to pension and other staff related benefits are as follows:

Pension and other staff-related benefit costs

	Net defined benefit asset/liability			Other post-employment benefits			Other			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Current service cost	34	32	34	–3	–25	–7	–2	11	–8	29	18	19
Past service cost		2	–11								2	–11
Net Interest cost	–4	–8	–9	3	3	1	1	2	2		–3	–6
Effect of curtailment or settlement	–3	–2	–3			–9			–52	–3	–2	–64
Other									13			13
Defined benefit plans	**27**	**24**	**11**		**–22**	**–15**	**–1**	**13**	**–45**	**26**	**15**	**–49**
Defined contribution plans										355	329	324
										381	**344**	**275**

Determination of the net defined benefit asset/liability

The defined net benefit asset/liability is reviewed and adjusted annually. The assumptions used in the determination of the net defined benefit asset/liability and the Other post-employment benefits include discount rates, mortality rates, expected rates of salary increases (excluding promotion increases), and indexation. The rates used for salary developments, interest discount factors, and other adjustments reflect country-specific conditions.

The key assumption in the determination of the net defined benefit asset/liability is the discount rate. 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 (weighted by defined benefit obligation). 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 weighted average discount rate applied for net defined benefit asset/liability for 2017 was 2.0% (2.1% in 2016) based on the pension plan in the Netherlands, Germany, Belgium, The United States of America, and the United Kingdom. The average discount rate for Other post-employment benefits 3.2% (3.5% in 2016).

Sensitivity analysis of key assumptions

ING performs sensitivity analysis on the most significant assumptions: discount rates, mortality, expected rate of salary increase, and indexation. The sensitivity analysis has been carried out under the assumption the changes occurred at the end of the reporting period.

The sensitivity analysis calculates 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. Changes to mortality, expected rate or salary increase, and indexation would have no material impact to the defined benefit obligation. The most significant impact would be from a change in the discount rate. An increase or decrease in the discount rate of 1% creates a financial impact of EUR –480 million and EUR 619 million respectively.

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 are designed to 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 2018 the expected contributions to pension plans are EUR 32 million.

The benefit payments for defined benefit and other post-employment benefits expected to be made by the plan between 2018-2022 are estimated to be between EUR 91 million and EUR 112 million per annum. From 2023 to 2027 the total payments made by the plan are expected to be EUR 423 million.

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

2017	Net liability (-) Net asset (+) 2016	Change through equity	Change through net result	Exchange rate differences	Changes in the composition of the group and other changes	Net liability (-) Net asset (+) 2017
Investments	–799	123	116	5		–555
Investment properties	–5					–5
Financial assets and liabilities at fair value through profit or loss	697		–290	12		419
Depreciation	–33		5	4		–24
Cash flow hedges	–238	167		–1		–72
Pension and post-employment benefits	112	–25	–6	–5		76
Other provisions	255		–48	–6	–3	198
Receivables	570		49	–5		614
Loans and advances to customers	–409	–2	17			–394
Unused tax losses carried forward	57		–60	–5		–8
Other	–126	–10	–49	2		–183
	81	**253**	**–266**	**1**	**–3**	**66**
Presented in the statement of financial position as:						
– deferred tax liabilities	–919					–752
– deferred tax assets	1,000					818
	81					**66**

The deferred tax balance recorded under 'Unused tax losses carried forward' is the balance of recognised deferred assets (DTA) for unused tax losses carried forward and the deferred tax liability (DTL) recorded regarding previously deducted UK tax losses in the Netherlands. Due to increased profitability in the United Kingdom (UK) all UK carry forward losses have been recognised during 2017 and a corresponding DTL in the Netherlands has been taken up accordingly. The DTA and DTL amount to EUR 128 million and EUR –136 million respectively creating a net deferred tax liability of EUR –8 million.

Changes in deferred tax

2016	Net liability (-) Net asset (+) 2015	Change through equity	Change through net result	Exchange rate differences	Changes in the composition 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**

Deferred tax in connection with unused tax losses carried forward

	2017	2016
Total unused tax losses carried forward	1,732	1,876
Unused tax losses carried forward not recognised as a deferred tax asset	1,074	973
Unused tax losses carried forward recognised as a deferred tax asset	**658**	**903**
Average tax rate	19.5%	22.5%
Deferred tax asset	128	203

Total unused tax losses carried forward analysed by expiry terms

	No deferred tax asset recognised		Deferred tax asset recognised	
	2017	2016	2017	2016
Within 1 year	2	2		2
More than 1 year but less than 5 years	350	383	38	56
More than 5 years but less than 10 years	31	30		
More than 10 years but less than 20 years	18	18		
Unlimited	673	540	620	845
	1,074	**973**	**658**	**903**

The above mentioned deferred tax of EUR 128 million (2016: EUR 203 million) and the related unused tax losses carried forward exclude the deferred tax liability recorded in the Netherlands with respect to the recapture of previously deducted UK tax losses in the Netherlands for the amount of EUR -136 million (2016: EUR -146 million). The comparative figures in the two tables above have been adjusted accordingly.

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

	2017	2016
Italy	107	113
	107	**113**

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 2017, the aggregate amount for the most significant entities is EUR 107 million (2016: EUR 113 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 2017 and 31 December 2016, ING Groep 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		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Current taxation	488	150	-42	1,527	1,375	1,413	2,015	1,525	1,371
Deferred taxation	151	193	407	115	-100	-141	266	93	266
	639	**343**	**365**	**1,642**	**1,275**	**1,272**	**2,281**	**1,618**	**1,637**

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

	2017	2016[1]	2015
Result before tax from continuing operations	7,268	5,903	6,172
Weighted average statutory tax rate	27.1%	27.5%	27.3%
Weighted average statutory tax amount	**1,968**	**1,621**	**1,688**
Participation exemption	-45	-72	-34
Other income not subject to tax	-74	-111	-162
Expenses not deductible for tax purposes	156	132	154
Impact on deferred tax from change in tax rates	55	-1	12
Deferred tax benefit from previously unrecognised amounts	-4	-18	54
Current tax from previously unrecognised amounts	66	-22	-63
Write-off/reversal of deferred tax assets	2	33	18
State and local taxes	47	33	
Adjustment to prior periods	110	23	-30
Effective tax amount	**2,281**	**1,618**	**1,637**
Effective tax rate	**31.4%**	**27.4%**	**26.5%**

1 'Other income not subject to tax' and Expenses not deductible for tax purposes' have been adjusted to reflect the impact of income taxes other than corporate (statutory) income tax on the line 'State and local taxes'.

The weighted average statutory tax rate in 2017 does not significantly differ compared to 2016.

The effective tax rate in 2017 is 31.4%.

The effective tax rate in 2017 is significantly higher than the weighted average statutory tax rate. This was caused by the following items:

- A relatively high amount of prior period tax adjustments which ING, for the most part is expected to be reimbursed by NN Group (reimbursement is included in the result before tax), recorded under 'Adjustment to prior periods';
- Impact on deferred tax positions following changes in the income tax rate in the USA and Belgium, recorded under 'Impact on deferred tax from change in tax rates'; and
- The recapture of previously deducted UK tax losses in the Netherlands due to increased profitability in the United Kingdom, recorded under 'Current tax from previously unrecognised amounts'.

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, and 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.

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

	2017	2016	2015
Unrealised revaluations available-for-sale investments and other revaluations	103	17	111
Realised gains/losses transferred to the statement of profit or loss (reclassifications from equity to profit or loss)	20	57	39
Changes in cash flow hedge reserve	167	–51	24
Remeasurement of the net defined benefit asset/liability	–25	–20	–13
Exchange rate differences and other			–46
Changes in composition of the group and other changes	–12	–1	
Total income tax related to components of other comprehensive income	**253**	**2**	**115**

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	
	2017	2016	2017	2016
Financial assets				
Cash and balances with central banks	21,989	18,144	21,989	18,144
Loans and advances to banks	28,911	28,940	28,811	28,858
Financial assets at fair value through profit or loss				
– trading assets	116,748	114,504	116,748	114,504
– non-trading derivatives	2,231	2,490	2,231	2,490
– designated as at fair value through profit or loss	4,242	5,099	4,242	5,099
Investments				
– available-for-sale	69,730	82,912	69,730	82,912
– held-to-maturity	9,378	8,809	9,343	8,751
Loans and advances to customers	588,998	578,596	574,535	563,660
Other assets[1]	11,744	13,258	11,744	13,258
	853,971	**852,752**	**839,373**	**837,676**
Financial liabilities				
Deposits from banks	36,868	32,352	36,821	31,964
Customer deposits	540,547	523,850	539,799	522,942
Financial liabilities at fair value through profit or loss				
– trading liabilities	73,596	83,167	73,596	83,167
– non-trading derivatives	2,331	3,541	2,331	3,541
– designated as at fair value through profit or loss	11,215	12,266	11,215	12,266
Other liabilities[2]	14,488	15,247	14,488	15,247
Debt securities in issue	96,736	103,559	96,086	103,234
Subordinated loans	16,457	17,253	15,968	17,223
	792,238	**791,235**	**790,304**	**789,584**

1 Other assets do not include, among others: (deferred) tax assets, net defined benefit asset, inventory, property development and property obtained from foreclosures. 2016 figure has been changed to conform to the current year presentation.
2 Other liabilities do not include, among others: (deferred) tax liabilities, net defined benefit and related employee benefit liabilities, reorganisation and other provisions ,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 (e.g. 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. Data used in these valuation techniques are validated on a daily basis when possible.

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 or liabilities on net portfolio level.

Control framework

To determine whether the valuations based upon data inputs have led to an appropriate fair 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. 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 and Impairment 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 process (PARP), IPV, valuation adjustments, and model use is monitored.

The Global Price Testing and Impairment Committee is responsible for the oversight and the approval of the outcome of impairments (other than loan loss provisioning) and valuation- (price-testing) processes which include 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 and Impairment 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 an 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 adjustment and Debt Valuation adjustment for derivatives 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. 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.
- Bilateral Valuation Adjustment (BVA) is the valuation component for the 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, the 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 adjustments reduce the risk of possible financial losses resulting from the use of a mis-specified, misapplied, or incorrect implementation of a model.
- Collateral Valuation Adjustment (CollVA) is a derivative valuation adjustment capturing specific features of CSA (Credit Support 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 (amongst others) discounted cash flows option pricing 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 for example 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. 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 consensus prices 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 made on a quarterly basis.

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. 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)

	Level 1		Level 2		Level 3		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Financial Assets								
Trading assets	20,114	17,652	95,530	95,629	1,104	1,223	116,748	114,504
Non-trading derivatives		3	2,146	2,231	85	256	2,231	2,490
Financial assets designated as at fair value through profit or loss	319	502	3,558	4,141	365	456	4,242	5,099
Available-for-sale investments	65,310	76,238	3,940	6,153	480	521	69,730	82,912
	85,743	**94,395**	**105,174**	**108,154**	**2,034**	**2,456**	**192,951**	**205,005**
Financial liabilities								
Trading liabilities	5,770	6,139	66,753	75,650	1,073	1,378	73,596	83,167
Non-trading derivatives			2,263	3,517	68	24	2,331	3,541
Financial liabilities designated as at fair value through profit or loss	1,285	1,348	9,829	10,795	101	123	11,215	12,266
	7,055	**7,487**	**78,845**	**89,962**	**1,242**	**1,525**	**87,142**	**98,974**

Main changes in fair value hierarchy

There were no significant transfers between Level 1 and Level 2 in 2017 and 2016.

There were no significant changes in the valuation techniques during the 2017 and 2016.

Changes in Level 3 Financial assets

	Trading assets		Non-trading derivatives		Financial assets designated as at fair value through profit or loss		Available-for-sale investments		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Opening balance	1,223	1,146	256	168	456	338	521	693	2,456	2,345
Realised gain/loss recognised in the statement of profit or loss during the period[1,3]	-232	226	-45	-34	4	76		200	-273	468
Revaluation recognised in other comprehensive income during the period[2,4]							-5	-144	-5	-144
Purchase of assets	610	77	-9	5	226	193	62	68	889	343
Sale of assets	-326	-71	-92	-4	-1	-76	-43	-183	-462	-334
Maturity/settlement	-141	-135	-2		-1		-24	-9	-168	-144
Reclassifications							7	-92	7	-92
Transfers into Level 3	9	21		62				5	9	88
Transfers out of Level 3	-37	-43	-23		-319	-75	-13		-392	-118
Exchange rate differences	-2	3					-24	8	-26	11
Changes in the composition of the group and other changes		-1		59			-1	-25	-1	33
Closing balance	**1,104**	**1,223**	**85**	**256**	**365**	**456**	**480**	**521**	**2,034**	**2,456**

1 Net gains/losses were recorded in income from trading activities in continuing operations herein as 'Valuation results and net trading income' in the statement of profit or loss.
2 Revaluation recognised in other comprehensive income is included on the line 'Unrealised revaluations available-for-sale investements and other revaluations'.
3 'Amounts recognised in the statement of profit or loss during the year' has been renamed to 'Realised gain/loss recognised in the statement of profit or loss during the period'.
4 'Revaluation recognised in equity during the year' has been renamed to 'Revaluation recognised in other comprehensive income during the period'.

In 2017 and 2016, financial assets were transferred out of Level 3 on the basis that the valuation is not significantly impacted by unobservable inputs.

In 2016, included in 'Realised gain/loss recognised in the statement of profit or loss during the period', is EUR 163 million related to the release of revaluation reserves on shares held in VISA Europe Limited.

Changes in Level 3 Financial liabilities

	Trading liabilities		Non-trading derivatives		Financial liabilities designated as at fair value through profit or loss		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Opening balance	1,378	1,239	24	1	123	198	1,525	1,438
Realised gain/loss recognised in the statement of profit or loss during the period[1,2]	-105	277	44	12	-6	-3	-67	286
Issue of liabilities	485	53	1	11	14	4	500	68
Early repayment of liabilities	-399	-62	-1	-11	-21	-13	-421	-86
Maturity/settlement	-187	-62					-187	-62
Transfers into Level 3	16	16		11			16	27
Transfers out of Level 3	-111	-86			-9	-63	-120	-149
Exchange rate differences	-4	6					-4	6
Changes in the composition of the group and other changes		-3						-3
Closing balance	**1,073**	**1,378**	**68**	**24**	**101**	**123**	**1,242**	**1,525**

1 Net gains/losses were recorded in income from trading activities in continuing operations included herein as 'Valuation results and net trading income' in the statement of profit or loss.
2 'Amounts recongnised in the statement of profit or loss during the year' has been renamed to 'Realised gain/loss recognised in the statement of profit or loss during the period'.

In 2017 and 2016, financial liabilities 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 period (Level 3)

	Held at balance sheet date		Derecognised during the period		Total	
	2017	2016	2017	2016	2017	2016
Financial assets						
Trading assets	-232	226			-232	226
Non-trading derivatives	-45	-34			-45	-34
Financial assets designated as at fair value through profit or loss	4	76			4	76
Available-for-sale investments	-2	-3	2	203		200
	-275	**265**	**2**	**203**	**-273**	**468**
Financial liabilities						
Trading liabilities	-105	277			-105	277
Non-trading derivatives	44	12			44	12
Financial liabilities designated as at fair value through profit or loss	-6	-3			-6	-3
	-67	**286**	**-**	**-**	**-67**	**286**

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 2017 of EUR 193 billion includes an amount of EUR 2.0 billion (1.1%) which is classified as Level 3 (31 December 2016: EUR 2.5 billion, being 1.2%). Changes in Level 3 from 31 December 2016 to 31 December 2017 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 2017 of EUR 87 billion includes an amount of EUR 1.2 billion (1.4%) which is classified as Level 3 (31 December 2016: EUR 1.5 billion, being 1.5%). Changes in Level 3 from 31 December 2016 to 31 December 2017 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 2017 of EUR 2.0 billion (31 December 2016: EUR 2.5 billion), an amount of EUR 1.0 billion (49%) (31 December 2016: EUR 1.0 billion, being 42%) 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 0.4 billion (31 December 2016: EUR 0.5 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 0.6 billion (31 December 2016: EUR 1.0 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 2017 of EUR 1.2 billion (31 December 2016: EUR 1.5 billion), an amount of EUR 0.8 billion (66%) (31 December 2016: EUR 0.9 billion, being 59%) 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 2016: EUR 0.1 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 0.3 billion (31 December 2016: 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)

	Assets		Liabilities		Valuation techniques	Significant unobservable inputs	Lower range		Upper range	
	2017	2016	2017	2016			2017	2016	2017	2016
At fair value through profit or loss										
Debt securities	386	180			Price based	Price (%)	0%	0%	161%	122%
					Net asset value	Price (%)	0%	10%	0%	19%
Equity securities	4	4	1		Price based	Price (%)	1%	0%	54%	0%
Loans and advances	20	326		3	Price based	Price (%)	0%	60%	101%	101%
					Present value techniques	Credit spread (bps)	n.a	130	n.a	150
Structured notes		6	101	125	Price based	Price (%)	52%	52%	116%	111%
					Net asset value	Price (%)	n.a	19%	n.a	19%
					Option pricing model	Equity volatility (%)	14%	16%	23%	34%
						Equity/Equity correlation	0.5	0.0	0.7	0.8
						Equity/FX correlation	0.2	-0.4	0.4	0.1
						Dividend yield (%)	2%	1%	6%	5%
						Interest rate volatility (%)	n.a	n.a	n.a	n.a
					Present value techniques	Implied correlation	0.7	0.7	0.7	0.7
Derivatives										
- Rates	490	486	485	457	Option pricing model	Interest rate volatility (bps)	23	22	300	300
						Interest rate correlation	n.a	n.a	n.a	n.a
						IR/INF correlation	n.a	0.5	n.a	0.5
					Present value techniques	Reset spread (%)	2%	2%	2%	2%
						Prepayment rate (%)	5%	5%	10%	10%
						Inflation rate (%)	4%	2%	4%	4%
- FX	477	642	479	688	Present value techniques	Inflation rate (%)	4%	2%	4%	3%
- Credit	10	33	48	43	Present value techniques	Credit spread (bps)	2	0	424	1,596
						Implied correlation	0.7	0.7	1.0	1.0
						Jump rate (%)	12%	12%	12%	12%
					Price based	Price (%)	n.a	99%	n.a	99%
- Equity	161	258	128	208	Option pricing model	Equity volatility (%)	5%	0%	129%	140%
						Equity/Equity correlation	0.1	-0.1	1.0	1.0
						Equity/FX correlation	-0.9	-0.9	0.8	0.6
						Dividend yield (%)	0%	0%	21%	13%
- Other	5			1	Option pricing model	Commodity volatility (%)	9%	13%	42%	55%
						Com/Com correlation	0.3	0.0	0.9	0.9
						Com/FX correlation	-0.6	-0.5	-0.3	0.0
Available for sale										
- Debt	14	55			Price based	Price (%)	69%	0%	90%	99%
					Present value techniques	Credit spread (bps)	n.a	339	n.a	400
						Weighted average life (yr)	n.a	1.6	n.a	3.2
- Equity	467	466			Discounted cash flow	Annual Accounts	n.a	n.a	n.a	n.a
					Multiplier method	Observable market factors	n.a	n.a	n.a	n.a
					Comparable transactions		n.a	n.a	n.a	n.a
Total	**2,034**	**2,456**	**1,242**	**1,525**						

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
Examples of interest rate related unobservable inputs are prepayment rates, reset rates and inflation 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 is expected to pay 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 annual accounts 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 for its IFRS valuation of fair valued financial instruments, the downward valuation uncertainty has become immaterial, whereas the potential upward valuation uncertainty, reflecting a potential profit, has increased.

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

	Positive fair value movements from using reasonable possible alternatives		Negative fair value movements from using reasonable possible alternatives	
	2017	2016	2017	2016
Fair value through profit or loss				
Equity (equity derivatives, structured notes)	222	262		
Interest rates (Rates derivatives, FX derivatives)	56	80		
Credit (Debt securities, Loans, structured notes, credit derivatives)	27	33		
Available-for-sale				
Equity	9	8	14	14
Debt	1	2		
	315	**385**	**14**	**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)

	Level 1		Level 2		Level 3		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Financial Assets								
Loans and advances to banks	633	3,534	9,855	11,135	16,577	14,271	27,065	28,940
Held-to-maturity investments	7,884	6,983	1,409	1,749	85	77	9,378	8,809
Loans and advances to customers[1]		5,121	19,870	21,611	545,141	551,864	565,011	578,596
	8,517	**15,638**	**31,134**	**34,495**	**561,803**	**566,212**	**601,454**	**616,345**
Financial liabilities								
Deposits from banks[1]	29		25,276	14,447	7,642	8,096	32,947	22,543
Customer deposits[1]	8,875	12,248	28,303	25,118	27,296	27,382	64,474	64,748
Debt securities in issue	39,303	41,145	39,757	48,097	17,676	14,317	96,736	103,559
Subordinated loans	16,082	14,967	357	2,188	18	98	16,457	17,253
	64,289	**68,360**	**93,693**	**89,850**	**52,632**	**49,893**	**210,614**	**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. In 2017, comparative figures of customer deposits have been reclassified between the levels to conform with the current year presentation.

b) Non-financial assets and liabilities

ING Group's non-financial assets comprise Investments in associates and joint ventures, Property in own use, Investment properties and Inventory 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 (Property in own use, and Investment properties) are recognised at fair value at the balance sheet date.

As at 31 December 2017, the estimated fair value of Property in own use and Investment properties amounts to EUR 774 million (2016: EUR 881 million) and EUR 65 million (2016: EUR 65 million) respectively and is categorised as Level 3 (2016: 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 non-financial assets are included in the statement of profit or loss as follows:

- Impairments on Property in own use are included in Other operating expenses - Impairments and reversals on property and equipment and intangibles ; 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 2017, ING Group has no non-financial liabilities measured at fair value (2016: 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	2017	2016
Change in fair value of derivatives	700	241
Change in fair value of assets and liabilities (hedged items)	–793	–167
Net accounting ineffectiveness recognised in the Statement of profit or loss	**–93**	**74**

The fluctuation in balances between 2016 and 2017 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	2017	2016
Positive fair values outstanding (Non-trading derivative assets)	685	1,012
Negative fair values outstanding (Non-trading derivative liabilities)	–1,089	–1,888
	–404	**–876**

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. In retail operations, exposure on retail funding (savings and current accounts) and retail lending (mortgages) is initially offset. The remaining exposure is hedged in a portfolio hedge, using the EU carve-out, in which a portion of the mortgages is designated as a hedged item for hedge accounting purposes.

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	2017	2016
Effective portion of fair value changes on derivatives under cash flow hedges, after tax	–514	111
Cash flow hedge reserve as at 31 December, gross	335	1,015
Cash flow hedge reserve as at 31 December, after deferred tax	263	777

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 26 years, with the largest concentrations in the range of 1 to 3 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	2017	2016
Positive fair values outstanding (Non-trading derivative assets)	617	438
Negative fair values outstanding (Non-trading derivative liabilities)	–339	–671
	278	**–233**

Statement of profit or loss – Net interest income

Net interest income on cash flow hedge derivatives	2017	2016
Interest income on cash flow hedge derivatives	2,454	2,654
Interest expense on cash flow hedge derivatives	–1,968	–2,181
	486	**473**

Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a gain of EUR 44 million (2016: EUR 16 million loss) 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	2017	2016
Positive fair values outstanding (Non-trading derivative assets)	29	73
Negative fair values outstanding (Non-trading derivative liabilities)	–71	–33
	–42	**40**

Accounting ineffectiveness recognised in the statement of profit or loss for the year ended 31 December 2017 on derivatives and non-derivatives designated under net investment hedge accounting was EUR 3 million (2016: 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

2017	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	21,989						21,989
Loans and advances to banks	13,929	5,137	5,224	3,931	590		28,811
Financial assets at fair value through profit or loss							
– trading assets	63,857	14,016	12,667	12,619	13,589		116,748
– non-trading derivatives	124	147	213	789	958		2,231
– designated as at fair value through profit or loss	488	967	1,839	351	597		4,242
Investments							
– available-for-sale	1,319	2,313	4,301	31,852	25,962	3,983	69,730
– held-to-maturity	1,020	127	657	2,975	4,564		9,343
Loans and advances to customers	62,842	18,414	40,350	163,360	289,569		574,535
Intangible assets			92	367		1,010	1,469
Other assets[2]	8,520	1,517	2,479	869	535	309	14,229
Remaining assets (for which maturities are not applicable)[3]						2,889	2,889
Total assets	**174,088**	**42,638**	**67,822**	**217,113**	**336,364**	**8,191**	**846,216**

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 and joint ventures. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

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]	9,538	1,776	2,721	855	850	296	16,036
Remaining assets (for which maturities are not applicable)[3]						3,143	3,143
Total assets	**148,756**	**47,750**	**74,992**	**226,456**	**338,616**	**8,511**	**845,081**

1 Includes assets on demand.
2 Includes Other assets and Current and Deferred tax assets, commodities, and precious metals (which have no maturity) as presented in the Consolidated statement of financial position. 'Other assets' adjusted to conform to the current year presentation.
3 Included in remaining assets for which maturities are not applicable are property and equipment, and investments in associates and joint ventures. 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

2017	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	10,002	648	1,687	21,893	2,591			36,821
Customer deposits	494,701	17,190	19,647	5,761	2,500			539,799
Financial liabilities at fair value through profit or loss								
- other trading liabilities	29,755	11,530	1,866	1,506	2,390		636	47,683
- trading derivatives	2,476	2,420	4,520	8,224	5,947		2,326	25,913
- non-trading derivatives	339	121	226	715	886		44	2,331
- designated at fair value through profit or loss	413	838	1,353	3,700	5,058		-147	11,215
Debt securities in issue	3,296	14,657	26,434	37,717	12,249		1,733	96,086
Subordinated loans					10,601	5,176	191	15,968
Financial liabilities	**540,982**	**47,404**	**55,733**	**79,516**	**42,222**	**5,176**	**4,783**	**775,816**
Other liabilities[3]	9,773	1,915	4,240	2,147	1,204			19,279
Non-financial liabilities	9,773	1,915	4,240	2,147	1,204	–	–	19,279
Total liabilities	**550,755**	**49,319**	**59,973**	**81,663**	**43,426**	**5,176**	**4,783**	**795,095**
Coupon interest due on financial liabilities	1,109	1,035	2,852	9,591	8,686			23,273

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 that 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

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.

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

	2017	2016
Banks		
- Cash and balances with central banks	1,569	1,353
- Loans and advances to banks	3,730	6,054
Financial assets at fair value through profit or loss	1,072	447
Investments	885	825
Loans and advances to customers	76,083	70,457
Other assets	813	935
	84,152	**80,071**

In some jurisdictions ING Bank N.V. has an obligation to maintain a reserve with central banks. As at 31 December 2017, the minimum mandatory reserve deposits with various central banks amount to EUR 8,503 million (2016: EUR 9,055 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 50 billion (2016: EUR 49 billion), in Germany to EUR 12 billion (2016: EUR 12 billion), in Belgium EUR 10 billion (2016: EUR 5 billion), in Australia to EUR 2 billion (2016: EUR 2 billion) and in the United States to EUR 1 billion (2016: EUR 1 billion).

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			
	Equity		Debt		Equity		Debt	
	2017	2016	2017	2016	2017	2016	2017	2016
Transferred assets at carrying amount								
Financial assets at fair value through profit or loss	3,995	1,428			2,120	4,106	6,864	8,965
Investments	2	2					621	1,427
Loans and advances to customers								25
Associated liabilities at carrying amount								
Deposits from banks	n.a	n.a	n.a	n.a				
Customer deposits	n.a	n.a	n.a	n.a				
Financial liabilities at fair value through profit or loss	3,985	1,443			2,148	4,635	2,599	4,280

The table above include the associated liabilities which are reported after offsetting, compared to the gross positions of the encumbered assets.

Included in the table above, are the carrying amounts of transferred assets under repurchase agreements, and securities lending that do not qualify for derecognition.

The table 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

2017		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	1,838		1,838		1,728	110
	Other	7	-7				
		1,845	**-7**	**1,838**	**-**	**1,728**	**110**
Financial assets at fair value through profit or loss							
Trading assets	Derivatives	20,878	-760	20,118	18,427	219	1,472
	Reverse repurchase, securities borrowing and similar agreements	68,050	-14,475	53,575	1,068	52,456	51
		88,928	**-15,235**	**73,693**	**19,495**	**52,675**	**1,523**
Non-trading derivatives	Derivatives	45,176	-43,819	1,357	1,238	217	-98
		45,176	**-43,819**	**1,357**	**1,238**	**217**	**-98**
Loans and advances to customers	Reverse repurchase, securities borrowing and similar agreements	409	-209	200		200	
	Other	157,892	-156,015	1,877	1,018	302	557
		158,301	**-156,224**	**2,077**	**1,018**	**502**	**557**
Other items where offsetting is applied in the statement of financial position		6,860	-6,366	494			494
Impact of enforceable master netting arrangements or similar arrangements[1]	Derivatives				-5,929	4,208	1,721
		-	**-**	**-**	**-5,929**	**4,208**	**1,721**
Total financial assets		**301,110**	**-221,651**	**79,459**	**15,822**	**59,330**	**4,307**

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

2016					Related amounts not offset in the statement of financial position		
		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 liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2017		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	4		4		4	
	Other	68	-8	60			60
		72	**-8**	**64**	**-**	**4**	**60**
Customer deposits	Repurchase, securities lending and similar agreements	209	-209				
	Corporate deposits	11,508	-11,022	486			486
	Other	156,465	-144,991	11,474	1,021		10,453
		168,182	**-156,222**	**11,960**	**1,021**		**10,939**
Financial liabilities at fair value through profit or loss							
Trading liabilities	Derivatives	21,356	-975	20,381	19,292	302	787
	Repurchase, securities lending and similar agreements	51,445	-14,475	36,970	1,068	35,792	110
		72,801	**-15,450**	**57,351**	**20,360**	**36,094**	**897**
Non-trading derivatives	Derivatives	46,765	-45,251	1,514	1,261	125	128
Other items where offsetting is applied in the statement of financial position		5,393	-4,720	673			673
Impact of enforceable master netting arrangements or similar arrangements[1]	Derivatives				-6,820	6,228	592
		-	**-**	**-**	**-6,820**	**6,228**	**592**
Total financial liabilities		**293,213**	**-221,651**	**71,562**	**15,822**	**42,451**	**13,289**

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

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.

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 annual accounts. 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

	Less than 1 month		1-3 months		3-12 months		1-5 years		Over 5 years		Maturity not applicable		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Contingent liabilities in respect of														
- discounted bills	1					1							1	1
- guarantees	15,647	18,536	571	677	944	965	2,560	1,167	4,189	3,526			23,911	24,871
- irrevocable letters of credit	9,453	6,583	4,746	5,973	1,146	824	176	154	12	12			15,533	13,546
- other	58	39					223			309			281	348
	25,159	**25,158**	**5,317**	**6,650**	**2,090**	**1,790**	**2,959**	**1,321**	**4,201**	**3,847**	**-**	**-**	**39,726**	**38,766**
Guarantees issued by ING Groep N.V.									356	404			356	404
Irrevocable facilities	56,459	59,214	2,150	2,587	7,504	4,832	30,331	22,606	7,825	9,315			104,269	98,554
	81,618	**84,372**	**7,467**	**9,237**	**9,594**	**6,622**	**33,290**	**23,927**	**12,382**	**13,566**	**-**	**-**	**144,351**	**137,724**

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 for 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

	2017	2016
2017		307
2018	268	179
2019	195	151
2020	165	129
2021	152	132
Years after 2021	472	344

45 Legal proceedings

ING 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 US, involving claims by and against them which arise in the ordinary 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.

Criminal investigations: ING Bank is the subject of criminal investigations by Dutch authorities regarding various requirements related to client on-boarding, money laundering and corrupt practices. ING Group has also received related information requests from US authorities. ING Group and ING Bank are cooperating with such ongoing investigations and requests. Management has concluded under IFRS that it is more likely than not that a present obligation per 31 December 2017 exists and that an outflow of resources is probable, but was not able to estimate reliably the possible timing, scope or amounts of any fines, penalties and/or other outcome, which could be significant. ING expects to receive more information from the Dutch authorities concerning the potential consequences of their investigation in the first half of 2018.

Tax cases: 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 identified issues in connection with its US tax information reporting and withholding obligations in respect of prior periods. While a provision has been recorded, the review of such issues is ongoing.

Litigation regarding products of a former subsidiary in Mexico: 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. A provision has been taken in the past.

SIBOR – SOR litigation: In July 2016, investors in derivatives tied to the Singapore Interbank Offer Rate ('SIBOR') filed a US 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 US Commodity Futures Trading Commission ('CFTC'), in relation to rigging prices of SIBOR- and SOR-based derivatives. In April 2017, the New York District Court issued an oral ruling dismissing all claims; a corresponding written ruling was issued in August 2017. In September 2017, plaintiffs filed an amended complaint. Defendants moved to dismiss the amended complaint. Currently, it is not possible to provide an estimate of the (potential) financial effect of this claim.

Claims regarding accounts with predecessors of ING Bank Turkey: ING Bank Turkey has received numerous 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 had initiated an arbitration procedure against OYAK in which ING Bank sought to be held harmless for these claims. The arbitration court dismissed ING's prayers for relief. 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.

VEB Fortis claim: 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, 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 EUR 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. In June 2017, the Amsterdam Court of Appeal has given an interim ruling that the proposed settlement agreement between Ageas and the VEB cannot be declared binding upon all investors in its current form. The Court of Appeal requested in particular changes in relation to the level of compensation awarded to investors who are a member of the VEB and those who are not. In December 2017, Ageas and the VEB filed a revised settlement agreement with the Court of Appeal making amendments to the settlement agreement. In February 2018, the Court of Appeal requested further information on the level of compensation awarded to the VEB itself. The VEB have to file their reply before 6 March 2018. A court hearing has been scheduled for 16 March 2018 to discuss the merits of the settlement agreement, in particular the level of compensation, in more detail.

Medical insurance coverage claim by (former) Belgian employees: 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. 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. In October 2017, ING reached an agreement with the claimants to settle this case. In January 2018, this settlement has entered into force for all retired employees who are insured with the external provider. This settlement will be paid out of the existing provision.

Interest rate derivatives claims: 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 may have to re-assess certain client files, potentially including certain 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. In 2017, ING has informed the majority of the relevant clients whether they are in scope of the recovery framework, and thus eligible for compensation, or not. Due to the fact that the execution of the framework encountered delay, ING has offered advance payments to customers out of the existing provision.

Interest surcharges claims: ING received complaints and is involved in litigation with natural persons (natuurlijke personen) in the Netherlands regarding increases in interest surcharges with respect to several credit products, including but not limited to residential property (eigenwoningfinanciering). ING is reviewing the relevant product portfolio. Although the review is still ongoing, a provision has been taken for certain of these complaints.

Criminal proceedings regarding cash company financing: In June 2017, a Belgian criminal Court ruled that ING Luxembourg assisted third parties in 2000 to commit a tax fraud in the context of the purchase of the shares of a cash company. The Court condemned ING Luxembourg among others to a penal fine of EUR 120,000 (suspended for half of the total amount). The court also condemned ING Luxembourg jointly and severally with other parties, to pay EUR 31.48 million (to be increased with the legal interests) to the bankruptcy trustee of the cash company. A provision has been recorded. In July 2017, ING Luxembourg filed an appeal against this judgment, which is currently pending. In another case the Belgian authorities are also investigating ING Luxembourg for allegedly assisting third parties in 2001 to commit tax fraud in the context of the purchase of the shares of a cash company. For this case, a provision has been recorded by ING Luxembourg as well. The outcome of those cases is uncertain.

Mortgage expenses claims: ING Spain has received claims and is involved in procedures with customers regarding reimbursement of expenses associated with the formalization of mortgages. In all but two court proceeding in first instance the expense clause of the mortgage contract has been declared null and all or part of the expenses were ordered to be reimbursed by ING Spain. The courts in first instance have applied in their rulings different criteria regarding the reimbursement of expenses. ING Spain has filed an appeal against a number of these court decisions. ING Spain has also been included, together with other Spanish banks, in a class action filed by a customer association. The outcome of the pending litigation and similar cases that may be brought in the future is uncertain. A provision has been taken. However, the aggregate financial impact of the current and future litigation could change and will depend on, amongst others, an expected future ruling by the Spanish Supreme Court regarding the expenses that should be reimbursed by the banks.

Imtech claim: In January 2018, ING Bank received a claim from Stichting ImtechClaim.nl and Imtech Shareholders Action Group B.V. on behalf of certain (former) shareholders of Imtech N.V. ('Imtech'). The claimants allege inter alia that shareholders were misled by the prospectus of the rights issues of Imtech in July 2013 and October 2014. ING Bank, being one of the underwriters of the rights issues, is held liable by the claimants for the damages that investors in Imtech would have suffered. ING Bank responded to the claimants denying any and all responsibility in relation to the allegations made in the letter.

46 Consolidated companies and business acquired and divested

Acquisitions

There were no significant acquisitions in 2017, 2016 and 2015.

Divestments effective in 2017

There were no significant divestments, of consolidated companies, in 2017.

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 27 'Discontinued operations', and Note 49 'Related parties'.

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 27 'Discontinued operations.

Other

In 2015 the merger between ING Vysya and Kotak Mahindra Bank 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.

Most significant companies divested in 2015

	2015
	NN Group
General	
Primary line of business	Insurance
Sales proceeds	
Cash proceeds[1]	1,148
Investment retained in NN Group[2]	3,612
Sales proceeds	**4,760**
Assets	
Cash and cash equivalents	9,238
Financial assets at fair value through profit or loss	46,425
Available-for-sale investments	76,529
Loans and advances to customers	28,713
Reinsurance contracts	266
Intangible assets	177
Deferred acquisition costs	1,509
Miscellaneous other assets	6,204
Liabilities	
Insurance and investment contracts	121,721
Financial liabilities at fair value through profit or loss	2,105
Miscellaneous other liabilities	24,159
Net assets	**21,076**
% disposed[2]	54.8%
Net assets disposed	**11,543**
Loss on disposal[3,4]	-1,224

1 Cash outflow/inflow on group companies in the statement of cash flow included, in addition to the cash amounts in this table, also cash outflows/inflows on individually insignificant disposals.
2 IFRS required the derecognition of the subsidiary and the recognition of the respective retained investments in NN Group of 42.43% at the fair value on the date of disposal.
3 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.
4 The portion of the loss attributable to measuring the retained investment in NN Group at its fair value amounted to EUR -5,412 million.

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 and joint ventures 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 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	
			2017	2016
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%
Record Bank	Brussels	Belgium	100%	100%
ING Belgium S.A./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 and joint ventures				
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 annual accounts, 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 annual accounts 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, as at 31 December 2017 these consisted of approximately EUR 56 billion of AAA rated notes and subordinated notes, of which approximately EUR 7 billion were issued externally. 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 2017, 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 billion.

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 the ING administered structured entities, ING Covered Bond Company B.V., and ING SB Covered Bond Company B.V. In order for these entities to fulfil their guarantee, ING legally transfers mainly Dutch mortgage loans originated by ING. Furthermore ING offers protection against deterioration of the mortgage loans. The entities are consolidated by ING Group.

Covered bond programme

	Fair value pledged mortgage loans		Cash balance structured entity	
	2017	2016	2017	2016
Dutch Covered Bond Companies	41,062	43,931	323	39
	41,062	**43,931**	**323**	**39**

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 1,139 million (2016: EUR 812 million). The drawn liquidity amount is nil as at 31 December 2017 (2016: nil).

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 (mortgage 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 held by ING at 31 December 2017 amounted to EUR –41 million (2016: EUR –5 million); fair value changes on this swap recognised in the statement of profit or loss in 2017 were EUR –36 million (2016: EUR –6 million). Fee income recognised in the statement of profit or loss in 2017 amounted to EUR 2 million (2016: EUR 2 million).

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 annual accounts 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. For post-employment benefit plans, reference is made to Note 35 'Pension and other postemployment benefits'. 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.	
	2017	2016
Assets	21,277	14,903
Liabilities	377	70
Income received	448	414
Expenses paid	3	30

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.

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	
	2017	2016[1]	2017	2016
Assets	120	27	9	12
Liabilities	86	16	5	59
Off-balance sheet commitments	92	34	1	2
Income received	8	9		
Expenses paid	6	1		

1 Includes transactions with NN Group until ING lost significant influence in January 2016.

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.

Key management personnel compensation

Transactions with key management personnel (Executive Board, Management Board Banking 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.

In 2017 and 2016, 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 Banking)

2017 in EUR thousands	Executive Board of ING Groep N.V.[1, 2]	Management Board Banking [1,3,4]	Total
Fixed Compensation			
– Base salary	4,399	3,772	8,171
– Collective fixed allowances[5]	1,418	1,180	2,598
– Pension costs	96	118	214
– Severance benefits	1,204	–	1,204
Variable compensation			
– Upfront cash	–	463	463
– Upfront shares	226	485	711
– Deferred cash	–	694	694
– Deferred shares	339	728	1,067
– Other	–	–	–
Total compensation	**7,682**	**7,440**	**15,122**

1 Includes their compensation earned in the capacity as Board members.
2 In 2017 two members left and two members joined the Executive Board.
3 Excluding members that are also members of the Executive Board of ING Groep N.V.
4 In the Management Board Banking, excluding the Executive Board members, one member left and one member joined in 2017.
5 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 103,317.

Key management personnel compensation (Executive Board and Management Board Banking)

2016 in EUR thousands	Executive Board of ING Groep N.V.[1]	Management Board Banking[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 (Supervisory Board)		
in EUR thousands	2017	2016
Total compensation	1,022	1,088

The table above shows the fixed remuneration, expense allowances and attendance fees for the Supervisory Board for 2017 and 2016.

Loans and advances to key management personnel [1]						
	Amount outstanding 31 December		Average interest rate		Repayments	
in EUR thousands	2017	2016	2017	2016	2017	2016
Executive Board members	2,681	2,849	1.8%	2.6%	–	150
Management Board Banking	550	532	2.3%	3.8%	–	–
Supervisory Board members	–	–	–	–	–	–
Total	**3,231**	**3,381**			–	**150**

1 Year on year development includes changes due to change in composition of the Board.

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	2017	2016	2017	2016
Executive Board members	202,357	261,684	174,318	95,921
Management Board Banking	112,342	120,646	37,415	123,237
Supervisory Board members	172,734	172,734	113,385	226,864
Total number of shares and stock options	**487,433**	**555,064**	**325,118**	**446,022**

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 Banking 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 Banking as disclosed in the table above includes all variable remuneration related to the performance year 2017. 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 2017 and included in Total expenses in 2017, relating to the fixed expenses of 2017 and the vesting of variable remuneration of earlier performance years, is EUR 15 million.

50 ING's Restructuring

In the course of the 2008 financial crisis ING accepted State Aid, which required ING to restructure and divest its insurance and investment management businesses. With the listing of Voya Financial, on the New York Stock Exchange, ING divested its US insurance and investment management business by March 2015. The sale of the final shares in NN Group, ING's former European/Japanese insurance and investment management business, completed the restructuring in 2016.

51 Subsequent events

On 29 January 2018 ING announced it had reached agreement to acquire a 75% stake in Payvision. Payvision is a Netherlands based payments service provider with a total estimated value of EUR 360 million. The transaction is not expected to have material impact on ING's CET1 ratio.

Risk Management

amounts in millions of euros, unless stated otherwise

ING Group Risk Management

As a global financial institution with a strong European base, offering banking services, ING is exposed to a variety of risks. ING 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. Taking measured risks is the core of ING's business.

Risk management supports the Executive Board in formulating the risk appetite, strategies, policies, limits and provides a review, oversight and support function throughout ING on risk-related items. The main financial risks ING 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 is also exposed to non-financial risks, e.g. operational and compliance risks. 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 way ING 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.

The Risk Management section describes the key risks that arise from ING's business model. It explains how the risk management function is embedded within the organisation based on the 'three lines 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. The 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 Auditor as part of the notes to the consolidated financial statements. Disclosures in accordance to Part Eight of the CRR and CRD IV, and as required by the supervisory authority, are published in our 'Additional Pillar III Report', which can be found on our corporate website ing.com.

Purpose and business model

The purpose of ING's risk management function is to support the ambition of ING 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'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

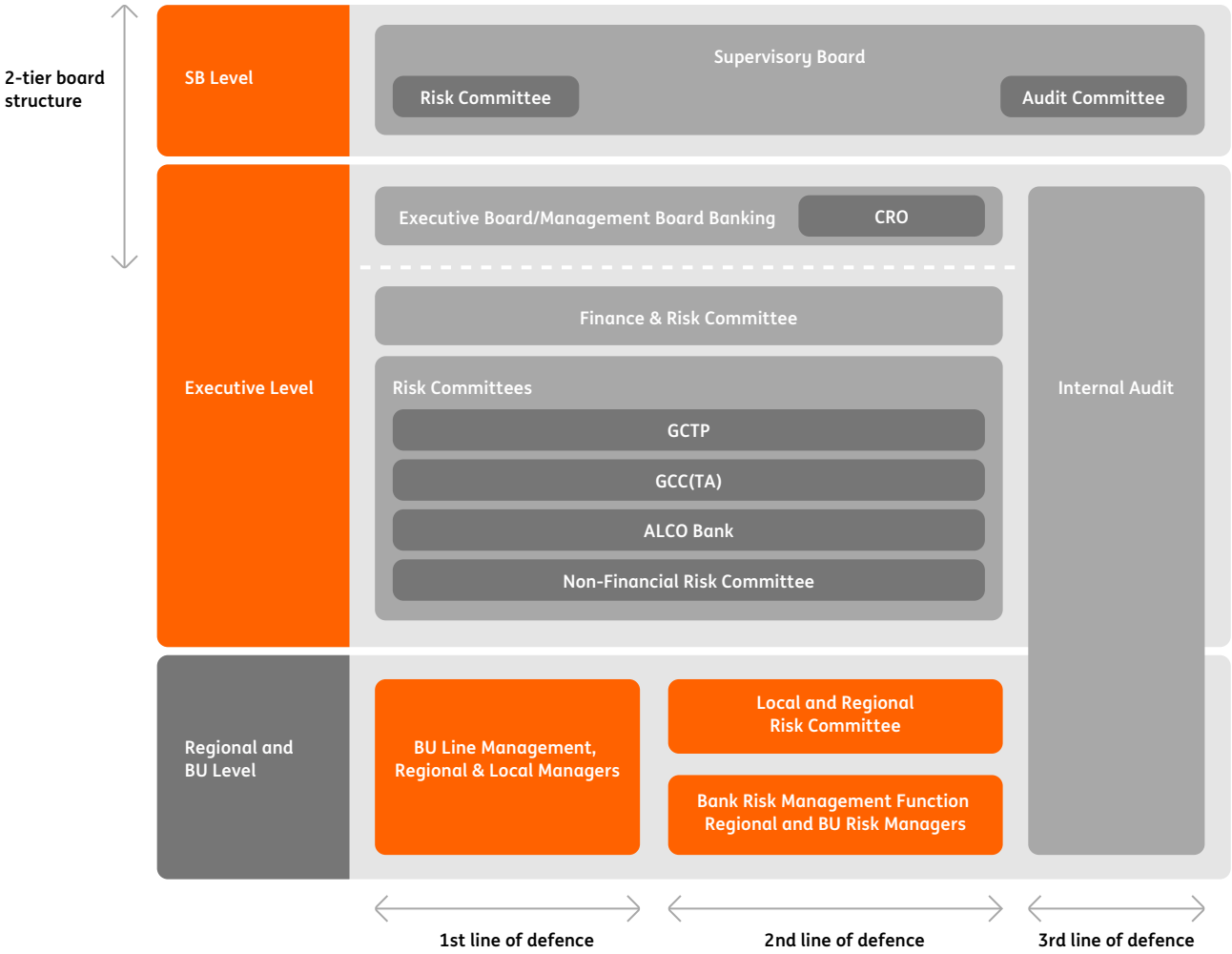
Effective risk management requires a firm-wide risk governance. ING's risk and control structure is based on the 'three lines of defence' governance model, whereby each line has a specific role and defined responsibilities in such a way that the execution of tasks is separated from the control of the 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 Banking (MBB), the EB and the SB, and is cascaded throughout ING. The MBB is composed of the Executive Board of ING Group and the managers of the business lines.

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 both local and 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), who has ultimate responsibility. Risk Management at the 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.

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 has a two-tier board structure consisting of a management board (Executive Board (EB) for ING Group and Management Board Banking (MBB) for ING Bank) 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 EB and the MBB, the general course of affairs of ING Group, ING Bank and its business (including its financial policies and corporate structure). For risk management purposes the SB is advised by two of its sub-committees:
  - The Audit Committee, which assists the SB in monitoring the integrity of the financial statements of ING Group and 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 and approving the risk limits of the company as well as the structure and operation of the internal risk management and control systems.
- The EB is responsible for managing risks associated with all activities of ING Group, whereas the MBB is responsible for managing risks associated with all activities of ING Bank. The EB and MBB responsibilities include ensuring that internal risk management and control systems are effective and that ING Group and ING Bank comply with relevant legislation and regulations. On a regular basis, the EB and MBB report on these issues and discusses the internal risk management and control systems with the SB. On a quarterly basis, the EB and MBB report on the ING's risk profile versus its risk appetite to the Risk Committee, explaining changes in the risk profile.

As a member of the EB and 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 levels, which supports the commercial departments in their decision-making, but at the same time has sufficient countervailing power to keep the agreed risk profile within the risk tolerance. Every quarter, the CRO reports to the SB committees on ING's risk appetite levels and on ING's risk profile. In addition, the CRO briefs the SB committees on developments in internal and external risk related issues and ensures the SB 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 key risk committees described below act within the overall risk policy and delegated authorities granted by the MBB:

- Global Credit & Trading Policy Committee (GCTP) discusses and approves policies, methodologies and procedures related to credit, trading, country and reputation (Environmental and social risk or ESR) risks. The GCTP meets on a monthly basis. In addition, the Credit & Trading Risk Policy Committee (CTRC) is the highest level body, with the exception of ING Global Credit & Trading Policy Committee (GCTP) and the Management Board Banking, authorised to discuss and approve policies, methodologies and procedures related to Credit Risk;
- 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 balance sheet and capital management risks that occur as part of its activities. ALCO Bank defines the policy regarding funding, liquidity, interest rate mismatch and solvency for ING; and
- Non-Financial Risk Committee Bank (NFRC Bank) is 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.

The Finance and Risk Committee (F&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, F&RC has the responsibility to coordinate finance and risk decisions that have an impact on internal and/or external reporting. This includes advising on and reviewing of issues that impact the financial condition of ING.

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's regional and/or business unit management have primary responsibility for the management of risks (credit, market, funding and liquidity, operational 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.

Risk management function

Organisational structure

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 started to redesign the set-up of its risk-management organisation in 2015. The purpose of this redesign is to better support the Bank's Think Forward strategy and enhance the interconnection between the risk oversight responsibilities in the business units on one hand, and the global risk functions on the other hand.

As announced in 2016, ING is accelerating its Think Forward strategy. Therefore, ING has introduced a number of initiatives to enhance 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 the establishment of a new risk organisation as of 1 March 2017.

In line with this TOM, the new global Risk function has a two-tier governance structure. This new structure has resulted in a reshuffle of the tasks carried out by Risk Management, both at Tier 1 and Tier 2 level. Some of the activities have been transferred from the second to the first Line of Defence (i.e. operational risks) and also some responsibilities have shifted between Tier 1 and Tier 2 (i.e. more responsibility at Tier 1 for Tier 1 risk issues). The risk officer in Tier 1 focuses more on risk management within the local unit and in Tier 2 the focus is on setting policies and on monitoring the work in Tier 1 (i.e. more responsibility in managing its own risk issues, and determining and putting in place adequate controls).

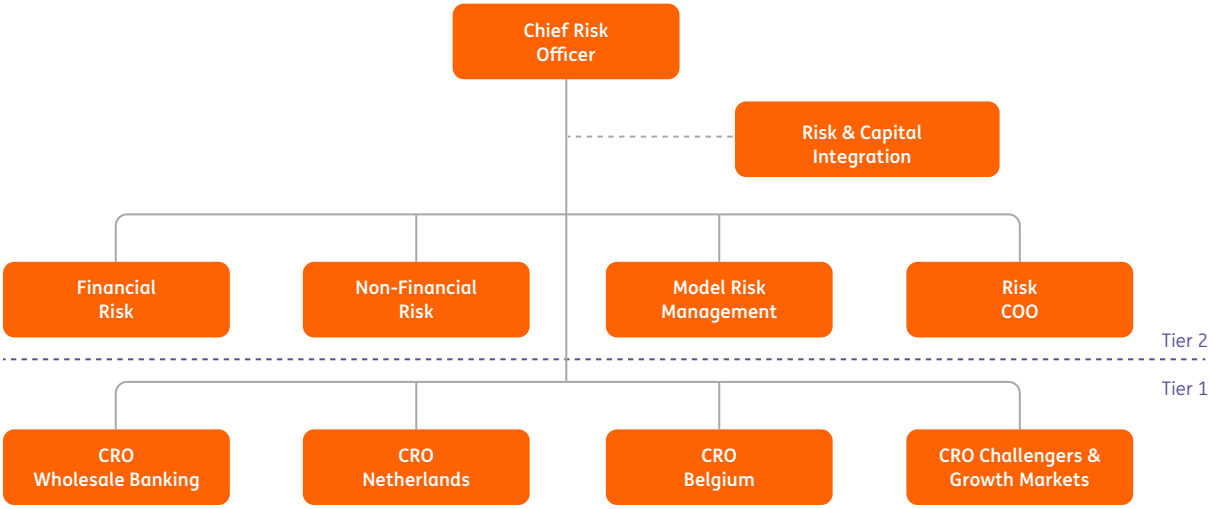
Tier 1 level consists of regional and/or business unit CROs. These CROs bear direct responsibility for risk (mitigating) decisions in the respective area of responsibility, and report directly to ING's CRO and to the head of their regional area and business unit. This dual reporting system aims to ensure that the local risk management function is independent from the operating functions and that it is aligned with the corporate risk policies and goals.

Tier 2 level compromises of corporate risk departments headed by General Managers directly reporting to the CRO. The corporate risk departments support the CRO to set the risk appetite, develop corporate policies, rules and global procedures, and manage the risk infrastructure. It is composed of 4 main departments which are Financial Risk, Non-Financial Risk, Model Risk Management and the Risk COO. The purpose of Financial Risk (FR) is to set the risk strategy across the organisation to control the financial risk and financial-related regulatory risk, while Non-Financial Risk (NFR) focuses on operational and compliance risks. Model Risk Management is responsible for policy setting in the domain of model risk, validating regulatory and non-regulatory models. The last department is the Risk COO which operates as a Shared Service Centre for the global risk community. Furthermore, the General Managers and the CRO are responsible for the harmonisation and standardisation of risk management practices.

In addition, the CRO has one staff department in place:

- Risk & Capital Integration (R&CI) reports functionally to the CRO and is responsible for overarching risk topics such as risk appetite, disclosures, recovery and resolution planning and stress testing. Also, R&CI is involved in capital and balance sheet planning, and managing the ICAAP (Internal Capital Adequacy Assessment Process). Until end 2017, Risk and Capital Integration had a double reporting line, functionally to the CRO and hierarchically to the Head of Capital Management. As of 1 January 2018 the double reporting line has been changed into a single reporting line to the CRO.

The organisation chart below illustrates the reporting lines in 2017 for the risk organisation:



Risk policies, procedures and standards

ING 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 goal of the governance framework of the local business units is to align with ING's framework and to meet 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 internal risk modelling methodology standards and model life cycle, in line with regulatory requirements. After thorough review and documentation of the model by Model Development (MD) and Model Risk Management (MRM) 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 approved for use. In addition, MRM 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 MRM department is one of the cornerstones of ING'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 MRM department independently reviews the performance of ING's 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, MRM also (iv) tests the observed performance of a model (and its components) with the predicted level. 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'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. ING believes that embedding the risk culture and awareness in the organisation leads to effective risk management. ING therefore aims to make risk responsibilities transparent within the different levels of the organisation and hold every employee accountable for his/her acts.

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. It is 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.

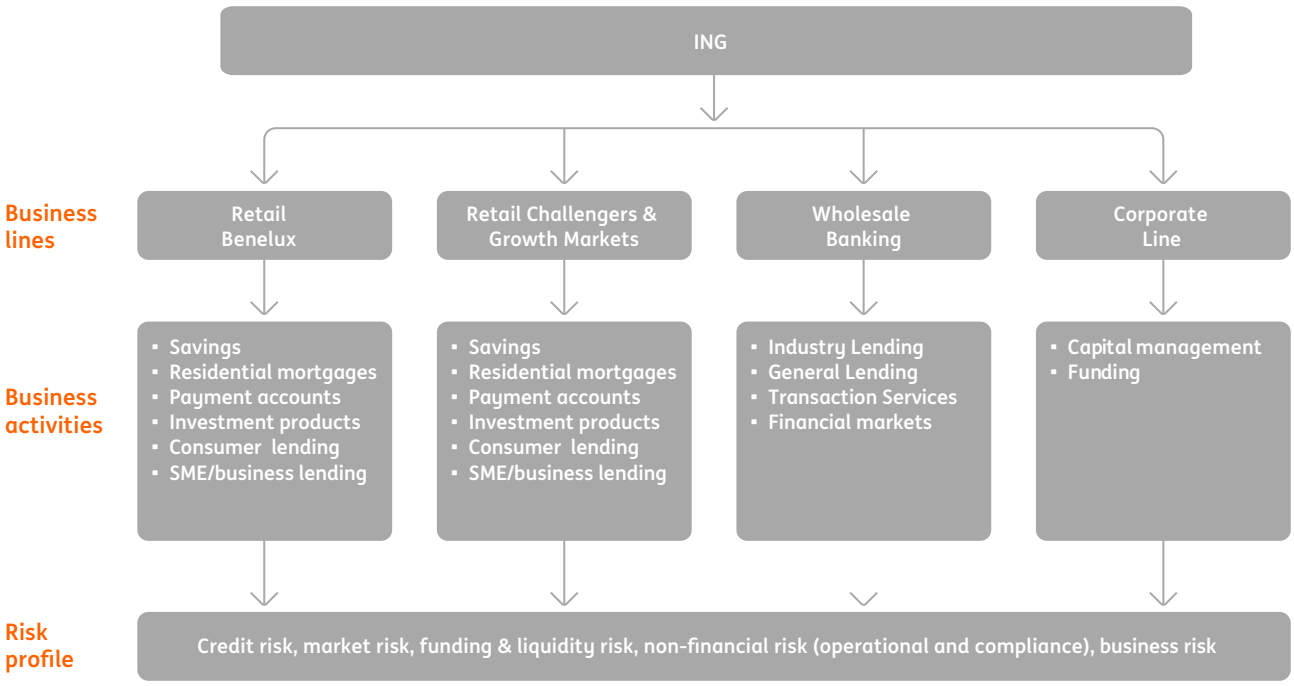
To support the embedding of risk culture into business practices, ING has initiated different programmes and issued several guidelines. Risk awareness is to be alert to potential threats that can occur during day-to-day business, which can be specific to the sector, the region or the clients ING is doing 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 EB and MBB for all ING employees. With the programme, ING aims to gain a sound risk culture and to ensure 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 – 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 such 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 to 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 aims to align its remuneration policy 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

The chart below provides high level information on the risks arising from ING's business activities.



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 emerging risks, 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 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

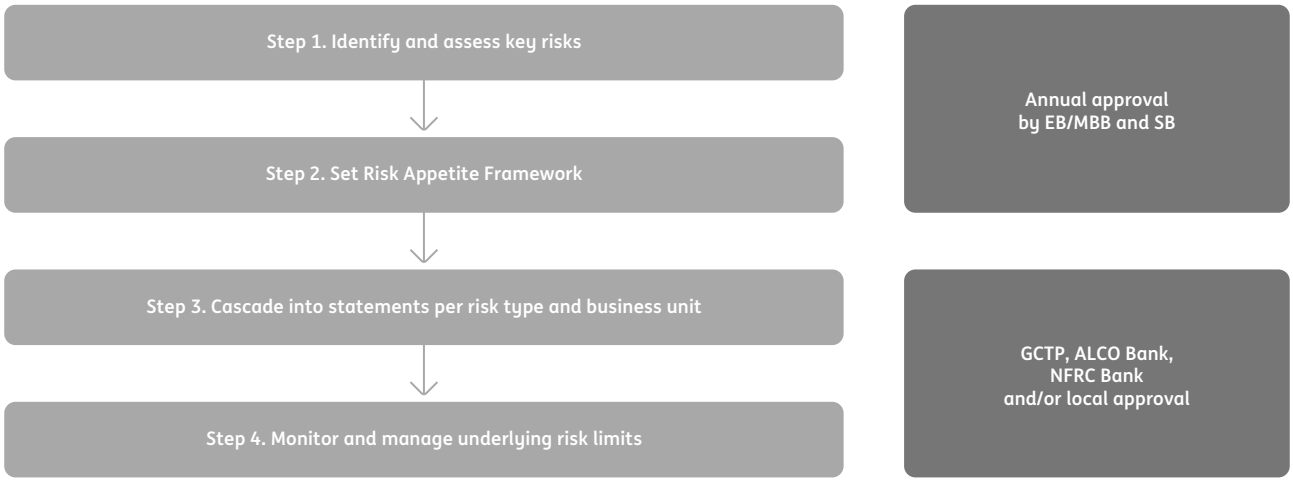
By monitoring the risk control measures, ING checks if they are executed, complied with, have the expected mitigating effects and follow the development of the risks and their risk levels. Risk reporting provides senior and local management with information they need to manage risk.

Risk Appetite Framework

ING uses an integrated risk management approach for its banking activities. The 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 EB and the MBB and in the 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 and 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'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 has the ambition to be and remain a strong bank, resilient to possible adverse events on a standalone basis and able to address such developments based on its own strengths and resources.

To be able to execute the strategy, ING has formulated the following risk and capital targets:

- have a rating strong enough to support the execution of ING's Funding & Capital issuance plan;
- 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), for a more economic value based solvency (economic capital utilisation expressed via the Overall Supervisory Review and Evaluation Process (SREP) Capital Requirement) and for a separate forward-looking risk appetite for earnings variability (earnings at risk). 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'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). In addition, the impact on economic value is calculated where a more severe stress scenario for the economic capital is adhered to. 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. In the stressed situation, we use for liquidity risk the time to survive under a specific scenario, while for funding risk we focus on having a stable funding profile.

The **concentration risk appetite** set at the 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. Further details may be found in the dedicated sections (credit risk, market risk and funding & liquidity risk).

The **business risk appetite** statement is focusing on earnings stability and diversification, as avoiding to put all eggs in one basket reduces the risk that volumes and/or margins will suddenly drop due to unexpected changes in the business environment for certain markets and products. ING has determined for its business risk a geographical segmentation statement through the business mix and a total income classification statement (based on a minimum of Fee and Commission Income).

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 MTP-income. Furthermore, reported actual losses per financial reporting year and weighted overdue percentages for audit & risk assessment findings must be below a certain threshold. The overall non-financial risk levels and tolerance breaches are periodically reported through the Non-Financial Risk Dashboard (NFRD). The NFRD provides an overview of key risks within the non-financial risk areas 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.

On compliance risk, ING aims to meet its obligations, to adhere to the spirit as well as to the letter of applicable laws and regulation, ING policies and minimum standards, the values and behaviours as defined in the Orange Code, and to act upon identified compliance breaches swiftly and diligently.

Step 3. Cascade into statements per risk type and business unit

Risk appetite is translated per risk type, which is further cascaded down into the organisation to the lowest level. Risk appetite statements are then translated into dedicated underlying risk limits which are used for day-to-day monitoring and management of ING's risks.

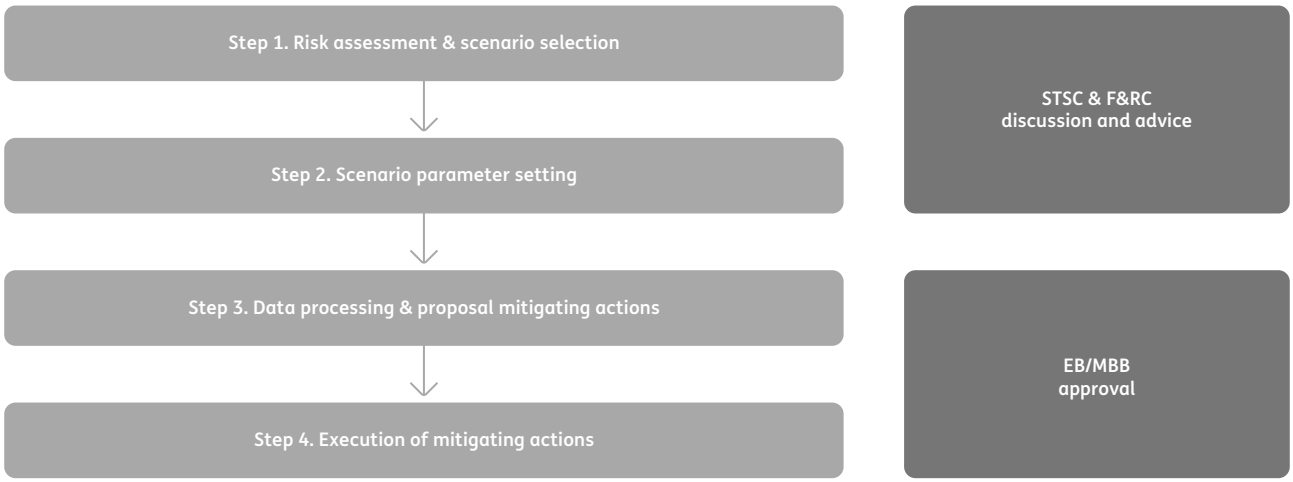
For financial risks, a sequence of different risk appetite frameworks is implemented to address the most significant risks. This implies that a whole framework of credit risk limits is in place that monitors the overall quality of ING's credit portfolio and all underlying portfolios. In addition, specific 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 ING level are translated into the organisation. The funding & liquidity risk appetite statements that are defined on ING level are translated into the organisation, taking the funding & liquidity specific situation of each (solo) unit into account. 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 level is applicable to all divisions and business units. The suite of risk appetite statements serves as input for the MTP 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, after discussion by F&RC, to the EB and 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 provides insights in the vulnerabilities of certain portfolios, with regards to 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.

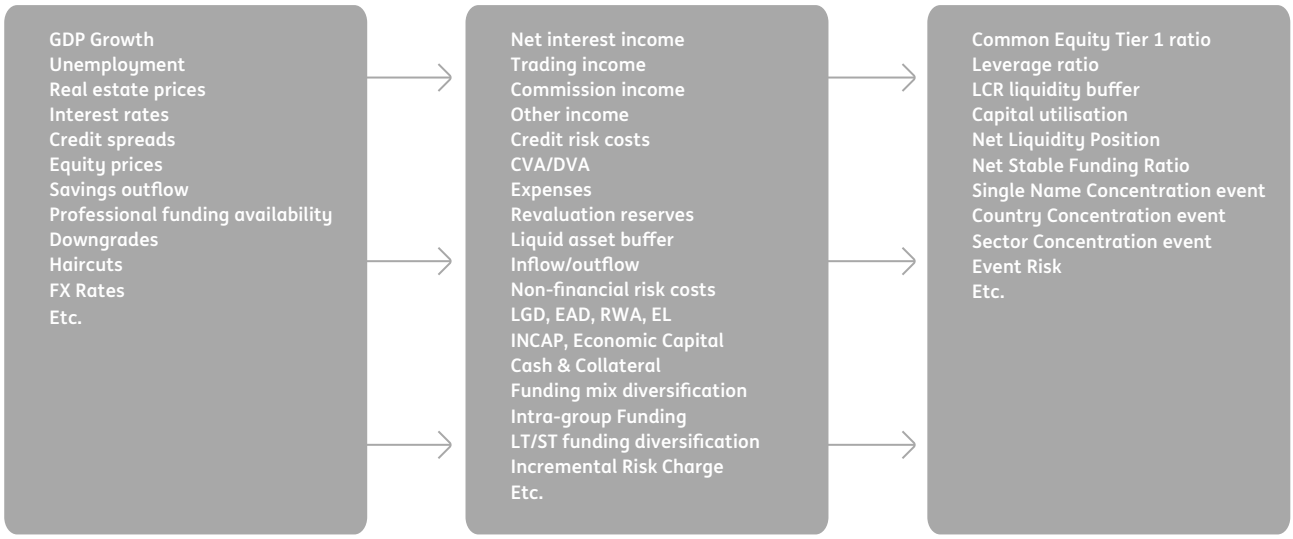
Process
The stress testing process of ING consists of several stages, which are summarised in the diagram below.



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 F&RC for discussion and advice.

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 in the STSC and subsequently in the F&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 EB and the MBB.

Step 4. Execution of mitigating actions
After the EB and 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 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. 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 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's portfolio mix and general market developments. ING 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. EC is focusing on the bank activities within ING Bank consolidated and therefore only available per that scope. 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 thorough statistical analysis.;

- 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 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. On 25 October 2017, it was announced that the European Parliament, the Council and the Commission agreed on elements of the review of the BRRD, CRR and CRD proposed in November 2016. The first consolidated CRR text with the amendments to the initial Commission's Proposal has been shared with the delegations. This shows that the Council discussions are progressing quickly reaching agreement on most of the topics.

In December 2017, the Basel III revisions were formally announced by the Basel Committee on Banking Supervision (BCBS). These new prudential rules for banks consist of a revision to the standardised approach to credit risk, the introduction of a capital floor based on standardised approaches, the use of internal models, limitation of options for modelling operating risks, and new rules for the establishment of risk-weighted items and unused credit lines at the banks. ING believes it is good that there is now more clarity. With a long implementation phase and the transposition into EU regulation still pending, some question marks remain on how this will shape up. We will meet the final requirements and as before we will continue executing our strategy for our clients and delivering growth at good returns.

Principles for Effective Risk Data Aggregation and Risk Reporting

In January 2013, the BCBS 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, were required to implement the principles by 2016.

The implementation by our dedicated teams 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.

Targeted Review of Internal Models

In order to make capital levels more comparable and to reduce variability in banks' internal models, the European Central Bank (ECB) introduced the Targeted Review of Internal Models (TRIM) in June 2017 to assess reliability and comparability between banks' models. The TRIM aims to create a level playing field by harmonising the regulatory guidance around internal models, and the ultimate goal is to restore trust in the use of internal models by European banks. The operating consequences of the TRIM exercise have been significant. The TRIM is expected to finalise in 2019, and could impact ING through more stringent regulation on internal models.

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 medium 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 2017, several changes were made to our top and emerging risks. The top risks in 2017 are still related to the Brexit decision, cybercrime and persistent low interest rates. Also, 'Climate change risk' remains an emerging risk, reflecting the impact a deterioration of the climate may have for the financial position and/or reputation of ING.

Macroeconomic developments

The economic environment further improved in 2017 marked by strong growth in the United States and a robust recovery in the eurozone. However, the outcome of Brexit, persistent low interest rates and geopolitical risks are sources of uncertainty.

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 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: 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 intensified the management of its interest-rate risk exposure and successfully increased the Net Interest Margin (NIM) on its lending and customer deposits in 2017. On mortgages, the prepayment incentive for clients is at a relatively high level because of the difference between the rates of the existing mortgage portfolio and the prevailing low market rates. On savings, NII and NIM remained stable, while room for further reduction of client rates on savings deposits is almost absent.

Last year's decision of the United Kingdom to leave the European Union ('Brexit') remains a major political and economic event that continues to effect sentiment. Economic growth in the UK has slowed against a background of continued uncertainty about the future relationship with the European Union, and increased volatility is present due to the uncertainty of a soft or hard Brexit outcome. Although ING has activities in the UK through the Wholesale Banking (WB) business line, no material asset quality deterioration following the Brexit decision has taken place.

Another element which can affect the real economy and gives rise to geopolitical risk is the instability in international relationships. In this perspective, ING continued to carefully monitor international developments. In addition, rising populism due to increasing social inequality, polarisation and unemployment is seen as a material geopolitical risk. As a consequence of the rising populism in the eurozone, a euro breakup is considered as a potential adverse event.

Cybercrime

Cybercrime remains 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 have intensified worldwide. ING builds on its cybercrime resilience through its dedicated Cyber Crime Expertise and Response Team, 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.

ING 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 this is an unparalleled challenge to 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. In addition to investing billions of euros in wind farms, solar energy and geothermal power production to support the energy transition, ING will not only stop providing lending services to new coal-fired power plants or coal mines but will also accelerate the reduction of financing to thermal-coal power generation to close to zero by 2025.

Credit risk

Introduction

Credit risk is the risk of loss from the default and/or credit rating deterioration of clients. Credit risks arise in ING's lending, financial markets and investment activities. The credit risk section provides information on how ING measures, monitors and manages credit risk and gives an insight into the portfolio from a credit risk perspective.

Governance

Credit risk is a Tier 1 risk function within ING and is part of the second line of defence. It is managed within the CRO organisation by regional and/or business unit CROs focussing on specific risks in the geographical and/or business areas of their responsibilities. These are the CRO Wholesale Banking (WB), CRO Challengers & Growth Markets (C&G), CRO Netherlands and CRO Belgium. The Financial Risk department is a Tier 2 function, which ensures oversight at a consolidated level and is responsible for risk appetite setting, risk frameworks, model development and policies.

ING'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 clients, sectors, products, secondary risk (collateral/guarantees) 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's capital, the risk appetite is monitored and managed at portfolio level. Credit analysis at transactional level focuses on the risk amount, tenor, structure of the facility and profile of the borrower. ING's credit risk managers make use of publicly available information, information provided by the client, peer group comparisons, industry comparisons and quantitative techniques.

Within ING, 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 advice from 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 function 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 GCTP which is authorised to approve policies, methodologies and procedures related to credit, trading, country and reputation risks on a high level for ING.
- The GCC(TA) is mandated to approve transactions with credit risks.
- The CTRC is authorised to approve policies, models, methodologies and procedures related to credit & trading risk on more detailed and operational level (with the exception of issues which are mandated to GCTP).
- The Model Development Committee (MDC) serves as a technical advisor to CTRC and is a planning body for future model development. The committee has a delegated mandate to approve credit risk models which cover smaller portfolios.
- A steering committee has been established to align overall model strategy, model risk appetite, supporting model frameworks, policies and methodologies.
- The ING Provisioning Committee (IPC) is the approval authority for loan loss provisions (LLP) for all entities.

Credit risk categories

Credit risk uses the following risk categories to differentiate between the different types of credit risk:

- **Lending risk**: arises when ING grants a loan to a client, or issues guarantees on behalf of a client. 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 client has to repay to ING, 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's investments in bonds, commercial paper, equities, securitisations, and other similar publicly traded securities. This can be viewed as the worst-case loss that ING 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's investments in the banking books is for liquidity management.
- **Money market (MM) risk**: arises when ING 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 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.
- **Pre-settlement (PS) risk:** arises when a client defaults on a transaction before settlement and ING has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. This credit risk category is associated with derivatives transactions (exchange traded derivatives, OTC derivatives and securities financing transactions.
- **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 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 does not hold provisions or capital for specific settlement risk. Although a relatively low risk, ING increasingly uses DVP (Delivery versus Payment) and safe settlement payment techniques to reduce settlement risk.

For the reconciliation between credit risk outstanding categories and financial assets we refer to table below:

Reconciliation between credit risk categories and financial assets

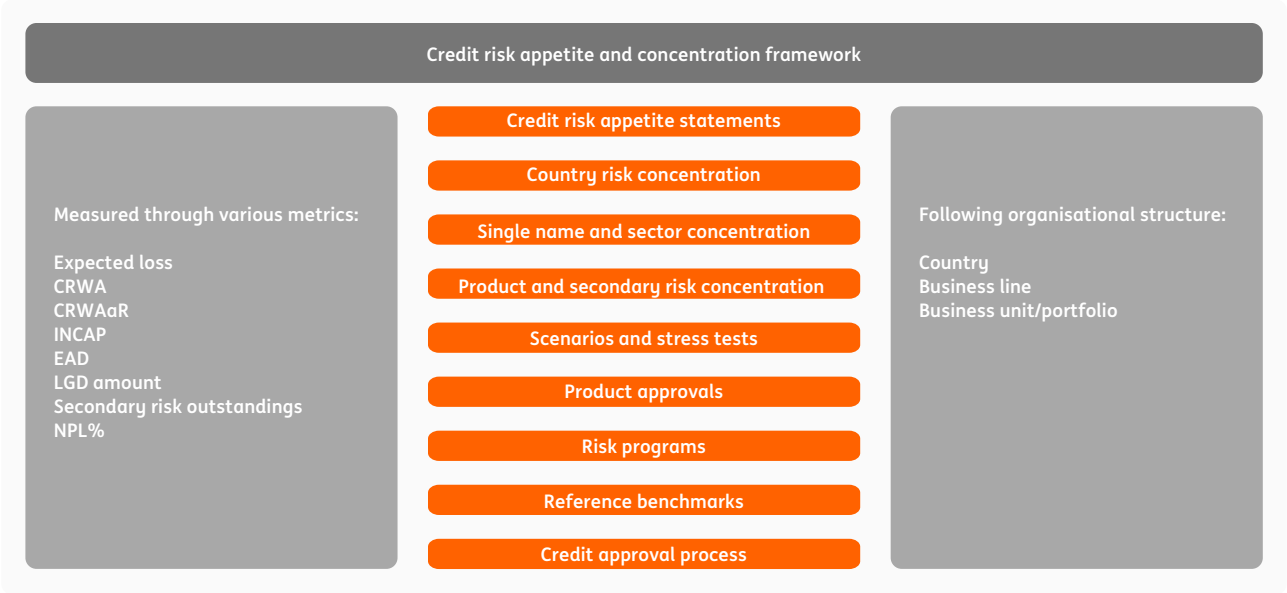
Credit risk categories	Mainly relates to:	Notes in the Annual Accounts
Lending risk	-Loans and advances to customers -Loans and advances to banks -Cash and balances with central banks -Off-balance sheet items e.g. obligations under financial guarantees and letters of credit and undrawn credit facilities	Note 2 Cash and balances with central banks Note 3 Loans and advances to banks Note 6 Loans and advances to customers Note 44 Contingent liabilities and commitments
Investment risk	-Investments (available-for-sale and held-to-maturity) -Loans and advances to customers	Note 5 Investments Note 6 Loans and advances to customers
Money market (MM) risk	-Cash and balances with central banks -Loans and advances to banks -Loans and advances to customers	Note 2 Cash and balances with central banks Note 3 Loans and advances to banks Note 6 Loans and advances to customers
Pre-settlement (PS) risk	-Financial assets at fair value through profit or loss (trading assets and non-trading derivatives) -Financial liabilities at fair value through profit or loss (trading assets and non-trading derivatives) -Securities financing	Note 4 Financial assets at fair value through profit or loss Note 13 Financial liabilities at fair value through profit or loss
Settlement risk	-Financial assets at fair value through profit or loss (trading assets and non-trading derivatives) -Financial liabilities at fair value through profit or loss (trading assets and non-trading derivatives) -Investments (available-for-sale and held-to-maturity) -Amounts to be settled	Note 4 Financial assets at fair value through profit or loss Note 5 Investments Note 10 Other assets Note 13 Financial liabilities at fair value through profit or loss Note 15 Other liabilities

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. It is derived from the following two concepts:

- **Boundaries:** a cap on the maximum event loss based on consolidated pre-tax result on each of the metrics of its risk appetite framework as well as its concentration risk framework (effectively Country Risk, Single Name, and Industry Sector).
- **Instruments:** supporting metrics, specifically for the concentration risk framework, which sets hard limits based on internal economic capital.

Credit risk appetite and concentration risk boundaries and instruments are set and reviewed on an annual basis and require approval from the Risk Committee of the SB.



Credit risk appetite statements

Credit risk appetite is the maximum level of credit risk ING 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 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's credit risk appetite by means of the MTP.

Credit risk appetite is present across different levels within ING, 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 (lending, investment, money market and pre-settlement), and connected to ING 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). In order to manage the maximum country event loss ING is willing to accept, boundaries are approved by the SB that ensure ING's consolidated 3-year average result before tax can absorb an estimated country event loss due to a country risk occurrence. The estimated level is correlated to the risk rating assigned to a given country.

Country risk is the risk of loss for ING 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 clients 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.

Complementary to the country boundaries, country instruments are defined to support the setting of an actual hard limit on a given country. The country instrument takes into account ING's ability to actively reduce exposure without triggering either market distortion or tying up too much of its capital in a country. Country instruments are quantified by the maximum internal economic capital (INCAP) tolerance level in terms of consolidated BIS capital or the individual country's outstanding domestic credit or gross domestic product.

By means of the instruments, actual country limits are set (each of which should not exceed the country's boundary), reviewed monthly and updated when needed. 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 from adverse impacts.

Single name and industry sector concentration

Using the very same concepts of boundaries and instruments mentioned earlier, ING has additionally established a concentration risk framework in order to identify, measure and monitor:

- 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.
- Industry sector concentration (systemic risk): substantial increase of the ING risk profile due to the joint deterioration of a group of correlated counterparties, sensitive to the same external (macro-economic) factor(s) related to the industry sector it is part of.

Product and secondary Risk Concentration

ING has additionally established a concentration framework to identify, measure and monitor:

- Product concentration: concentrations arising from exposure to same activities or commodities. These concentrations are capped through actual limits and monitored at retail and wholesale portfolio levels per geographical region.
- Secondary risk: risks arising from secondary exposures that ING has with insurance and re-insurance companies from which the Bank purchases insurance to protect itself against non-payment under primary exposures.

Scenarios and stress tests

Stress testing evaluates ING's financial stability under severe but plausible stress scenarios and supports in decision-making that assures ING remains a financially going concern even after a severe event occurs. In addition to the bank-wide stress test framework as described in the Risk Management section, ING performs stress tests on a monthly basis in order to continually assess the portfolio risks and concentrations. These stress tests are consistent with the stress scenario as established in the group wide credit risk appetite framework. The stress tests are reviewed in the Risk & Capital Integration team and potential management actions are proposed, if necessary.

ING 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 credit RWA (CRWA) that ING should allocate in such an event is named CRWA-at-Risk. Additionally, ING calculates an Earnings-at-Risk which influences overall CET1 ratio.

Next to the periodical pre-determined stress test related to CRWA-at-Risk, ad-hoc stress tests based on severe but plausible scenarios are performed. 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. In addition to the Pillar 1 and Pillar 2 capital calculations, based on the results of various stress tests, ING ensures that adequate levels of capital (and liquidity) are available to sustain such severe but plausible scenarios.

Product approvals

Across ING a product approval and review process ensures effective management of risks associated with the introduction of new or modified products. It safeguards that sound due diligence is performed by relevant stakeholders to ensure that relevant risks (credit, operational, compliance, etc.) are adequately mitigated in the Product Approval and Review Process (PARP).

Risk programs

Within ING, risk programs are detailed analyses of defined products and/or industries. They identify the major risk drivers and risk 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 of credit risk per legal one obligor group. It is expressed as a (benchmark) exposure at the concentration risk level, which corresponds to (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 credit risk arguments.

Credit approval process

The credit approval process ensures that individual transactions are assessed on a name-by-name basis. For each type of client there is a dedicated process with credit risk managers specialised along the business lines of ING. The credit approval process is supported by a risk rating system and exposure monitoring system. Ratings are used to indicate a client's creditworthiness which translates into a probability of default. This is used as input to determine the maximum risk appetite that ING has for a given type of client (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.

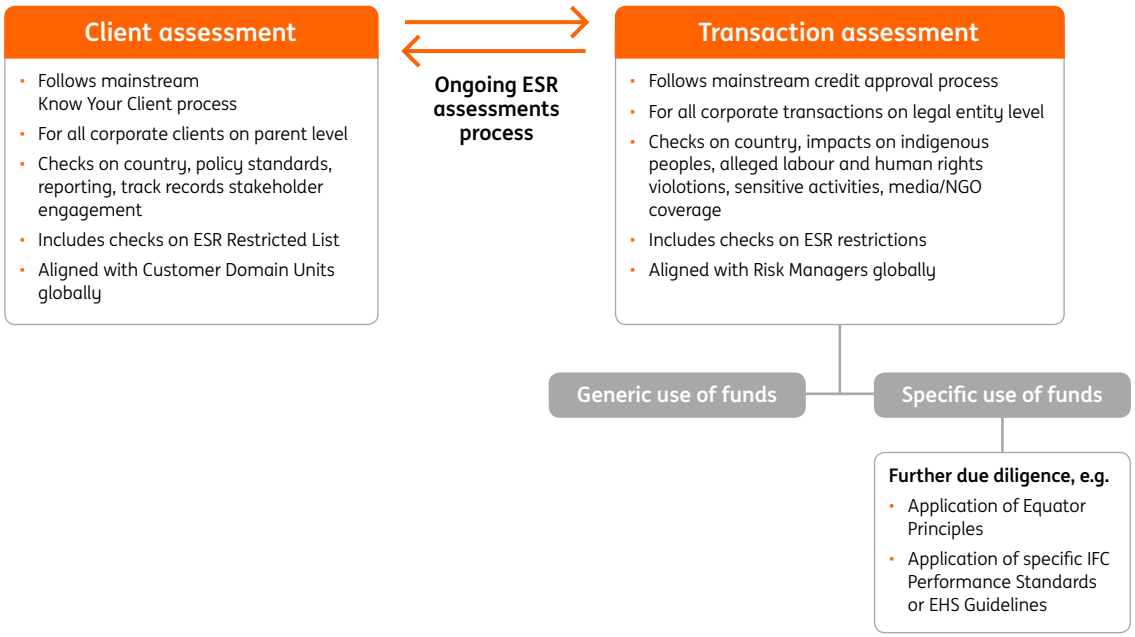
Given the nature of the retail business, roles and responsibilities of the local credit risk policy are delegated to local retail credit risk management. However, the CRO C&G risk is informed of all local retail risk policies so as to monitor that local policies do not conflict with any global Financial Risk 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 local policy and global policy.

Environmental and Social Risk Framework

ING makes a positive contribution to global economic growth and more sustainable development by promoting responsible lending and investment practices. 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 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 during the periodic 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's 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; and
- ESR 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 MBB. In practice such waivers are very exceptional.

ESR Policy Development and Governance:
- MBB / GCTP: 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 2017 alone, 285 colleagues have been specifically trained on the ESR policy framework worldwide.

Credit risk capital and measurement

Credit risk capital

Regulatory capital is the minimum amount of capital (based on 99.90% confidence level) that ING 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'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 calculations. Therefore the regulatory formula for residential mortgages tends to result in lower RWA, all other factors being equal.

Practice based drivers

ING has a conservative approach to non-performing exposures. Non-performing exposures are recognized early based on unlikely to pay triggers. For non-retail, 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. 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 have an additional probation period of 1 year starting from the last moment they are classified as forborne, before returning to performing status.

Regulatory environment

ING's primary supervising entity is the ECB, which is supported by many host supervisors. The ECB supervises adherence to regulatory rules: the regulatory framework defined in CRR/CRD, 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, prior to implementation. Lower level model changes are either pre-notified or post-notified to 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 the 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 continues to work with industry groups and strives to adhere to the latest BIS and EBA recommendations to improve the transparent reporting of the bank's capital calculations.

Economic capital

Economic capital reflects ING's own view on credit risk, which allows it to be used in decision-making processes (sub) portfolio level. Credit risk and transfer risk capital are calculated for 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 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, including risk appetite statements (RAS).

Economic capital is calculated using the economic values of rating models (PD, EAD and LGD), in line with regulatory requirements.

An important characteristic of our IT systems and framework is that models are built for several purposes, including economic capital, regulatory capital and loan loss provision. These credit risk models are used throughout the organisation which is compliant with the Basel Use Test requirement and ensures active feedback on the risk parameters by business units.

Credit risk measurement

There are two ways to measure credit risk within ING'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 client will go into default is not known, and the level of outstanding that may occur on that date is also not known, ING 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 clients tend to absorb liquidity from available credit resources before financial problems become apparent to the client's creditors. EAD is largely a function of the type of credit facility (overdraft, revolving, 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 would lose after 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 expected loss (EL) provides a measure of the value of the credit losses that ING 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 has implemented the AIRB approach for credit risk. As a consequence, ING 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 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 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. For more details about the internal assessment approach, see the Sponsor securitisations section in the Pillar 3 disclosure.

Credit risk models

Within ING internal Basel compliant models are used to determine the PD, EAD and LGD for regulatory and economic capital and for loan loss provisioning purposes. These credit risk models also form the basis for our IFRS9 provisioning framework. Bank wide, ING has implemented around 72 credit risk 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 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'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 at a point in time. Additionally, the LGD for regulatory capital calculations is based on a down-turn LGD and a Loss Emergence Period is applied for loan loss provisioning purposes on the 1 year Default Probability to obtain Incurred losses.

Pre-settlement measurement models

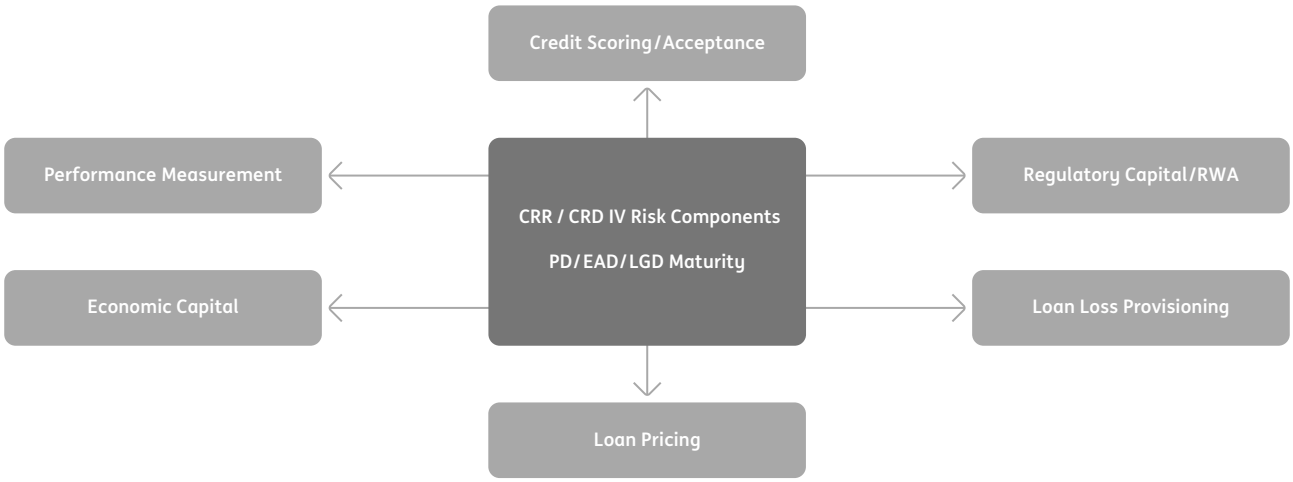
For regulatory capital, pre-settlement (PS) exposure is calculated using a marked to market (MtM) plus regulatory-based add-on. For internal capital purposes ING uses a combination of the below mentioned methodologies to calculate its PS exposures:

- **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 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 for the largest volume of derivative products such as foreign exchange (FX) and interest rate derivatives.

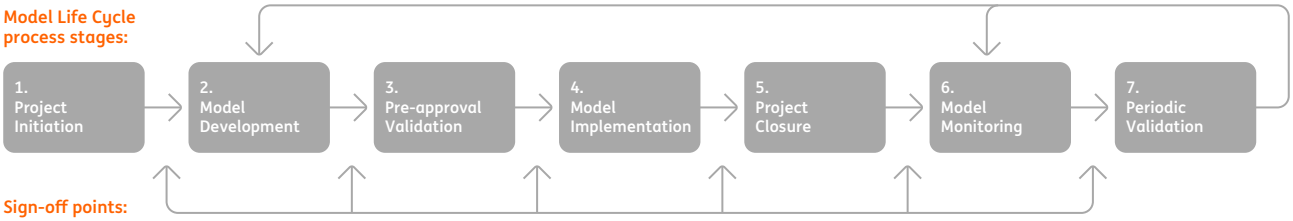
ING recognises that the above approaches are not sufficiently accurate for certain trading products such as highly structured or exotic derivative transactions. For the assessment of risk exposures of such complex products a bespoke calculation is made.

There are no exposures under the advanced, Internal Model Method (IMM) under Pillar 1. Under Pillar 2 ING uses the IMM for FX and interest rate derivative exposures.

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'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 Risk Management (MRM), 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 senior credit risk management 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, MRM validates each model on an annual basis. During such periodical validation the model performance is analysed through 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 CRR/CRDIV, ECB Supervisory Rules and EBA guidelines. This concerns all counterparty types and segments.
ING'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 rating of 1 corresponds to an S&P/Fitch rating of AAA and a Moody's rating of Aaa; an ING 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 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 has invested are leading.

Risk ratings assigned to clients are regularly, at least annually, reviewed, and the performance of the underlying models regularly monitored. Over 94% of ING's credit exposures 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 clients 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 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 client type, product type and/or cover type. For the AIRB Approach, most of the exposure classes have subcategories. ING 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 have exposure classified as both residential mortgages and retail other.
- **Securitisations** include securitisation programs for which ING acts as an investor, sponsor or originator.

Models used for exposure classes

ING 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, Model Development is continuously updating and developing models within each exposure class. In total, ING makes use of over 72 different internal models.

ING distinguishes four types of post default scenarios:

- *No Loss – Cure*: the borrower pays all overdue amounts (to the extent ING is legally entitled to) and the asset becomes non-defaulted again. ING 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 (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 does not experience any loss in the process;
- *Loss – Exit with loss*: ING (or the borrower) liquidates collaterals and calls guarantees in order to recover the exposure. Thereafter the relationship is terminated. ING suffers loss in the process; and
- *Loss – Distressed Restructuring*: ING restructures the loan agreement so as to recover the exposure after allowing some discount. The relationship with the borrower continues after the restructuring. ING suffers (some) loss in the process.

AIRB models per exposure class

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 either corporate exposures or other retail depending on the size of the SME.

AIRB models and methodology

	Model Type	Number of significant models	Model description and methodology	Number of years of data
Sovereigns	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	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
Financial institutions	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	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	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	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	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.	>5[2] 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	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.	>5[2] 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]	Other		(Covered Bonds, Structured assets)	

1 Belgian PD models provide a rating at a customer level, covering both secured and unsecured loans.
2 For retail PD modelling a minimum of 5 years is allowed based on ING's Modelling Standards, which are compliant with regulatory requirements

Changes in 2017 to credit risk models

Model changes in 2017 were largely driven by follow up on existing regulatory guidance and overall resulted in a EUR 3.4 billion increase in RWA. The largest change was due to the introduction of a new PD and LGD model for the Dutch Mortgages portfolio. This update led to an increase of EUR 3.9 billion in RWA driven by the deterioration of the LGD. The recalibration of the German Mortgages models resulted in a decrease in RWA of EUR 1.2 billion.

Credit risk tools

Credit risk policies

ING'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 wide credit risk policy and approved by (local) credit risk. All credit risk policies are created according to policy development standards and reviewed on a regular basis. Each policy has a credit risk sponsor and is created in close consultation with various stakeholders within credit risk, front office and where applicable other corporate departments. All policies require approval by the CTRC and where applicable by the GCTP.

Credit risk systems and data standards

The acceptance, maintenance, measurement, management and reporting of credit risks at all levels of ING is executed 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 credit risk tools centrally. The philosophy is use a single source of data, in an integrated approach that includes ING policy, the regulatory environment in which we operate, and the daily processes which are active throughout the group. Application to these three areas is the essential requirement to ensure data quality standards and discipline remains high.

The customer-centric data model conforms to the three core business needs of ING:

- 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 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 recognises that information and underlying data are assets that are key (together with people, processes and IT systems) to further develop its digital profile. Cooperation and mutual agreement on global data management roles and responsibilities in ING are critical success factors to meet this objective. As such ING 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 Financial Risk and Risk COO 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 ING'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 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 high 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 calculation stage. The last stage is the continuous improvement of data quality which can be split into two categories:
  - One off issues and reoccurring issues that are identified, prioritised and subject to resolution;
  - The periodic review of 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 high standard credit risk data quality.

Credit risk portfolio

ING's credit exposure is mainly related to traditional lending to individuals and businesses followed by investments in bonds and other 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 transactions. This is also identified as counterparty credit risk.

Unless specifically stated, the figures in the tables included in the credit risk section are calculated on the basis of CRR/CRD IV regulatory standards and includes 'intercompany loans' to ING Group. The portfolio breakdown of ING per exposure class and per risk category is shown below.

Exposure classes: ING Bank portfolio per risk category, as % of total regulatory EAD

	Lending		Investment		Money Market		Pre-Settlement		Total		Total (ALL)
2017	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB + SA
Sovereigns	1.8%	0.2%	7.0%	0.1%	2.4%	0.1%	0.4%	0.0%	11.6%	0.4%	12.0%
Institutions	3.9%	0.6%	1.1%	0.0%	0.3%	0.0%	3.8%	0.1%	9.2%	0.6%	9.8%
Corporate	33.7%	0.8%	0.4%	0.0%	0.1%	0.0%	1.3%	0.0%	35.5%	0.8%	36.3%
Residential mortgages	33.4%	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	33.4%	1.9%	35.3%
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%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.8%	0.0%	0.8%
Total	**77.6%**	**4.7%**	**9.1%**	**0.1%**	**2.7%**	**0.2%**	**5.5%**	**0.1%**	**94.9%**	**5.1%**	**100.0%**

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	**75.8%**	**4.0%**	**10.8%**	**0.1%**	**2.1%**	**0.2%**	**6.9%**	**0.1%**	**95.6%**	**4.4%**	**100.0%**

During 2017, the total ING portfolio size decreased by 0.5% to EUR 842 billion READ (EUR 774 billion outstandings) mainly driven by foreign exchange rate changes partly offset by volume growth. The decrease related to foreign exchange rate changes was driven by the depreciation of the US Dollar (12.2%) and Australian Dollar (5.1%) against the euro. The concentration in SA portfolio increased mainly driven by a combination of volume growth and portfolio shifts from AIRB to SA approach.

The concentration in corporates slightly decreased mainly caused by shift in exposure from corporate lending SA bucket to residential mortgage SA bucket to align the scope with regular capital reporting practices. The increase in AIRB bucket was mainly driven by volume growth in the Wholesale Banking portfolios of Transaction Services, Corporate & Financial Institutions (C&FI) Lending and Structured Finance. The volume growth in C&FI Lending was mainly observed in Belgium and Germany, growth in Transaction Services was mainly witnessed in Asia while growth in Structured Finance was mainly observed in Europe. The growth was partly offset by the depreciation of the US Dollar which mainly impacted the Structured Finance portfolio.

In residential mortgages, the concentration increased mainly due to shifting exposure from corporate lending SA bucket to the residential mortgage SA bucket to align the scope with regular capital reporting practices. The decline was mainly visible in the Netherlands due to repayments in the core mortgage book, continued transfer of mortgages from WestlandUtrecht (WU) Bank to NN Bank and the run-off of the WU Bank mortgage book. This was partly offset by growth in residential mortgages in Belgium, Germany, Poland and Spain.

In other retail, the concentration increased mostly driven by a higher volume of consumer loans in the retail portfolios in Retail Challengers and Growth Markets.

The concentration in sovereigns declined caused by a decrease in government bond exposures of France, the Netherlands, Austria and Belgium, which was partly offset by increase in money market exposure towards the central banks of Luxembourg and Belgium. The concentration in institutions went down due to a decline in interest rate derivatives to a central counterparty clearinghouse.

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 rating equivalents.

Risk classes: ING Bank portfolio per line of business, as % of total outstandings[1,2,3]

	Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Corporate Line		Total	
Rating class	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
1 (AAA)	6.0%	7.1%	0.2%	0.2%	7.3%	7.3%	57.5%	42.7%	5.5%	5.5%
2-4 (AA)	11.4%	11.9%	3.1%	5.7%	16.3%	16.1%	0.1%	0.3%	10.1%	11.0%
5-7 (A)	20.2%	18.9%	8.2%	4.2%	19.8%	15.0%	4.8%	3.9%	16.4%	13.4%
8-10 (BBB)	27.5%	27.0%	42.3%	34.5%	28.1%	32.7%	26.7%	7.5%	31.9%	30.5%
11-13 (BB)	26.9%	26.5%	34.6%	43.2%	21.0%	21.5%	8.3%	42.2%	27.3%	30.3%
14-16 (B)	5.2%	5.5%	7.1%	7.5%	5.6%	5.6%	0.0%	0.0%	5.8%	6.1%
17-22 (CCC & NPL)	2.8%	3.0%	4.5%	4.7%	1.9%	1.8%	2.6%	3.5%	3.0%	3.2%
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.
3 Outstandings (OS) split per business line: Wholesale Banking (EUR 335 billion OS), Retail Benelux (EUR 225 billion OS), Retail Challengers & Growth Markets (EUR 201 billion OS), Corporate Line (EUR 12 billion OS).

Overall the rating class concentration improved, decreased concentrations are observed for all classes below rating class BBB whereas the other classes mainly show increased concentrations. The overall exposure for ING remained concentrated in the BBB and BB rating classes.

For AAA-rated assets, the concentration in Wholesale Banking reduced while it increased in Corporate Line due to a shift of the regulatory reserve deposits at the Dutch Central Bank between these business lines. The decrease in Wholesale Banking was partly offset by increase in money market assets to the central banks of Luxembourg and Belgium. The concentration in the A rating class for Wholesale Banking increased mainly driven by an improved rating for one German financial institution shifting pre-settlement exposure from rating class BBB to A. The increase in rating class A was partly offset by decreased exposure in money market assets for Wholesale Banking. A rating upgrade of the Bank of Beijing shifted equity investment exposure from rating class BB to rating class BBB in Corporate Line.

The rating distribution for Retail Benelux improved mostly driven by an updated Dutch mortgage PD model shifting concentration from risk classes BBB to A. Further positive risk migration in Retail Netherlands was due to positive rating changes and decreased defaulted exposures. Following a one notch rating downgrade for the government of Belgium, Belgian government related organisations were downgraded throughout the year shifting exposure from rating class AA to A. In Retail Challengers & Growth Markets exposures shifted from rating class BBB to A following a refinement of the PD mortgage model in Retail Germany. The decrease in rating class BBB was partly offset by an update of the ING Italy mortgage PD model increasing concentration in rating class BBB.

Risk classes: ING Bank portfolio per credit risk type, as % of total outstandings[1,2]

	Lending		Investment		Money Market		Pre-settlement		Total	
Rating class	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
1 (AAA)	1.8%	1.9%	29.7%	28.3%	22.6%	14.5%	5.4%	3.4%	5.5%	5.5%
2-4 (AA)	4.5%	5.2%	39.6%	40.4%	58.8%	50.4%	14.0%	14.8%	10.1%	11.0%
5-7 (A)	14.2%	10.1%	17.6%	16.9%	7.3%	14.0%	49.0%	47.5%	16.4%	13.4%
8-10 (BBB)	36.6%	35.3%	9.6%	6.9%	3.0%	4.2%	19.4%	23.3%	31.9%	30.5%
11-13 (BB)	32.2%	36.0%	3.3%	7.2%	7.9%	15.4%	10.2%	9.1%	27.3%	30.3%
14-16 (B)	7.0%	7.5%	0.0%	0.2%	0.4%	1.5%	1.4%	1.5%	5.8%	6.1%
17-22 (CCC & NPL)	3.7%	4.0%	0.2%	0.1%	0.0%	0.0%	0.6%	0.4%	3.0%	3.2%
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.

Risk industry concentration

ING 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 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	
Industry	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Private Individuals	0.0%	0.0%	72.6%	73.4%	72.6%	68.8%	0.0%	0.0%	40.1%	39.5%
Commercial Banks	14.7%	14.8%	0.1%	0.2%	4.9%	6.5%	40.1%	56.4%	8.3%	8.8%
Natural Resources	15.7%	15.0%	0.4%	0.4%	0.6%	0.7%	0.0%	0.0%	7.1%	6.8%
Real Estate	10.8%	10.2%	5.1%	4.7%	1.0%	0.9%	0.0%	0.0%	6.4%	6.0%
Central Governments	8.7%	9.9%	1.1%	0.9%	4.9%	5.6%	26.4%	36.3%	5.8%	6.5%
Non-Bank Financial Institutions	9.7%	10.4%	1.0%	0.9%	1.2%	3.2%	6.5%	7.3%	4.9%	5.7%
Transportation & Logistics	7.3%	8.0%	1.2%	1.1%	0.4%	0.4%	0.0%	0.0%	3.6%	3.9%
Central Banks	4.7%	5.1%	0.1%	0.1%	1.9%	1.6%	27.0%	0.0%	3.0%	2.7%
Services	3.7%	3.2%	4.0%	3.6%	0.6%	0.6%	0.0%	0.0%	2.9%	2.6%
Food, Beverages & Personal Care	3.8%	3.7%	2.2%	2.1%	1.3%	1.3%	0.0%	0.0%	2.6%	2.6%
Lower Public Administration	1.1%	1.2%	2.2%	2.8%	5.8%	5.6%	0.0%	0.0%	2.6%	2.8%
General Industries	4.0%	3.4%	1.6%	1.5%	1.5%	1.5%	0.0%	0.0%	2.6%	2.3%
Chemicals, Health & Pharmaceuticals	2.5%	2.4%	2.8%	2.8%	0.7%	0.7%	0.0%	0.0%	2.1%	2.1%
Other	13.3%	12.7%	5.6%	5.5%	2.6%	2.6%	0.0%	0.0%	8.0%	7.7%
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's internal credit risk measurement methodologies. Economic sectors below 2% are not shown separately but grouped in Other.

The main concentration in Private Individuals is related to mortgage lending. Mortgage volume growth, mainly in Belgium, Germany and Spain, was offset by a decline in mortgage exposures in Netherlands. The decrease in the Netherlands was due to repayments in the core mortgage book, continued transfer of mortgages from WestlandUtrecht (WU) Bank to NN Bank and the run-off of the WU Bank mortgage book.

The concentration in Central Governments decreased following a reduction in government bond exposures of France, the Netherlands, Austria and Belgium within Wholesale Banking and Retail Challengers & Growth Markets. In the Wholesale Banking portfolio this was partly offset by an increase in US government bonds

The concentration in Non-Bank Financial Institutions decreased due to lower pre-settlement exposures in Wholesale Banking Netherlands and lower exposures in covered bonds and asset backed securities in Retail Challengers & Growth Markets. Further, the depreciation of the US Dollar against the euro caused a decrease in concentration in the Transportation & Logistics and Non-Bank Financial Institutions sectors within Wholesale Banking. Within Central Banks, the increase in concentration in Corporate Line is explained by the shift of the regulatory reserve deposits at the Dutch Central Bank from the Wholesale Banking. Following this shift the proportions of the other buckets in Corporate Line decreased.

Country risk

The country risk concentration changes for the Netherlands, Belgium and Germany were mainly related to the residential mortgage loans. Additionally, for the Netherlands exposures to the Dutch central bank shifted from Wholesale Banking to Corporate Line. The concentration in the Rest of Europe decreased in Retail Challengers & Growth Markets mainly due to reduction in bond investments in Spain and lending exposure in Turkey. In Asia, the concentration in Wholesale Banking increased mainly driven by higher exposures to financial institutions in China and corporates in Taiwan and United Arab Emirates. Further, the decrease in concentration in Asia for the Corporate Line was related to lower investment exposure.

Country risk exposures: ING Bank portfolio, by geographic area[1]

		Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Corporate Line		Total	
Region		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Europe	Netherlands	12.8%	14.2%	62.3%	65.5%	0.2%	0.5%	64.4%	50.6%	24.0%	25.7%
	Germany	5.7%	5.4%	0.2%	0.2%	46.0%	44.4%	0.3%	0.1%	13.8%	13.3%
	Belgium	6.8%	6.2%	35.1%	32.1%	0.3%	0.5%	0.0%	0.0%	12.9%	12.0%
	Rest of Europe[2]	41.0%	40.8%	2.2%	2.0%	34.4%	35.5%	0.6%	0.2%	28.3%	28.2%
Americas		19.5%	19.5%	0.1%	0.1%	1.2%	1.5%	0.1%	0.1%	9.5%	9.5%
Asia/Pacific		11.9%	11.6%	0.1%	0.1%	0.1%	0.1%	34.5%	48.8%	6.1%	6.0%
Australia		1.4%	1.3%	0.0%	0.0%	17.8%	17.5%	0.1%	0.2%	5.0%	4.8%
Rest of World		0.9%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.5%
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 the United Kingdom (3.8%), Poland (3.8%), France (3.2%), Spain (3.1%) and Italy (2.4%).

Credit risk mitigation

ING'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. In addition to determine the credit quality and creditworthiness of the customer, ING 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. The most common terminology used in ING 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's practice to lend on the basis of the customer's creditworthiness rather than exclusively relying on the value of the cover. Within ING, there are two distinct forms of covers: assets and third party obligations.

Cover forms

Assets

The asset that has been pledged to ING as collateral or security gives ING 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 the right to expect and claim from that third party to pay an amount, if the customer fails on its obligations to ING. 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. These general guidelines also require that the value of the cover needs to be monitored on a regular basis. 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 valuations (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 and that third party.

Covers

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 obtains covers which are eligible for credit risk mitigation under CRR/CRDIV, as well as those that are not eligible. Collateral covering financial market transactions is valued on a daily basis. To mitigate the credit risk arising from Financial Markets transactions, the bank enters into legal agreements exchanging financial collateral (high quality government bonds and cash).

The cover values are presented for the total portfolio of ING. Covers of both AIRB and SA portfolios are presented in detail reflecting ING'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 understand the nature of the collateralised loans, insight is given in the industry and geography breakdown of ING's portfolio as well. For comparability reasons with previous tables, outstandings are used to show ING's portfolio.

Exposures are categorised into different Value to Loan (VTL) buckets that give insight in the level of collateralisation of ING'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 for the VTL. 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 – 2017

		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	308,349	512,709	3,680	338	25,130	38,551	6.3%	9.3%	84.4%
Business Lending	320,153	134,667	15,185	99,569	90,777	128,985	35.3%	24.1%	40.6%
Investment and Money Market	100,450		59	117	522		99.5%	0.4%	0.2%
Total Lending, Investment and Money Market	**728,951**	**647,376**	**18,923**	**100,024**	**116,429**	**167,536**	**31.9%**	**14.6%**	**53.6%**
Pre-settlement[1]	44,685								
Total Bank	**773,636**	**647,376**	**18,923**	**100,024**	**116,429**	**167,536**	**31.9%**	**14.6%**	**53.6%**

1 More information on the credit risk mitigants can be found in the Pre-settlement section.

Cover values including guarantees received - Total ING Bank – 2016

		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				989		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[1]	50,003								
Total Bank	**775,065**	**614,734**	**20,498**	**89,595**	**125,395**	**167,511**	**31.8%**	**18.1%**	**50.1%**

1 More information on the credit risk mitigants can be found in the Pre-settlement section.

Over the year, the collateralisation level of the total portfolio improved. Excluding the pre-settlement portfolio, 53.6% of the total ING Bank's outstandings were fully collateralised in 2017 (2016: 50.1%). Since investments traditionally do not require covers, the percentage for 'no covers' in this portfolio is close to 100%. However, 96% of the investment outstandings are investment grade. Improved economic conditions in ING's main markets have led to improved collateral valuations resulting in an improved coverage ratio. The increase in business lending for 'Other CRR/CRDIV eligible' covers was mainly situated in the Americas region, while the decrease in 'Guarantees' was seen in the Americas and Asia regions.

Consumer lending portfolio

The consumer lending portfolio accounts for 39.9% of ING Bank's total outstandings. The consumer lending portfolio is comprised of residential mortgage loans (92.7%) and other consumer lending loans, which mainly comprise term loans, revolvers and personal loan to consumers. As a result, most of the collateral consists of mortgages. The mortgage values are collected in an internal central database and in most cases external data is used to index the market value (e.g. on a quarterly basis the mortgage values for the Netherlands are updated using the NVM house price index).

A significant part of ING's residential mortgage portfolio is provided in the Netherlands (42.0%), followed by other main markets such as Germany (24.7%), Belgium & Luxembourg (11.8%) and Australia (10.7%). Given the size of the Dutch mortgage portfolio, the valuation methodology 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 101% (in 2016: 102%). In 2018 the LTMV will reduce further to 100%. The cover values are captured in the local systems which are subsequently fed into a central data system. All valuations are performed by certified valuators that are registered at one of the organisations accepted by ING. 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).

Consumer lending portfolio – cover values

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 – 2017

		Cover type					Value to Loan					
	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%
Performing												
Residential Mortgages (Private Individuals)	277,776	500,753	2,980	116	23,597	32,104	0.0%	0.0%	0.1%	1.2%	8.5%	90.2%
Residential Mortgages (SME)[1]	4,882	7,411	68	67	155	1,342	0.0%	0.4%	1.2%	1.6%	7.7%	89.1%
Other Consumer Lending	21,791	246	604	142	1,147	4,384	84.6%	0.3%	0.1%	0.2%	0.7%	14.1%
Total Performing	**304,449**	**508,409**	**3,652**	**325**	**24,900**	**37,830**	**6.1%**	**0.1%**	**0.1%**	**1.1%**	**7.9%**	**84.7%**
Non-performing												
Residential Mortgages (Private Individuals)	2,883	4,046	26	4	211	646	0.8%	0.2%	0.6%	4.1%	18.9%	75.4%
Residential Mortgages (SME)[1]	159	249		5	10	21	0.7%	1.9%	0.6%	1.8%	10.7%	84.2%
Other Consumer Lending	857	6	1	4	9	53	95.6%	0.3%	0.1%	0.2%	0.7%	3.0%
Total Non-performing	**3,900**	**4,300**	**27**	**13**	**230**	**720**	**21.6%**	**0.3%**	**0.5%**	**3.1%**	**14.6%**	**59.9%**
Total Consumer Lending	**308,349**	**512,709**	**3,680**	**338**	**25,130**	**38,551**	**6.3%**	**0.1%**	**0.1%**	**1.1%**	**8.0%**	**84.4%**

1 Consists mainly of residential mortgages to small one man business clients

Cover values including guarantees received - Consumer lending portfolio – 2016

		Cover type					Value to Loan					
	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%
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)[1]	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)[1]	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 Consists mainly of residential mortgages to small one man business clients

The collateralisation of the consumer lending portfolio continued to improve over the year 2017. The rise in collateralisation levels was due to improved housing prices, seen over different mortgage markets, driven by the Netherlands as main market.

ING Bank's residential mortgage outstandings increased mainly in Australia, Germany and Spain where the coverage ratio is nearly 100% and which further improved the VTL distribution. Mortgage outstandings in the Netherlands continued to decrease due to repayments combined with the run-off and transfer of WU Bank mortgages to NN Bank. Overall NPLs have shown a substantial improvement, especially in the Netherlands.

For the residential mortgages portfolio, the cover type guarantees relates 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 accounts for 41.4% 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, investment and money market exposures, which are outlined in the next sections.

Business lending per economic sector

Cover values including guarantees received - Business lending portfolio – 2017

		Cover type					Value to Loan					
Industry	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%
Natural Resources	50,754	1,090	2,359	20,529	16,162	18,501	32.6%	12.4%	10.5%	10.7%	9.2%	24.6%
Real Estate	49,098	81,749	1,641	1,363	7,179	8,084	6.4%	1.1%	0.9%	3.2%	9.3%	79.2%
Transportation & Logistics	26,352	3,151	139	21,428	6,983	7,734	19.2%	5.0%	1.3%	4.5%	12.9%	57.2%
Commercial Banks	26,265	324	126	2,370	1,624	746	86.2%	1.1%	0.2%	1.0%	2.3%	9.1%
Services	21,369	8,747	2,800	4,318	7,148	12,315	34.8%	4.0%	4.2%	5.8%	9.1%	42.1%
Food, Beverages & Personal Care	18,739	7,170	269	7,791	7,529	15,287	26.2%	4.2%	5.2%	10.7%	11.6%	42.1%
General Industries	18,711	4,676	210	6,529	6,152	12,169	36.9%	3.4%	6.0%	7.7%	8.5%	37.5%
Non-Bank Financial Institutions	17,394	1,774	5,362	13,018	5,070	10,255	36.4%	6.2%	5.0%	8.9%	2.6%	41.0%
Chemicals, Health & Pharmaceuticals	14,905	8,159	240	3,381	3,171	7,239	36.3%	2.6%	3.3%	7.6%	12.1%	38.0%
Builders & Contractors[1]	14,242	6,517	230	4,789	4,535	7,886	35.4%	4.2%	5.0%	6.0%	8.9%	40.4%
Utilities	13,503	777	911	4,134	3,920	6,325	39.7%	8.7%	3.3%	4.8%	6.4%	37.1%
Others[2]	48,821	10,534	899	9,918	21,302	22,444	49.7%	5.3%	4.4%	4.4%	8.3%	27.9%
Total Business Lending	**320,153**	**134,667**	**15,185**	**99,569**	**90,777**	**128,985**	**35.3%**	**5.2%**	**4.3%**	**6.1%**	**8.6%**	**40.6%**
of which Total Non-performing	**8,531**	**4,132**	**441**	**3,261**	**2,947**	**2,877**	**0.23**	**3.9%**	**6.1%**	**7.3%**	**17.0%**	**42.4%**

1 In 2017 the sector 'builders and constructors' is shown seperately.
2 'Others' comprises industries with outstandings below EUR 13 billion.

Cover values including guarantees received - Business lending portfolio – 2016

		Cover type					Value to Loan					
Industry	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%
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[1]	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 'Others' comprises industries with outstandings below EUR 13 billion.

Total business lending outstandings increased by EUR 9.8 billion, after accounting for a decline due to an FX impact of EUR 14.5 billion following the depreciation of the US Dollar. The largest increase in outstandings is visible in Commercial Banks (19.2%) mainly driven by growth in trade related transactions, followed by Real Estate and Services. The largest decrease was observed in Transportation & Logistics where outstandings as well as covers declined, mainly seen in Energy Transportation in the Netherlands and United States.

Similar to the retail lending portfolio, the risk profile of the business lending portfolio continued improving in 2017. Lower NPLs and increased levels of collateralisation contributed to this improvement. The cover values of Real Estate (traditionally a well collateralised sector) further improved during 2017. New transactions were done on more conservative collateral terms and improved values in real estate markets further helped to boost the total coverage in Real Estate. The major part of the overall decrease in non-performing outstandings was in the Real Estate and Telecom (part of Others) industries while an increase was observed in Natural Recourses.

Business lending per region

Cover values including guarantees received - Business lending portfolio – 2017

Region		Out-stan-dings	Cover type: Mort-gages	Eligible Financial Colla-teral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	Value to Loan: No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
Africa		2,713	10	60	238	2,007	608	26.0%	3.7%	3.2%	9.0%	19.8%	38.2%
America		40,603	4,819	4,504	29,677	6,712	18,799	35.0%	3.5%	5.0%	7.4%	8.4%	40.7%
Asia		41,100	670	1,343	12,319	15,126	9,061	45.8%	10.2%	6.1%	6.4%	4.7%	26.9%
Australia		5,578	4,266	49	1,018	685	857	34.8%	1.3%	3.4%	4.6%	7.3%	48.6%
Europe	Belgium	46,993	32,474	1,280	6,483	18,514	27,670	27.5%	1.9%	2.7%	4.7%	6.4%	56.8%
	Germany	11,952	2,067	41	575	1,485	3,400	56.3%	4.6%	4.3%	4.3%	3.6%	26.8%
	Netherlands	62,391	51,973	2,406	24,229	8,233	13,005	26.5%	2.8%	3.5%	7.7%	15.1%	44.3%
	Rest of Europe	108,822	38,389	5,502	25,029	38,014	55,585	37.8%	6.9%	4.7%	5.3%	7.6%	37.7%
Total Business Lending		**320,153**	**134,667**	**15,185**	**99,569**	**90,777**	**128,985**	**35.3%**	**5.2%**	**4.3%**	**6.1%**	**8.6%**	**40.6%**
of which Non-performing		**8,531**	**4,132**	**441**	**3,261**	**2,947**	**2,877**	**23.2%**	**3.9%**	**6.1%**	**7.3%**	**17.0%**	**42.4%**

Cover values including guarantees received - Business lending portfolio – 2016

Region		Out-stan-dings	Cover type: Mort-gages	Eligible Financial Colla-teral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	Value to Loan: 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%***

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. Largest increases in outstandings were seen in Germany, Belgium Rest of Europe (mainly Poland and France) and Asia.
The increase in Germany was due to a large increase in central bank deposits. As these deposits are not collateralised this increase had no influence on the total cover amounts. The Rest of Europe increase was mainly observed in Poland C&FI Lending, while the largest increases in France were observed in C&FI Lending and Real Estate. The increase in Asia was driven by trade related transactions in Wholesale Banking Transaction Services despite the decreasing impact from FX changes. The depreciation of the US Dollar impacted the Asian and American Structured Finance portfolios which are primarily denominated in US Dollars.

Pre-settlement portfolio
ING uses various market pricing and measurement techniques to determine the amount of credit risk on pre-settlement activities. These techniques estimate ING'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 matches trades with similar characteristics to determine their eligibility for offsetting. This offsetting effect is called 'compensation'. Therefore, ING 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 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 2017, the notional Pre-Settlement exposure that was cleared via CCPs formed 56.8% of the total notional (55.5% in 2016).

As part of its securities financing business, ING 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 is obliged to return equivalent securities in such cases.

The table below represents the different types of exposures in 2017 and 2016.

- 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 plus the Potential Future Exposure - PFE) at a 97.5% confidence level for derivatives and securities.

Pre-settlement portfolio

		2017				2016			
Region		Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Out-standings	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Out-standings
Africa		107	96	85	119	84	49	47	89
America		21,296	10,864	6,846	7,690	20,866	10,891	6,549	9,241
Asia		7,150	3,663	3,020	3,542	8,318	4,743	3,558	3,918
Australia		483	264	241	532	537	303	228	492
Europe	Belgium	5,165	3,761	2,880	2,215	5,463	3,368	2,871	2,455
	Germany	4,481	2,091	1,397	2,264	5,300	2,757	1,842	3,479
	Netherlands	6,701	4,174	2,771	4,062	9,146	5,859	3,741	4,848
	Rest of Europe	104,788	22,404	17,637	24,260	124,173	31,656	26,648	25,481
Total Pre-settlement		**150,171**	**47,316**	**34,877**	**44,685**	**173,887**	**59,626**	**45,484**	**50,003**
of which Non-performing		***23***	***25***	***25***	***29***	***37***	***36***	***36***	***36***

During 2017 the pre-settlement portfolio decreased when expressed in terms of outstandings. The pre-settlement portfolio was mainly concentrated in rest of Europe to a central counterparty clearinghouse and commercial banks in the UK, mostly consisting of interest rate derivatives. The decrease in gross MtM before netting and collateral was also observed in this derivatives portfolio.

Credit quality

Following, the somewhat higher credit risk levels seen as a result of the financial crisis and economic downturn, credit quality has been improving since 2014 and also continued the improving trend in 2017.

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

	2017	2016
Neither past due nor non-performing	756,803	757,498
Consumer lending past due but performing (1–90 days)	4,352	3,970
Non-performing[1]	12,481	13,597
Total	**773,636**	**775,065**

1 Based on lending and investment activities

The credit quality of the ING portfolio improved with non-performing outstandings which continued to decrease. The decrease was mainly observed in Retail Netherlands and the Real Estate Finance portfolio. The reduction in the non-performing portfolio was due to write-offs combined with positive rating migration to the performing portfolio. The increase in the past due but performing portfolio mainly resulted from a change in the days count methodology related to IFRS 9.

Past due obligations

Retail Banking continuously measures its portfolio in terms of payment arrears and on a monthly basis it is determined if there are any significant changes in the level of arrears. This 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. ING aims to help its customers as soon as they are past due by communicating (e-mail, SMS, letter or outbound call) to remind them on their payment obligations. In its contacts with the customers, ING aims to solve the (potential) financial difficulties by offering a range of measures (e.g. payment arrangements, restructuring). If the issues cannot be cured, for example because the customer is not able or not willing to pay, the contract is sent to the recovery unit. The facility is downgraded to risk rating 20 (non-performing) when arrears exceed 90 days past due and to risk rating 21 or 22 (no more cure) when the contract is terminated. 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]

	2017	2016
Past due for 1–30 days	3,464	3,368
Past due for 31–60 days	724	532
Past due for 61–90 days	163	70
Total	**4,352**	**3,970**

1 Based on consumer lending. The amount of past due but performing financial assets in respect of non-lending activities was not significant.

Total past due exposure for consumer loans increased by EUR 0.4 billion. The deterioration in past due obligations was a result of the change in the days count methodology related to IFRS 9 and was mainly seen in the 31-60 days bucket and the 61-90 days. The increase in the 1-30 days bucket was driven by increased residential mortgage exposure in Netherlands Retail and Poland Retail, the increase was offset by a decrease in past due exposure in Australia.

Aging analysis (past due but performing): ING Bank consumer lending portfolio by geographic area, outstandings[1]

Region		Residential Mortgages	Other retail	2017 Total	2016 Total
Africa		1		1	1
America		3		3	2
Asia		1		1	2
Australia		251		251	540
Europe	Belgium	1,123	547	1,671	1,444
	Germany	407	89	497	251
	Netherlands	1,028	35	1,062	947
	Rest of Europe	411	455	866	783
Total		**3,225**	**1,127**	**4,352**	**3,970**

1 Based on consumer lending. The amount of past due but performing financial assets in respect of non-lending activities was not significant.

Wholesale Banking: for business loans (governments, institutions, and corporates), ING classifies the relevant obligors as non-performing when any of the following default triggers occurs:

- 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 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 believes 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 third 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
- ING 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 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. This concerns mainly WB clients. The loans are managed by GCR or by 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. 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 balance between debt and equity; and
  - Restructuring the debt to a sustainable situation.
- **Recovery:** A client is classified as in 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 under the guarantees if deemed necessary.

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

ING's loan portfolio is under constant review. Loans with past due financial obligations of more than 90 days are reclassified as non-performing. For commercial lending portfolios, there generally are reasons for declaring a loan non-performing prior to being 90 days past due. These reasons include, but are not limited to, ING'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 breakdown by industry of credit risk outstanding for lending and investment positions that have been classified as non-performing.

Non-performing Loans: ING Bank portfolio, outstandings by economic sector

Industry	2017	2016
Private Individuals	4,094	4,382
Natural Resources	1,742	1,387
Real Estate	1,523	1,808
Transportation & Logistics	983	1,056
Builders & Contractors	863	955
General Industries	612	710
Services	578	689
Food, Beverages & Personal Care	570	705
Other[1]	1,516	1,905
Total	**12,481**	**13,597**

1 Economic sectors not specified in above overview are grouped in Other.

The overall amount of NPLs decreased in 2017, mainly witnessed in the Private Individuals and Real Estate sectors. The decrease in NPLs for Private Individuals was mainly due to the improved credit quality in the Retail Benelux portfolio as a result of the improved economic conditions in the Netherlands and Belgium. The decline in NPLs in the Real Estate sector was observed in Real Estate Finance Netherlands and was driven by both cures and write-offs. Other significant decreases were witnessed in Food, Beverages & Personal Care, General Industries, Services and Builders & Contractors. The overall decrease in NPLs was offset by an increase in NPLs in the Natural Resources portfolio, observed in Wholesale Banking Structured Finance Netherlands and Belgium, and was driven by a few clients becoming non-performing during 2017. The decreased NPLs in "Other" were driven by the industries Telecom, Retail, Automotive and Media.

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. 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 Provisioning Committee (IPC) discusses and approves the LLP for ING, on the basis of proposals originating from ING's business units.

At the end of 2017, ING Bank held specific (ISFA) and collective provisions (INSFA) of EUR 2,511 million and EUR 1,391 million, respectively (2016: EUR 3,044 million and EUR 1,443 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 was EUR 726 million (2016: EUR 821 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	
	2017	2016	2017	2016	2017	2016	2017	2016
Opening Balance	**2,147**	**2,371**	**1,884**	**2,199**	**1,277**	**1,216**	**5,308**	**5,786**
Amounts written off	-566	-625	-519	-681	-194	-188	-1,279	-1,494
Recoveries of amounts written off	3	49	53	38	3	7	59	94
Net addition to loan loss provisions	284	367	117	347	274	260	676	974
Exchange rate or other movements	-92	-15	-2	-19	-42	-18	-136	-52
Closing Balance	**1,776**	**2,147**	**1,533**	**1,884**	**1,318**	**1,277**	**4,628**	**5,308**

1 At the end of 2017, the stock of provisions included provisions for amounts due from banks: EUR 8 million (2016: EUR 11 million).
2 Includes EUR 104 million provisions for contingent liabilities (2016: EUR 119 million).

The favourable trend in risk costs continued during the year 2017. ING Bank recorded EUR 676 million of risk costs in 2017, down from EUR 974 million in 2016. Risk costs improved to 22 basis points of the average RWA (2016: 31 basis points). The total stock of provisions decreased by EUR 0.7 billion to EUR 4.6 billion as net additions were more than offset by amounts written off. The provisions coverage ratio decreased to 37.1% (2016: 39.0%) driven by a stronger decrease in provisions than a decline in non-performing loan outstandings.

The Retail Benelux and Wholesale Banking portfolios continued to improve and were the contributors to the decline in the stock of provisions. Retail risk costs were substantially lower in Retail Netherlands due to improved macro-economic and Dutch housing market conditions. In Wholesale Banking, risks costs were lower as a result of significant releases combined with limited increases. The lower stock of provisions was mainly observed in Real Estate Finance and the Netherlands Wholesale Banking portfolio, which was partly offset by increased provisions in the Belux Wholesale Banking loan book. The Retail Challengers & Growth Markets increase in stock of provisions was mainly observed in Poland and Spain, which was partly offset by a decrease in Germany.

Challenges continued in the shipping industries and oil & gas while on the other hand, improved risk profiles were witnessed in other portfolios of the bank such as the residential mortgages portfolio.

Large parts of the investment portfolio are not accounted for at amortised costs and therefore out of scope for LLP. Instead, these assets are evaluated for impairment. The ING Bank Impairment Meeting is held quarterly and reviews all assets that are subject to an IFRS-EU impairment test.

As of 1 January 2018, the IFRS 9 accounting rules on loan loss provisioning will be implemented. These accounting rules will not change the actual credit losses, but will have an impact on the timing of the reflection of these losses in the P&L. Where in current accounting practice loan loss provisions are booked from the moment losses are incurred, under IFRS 9 loan loss provisions are booked given expected losses. More specifically, loan loss provisioning becomes more forward-looking under IFRS 9 partly due to the fact that provisions will be based on the macroeconomic outlook. Furthermore, loan loss provisioning will be calculated on lifetime expected losses for assets that have been significantly deteriorated in credit quality. As a result of these elements, loan loss provisioning in the P&L could become more volatile.

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. Within ING, forbearance is based on the European Implementing Technical Standards.

To identify forbearance, ING assesses clients with Early Warning Signals, Watch List, Restructuring, Default or Recovery status. ING 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 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 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 of one year is observed for forborne exposures to move from non-performing back to performing.

ING Bank: Summary Forborne assets[1]

	2017				2016			
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	6,162	2,776	3,386	2.1%	7,776	3,978	3,799	2.7%
Retail Banking	5,657	3,074	2,583	1.3%	7,104	3,944	3,159	1.7%
Total	**11,819**	**5,849**	**5,969**	**1.6%**	**14,880**	**7,922**	**6,958**	**2.1%**

1 Undrawn commitments are excluded.

ING implemented its forbearance policy in 2014. In 2016 based on a detailed re-assessment of the relevant standards set by EBA and subsequent regulatory guidance, ING tightened the definitions under its forbearance policy. As a result of these revisions in definition and scope, performing forborne exposure recognized by ING increased significantly in 2016 as measures taken in previous periods were then recognized as forbearance. Examples of measures taken were commercially justifiable measures, modifications of covenants as well as waivers of covenant breaches.

Due to further refinement of aforementioned policy, recognition of forborne assets has been changed from client level to facility level as a result of which forborne assets have substantially reduced.

ING's forborne assets decreased by EUR 3.1 billion (21%) to EUR 11.8 billion per 2017, of which Wholesale Banking decreased by EUR 1.6 billion and Retail Banking decreased by EUR 1.4 billion.

Wholesale Banking

As per end of December 2017, Wholesale Banking forborne assets amounted to a total of EUR 6.2 billion, which represented 2.1% of the total Wholesale Banking portfolio.

Wholesale Banking: Forborne assets by geographical area[1]

		2017			2016		
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	1,593	816	777	2,200	1,100	1,100
	Belgium	223	105	118	245	103	142
	Germany	45	23	22	41	13	28
	Rest of Europe	2,456	867	1,589	3,016	1,496	1,521
Africa		156	84	72	197	112	85
America		1,212	584	628	1,387	709	678
Asia		428	291	137	663	445	218
Australia		49	7	42	27		27
Total		**6,162**	**2,776**	**3,386**	**7,776**	**3,978**	**3,799**

1 Undrawn commitments are excluded.

The main concentration of forborne assets in a single country was in the Netherlands with 26% (2016: 28%) of the total Wholesale Banking forborne assets. Wholesale Banking forborne assets decreased by EUR 1.6 billion compared to 2016, of which performing EUR 1.2 billion and non-performing EUR 0.4 billion. Underlying, main changes were in the Netherlands and Asia where forborne assets decreased by EUR 0.6 billion and EUR 0.2 billion respectively. The decrease in the Netherlands was mainly driven by repayments and write offs, the decrease in Asia was mainly visible in Transportation & Logistics (EUR 0.1 billion) and Natural Resources (EUR 0.1 billion), driven by the respective Shipping and Oil & Gas portfolio's.

Wholesale Banking: Forborne assets by economic sector[1]

	2017			2016		
Industry	Forborne assets	Of which: Perfor-ming	Of which: Non-Perfor-ming	Forborne assets	Of which: Perfor-ming	Of which: Non-Perfor-ming
Natural Resources	1,995	743	1,251	2,385	1,232	1,152
Real Estate	1,467	824	643	1,775	1,015	759
Transportation & Logistics	988	398	590	1,319	685	634
Builders & Contractors	435	174	261	429	269	160
General Industries	329	140	189	411	112	299
Services	289	137	151	414	198	216
Food, Beverages & Personal Care	199	139	60	207	141	66
Utilities	177	9	168	259	58	201
Retail	82	56	26	49	18	31
Chemicals, Health & Pharmaceuticals	56	52	4	76	65	11
Non-Bank Financial Institutions	51	49	3	12	7	5
Telecom	39	14	25	152	39	114
Other	55	40	15	290	139	150
Total	**6,162**	**2,776**	**3,386**	**7,776**	**3,978**	**3,799**

1 Undrawn commitments are excluded.

Wholesale Banking forborne assets were mainly concentrated in Natural Resources, Real Estate and Transportation & Logistics. Together they accounted for 72% (2016: 70%) of the total Wholesale Banking forborne assets and 73% (2016: 67%) of the total Wholesale Banking non-performing forborne assets. Decreases in forborne assets were mainly in the Natural Resources (EUR 0.4 billion), Real Estate (EUR 0.3 billion) and Transportation & Logistics (EUR 0.3 billion) industries.

Retail Banking

As per end of December 2017, Retail Banking forborne assets amounted to a total of EUR 5.7 billion, which represented 1.3% of the total Retail Banking portfolio.

Retail Banking: Forborne assets by geographical area[1]

		2017			2016		
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	3,036	1,727	1,309	4,301	2,395	1,906
	Belgium	1,096	399	697	1,139	418	721
	Germany	541	432	109	644	511	132
	Rest of Europe	639	342	297	651	335	317
Africa		1		1	1		1
America		1		1	3		2
Asia		2	2		1		1
Australia		342	172	170	364	285	79
Total		**5,657**	**3,074**	**2,583**	**7,104**	**3,944**	**3,159**

1 Undrawn commitments are excluded.

The main concentration of forborne assets in a single country was in the Netherlands with 54% of the total Retail Banking forborne assets (2016: 61%) and 51% of the non-performing forborne assets (2016: 60%). Retail banking forborne assets decreased by EUR 1.4 billion compared to 2016, and was mainly visible in consumer lending and mortgages. Specifically forborne assets decreased by EUR 0.6 billion in the Dutch Residential mortgage portfolio. Due to a continued improved economic environment, visible by the increasing house prices and improved credit worthiness of our clients.

Securitisations

ING primarily plays three roles in its exposure to securitisations programs which are:

ING as Investor

ING'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 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 Disintermediation & Asset Securitisation unit.

ING as Originator

ING occasionally originates its 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. ING has executed a very limited number of external transactions as originator.

ING as Sponsor

In the normal course of business, ING 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 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 facilitates these transactions by providing structuring, accounting, funding and operations services. ING also provides support facilities (liquidity facilities) backing the transactions funded by the conduit. Mont Blanc is fully consolidated into the ING annual 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 for 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 recognises the importance of sound market risk management and bases its market risk management framework on the approach to identify, assess, control and manage market risks. The approach consists of a cycle of five recurring activities: risk identification, risk assessment, risk control, risk monitoring and risk reporting.

- Risk identification is a joint effort of the first and second 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 and measured by means of various risk metrics to determine the importance of the risk to ING and subsequently to identify the control measures needed;
- Control measures used by ING include policies, procedures, minimum standards, limit frameworks, buffers and stress tests;
- An important element of risk management is to continuously monitor whether the implemented risk controls are executed and complied with and check that the controls are effective; and
- Market risk management 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 units, market risk management units and internal approval bodies per activity.

Supervision of market risk falls under responsibility of the Management Board Banking (MBB) and is delegated to the ALCO function, where ALCO Bank is the highest approval authority and sets the market risk appetite. 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 facilitates top-down risk management, limit setting and the monitoring and control of market risk.

Monitoring and control of market risk are within the responsibilities of FR and Financial Institutions – Financial Markets (FI-FM) Risk. FR and FI-FM Risk are the designated departments of the second line of defence, independent from the first line of defence (front office) that report to the CRO function and 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. FR focuses on the market risks in the banking books, the Capital Management department and the Bank Treasury department, whereas FI-FM is responsible for counterparty credit risk and market risks resulting from the Financial Markets trading books. FR and FI-FM Risk 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.

Besides monitoring and control of market risk, FR and FI-FM maintain a limit framework in line with ING's Risk Appetite Framework. The businesses are responsible for adhering to limits that are ultimately 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. To adhere to the established limit framework, ING implements hedging and risk mitigation strategies that range from the use of traditional market instruments, such as interest rate swaps, to more sophisticated hedging strategies to address a combination of risk factors arising at the portfolio level.

The organisational structure facilitates top-down risk management by recognising that risk taking and risk management to a large extent occur at the regional/local level. Bottom-up reporting from regional/local units to head office units allows each management level to fully assess the market risk relevant at the respective levels.

Several committees govern the communication between the parties involved in market risk management. Market Risk Model Committee (MRMC) is the highest dedicated authority within ING for the approval of all trading and banking risk models, methodologies and parameters related to market risk. Trading Pricing Model Committee (TPMC) approves pricing models for trading and banking books. The GCTP is the highest dedicated authority with representatives from Financial Risk, CRO Challengers & Growth Markets and CRO Wholesale Banking for the approval of policies, models, methodologies and parameters related to credit risk and trading risk and for consideration of risk appetite and risk governance. Systematic risk reporting takes place by departments of Financial Risk and FI-FM Risk to the EB and MBB, senior executive management of CRO function and senior executive management of related business functions.

FI-FM Risk Management Framework governs the boundary between trading books and banking books. It defines the activities ING considers to be trading according to a regulatory definition and as constituting part of the trading book for own funds requirement purposes. Trading activity is systematically reviewed and positions against the mandates are assessed jointly by first and second lines of defence. As specified in the framework, transfer of risk or positions between banking and trading books is not allowed.

This market risk paragraph elaborates on the various elements of the risk management framework 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.

Economic Capital for market risk is calculated for exposures both in trading portfolios and banking portfolios and includes interest rate risk, credit spread risk, equity price risk, foreign exchange rate risk, real estate risk, model risks and pension risk. 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 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.

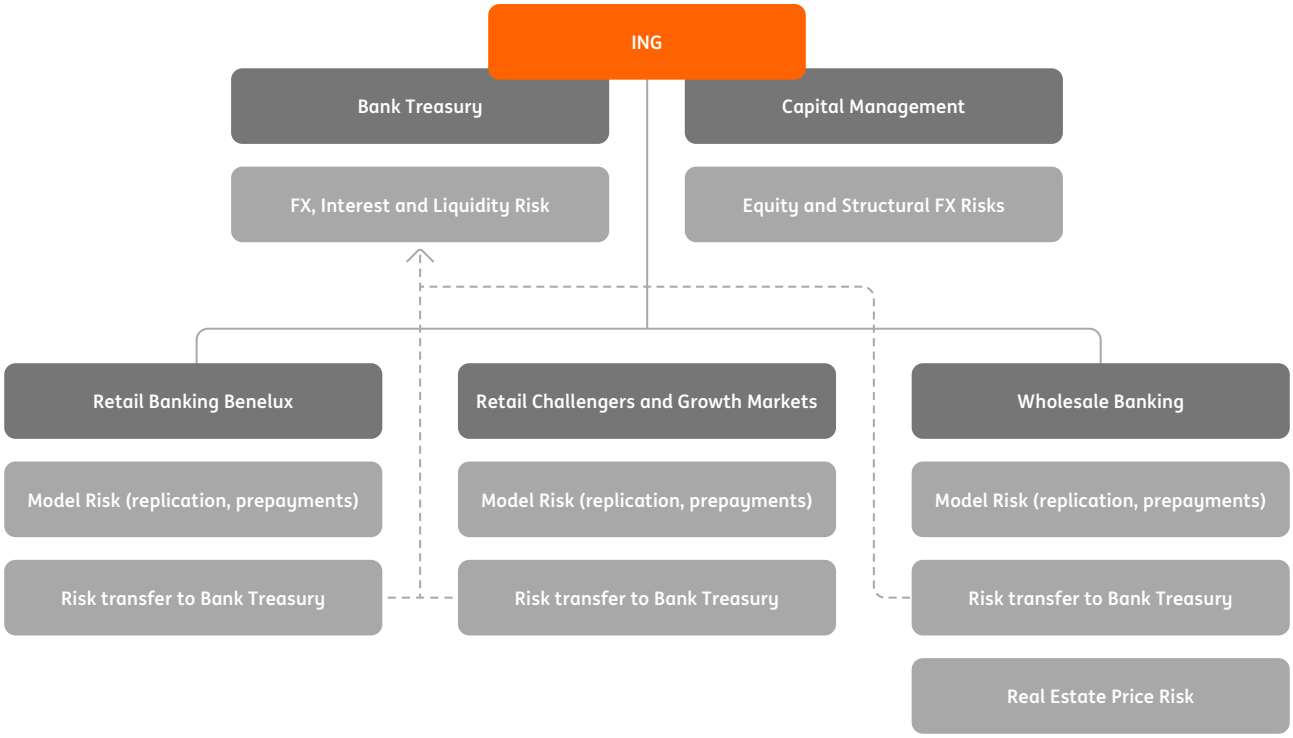
While aggregating the different economic capital market risk figures for the different portfolios, diversification benefits (based on stressed correlations) are taken into account as it is not expected that all extreme market movements will appear at the same moment.

Market risk in banking books

ING 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:



In November 2017, it was approved to merge Bank Treasury and Capital Management into a new department named Group Treasury. This merge is expected to be completed by June 2018.

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.

ING's 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 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 or when market rate changes cannot be passed on to clients. 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. In modelling this risk, interest rate dependent pre-payments are considered. 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; and
- Wholesale Banking loanstypically do not experience interest rate prepayment behavior they are hedged from an interest rate risk perspective and therefore not contain significant convexity risk.

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.

In the following sections, the interest rate risk exposures in the banking books are presented. ING uses risk measures based on both an earnings and a value perspective. Net Interest Income (NII)-at-Risk 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. Please note that corrective management actions are not taken into account in these figures although price adjustments are included in the earnings risk measure.

Developments relating to IRRBB
During 2017 ING implemented a number of refinements to the risk measurement for IRRBB following the review and update of the interest rate risk policy and minimum standards. The following refinements were implemented during 2017:
- To accommodate interest rate scenarios to go negative, while in previous years the downward scenarios contained a floor of 0% on the interest rates (in line with regulatory guidelines).

- Implementation of currency specific scenarios calculated from historical data aligned to the overall risk appetite framework, whereas previously the same scenario (+/-100bps) for different currencies was applied.
- The scenarios for the earnings perspective (NII) are applied gradually over a 12 month (ramped) period whereas previously the scenarios were applied instantaneously.
- Addition of the market spreads in the calculation of the NPV-at-Risk measure.
- Savings model updates for market developments

Net Interest Income (NII) at Risk

NII-at-Risk measures the impact of changing interest rates on (before tax) net interest income of the banking books for year one. This excludes credit spread sensitivity and longer term earnings impact. The NII-at-Risk figures in the tables below reflect a parallel interest rate shock with a time horizon of one year. Next to parallel scenarios also the impact of non-parallel scenarios and the impact over a longer horizon is part of IRRBB monitoring and management. The NII-at-Risk asymmetry between the downward scenario and upward shock scenarios is primarily caused by the convexity risk in the mortgage and savings portfolio due to the embedded options and pricing constraints.

NII-at-Risk banking books per business - year 1

	2017		2016	
	Ramped, unfloored		Instantaneous, floored	
	parallel ▼	parallel ▲	parallel ▼	+100 bps
By business				
Wholesale Banking	-185	201	-15	138
Retail Banking Benelux	17	-48	-73	-88
Retail Challengers & Growth Markets	101	-133	20	58
Corporate Line Banking	-24	13	8	116
Total	**-91**	**33**	**-60**	**224**

The NII-at-Risk 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.

NII-at-Risk banking book per currency - year 1

	2017		2016	
	Ramped, unfloored		Instantaneous, floored	
	parallel ▼	parallel ▲	parallel ▼	+100 bps
By currency				
Euro	-83	9	-54	186
US Dollar	10	-20	-14	19
Other	-19	44	8	19
Total	**-91**	**33**	**-60**	**224**

Year-on-year variance analysis

The revised IRRBB measures explain to a large extent the change in NII-at-Risk, foremost the difference in the shock applied. Previous year the earnings sensitivity was calculated based on an instantaneous upward and downward floored scenario of 100bps while as of March 2017, the NII-at-Risk is calculated based on a gradual upward – and downward unfloored scenario. In 2016 the same scenario (+/-100bps) for different currencies was applied while as of 2017 currency specific scenarios were calculated.

Further, the change in NII-at-Risk for Retail Challengers & Growth Markets is driven by the savings model updates for market developments in Italy, Spain and ING Germany.

Wholesale Banking shows a more negative NII sensitivity in the downward scenario as a result of the removal of the floor.
The change in NII-at-Risk for the Corporate Line is due to investments in longer tenors of own funds.

Net Present Value (NPV) at Risk

NPV-at-Risk measures the impact of changing interest rates on value. The NPV-at-Risk is defined as the outcome of an instantaneous increase and decrease in interest rates applying currency specific scenarios. The NPV-at-Risk asymmetry between the downward and upward shock is primarily caused by convexity risk in the mortgage and savings portfolio. The NPV-at-Risk figures are also calculated using the updated approach for interest rate movements.

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 business

	2017		2016	
	parallel ▼	unfloored parallel ▲	parallel ▼	floored +100 bps
By business				
Wholesale Banking	309	-184	-157	-19
Retail Banking Benelux	-492	-468	-224	-287
Retail Challengers & Growth Markets	-368	-17	328	-435
Corporate Line Banking	1,476	-1,404	115	-1,186
Total	**926**	**-2,073**	**61**	**-1,926**

NPV-at-Risk banking books per accounting category

	2017		2016	
	parallel ▼	unfloored parallel ▲	parallel ▼	floored +100 bps
By accounting category				
Amortised costs	-2,390	1,052	114	248
Available for Sale	2,839	-2,719	115	-2,153
Fair value through profit and loss	476	-406	-168	-21
Total	**926**	**-2,073**	**61**	**-1,926**

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. The asymmetry between the NPV-at-Risk for a downward scenario and an upward shock is primarily caused by the convexity risk due to (embedded) optionality in the savings and mortgage portfolio.

Year-on-year variance analysis

NPV-at-Risk for the downward scenario changed by EUR 865 million during 2017. The main driver of the positive change is the Corporate Line Banking due to the removal of the floor. The removal of the floor is the main contributor to the change in the downward scenario for the other business lines next to the model updates for the savings portfolio for Retail Banking Benelux and Retail Challengers & Growth Markets.

The NPV-at-Risk in the upward scenario changed by EUR -147 million. The change for the Corporate Line can be attributed to longer term investments. The changes for Retail Banking Benelux and Retail Challengers & Growth Markets are due to the savings model updates.

The change in impact per accounting category for both the downward and upward scenario is primarily a result of the update of the IRRBB measures. In the downward scenario the change in the NPV-at-Risk is a result of the removal of the floor. The downward and upward scenario for the Available for Sale and Fair value through profit and loss accounting category show a more symmetric impact as a result of the removal of the floor.

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	2017	2016
By currency		
Euro	-18,446	-13,043
US Dollar	-1,417	-550
Other	1,583	-1,303
Total	**-18,280**	**-14,896**

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 by EUR 3.4 million to EUR -18.3 million in 2017. This mainly results from longer term investments of own funds in Corporate Line (BPV impact of EUR -3.9 million).

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'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 hedge accounting can be applied. 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	
	2017	2016	2017	2016	2017	2016
US Dollar	**2,487**	2,852	**4**	280	**2,491**	3,133
Pound Sterling	**667**	701		-128	**667**	573
Polish Zloty	**2,398**	1,927	**-618**	-584	**1,780**	1,344
Australian Dollar	**3,769**	3,856	**-2792**	-3,324	**977**	532
Turkish Lira	**1,828**	2,066		-3	**1,828**	2,063
Chinese Yuan	**2,762**	3,012		-161	**2,762**	2,851
Korean Won	**954**	958	**-817**	-779	**137**	179
Indian Rupee	**937**	714			**937**	714
Brazilian Real	**211**	253			**211**	253
Russian Rouble	**549**	589	**-154**	-224	**395**	364
Other currency	**2,828**	2,863	**-1,200**	-1,472	**1,628**	1,391
Total	**19,390**	19,792	**-5,576**	-6,396	**13,815**	13,396

In order to measure the sensitivity of the target CET1 ratio against FX rate fluctuations, the Historical Value at Risk is used based on historical series of the last 12 months FX rates. It measures the drop in the CET1 ratio from the target based on historical FX rates. Based on these time series and with a probability of 1%, the drop in the CET1 ratio would be 0.16%. As this methodology has been newly developed in 2017, the comparable 2016 sensitivity is not available.

Equity price risk in banking books

Governance
ING maintains a strategic portfolio with substantial equity exposure in its banking books. Local offices are responsible for the management of the equity investments positions. Financial Risk is responsible for monitoring the regulatory capital for Equity Investments on a monthly basis and it acts independently from the management in monitoring these positions.

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's equity exposure mainly consists of the investments in associates and joint ventures of EUR 947 million (2016: EUR 1,003 million) and equity securities held in the available-for-sale (AFS) portfolio of EUR 3,983 million (2016: EUR 4,024 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 is therefore not directly linked to equity security prices.

Equities Unrealised Gains and Losses in the AFS portfolio

	2017	2016
Gross unrealised gains	2,478	2,675
Gross unrealised losses	-4	-19
Total	**2,474**	**2,656**

Year-on-year variance analysis
The revaluation reserve relating to equity securities held in the available-for-sale portfolio moved from EUR 2,656 million per year end 2016 to EUR 2,474 million per year end 2017. In 2017 the AFS portfolio slightly decreased by EUR 41 million to EUR 4.0 billion, the decrease in the value of the investment in Bank of Beijing and some sales of equity stakes was largely compensated by the increase in value of the stake in Kotak Mahindra Bank.

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 has two main different categories of real estate exposure on its banking books: first, its own buildings which ING 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 0.9 billion (excluding property from foreclosures and third party interest). ING has EUR 0.1 billion recognised at fair value through profit and loss and EUR 0.8 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)

	2017	2016		2017	2016
Continent			**Sector**		
Europe	**827**	969	Residential	**72**	104
Americas	**25**	36	Office	**785**	895
Australia	**0**	0	Retail	**8**	19
Asia	**0**	0	Industrial	**12**	18
Other	**82**	104	Other	**57**	72
Total	**934**	1,109	**Total**	**934**	1,108

Main exposure arises from office buildings in own use located in Netherlands and Belgium (EUR 0.78 billion), as well as retail and residential exposures in Europe (EUR 0.08 billion).

Year-on-year variance analysis

In total, real estate market risk exposure in the banking books decreased by nearly 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. In 2017, ING continued its strategy of undertaking trading activities to develop its client-driven franchise and deliver a differentiating experience by offering multiple market and trading products efficiently and effectively.

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. FI-FM Risk advises both FMRC and ALCO Bank on the market risk appetite of trading activities.

With respect to the trading portfolios, FI-FM Risk focuses on the management of market risks of Wholesale Banking (mainly Financial Markets) as this is the only business line within ING where trading activities take place. Trading activities include facilitation of client business and market making. FI-FM 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. FI-FM Risk also reviews trading mandates and limits, and performs the gatekeeper role in the product review process. The management of market risk in trading portfolios is performed at various organisational levels. FI-FM Risk Management Framework defines policies and procedures for the overall management of trading books. Trading activity is systematically reviewed and positions against the mandates are assessed jointly by first and second lines of defence.

Fair values of financial assets and liabilities

ING 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 are, independent market vendors, brokers, or recent transactions. The range of prices obtained from these 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 risk 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 the model governance framework are independent validation and periodic review. A periodic review aims to determine whether a model is still appropriate for its intended use. Where models are used for valuations, 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 by 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 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 13 million after tax is booked for ING in 2017. On a quarterly basis all valuation adjustments are discussed and approved 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 applies both credit and debit valuation adjustments (hereafter referred to as respectively, CVA and DVA). Own issued debt and structured notes that are priced 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 CVA is of a bilateral nature; both the credit risks on the counterparty as well as on ING 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 increases and the credit quality of that counterparty decreases) and right way risk (when exposure to a counterparty decreases and the credit quality of that counterparty decreases) are included in the adjustment. ING also includes the CVA component in its pricing of the credit risk for 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. The approach of ING 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.

FI-FM Risk has the role to challenge the valuation and pricing sources used in the valuation models by Front Office. FI-FM 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 FI-FM Risk, the systems for pricing and price testing are secured in order to prevent unauthorised access.

Risk measurement

ING uses a comprehensive set of methodologies and techniques to measure market risk in trading books: Value at Risk (VaR) and Stressed Value at Risk (SVaR), Incremental Risk Charge (IRC), and Event Risk (stress testing). Systematic validation processes are in place to validate the accuracy and internal consistency of data and parameters used for the internal models and modelling processes.

Basel Committee/CRD IV
ING follows the regulatory framework set out in the Capital Requirements Regulation (CRR/CRD IV) for its regulatory capital calculations. The BCBS is performing a Fundamental Review of the Trading Book (FRTB), which may have a significant impact on the Pillar I calculations. In December 2017 the Governors and Heads of Supervision (GHOS) presented the final Basel 3 update package, in this package the new BCBS target date for implementation and start of reporting of FRTB is 1 January 2022.

Value at Risk
FI-FM Risk uses the historical simulation 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 in the trading portfolio of ING 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. A single model that diversifies general and specific risk is used. In general a full revaluation approach is applied, only for a limited number of linear trading positions and a limited number of risk factors in commodity and equity risk classes a sensitivity-based approach is applied. The potential impact of historical market movements on today's portfolio is estimated, based on equally weighted observed market movements of the previous year (260 days). When simulating potential movements in risk factors, depending on the risk factor type either an absolute or a relative shift is used. The data used in the computations is updated daily. ING uses VaR with a 1-day horizon for internal risk measurement, management control, and backtesting, and VaR with a 10-day horizon for determining regulatory capital. To compute VaR with a 10-day horizon the one day risk factor shifts are scaled by the square root of ten and then used as input for the revaluation. The same model is used for all legal entities within ING with market risk exposure in the trading portfolio.

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 also uses hypothetical results, which excludes the effect of intraday trading, fees, and commissions. When the actual or hypothetical loss exceeds the VaR, an 'outlier' occurs. Based on ING's one-sided confidence level of 99%, an outlier is expected once in every 100 business days. In 2017 there were no occurrences where an actual or hypothetical daily trading loss exceeded the daily consolidated VaR of ING. ING reports the backtesting results on a quarterly basis to ECB.

Stressed VaR
The 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 uses the same model that is used for VaR with a 10-day horizon. The historical data period used currently includes the height of the credit crisis around the fall of Lehman Brothers, and is reviewed regularly. The historical data period is chosen so that it gives the worst scenario loss estimates for the current portfolio. The same SVaR model is used for management purposes and for regulatory purposes. The same model is used for all legal entities within ING with market risk exposure in the trading portfolio.

Incremental Risk Charge
The IRC for ING is 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. The same IRC model is used for all legal entities within ING with market risk exposure in the trading portfolio. Non-securitised trading positions of ING, which are subject to specific interest rate risk included in the internal model approach for market risk regulatory capital, are in scope of the IRC model. By model choice, equity is excluded from the model. For the calculation of IRC, ING performs a Monte-Carlo simulation based on a Gaussian copula model. The asset correlations used in the Gaussian copula model are determined using the IRB correlation formula. 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. Movements across different rating categories and probabilities of default are governed by a credit-ratings transition matrix. An external transition matrix is obtained from Standard & Poor's (S&P). 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 reviews the liquidity horizons regularly based on a structured assessment of the time it takes to liquidate the positions in the trading portfolio.

ING 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.

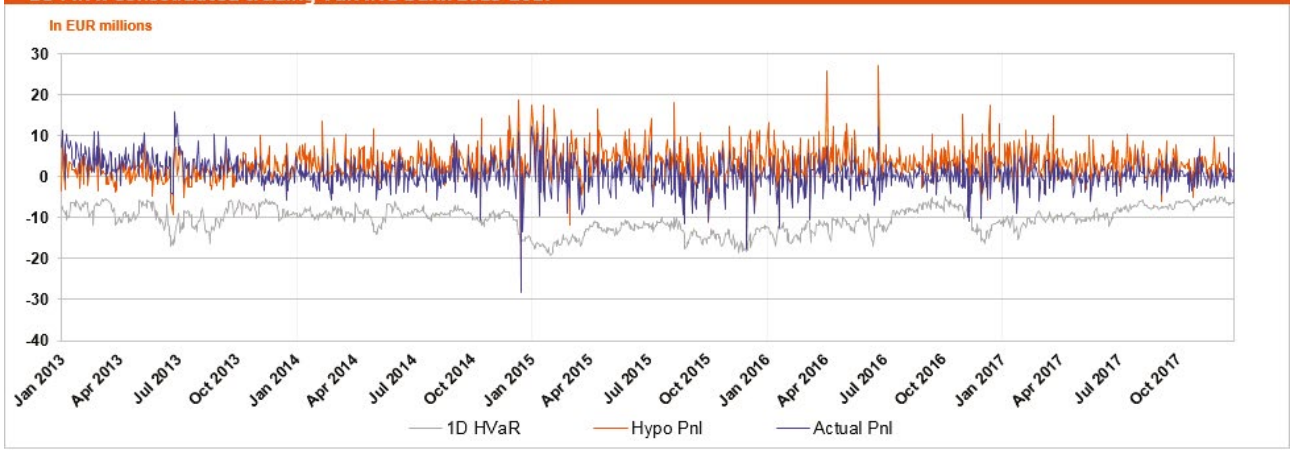
Stress Testing and Event Risk
Stress Testing and Event Risk are valuable risk management tools. Event Risk evaluates the bank's financial stability under severe but plausible stress scenarios and assists in decision-making aiming to maintain the bank being a financially healthy going-concern institution after a severe event occurs. In addition to the bank-wide stress test framework as described in the stress testing section, FI-FM Risk performs separate stressed scenario tests under Event Risk framework 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 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. The Event Risk number for the ING trading activity is generated on a weekly basis. Like VaR, Event Risk is limited by ALCO Bank.

ING'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). In stress scenarios, shocks are applied to prices (credit spreads, interest rates, equity, commodities, and fx rates) and volatilities. Depending on the type of stress test, additional scenario assumptions could be made, for example on correlations, dividends, or recovery rates. For example, for equity products both a crisis scenario (prices decrease) as well as a bull scenario (prices increase) are assumed. 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 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 actual and hypothetical daily trading profits and losses. In calculation of the hypothetical daily profit and loss, the trading position is kept constant and only the market movement is taken into account. The overnight VaR is presented for the ING trading portfolio from 2013 to 2017.

EU MR4: Consolidated trading VaR ING Bank 2013-2017[1]



1 CVA risk is not included in VaR. Reserves are not included in the P&L figures.

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]

amounts in millions of euros	Minimum 2017	Minimum 2016	Maximum 2017	Maximum 2016	Average 2017	Average 2016	Year end 2017	Year end 2016
Interest rate	3	3	8	10	4	5	4	5
Equity and commodity	1	2	4	11	3	5	2	4
Foreign exchange	1	1	4	5	2	2	1	2
Credit spread	3	4	7	11	5	6	4	7
Diversification[2]					-7	-7	-6	-12
Total VaR	**4**	**5**	**9**	**22**	**6**	**11**	**5**	**6**

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 2017, the average VaR was at a lower level compared to last year, as notable also in different risk types. Over these two years (2016-2017), the trading portfolios saw a decline in both the level and the volatility of 1-day VaR, thanks to the development of equity derivatives trading strategy and generally more positive market conditions.

EU MR3: Internal Model Approach values for trading portfolios

	amounts in millions of euros	2017	2016
VaR (10 day 99%)			
1	Maximum value	43	64
2	Average value	22	33
3	Minimum value	14	9
4	Period end	17	36
Stressed VaR (10 day 99%)			
5	Maximum value	96	131
6	Average value	56	72
7	Minimum value	33	40
8	Period end	67	84
Incremental Risk Charge (99.9%)			
9	Maximum value	158	292
10	Average value	114	207
11	Minimum value	78	120
12	Period end	78	120
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 2016, in 2017 position changes led to lower maximum, average, and a lower 10 day VaR at year-end. Similar dynamics are observed in 10 day Stressed VaR. The overall decrease in IRC in 2017 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 (own funds requirements) for market risk can be calculated using the standardised approach or an internal model approach. ING received regulatory approval to use an internal model to determine the regulatory capital for the market risk in all trading books of ING. Market risk capital of trading books is calculated according to the CRR, using internal VaR, SVaR, and IRC models, where diversification is taken into account. Commodities risk in the banking books is calculated under Internal Model Approach. However, mismatches in foreign exchange risk from the banking books are calculated using Standardised Approach with fixed risk weights. ING does not have a Correlation Trading Portfolio or any other securitisations in the trading book.

Standardised Approach

EU MR1: Market risk under Standardised Approach

amounts in EUR millions		2017 RWA	2017 Capital requirements	2016 RWA	2016 Capital requirements
Outright products					
1	Interest rate risk (general and specific)				
2	Equity risk (general and specific)				
3	Foreign exchange risk	1,074	86	1,081	87
4	Commodity risk				
Options					
5	Simplified approach				
6	Delta-plus method				
7	Scenario approach				
8	Securitization (specific risk)				
9	**Total**	1,074	86	1,081	87

The market risk regulatory capital under Standardized Approach is fully driven by the foreign exchange risk in the banking books. The foreign exchange risk in the banking books in 2017 remained at comparative level to 2016.

Internal Model Approach

EU MR2-A: Market risk under Internal Model Approach

amounts in EUR millions		2017 RWA	2017 Capital requirements	2016 RWA	2016 Capital requirements
1	**VaR (higher of values a and b)**	**649**	**52**	**1,123**	**90**
(a)	Previous day's VaR (Article 365(1) (VaRt-1))	209	17	449	36
(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)	649	52	1,123	90
2	**SVaR (higher of values a and b)**	**1,750**	**140**	**2,546**	**204**
(a)	Latest SVaR (Article 365(2) (sVaRt-1))	842	67	1,054	84
(b)	Average of the SVaR (Article 365(2) during the preceding sixty business days (sVaRavg) x multiplication factor (ms) (Article 366)	1,750	140	2,546	204
3	**Incremental risk charge -IRC (higher of values a and b)**	**1,205**	**96**	**1,910**	**153**
(a)	Most recent IRC value (incremental default and migration risks section 3 calculated in accordance with Section 3 articles 370/371)	981	78	1,500	120
(b)	Average of the IRC number over the preceding 12 weeks	1,205	96	1,910	153
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**	**3,604**	**288**	**5,579**	**446**

The decrease in market risk regulatory capital for trading as of 2017 is mainly due to a decrease in exposures to sovereign issuers and as a result of a decrease in IRC, and a change in risk positions during 2017 that resulted in decreases in VaR and SVaR. The main changes in risk positions throughout the year were in trading books within credit and interest rate asset classes, including 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, FI-FM Risk actively monitors the daily changes of sensitivities of the trading portfolios. Sensitivities measure the impact of movements in individual market risk factors (foreign exchange rates, interest rates, credit spreads, equity, and commodity prices) on profit and loss results of the trading positions and 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

amounts in EUR millions	2017		2016
Foreign exchange		Foreign exchange	
US Dollar	-45	US Dollar	201
Polish Zloty	28	Romanian New Leu	45
South Korean Won	26	Chinese Yuan	-40
Japanese Yen	-21	South Korean Won	-22
Taiwan New Dollar	21	Czech Koruna	21

Most important interest rate and credit spread sensitivities at year-end

amounts in EUR thousands	2017		2016
Interest Rate (BPV[1])		**Interest Rate (BPV[1])**	
US Dollar	141	Euro	-119
Russian Ruble	-66	South Korean Won	-44
Japanese Yen	61	Polish Zloty	-32
Taiwan New Dollar	52	Indian Rupee	-23
Polish Zloty	47	Romanian New Leu	22
Credit Spread (CSO1[2])		**Credit Spread (CSO1[2])**	
United States	341	United States	333
Supranational	-92	Germany	173
India	-78	Belgium	74
France	63	India	-38
Netherlands	-60	Poland	-38

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

		2017		2016	
amounts in EUR thousands		Corporate	Financial Institutions	Corporate	Financial Institutions
Credit Spread (CSO1[1])					
Risk classes					
1	(AAA)	-20	-233	-3	-48
2-4	(AA)	-5	-53	-21	26
5-7	(A)	-83	-87	13	-9
8-10	(BBB)	-127	-151	-126	-154
11-13	(BB)	-78	-90	-104	-88
14-16	(B)	-14	-2		-9
17-22	(CCC and NPL)	-4	-1	-1	-2
Not rated				1	1
Total		**-331**	**-618**	**-241**	**-283**

1 Credit Spread Sensitivity (CS01) measures the impact on value of a 1 basis point increase in credit spreads.

Funding and liquidity risk

Introduction

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. ING incorporates funding and liquidity management in its business strategy, applying a funding and liquidity risk framework in order to manage such risks within pre-defined limits. 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, the EB and 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.

Liquidity risk management within ING falls under the supervision of the ALCO function, which determines the liquidity risk (limit) framework and appetite after which this is cascaded down in the organisation. ING'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 and Capital Management are 1st line of defence functions and its main funding and liquidity responsibilities are to manage ING's (regulatory) liquidity and funding position. Bank Treasury together with Capital Management are ING's primary contacts to the market for long and short term funding. In November 2017, it was approved to merge Bank Treasury and Capital Management into a new department named Group Treasury. This merge is expected to be completed by June 2018.

The 2nd line Financial Risk function is responsible for defining the governance with regard to funding and liquidity management and 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 it checks compliance with guidelines and limits.

Funding & Liquidity Management Framework

The liquidity buffer ING holds is part of the counterbalancing capacity, i.e. the total of available sources and measures within ING to generate liquidity (including also limiting 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 are included that are 'unencumbered' and freely available for liquidity purposes. Bank Treasury ensures functional management of all liquidity buffers within ING, both buffers at ING 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.

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. 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 outcomes of stress tests are evaluated and provide input to any follow-up on the need for additional contingency measures.

ING also monitors an internal net liquidity position metric, which is reported on a consolidated (bank) level for the main entities and split in euro and US Dollar. On a monthly basis ING reports the Liquidity Coverage Ratio (LCR) and an internally defined stress scenario related to a specific time-to-survive period. Additionally, on a quarterly basis, ING reports a number of internally defined stress scenarios related to specific time-to-survive periods as well as the Net Stable Funding Ratio (NSFR) which is reported based on EBA guidance.

Overall, (reverse) stress testing is an integral part of the liquidity and funding risk management framework and also serves as input for the contingency funding plan and risk appetite statements.

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. 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.

Liquidity risk appetite

ING Group'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 relevant the RAS are cascaded down to specific regional and local levels.

ING 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 and Liquidity approach

ING Group takes an integrated approach to assessing the adequacy of its funding and liquidity position in relation to its balance sheet profile and its operating environment, whilst taking into account the interests of its various stakeholders.

The starting point for ING Group's assessment of the adequacy of its liquidity position is the overall business strategy and the risk appetite i.e. the level of financial risk ING Group is willing to accept for growth and value creation, while maintaining a sound balance sheet. Other relevant factors are developments in the business environment and corresponding business opportunities and risk exposures as well as developments in the (future) regulatory framework. For example: ING Group takes into account the developments in applicable regulatory and accounting standards and the setting of MREL/TLAC requirements.

ING Group distinguishes several key drivers of – future – liquidity and funding needs:
- The boundaries set by current and future regulatory requirements (EUR and USD);
- The boundaries set by risk appetite statements (EUR and USD);
- The findings from various stress tests;
- The boundaries regarding the distribution and transferability of liquidity; and
- Any funding/refinancing needs.

Based on all these perspectives ING Group assesses the current and future adequacy of its liquidity position and, if deemed necessary, takes steps to further improve the position. Aim is to ensure that ING Group has sufficient counterbalancing capacity.

Funding sources
In 2017, ING 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

	2017	2016
Funding type		
Retail deposits	**51%**	51%
Corporate & other deposits	**22%**	21%
Interbank (incl. central bank)	**5%**	5%
Lending/repurchase agreement	**6%**	5%
Public debt	**14%**	16%
Subordinated debt	**2%**	2%
Total	**100%**	100%

The funding mix remained well diversified. Retail deposits remained ING's primary sources of funds and remained stable at 51% of the total funding mix per year end 2017. The Loan-to-Deposit ratio (excluding securities at amortised costs) remained stable at 1.05 per year end 2017.

Non-Financial Risk

Introduction

The Non-Financial Risk (NFR) function encompasses the Operational Risk, Information Risk, Corporate Security & Investigations and Compliance Risk management functions. Risk controls for these functional areas have been implemented by means of policies and minimum standards which apply to ING's business processes in the divisions. There is an infrastructure in place enabling management to track events and non-financial risk issues. ING has a system of internal controls, that is reviewed and updated periodically and as necessary. ING's goal is to create an environment of continuous improvement in managing non-financial risks.

ING believes that an effective control environment is essential to build and maintain sustainable businesses, and preserves and enhances the trust of its customers, employees and shareholders. The Orange Code sets the foundation for the high ethical standards ING expects from all its employees, business activities and partners. The Orange Code is a manifesto that describes our way of working. It is comprised of ING Values, requiring all staff to act with integrity, whilst being honest, prudent and responsible - and the ING Behaviours - our way of being that makes us different from the rest.

Governance

The Head of Corporate Operational Risk Management (CORM), Corporate Information Risk Management (CIRM), Corporate Security & Investigations (CSI) and Corporate Compliance Risk Management (CCRM) report to the Chief Compliance Officer (CCO)/Head of Non-Financial Risk (NFR) and are jointly responsible for developing the framework of non-financial risk policies and standards within ING and for monitoring the adherence to and quality of non-financial risk management in the business.

The Chief Compliance Officer (CCO) is the Head of the Compliance Risk Management function. 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 EB and MBB in managing ING'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.

Non-Financial Risk Committees (NFRCs) and Management Teams (MTs) manage, measure and monitor operational, information and compliance risks. The Bank NFRC is the primary approval and oversight committee for non-financial risk matters. Additionally NFRCs exist at Division and/or Entity level providing input to the Bank NFRC. They are chaired by the first line of defence with the purpose to 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 various levels in the organisation.

The NFR function uses a layered functional approach within divisions to support a systematic and consistent implementation of the framework of policies and minimum standards within ING. 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 functional reporting line to the next higher level within Operational Risk Management (ORM), Information Risk Management (IRM) 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 has a 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 aims at identifying key threats, vulnerabilities and the associated risks which might cause adverse events. Event identification is performed and precedes a risk assessment. Different techniques for event identification exist within ING, e.g. Risk & Control Self-Assessments, scenario analysis, external events inventories, internal events analyses (e.g. lessons learned based on information from event reporting), business environment assessment and monitoring .

Risk & Control Self-Assessment

Identification and assessment (RCSA) of non-financial risks inherent to ING 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 internal control factors and external factors that could influence the internal and external operating environment in the future, and which may lead to unacceptable operational risk exposure and endanger achieving our strategic objectives.

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. Supporting the creation and sharing of Lessons Learned for significant internal events is one of the means by which NFR enhances the internal control framework of ING.

External events inventories

External non-financial loss data provides valuable information about the losses experienced by other businesses, and assists ING to quantify its exposure to risk events that have not been experienced internally.

Business units and departments perform regular monitoring activities, BEAs and Risk & Control Self-Assessments (RCSAs) to identify and assess risks. These are conducted with involvement of the business and their ORM, IRM, Compliance and/or 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 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's central risk management system.

The risk appetite (defined as the acceptable and authorised maximum level of risk) is set by the Supervisory Board based on a proposal made by the Bank NFRC and approved by the EB and MBB. 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 & processing risks, fraud, 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 to safeguard that ING stays in control of its current and future non-financial risks.

The Non-Financial Risk (NFR) reporting deliverables consist primarily of the quarterly Non-Financial Risk Dashboard (NFRD) report and a monthly NFRD booklet. The iRisk tool (Governance, Risk & Compliance solution) serves as the single source of truth for NFR information and supports the three lines of Defence in their Risk Management and Reporting activities.

Advanced Measurement Approach (AMA)
ING has an Operational Risk Capital model in place in which the risk profile is closely tailored to its internal risk profile and its divisions, by using scenario data for capturing severe unlikely risks and internal loss and RCSA data for capturing day-to-day risks. The business has a leading role in assessing scenario severities, with the ORM function validating and challenging 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 reports the regulatory capital numbers on a quarterly basis. The AMA capital requirement per the end of 2017 amounts to EUR 3,207 million, compared to EUR 3,242 million per 2016 year-end.

Risk mitigations
ING 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 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 and processing risk* are the risks 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), failed (transaction) processing (input, execution, output) or failing process management; 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; 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; strategic risks are not included. Reputational risk is defined as the possibility that adverse publicity regarding ING's business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of ING. Reputational risk is multidimensional and reflects the perception of other market participants, like customers, counterparties, shareholders, investors or regulators that can adversely affect ING'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 (potentially) resulting in impairment of ING's integrity, leading to damage to ING'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's risk and control framework.

Main developments in 2017

Internal and external fraud

The risk of clients and ING 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) and invoice fraud remain significant threats. Efforts are undertaken to mitigate the risk such as creating awareness for customers and staff, and sharing of lessons learned across ING. ING stringently monitors both this type of fraud and new emerging fraud methodologies. In addition, ING is increasingly using innovative methods such as big data analytics to further strengthen its fraud resilience.

ING continues working on strengthening its global fraud resilience and to strengthen its control environment as fraudsters turn their interest to the end-user. 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 remains 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 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 regularly re-assessed against existing and new threats.

ING 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).

User Access Management (UAM)

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, resulting in a updated set of UAM requirements in 2017. We have started compliance testing and identified control deficiencies related to UAM at an early stage in 2017. A dedicated central UAM team coordinated, assessed, monitored and tracked remediation efforts that resulted in early response and early mitigation of deficiencies due to increased focus by the MBB, senior management and ING staff. These ongoing global initiatives resulted in a significant improvement in 2017. In 2018, management continue to enhance the internal controls, mitigation and monitoring the progress of mitigation and remediation.

Compliance risk

Definition

Compliance risk is defined as the risk of impairment of ING'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 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 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 applicable to non-financial risks. To support management in mitigating compliance risks, the Bank Compliance Risk Management function trains and advices the business in

managing compliance risks related to e.g. money laundering, terrorist financing, sanction and export control compliance, conflicts of interests, misselling, corruption and protection of customers' interests, Financial Account Tax Compliance Act (FATCA), Common Reporting Standard (CRS), and US withholding tax and information reporting regulations.

Risk categories

ING 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 as Financial Economic Crimes ("FEC"). Furthermore, *Client conduct* refers to the compliance risks relating to FATCA, CRS, and US withholding tax and information reporting regulations;
- *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 when developing, marketing and/or selling products and services to its clients; and
- *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.

Controls aiming to mitigate the compliance risks associated with the above mentioned risk areas are designed and applied to the day-to-day processes in the bank. The effectiveness of the controls is tested periodically, and senior management has responsibility that their processes are compliant with applicable laws and regulations, ING's internal policies and the Orange Code.

In cases where an employee of ING suspects an actual or suspected irregularity or misconduct within ING that leads or could lead to a violation of ING Orange Code, any ING policy and/or any law, regulation or code, this can be reported anonymously in line with the Whistle-blower Policy, via internal or external channels next to normal reporting channels.

Financial Economic Crime (FEC) Policy and Minimum Standards

The FEC Policy and Minimum Standards reflect relevant national and international laws, regulations and industry standards. The FEC Policy is mandatory and applies to all ING entities, majority owned ING business, businesses under management control, staff departments, product lines and to all client engagements and transactions.

Management of ING entities maintain local procedures aiming at enabling them to comply with local laws, regulations and the 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.

The FEC Policy and Minimum Standards set the requirements for all ING entities to guard against any involvement in criminal activity. The requirements in the 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 as Ultra High Risk Countries (UHRC).

As a result of frequent evaluation of the businesses from economic, strategic and risk perspective ING 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 Cuba, Iran, North Korea, Sudan and Syria. Each of these countries is subject to EU and/or US sanctions regimes. Iran, Sudan, and Syria are identified by the US as state sponsors of terrorism and are subject to US economic sanctions and export controls.

Also in 2017, the Ukraine-related sanctions as imposed earlier by both the US (including further extensions of the scope have been imposed by 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 entities use their existing control framework to remain compliant. Newly imposed sanctions on Venezuela also include restrictions on financing Venezuelan government owned entities.

Main developments in 2017

Regulatory developments

Compliance with applicable laws and regulations is resource-intensive. 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.

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 , 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 set new legal standards. Meeting all these requirements within the strict timelines that are 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.

4th AML Directive
The 4th AML Directive, as issued by the European Union, has been incorporated into the update of the ING Financial Economic Crime Policy and Minimum Standards. The main changes in this Directive (compared to the 3rd AML Directive) are related to: the establishment of an Ultimate Beneficial Owner (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 implementation date of the Directive was 26 June 2017. The implementation of the directive into Dutch law was expected in July 2017, but has been delayed, probably until early 2018. ING started to implement several KYC enhancements in 2017.

On 5 July 2016 the European Commission presented a new proposal for a Directive amending the 4th AML Directive (so called 5th AML Directive). The aim of the proposal is to tackle new means of terrorist financing, increase transparency to combat money laundering and help strengthen the fight against tax avoidance. On 8 June 2017, the EU Council adopted its position on the proposed Directive. The Council and the Parliament will enter into negotiations on the final text as soon as the latter has decided on its position.

In addition, the European Supervisory Authorities (ESAs) issued their final Guidelines on risk factors on 26 June 2017, which will become applicable by 26 June 2018. These Guidelines promote a common understanding of the risk-based approach to AML/CFT and set out how it should be applied in the context of the 4th EU AML Directive. Furthermore, on 22 September 2017 the ESAs also issued their final Guidelines to prevent the abuse of funds transfers for terrorist financing and money laundering purposes. These guidelines will apply from six months after the date on which they are issued.

A bank-wide programme has been launched in the area of Know Your Customer (KYC). Its objective is twofold : (i) to enhance the information the bank is required to maintain about its clients, in line with the additional requirements stemming from the 4th Anti-Money Laundering directive, and (ii) to address the areas for improvement that have been identified about the effectiveness of the control framework applicable to the Financial Economic Crime domain, especially with respect to its Client Activity Monitoring capabilities and the integrated risk profiles of the clients. The programme aims to develop solutions of a structural nature to support a compliant-by-design approach. Other client-related policies are in scope of the KYC programme (e.g. FATCA, CRS). The programme is expected to run till end of 2020. With respect to specific proceedings, see Note 45 'Legal proceedings' to the consolidated annual accounts.

Financial Account Tax Compliance Act (FATCA)
Under provisions of US tax law commonly referred to as FATCA, non-US financial institutions are required to provide certain information on their US account holders and/or certain US investors to the US Internal Revenue Service ("IRS"). A 30% withholding tax will be imposed on 'withholdable payments' made to non-compliant non-US financial institutions. The Group intends to take all necessary steps to comply with FATCA and other US 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 US 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 often require financial institutions in those countries to report information on their US account holders to the taxing authorities of those countries, who then passes the information to the IRS.

If the Group cannot rely on IGA or satisfy the requirements, certain payments to the Group may be subject to withholding under FATCA. Certain payments may also be subject to other US withholding tax regulations. 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, compliance with the terms of such IGAs and with FATCA, any regulations or other guidance promulgated thereunder, or any legislation promulgated under an IGA, and offering products that generate 'withholdable payments', may substantially increase the Group's compliance costs. Failure to comply with FATCA and other US 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.

In 2017, FATCA Policy ownership (including advisory and monitoring) transferred from Corporate Tax to Corporate Compliance. Also in 2017, ING issued a new, comprehensive policy which addresses the compliance requirements for withholding US taxes from our customers, remitting the tax to the US Internal Revenue Service ('IRS'), and annually providing our customers and the IRS with summary reports of payments made and taxes withheld.

Common Reporting Standard (CRS)
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. CRS requires 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 10 November 2017, 96 jurisdictions ('signatory countries'), including the Netherlands, have signed a multilateral competent authority agreement to automatically exchange information pursuant to CRS. The majority of countries where ING has a presence have committed to CRS. The EU has made CRS mandatory for all its member states. The first information exchange by the Netherlands (as for approximately half of the signatory countries) was executed in 2017. Other signatory countries commence their information exchange in 2018.

Non-Financial Risk Awareness & Learning

Promoting Integrity Programme
The Promoting Integrity Programme was started in 2010 and is a 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 for the benefit of every employee in every part of ING to enhance the understanding of how their actions and behaviour can help earn and retain customer and stakeholder trust. In 2017, Integrity led behaviour was addressed by means of the mandatory PIP e-learning 'ING Values: Integrity in practice' which was rolled out globally.

Compliance Forum ING
In 2017, Compliance Risk Management developed a Compliance Forum for Compliance Officers within ING worldwide. This forum is about building expertise and sharing experience. The focus is on regulatory developments, innovation and the future of compliance – what compliance officers can do to Think Forward. Participants are engaged in lively discussions on current topics, take part in workshops and plenary sessions to experience and develop the new ways of working within ING. Participants can connect with colleagues from across the globe and share knowledge and views on the compliance function of the future. Part of the Compliance community was trained in 2017 and in 2018 the remainder will be trained.

Compliance Risk Culture Monitoring
The 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 the employees and enhancing the overall culture that is led by integrity.

Business Risk

Introduction

Business Risk for ING has been defined as the exposure to value loss due to fluctuations in volumes/margins as well as expenses. It is the risk inherent to strategy decisions and internal efficiency. Business risk capital is calculated via the variance-covariance methodology for expense risk, covering 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.

Governance and risk management

The governance and management of Business Risk differs from the risk types that have been described in the sections before. In the course of 2017 ING has developed explicit risk appetite statements regarding business risk, focusing on earnings stability and diversification of the business mix, as avoiding to put all eggs in one basket reduces the risk that volumes and/or margins will suddenly drop due to unexpected changes in the business environment for certain markets and products. Furthermore, the underlying risk types (expense risk and volume-margin risk) are also 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 52%. Deviations from this ambition are monitored as part of the financial projections that are discussed continuously within different parts of the organisation.

Capital management

Objectives

ING Group Capital Management (Capital Management) is responsible for the adequate capitalisation given regulatory constraints 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, ING Bank and its various entities, 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 boundaries such as defined in the Risk Appetite Framework.

ING applies the following main capital definitions:

- Common equity Tier 1 capital, Tier 1 capital and Total capital – Common equity Tier 1 capital is defined as shareholders' equity less regulatory adjustments. Common equity Tier 1 capital including Additional Tier 1 (hybrid) securities and other regulatory adjustments is defined as Tier 1 capital. Total Capital is Tier 1 capital including subordinated Tier 2 liabilities and 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 deterministic 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

The capital position further strengthened in 2017 reflecting strong profitability based on core lending growth but with a lower risk weight and complemented with further optimisation of the capital structure. At both consolidated and entity level, ING has sufficient buffers to withstand certain adverse scenarios without breaching currently applicable and possible future requirements.

In 2017, a total of USD 2.1 billion grandfathered additional Tier 1 instruments were redeemed. ING Groep NV did not issue additional Tier 1 instruments during the year. In 2017, EUR 1.0 billion ING Bank Tier 2 bonds were exchanged for ING Group Tier 2 notes at similar terms. In addition, ING Groep NV issued EUR 1.8 billion of Tier 2 bonds and EUR 0.4 billion of Tier 2 private placements in Japanese Yen and USD.

To support orderly resolution, ING is required 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. The TLAC standard is being incorporated in the proposed Capital Requirements Directive and Bank Recovery and Resolution Directive revision. This legislation is not yet finalised. To improve the loss absorbing capacity for TLAC/MREL regulations ING Groep NV issued EUR 6 billion of senior HoldCo debt in 2017.

The transitional (phased-in) common equity Tier 1 requirement that ING Group had to meet on a consolidated basis was set at 9.02% in 2017. This requirement is the sum of a 4.5% Pillar 1 requirement, a 1.75% Pillar 2 requirement, a 1.25% Capital Conservation Buffer (CCB), a 0.02% Countercyclical Buffer and the 1.50% Systemic Risk Buffer which has been set separately for Dutch systemic banks by the Dutch Central Bank (De Nederlandsche Bank). This requirement excludes Pillar 2 guidance, which is not disclosed. The CCB and the Systemic Risk Buffer (SRB) are scheduled to phase-in to 2.5% and 3.0% respectively by 1 January 2019 respectively.

For 2018, the transitional (phased-in) SREP common equity Tier 1 requirement will be 10.43%. This requirement consists of a 4.5% Pillar 1 requirement, a 1.75% Pillar 2 requirement, a 1.875% CCB, countercyclical buffer of 0.06% (based on December 2017 positions) and the 2.25% SRB. This excludes Pillar 2 guidance, which is not disclosed.

Consequently, Maximum Distributable Amount (MDA) trigger level is expected to rise from 9.0% in 2017 to 10.4% in 2018 and 11.8% 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.

ING Group continues to maintain a strong and high quality capital level, with a phased-in common equity Tier 1 ratio and a fully-loaded common equity Tier 1 ratio of 14.7% as at 31 December 2017, thereby ING is in compliance with the current fully-loaded requirement of 11.8%, assuming all capital buffers remain stable.

The phased-in and fully-loaded Group Tier 1 ratio (including grandfathered securities) as at 31 December 2017 respectively decreased from 16.3% to 16.2% and 16.6% to 16.4%. The phased and fully-loaded total capital ratio (including grandfathered securities) of ING Groep NV respectively decreased from 19.3% to 18.5% and 19.7% to 19.1%.

Capital ratios now reflects the impact of the interpretation of the EBA Q&A published on 3 November 2017. This Q&A relates to externally placed own funds from a subsidiary in conjunction with the availability to absorb losses at the consolidated level. Impact will mostly disappear in the coming years as ING Group going forward will be the issuing entity for all new capital instruments.

At the end of January 2017, the Single Resolution Board informed ING that it supports the designation of ING Group as the single point of entry for resolution purposes. 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. The Single Resolution Board has not yet set legally binding MREL requirements. Any potential (higher) shortfall related to legally binding MREL requirements, new regulatory initiatives and balance sheet growth will be met with additional Group issuance.

G-SIBs will be required to meet the TLAC requirement alongside the minimum regulatory requirements set out in the Basel III framework. Specifically, the TLAC term sheet requires ING to meet a minimum TLAC requirement including buffer requirements of at least 21.5% of the resolution group's risk-weighted assets (TLAC RWA Minimum) as from 1 January 2019 and at least 23.5% as from 1 January 2022. Also 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. No buffer requirements will come on top of the leverage requirement.

ING Bank NV 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 13.1%, thereby complying with CRR/CRD IV solvency requirements. ING Bank NV paid EUR 3.2 billion of dividend to ING Group in 2017. The fully loaded Tier 1 ratios (including grandfathered securities) remained stable at 14.7%, while the phased-in Tier 1 ratio (including grandfathered securities) increased form 14.4% to 14.6%, primarily reflecting developments in ING Bank's common equity Tier 1 ratio. The Banks's fully loaded and phased in total capital ratio (including grandfathered securities) respectively increased from 17.8% to 18.3% and 17.4% to 18.2%.

Dividend

ING Group's dividend policy aims to pay a progressive dividend that 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 2.6 billion, or EUR 0.67 per ordinary share, over the financial year 2017. This is subject to the approval of shareholders at the Annual General Meeting in April 2018. Taking into account the interim dividend of EUR 0.24 per ordinary share paid in August 2017, the final dividend will amount to EUR 0.43 per ordinary share and will be paid fully in cash. The total amount of EUR 1.7 billion is completely covered by the remaining balance of 'interim profits not included in CET1 capital' at year-end 2017.

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

Besides measuring 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 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.

Stress testing is an integral component of ING's 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 participated in the 2017 EU-wide stress test that the ECB conducted in order to assess the sensitivity towards Interest Rate Risk in the Banking Book.

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 2017 rules. ING reports these metrics for ING Group and ING Bank. During 2017, ING Group and ING Bank were adequately capitalised.

ING Group capital position

	(fully-loaded)		(phased-in)	
	2017	2016	2017	2016
Shareholders' equity	50,406	49,793	50,406	49,793
– Interim profit not included in CET1 capital[1]	–1,670	–1,629	–1,670	–1,629
– Other adjustments	–3,186	–3,596	–3,154	-3,698
Regulatory adjustments	–4,856	–5,225	–4,825	–5,327
Available common equity Tier 1 capital	**45,550**	**44,568**	**45,581**	**44,466**
Additional Tier 1 securities[2]	5,137	7,706	5,137	7,706
Regulatory adjustments additional Tier 1	42	0	–393	-809
Available Tier 1 capital	**50,729**	**52,274**	**50,326**	**51,364**
Supplementary capital Tier 2 bonds[3]	11,086	9,488	11,086	9,488
Regulatory adjustments Tier 2	-2,517	109	–4,001	–86
Available Total capital[4]	**59,298**	**61,871**	**57,410**	**60,765**
Risk weighted assets	309,887	314,325	309,887	314,325
Common equity Tier 1 ratio	14.70%	14.18%	14.71%	14.15%
Tier 1 ratio	16.37%	16.63%	16.24%	16.34%
Total capital ratio	**19.14%**	**19.68%**	**18.53%**	**19.33%**

1 The interim profit not included in CET1 capital as per 31 December 2017 (EUR 1,670 million) includes EUR 44 million for 4Q2017 (YTD 4Q2017: EUR 2,603 million) minus a ING Group interim dividend payment of EUR 933 million, which was paid out in 3Q2017.
2 Including EUR 2,691 million which is CRR/CRD IV-compliant (4Q2016: EUR 3,052 million) and EUR 2,446 million to be replaced as capital recognition is subject to CRR/CRD IV grandfathering rules (4Q2016: EUR 4,654 million).
3 Including EUR 8,995 million which is CRR/CRD IV-compliant (4Q2016: EUR 7,347 million), and EUR 2,091 million to be replaced (by Group instruments) as capital recognition is subject to CRR/CRD IV grandfathering rules (4Q2016: EUR 2,141 million).
4 Regulatory adjustments include the interpretation of the EBA Q&A published on 3 November 2017.

ING Bank NV capital position according to CRR/CRD IV

	(fully-loaded)		(phased-in)	
	2017	2016	2017	2016
Shareholders' equity	43,662	43,540	43,662	43,540
Interim profit not included in CET1 capital	-44	-617	-44	-617
Other adjustments	-3,043	-3,548	-3,017	-3,661
Regulatory adjustments	-3,087	-4,165	-3,061	-4,278
Available common equity Tier 1 capital	**40,576**	**39,375**	**40,602**	**39,262**
Additional Tier 1 securities[1]	4,989	6,496	4,989	6,496
Regulatory adjustments additional Tier 1	53	0	-374	-798
Available Tier 1 capital	**45,618**	**45,871**	**45,217**	**44,960**
Supplementary capital Tier 2 bonds[2]	11,086	9,488	11,086	9,488
Regulatory adjustments Tier 2	47	109	-44	-86
Available Total capital	**56,751**	**55,467**	**56,259**	**54,362**
Risk weighted assets	309,287	312,086	309,287	312,086
Common equity Tier 1 ratio	13.12%	12.62%	13.13%	12.58%
Tier 1 ratio	14.75%	14.70%	14.62%	14.41%
Total capital ratio	18.35%	17.77%	18.19%	17.42%

1 Including EUR 3,123 million which is CRR/CRD IV-compliant (4Q2016 EUR 3,542 million), and EUR 1,866 million to be replaced as capital recognition is subject to CRR/CRD IV grandfathering rules (4Q2016 EUR 2,954 million).
2 Including EUR 8,995 million which is CRR/CRD IV-compliant (4Q2016 EUR 7,347 million), and EUR 2,091 million to be replaced as capital recognition is subject to CRR/CRD IV grandfathering rules (4Q2016 EUR 2,141 million).

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 2017 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 2017

	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	Aa3	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, 5 March 2018

The Supervisory Board

J. (Jeroen) van der Veer, *chairman*
H.J.M. (Hermann-Josef) Lamberti, *vice-chairman*
J.P. (Jan Peter) Balkenende
E.F.C.B. (Eric) Boyer de la Giroday
H.W. (Henk) Breukink
M. (Mariana) Gheorghe
R.W.P. (Robert) Reibestein
G.J. (Hans) Wijers

The Executive Board

R.A.J.G. (Ralph) Hamers, *CEO and chairman*
J.V. (Koos) Timmermans, *CFO*
S.J.A. (Steven) van Rijswijk, *CRO*

Parent company statement of financial position

as at 31 December before appropriation of result

in EUR million	2017	2016
Assets		
Investments in group companies 1	43,832	43,711
Investments in participating interests 2		
Fixed assets	**43,832**	**43,711**
Receivables from group companies 3	21,101	15,633
Other assets	331	1,235
Current assets	**21,432**	**16,868**
Total assets	**65,264**	**60,579**
Equity 4		
Share capital	39	39
Share premium	17,006	16,950
Legal and statutory reserves	4,385	5,781
Other reserves	24,224	22,372
Unappropriated result	4,752	4,651
Total equity	**50,406**	**49,793**
Liabilities		
Subordinated loans 5	8,306	8,626
Other non-current liabilities 6	5,884	210
Non-current liabilities	**14,190**	**8,836**
Other liabilities 6	668	1,950
Current liabilities	**668**	**1,950**
Total equity and liabilities	**65,264**	**60,579**

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	2017	2016
Staff expenses 7	5	4
Other expenses 8	27	16
Total expenses	**32**	**20**
Interest and other financial income 9	516	498
Valuation results 10	-43	42
Interest and other financial expenses 11	-587	-574
Net interest and other financial income	**-114**	**-34**
Result before tax	**-146**	**-54**
Taxation	-23	-19
Result after tax	**-123**	**-35**
Result from (disposal of) group companies and participating interests after taxation 12	5,028	4,686
Net result	**4,905**	**4,651**

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 2017	39	16,950		5,781	22,372	4,651	49,793
Unrealised revaluations available-for-sale investments and other revaluations				-293			-293
Realised gains/losses transferred to the statement of profit or loss				-90			-90
Changes in cash flow hedge reserve				-514			-514
Realised and unrealised revaluations property in own use					26		26
Remeasurement of the net defined benefit asset/liability				-29			-29
Exchange rate differences and other				-894			-894
Total amount recognised directly in equity				**-1,820**	**26**		**-1,794**
Net result				153		4,752	4,905
				-1,667	**26**	**4,752**	**3,111**
Transfer from Unappropriated result				124	4,527	-4,651	
Dividends					-2,564		-2,564
Changes in treasury shares					-6		-6
Employee stock option and share plans		56			21		77
Changes in the composition of the group and other changes				147	-152		-5
Balance as at 31 December 2017	**39**	**17,006**	**-**	**4,385**	**24,224**	**4,752**	**50,406**

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 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'.

Notes to the parent company annual accounts

amounts in millions of euros, unless stated otherwise

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

In order to fully comply with the Resolution formats financial statements (Besluit modellen jaarrekening), the following adjustements have been made to the Consoidated statement of financial position.

- Assets have been split into two subgroups, 'Fixed assets' and 'Current assets'; and
- Subgroups of 'Non-current assets' and 'Current assets' have been added.

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 participating interests 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 participating interests 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 participating interests 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 participating interests reserve in the parent company accounts.

A legal reserve is carried at an amount equal to the share in the results of participating interests 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 participating interests reserve.

Notes to the Parent company statement of financial position

1 Investments in group companies

Investments in group companies

	2017		2016	
	Interest held (%)	Statement of financial position value	Interest held (%)	Statement of financial position value
ING Bank	100%	43,662	100%	43,540
Other		170		171
		43,832		**43,711**

Changes in investments in group companies

	2017	2016
Opening balance	43,711	41,017
Revaluations	-1,732	-179
Results	5,028	4,237
Dividends	-3,182	-1,354
	43,825	**43,721**
Changes in ING Groep N.V. shares held by group companies	7	-10
Closing balance	**43,832**	**43,711**

2 Investments in participating interests

Changes in investments in participating interests

	2017	2016
Opening balance		2,153
Transfer to and from Investments		-1,315
Revaluations		178
Disposals		-1,016
Closing balance	–	–

During 2016, ING sold its remaining shares in NN Group.

3 Receivables from group companies

Receivables from group companies

	2017	2016
Receivables from group companies	21,101	15,633
	21,101	**15,633**

Receivables from group companies include EUR 8,177 million subordinated loans provided by ING Group N.V. to ING Bank N.V. (2016: EUR 6,603 million).

As at 31 December 2017 an amount of EUR 13,965 million (2016: EUR 8,566 million) is expected to be settled after more than one year from the balance sheet date.

4 Equity

Equity	2017	2016
Share capital	39	39
Share premium	17,006	16,950
Legal and statutory reserves	4,385	5,781
Other reserves	24,224	22,372
Unappropriated result	4,752	4,651
Total equity	**50,406**	**49,793**

Share capital

Share capital	Ordinary shares (par value EUR 0.01)			
	Number x 1,000		Amount	
	2017	2016	2017	2016
Authorised share capital	14,729,000	14,729,000	147	147
Unissued share capital	10,843,210	10,850,516	108	108
Issued share capital	**3,885,790**	**3,878,484**	**39**	**39**

Changes in issued share capital	Ordinary shares (par value EUR 0.01)	
	Number x 1,000	Amount
Issued share capital as at 1 January 2016	**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**
Issue of shares	7,306	
Issued share capital as at 31 December 2017	**3,885,790**	**39**

In 2017, ING Groep N.V. issued 7.3 million ordinary shares (2016: 8.3 million depositary receipts for ordinary shares, converted into ordinary shares per 26 July 2016). These issues were made in order to fund obligations arising from share-based employee incentive programmes.

During the 2016 Annual General Meeting of Shareholders, 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 18 'Equity' - Depository receipts for ordinary shares.

Share premium

Changes in share premium	2017	2016
Opening balance	16,950	16,054
Issue of shares	56	5
Transfer from issued share capital		891
Closing balance	**17,006**	**16,950**

Revaluation reserves

Changes in revaluation reserves

2017	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance			
Unrealised revaluations			
Realised gains/losses transferred to the statement of profit or loss			
Changes in cash flow hedge reserve			
Closing balance	–	–	–

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.

Legal and statutory reserves

Changes in legal and statutory reserves

2017	Share of participating interests reserve	Currency translation reserve	Total
Opening balance	5,781		5,781
Unrealised revaluations available-for-sale investments and other	–293		–293
Realised gains/losses transferred to the statement of profit or loss	–90		–90
Changes in cash flow hedge reserve	–514		–514
Changes in net defined benefit asset/liability remeasurement reserve	–29		–29
Exchange rate differences and other	–894		–894
Changes in composition of the group and other changes	424		424
Closing balance	**4,385**	**–**	**4,385**

Changes in legal and statutory reserves

2016	Share of participating interests 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**

The Share of participating interests reserve includes the following components: Reserve for non-distributable retained earnings of participating interests of EUR 2,527 million (2016: EUR 2,235 million), Revaluation reserve of participating interests of EUR 2,258 million (2016: EUR 3,917 million) and Net defined benefit asset/liability remeasurement reserve of EUR -400 million (2016: EUR -371 million).

As at 31 December 2017, the Share of participating interests reserve includes an amount of EUR 1,478 million (2016: EUR 1,325 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

2017	Retained earnings	Treasury shares	Total
Opening balance	22,380	-8	22,372
Changes in treasury shares		-7	-7
Transfer from Unappropriated result	4,527		4,527
Employee stock option and share plans	21		21
Dividends	-2,564		-2,564
Changes in the composition of the group and other changes	-125		-125
Closing balance	**24,239**	**-15**	**24,224**

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**

The Revaluation reserve, Share of participating interests 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 participating interests 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 participating interests 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 7,678 million (2016: EUR 7,379 million).

Reference is made to Note 18 '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	
	2017	2016	2017	2016
Opening balance	-8	-18	600,634	1,464,025
Purchased/sold	-7	10	343,623	-863,391
Closing balance	**-15**	**-8**	**944,257**	**600,634**

5 Subordinated loans

Subordinated loans

					Statement of financial position value	
Interest rate	Year of issue	Due date	Notional amount in original currency		2017	2016
1.625%	2017	26 September 2029	EUR	1,000	984	
4.000%	2017	14 September 2032	USD	100	83	
4.250%	2017	23 June 2032	USD	160	133	
1.150%	2017	14 June 2029	JPY	12,000	89	
1.100%	2017	31 May 2027	JPY	10,000	74	
3.000%	2017	11 April 2028	EUR	1,000	1,058	
2.500%	2017	15 February 2029	EUR	750	742	
6.875%	2016	Perpetual	USD	1,000	829	948
6.500%	2015	Perpetual	USD	1,250	1,036	1,177
6.000%	2015	Perpetual	USD	1,000	831	943
9.000%	2008	Perpetual	EUR	10	10	10
6.375%	2007	Perpetual	USD	1,045	872	975
6.125%	2005	Perpetual	USD	700	584	662
Variable	2004	Perpetual	EUR	555	553	551
6.200%	2003	Perpetual	USD	500		470
Variable	2003	Perpetual	EUR	430	428	427
7.200%	2002	Perpetual	USD	1,100		1,041
Variable	2000	31 December 2030	USD	1,500		1,422
					8,306	**8,626**

In February 2017, ING Groep N.V. issued EUR 750 million securities that qualify as subordinated CRD IV Tier 2 notes with coupon of 2.50% until 24 February 2024. In September 2017, ING Groep N.V. issued EUR 1,000 million securities that qualify as subordinated CRD IV Tier 2 notes with coupon of 1.625% until 26 September 2024. In April 2017 ING Groep N.V. issued EUR 1,000 million subordinated CRD IV Tier 2 securities replacing EUR 1,000 million subordinated Tier 2 securities issued by ING Bank N.V. In 2017 ING Groep N.V. issued other private placements with total notional amounts of JPN 22,000 million and USD 260 million.

In March, and October 2017 respectively, ING Groep N.V. redeemed the USD 1,100 million 7.20% perpetual and the USD 500 million 6.2% Perpetual Debt Securities. In September 2017 ING redeemed the USD 1,500 million subordinated loan with ING Capital Funding Trust III.

Reference is made to the ING Group Consolidated annual accounts, Note 17 'Subordinated loans' and Note 18 'Equity'.

The Subordinated loans rank subordinated to the Other liabilities in a winding-up of ING Group.

6 Other liabilities

Other liabilities by type

	2017	2016
Debenture loans	5,881	153
Derivatives from group companies	3	57
Non-Current Other Liabilities	**5,884**	**210**
Debenture loans		1,749
Amounts owed to group companies	367	35
Other amounts owed and accrued liabilities	300	162
Derivatives from group companies	1	4
Current Other Liabilities	**668**	**1,950**

Debenture loans

Interest rate	Year of issue	Due date	2017	2016
3.950%	2017	29 March 2027	1,246	
3.150%	2017	29 March 2022	1,246	
2.843%	2017	29 March 2022	820	
0.750%	2017	9 March 2022	1,443	
1.375%	2017	11 January 2028	970	
4.699%	2007	1 June 2035	156	153
4.750%	2007	31 May 2017		1,749
			5,881	**1,902**

The number of debentures held by group companies as at 31 December 2017 is nil with a statement of financial position value of nil(2016: nil with a statement of financial position value of nil).

Amounts owed to group companies by remaining term

	2017	2016
Within 1 year	367	35
	367	**35**

The interest rate on the Amounts owed to group companies as at 31 December 2017 is 0.0% (2016: 0.0%).

Other amounts owed and accrued liabilities are payable within one year.

Derivatives from group companies by remaining term

	2017	2016
Within 1 year	1	4
More than 5 years	3	57
	4	**61**

Notes to the Parent company statement of profit or loss

7 Staff expenses

Staff expenses

	2017	2016
Pension costs and other staff related benefit costs	5	4
	5	**4**

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 220 up to and including page 222) and the Renumeration report (page 88 up to and including page 99).

8 Other expenses

Other expenses	2017	2016
External advisory fees	3	1
Other	24	15
	27	**16**

9 Interest and other financial income

Interest and other financial income	2017	2016
Interest income	516	498
	516	**498**

Included in Interest and other financial income is EUR 514 million (2016: EUR 478 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 –52 million (2016: EUR 33 million).

11 Interest and other financial expenses

Interest and other financial expenses	2017	2016
Interest expenses	–583	–574
Other financial expenses	–4	
	–587	**–574**

Included in Interest and other financial expenses is EUR –51 million (2016: EUR –80 million) related to group companies.

12 Result from group companies and participating interests after taxation

Result from group companies and participating interests after taxation	2017	2016
Result of group companies	5,028	4,237
Result on disposal of participating interests		
- NN Group		449
	5,028	**4,686**

13 Other

Fees for audit and non-audit services

Reference is made to the ING Group Consolidated annual accounts, Note 26 '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 2017, 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 167 million as at 31 December 2017 (2016: EUR 404 million; 2015: EUR 436 million) to no more than EUR 83 million as at 31 December 2018, and no more than EUR 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 2017, EUR 193 million (2016: EUR 123 million) was pledged to ING Groep N.V. as collateral.

Claim agreements

In the ordinary course of business we have entered into a number of agreements whereby we are provided and being provided indemnifications related to sale of our past businesses and agreements whereby we made detailed arrangements regarding allocation and handling of claims.

Fiscal unity

ING Groep N.V. forms a fiscal unity with several Dutch banking entities for corporation tax purposes. ING Groep N.V., ING Bank 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. Settlements of corporate income tax paid or received are executed by ING Bank N.V.

14 Proposed appropriation of results

For 2017, the Executive Board, with the approval of the Supervisory Board, has proposed a cash dividend of EUR 0.67 per ordinary share of EUR 0.01. In August 2017, an interim dividend of EUR 0.24 per ordinary share was paid. Therefore, a final dividend of EUR 0.43 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

	2017
Net result	4,905
Addition to reserves pursuant to Article 37 (4) of the Articles of Association	2,302
At the disposal of the General Meeting of Shareholders pursuant to Article 37 (5) of the Articles of Association	**2,603**
Dividend of EUR 0.67 per ordinary share	

15 Subsequent events

On 29 January 2018 ING announced it had reached agreement to acquire a 75% stake in Payvision. Payvision is a Netherlands based payments service provider with a total estimated value of EUR 360 million. The transaction is not expected to have material impact on ING's CET1 ratio.

Authorisation of Parent company annual accounts

Amsterdam, 5 March 2018

The Supervisory Board
J. (Jeroen) van der Veer, *chairman*
H.J.M. (Hermann-Josef) Lamberti, *vice-chairman*
J.P. (Jan Peter) Balkenende
E.F.C.B. (Eric) Boyer de la Giroday
H.W. (Henk) Breukink
M. (Mariana) Gheorghe
R.W.P. (Robert) Reibestein
G.J. (Hans) Wijers

The Executive Board
R.A.J.G. (Ralph) Hamers, *CEO and chairman*
J.V. (Koos) Timmermans, *CFO*
S.J.A. (Steven) van Rijswijk, *CRO*

Independent auditor's report

Independent auditor's report

To: the Annual General Meeting of Shareholders and the Supervisory Board of ING Groep N.V.

Report on the audit of the annual accounts 2017 included in the annual report

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. as at 31 December 2017 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch 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 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the annual accounts 2017 of ING Groep N.V. (the 'Company' or 'ING Group') 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 2017.
2 The following consolidated statements for 2017: 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 2017.
2 The parent company statement of profit or loss and statement of changes in equity for 2017.
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 'Our responsibilities for the audit of the annual accounts' section of our report.

We are independent of ING Groep N.V. in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit Firms Supervision Act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Audit approach
Summary

Materiality

- Group materiality of EUR 300 million
- 4.1% of profit before taxation from continuing operations

GROUP AUDIT

- 87% of total assets covered by audit procedures performed by component auditors
- 86% of profit before taxation from continuing operations covered by audit procedures performed by component auditors

KEY AUDIT MATTERS

- Estimation uncertainty with respect to the loan impairment losses
- Estimation uncertainty with respect to the provision of a legal matter
- Risk of inappropriate access or changes to information technology and systems
- Estimation of the impact of IFRS 9 accounting standard

UNQUALIFIED OPINION

Materiality

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 300 million (2016: EUR 240 million). The materiality is determined with reference to the profit before taxation from continuing operations. Materiality as percentage of profit before taxation from continuing operations remained stable at 4.1% (2016: 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 taxation from continuing operations is a relevant metric for assessment of the financial performance of the Company. 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 the users of the annual accounts for qualitative reasons.

We agreed with the Audit Committee of the Supervisory Board that misstatements in excess of EUR 15 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 at the head of a group of components. The financial information of this group is included in the consolidated annual accounts of ING Group. 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 mainly 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 36 components, in total covering 13 countries. This resulted in a coverage performed by component auditors of 86% of profit before taxation from continuing operations and 87% of total assets. For the remaining 14% of profit before taxation from continuing operations and 13% of total assets procedures were performed at the group level including analytical procedures in order to corroborate our assessment that the risk of material misstatements in the residual population is remote.

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, United Kingdom and Singapore, where we performed reviews of the audit files from local auditors. We also performed an off-site file review of the work performed by the component auditor in Turkey. 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 90 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 and 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 components, 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 consolidated annual accounts.

Total assets

87%

Covered by audit procedures performed by component auditors

13%

Covered by additional procedures at group level

Profit before taxation from continuing operations

86%

Covered by audit procedures performed by component auditors

14%

Covered by additional procedures at group level

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.

Last year, we reported 'Estimation uncertainty with respect to the digital transformation restructuring provisions' as a key audit matter. The estimation uncertainty related primarily to the initial recognition and measurement of the restructuring provisions as per 31 December 2016. Based on the observations following our audit of the 2017 annual accounts we do not consider the subsequent measurement of the restructuring provision to be a key audit matter. We did not consider the SME derivatives remediation program a key audit matter this year given the status of the program.

Estimation uncertainty with respect to the impairment losses on loans and advances to customers and banks

Description

ING Group's portfolio of loans and advances to customers and loans and advances to banks amounts to EUR 574.5 billion and EUR 28.8 billion, respectively, as at 31 December 2017. These loans and advances are measured at amortised cost, less a provision for loan losses (EUR 4.6 billion). Several 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 valuation of collateral received and the estimation of the recoverable amount.

Our response

Our audit approach included testing both the effectiveness of internal controls around determining loan loss provisions and substantive audit procedures.

Our procedures over internal controls focused on the governance over the process, controls around the accuracy of loan and collateral data, the determination of risk ratings and the process for identifying arrears. In our audit, we also considered the process around the data flows through the information systems, application controls and calculations, and the implementation and validation of the credit risk models used to calculate the collective loan loss provisions, the analysis of the collective provision results, and reviews performed on impaired loans that have been individually assessed.

We assessed collective impairment methodologies, focusing on the most significant portfolios from a size and credit risk perspective. With the assistance of our financial risk management specialists, data analysis specialists, and information technology specialists, we have evaluated the models, assumptions, data, and information systems used by ING Group for the collective provisions. We have assessed the methodology and framework designed and implemented by ING Group to assess 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 corporate finance specialists and real estate valuation specialists we have tested the methodologies, cash flows, and collateral values used in individual assessments of provisions for impaired loans, including management judgements made during the process such as various recovery scenarios and probabilities of those scenarios occurring.

Estimation uncertainty with respect to the impairment losses on loans and advances to customers and bank

Our observation
We have reported to ING Group's Audit Committee of the Supervisory Board our observations with respect to the loan loss provisioning and accordingly amended our audit approach. Overall, based on the procedures performed, we assess that the impairment losses on loans and advances to customers and loans and advances to banks are fairly stated in the annual accounts.

Estimation uncertainty with respect to the provision of a legal matter

Description
As disclosed in Note 45, ING Bank N.V. is subject of criminal investigations by Dutch authorities regarding various requirements related to the client onboarding, money laundering and corrupt practices. ING Groep N.V. has also received related information requests by the US authorities (hereafter 'the investigations').
Management concluded under IFRS that it is more likely than not that a present obligation per 31 December 2017 exists and that an outflow of resources is probable. However, management was not able to estimate reliably the possible timing, scope or amounts of any fines, penalties and/or other outcome, which could be significant.

Our response
Our audit procedures included the testing of controls over the evaluation and measurement of potential obligations arising from the legal matter. 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 with respect to the investigations, we assessed underlying documentation of internal investigations performed and other relevant documents. We evaluated and discussed internal audit reports in relation to compliance and inspected correspondence with regulators. We also obtained and inspected external lawyers' letters, legal opinions, read minutes from relevant committees, attended audit committee meetings and supervisory board meetings where this topic was discussed. We inquired with senior management and interviewed ING Group's legal counsel and external lawyers of ING Group. We have involved forensic specialists to assist us in these procedures. We also assessed the adequacy of the disclosure regarding the investigations as included in Note 45.

Our observation
Overall, the nature and extent of disclosure in Note 45 of this legal matter in the annual accounts is adequate.

Risk of inappropriate access or changes to information technology and systems

Description
ING Group is dependent on its IT infrastructure for the reliability and continuity of its operations and financial reporting. ING Group continued to make 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 as well as to remediate deficiencies identified in the previous year.

Our response
Our audit approach relies to a large extent on automated controls and therefore procedures are designed to test access and change management controls over IT systems. Inappropriate access to an application or infrastructure could impact an automated control and therefore compromise financial data. Given the IT technical characteristics of this part of the audit, IT audit specialists are an integral part of our engagement team.
IT audit specialists assessed the reliability and continuity of the IT environment, insofar as needed within the scope of our audit of the annual accounts. We examined the framework of governance over ING Group's IT organisations and the IT general controls, access to programs and data, program changes and IT operations, including compensating controls where those were required.
Our areas of focus related to the change management, logical access management and segregation of duties controls. Management has put efforts to remediate identified control deficiencies. We tested the design and operating effectiveness of user access management controls of the IT systems relevant for financial reporting. For those control deficiencies that were not remediated, we tested compensating controls that were not impacted by ineffective controls. For certain deficiencies during the period of remediation, 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.

Estimation of the impact of IFRS 9 accounting standard

Description
ING is adopting IFRS 9 'Financial Instruments' from 1 January 2018 and included an estimate of the financial impact of the change in accounting standard in accordance with IAS 8 'Accounting Policies, Change in Accounting Estimates and Errors' as set out in Note 1. This disclosure requires judgement and management estimates regarding the impact of IFRS 9 on the classification and measurement of financial assets and liabilities and the impairment of financial assets.

Our response
Our audit approach included testing both the effectiveness of internal controls around management's process for disclosing the estimated impact of adopting IFRS 9 as well as substantive audit procedures regarding the disclosure required by IAS 8.
We considered the appropriateness of key technical decisions and judgements made in determining the estimate. Our procedures over internal controls included testing controls around management's classification and measurement processes. We also focused on internal controls around the expected credit loss methodology and tested ING's process for reflecting multiple macroeconomic scenarios, including involvement of economic specialists. We considered the process around the implementation and internal validation of the models used to estimate the impact of the IFRS 9 expected credit losses, which was concentrated on the most significant models from an exposure perspective.

Estimation of the impact of IFRS 9 accounting standard

Our response
We evaluated the disclosure against the criteria of IAS 8. As part of our substantive procedures we independently tested the business model and solely payment of principal and interest criteria over a sample of financial instruments. In addition, with the assistance of our financial risk management specialists, we have evaluated the significant models, assumptions and data used by ING Group for the expected credit loss measurements. Furthermore, we have assessed the methodology and framework designed and implemented by ING Group as to whether the provision model outcomes and stage allocations appear reasonable and reflective of ING's forecasts of future economic conditions.

Our observation
ING has almost completed the implementation of IFRS 9. The main procedures that are in the process of being finalised are the transfer of project activities to the business, further embedding internal controls in their processes and the completion of the remaining model validations. Overall, we conclude that the IAS 8 disclosures accurately reflect ING's implementation status and estimated impact of adopting the new standard.

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.
- The Corporate Governance Report.
- Other and additional information.

Based on the following 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 Dutch Civil Code.

We have 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 Dutch 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 information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Annual General Meeting of Shareholders as auditor of ING Group on 11 May 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Services rendered

For the period to which our statutory audit relates, in addition to this audit, we have provided agreed-upon procedures and assurance engagements to ING Groep N.V. or its controlled undertakings. These services were rendered for the benefit of external users, largely driven by regulatory compliance.

Description of responsibilities regarding the annual accounts

Responsibilities of the Executive Board and the 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 Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Executive Board is responsible for such internal control as management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

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 frameworks 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 the annual accounts

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

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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.

A further description of our responsibilities for the audit of the financial statements is located at the website of the Koninklijke Nederlandse Beroepsorganisatie van Accountants (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01

This description forms part of our auditor's report.

Amstelveen, 5 March 2018

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 Company may make distributions to the extent permitted by law after adoption of the annual accounts by the Executive and Supervisory Boards. The Executive Board subject to approval of the Supervisory Board, determines what part of the result remaining after application of the provisions of article 37.3 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. The General Meeting of the Shareholders, on a motion of the Executive Board with approval of the Supervisory Board may resolve to distribute from the reserves to ordinary shareholders a dividend or other form of distribution to the registered Shareholder on a date determined by the Executive Board and approved by the Supervisory Board.

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, or that are currently viewed as less material than the risks described below, 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. 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 Germany and 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, the application of such laws and/or regulations on the consequences of any non-compliance with such laws and/or regulations 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 US laws, regulations and policies governing financial regulation, foreign trade and foreign investment following the inauguration of a new US administration in January 2017, the level of US national debt and the US housing market, inflation/deflation levels, energy costs and geopolitical tensions around North Korea 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 US, 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 ' —US 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.

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 US) and private equity, exposures to European sovereign debt and to US 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. 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 remains a major political and economic event and may further destabilize the eurozone. The outcome of the negotiations between the UK and the EU 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. 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.

US Sovereign Credit Rating
In 2011, Standard & Poor's Ratings Services ('S&P') lowered its long-term sovereign credit rating on the US from AAA to AA+. Although other ratings agencies have not similarly lowered the long-term sovereign credit rating of the US, 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 US within the global economy and potential future budgetary restrictions in the US, there continues to be a perceived risk of a future sovereign credit ratings downgrade of the US government, including the rating of US Treasury securities. On 15 October 2013, Fitch Ratings placed the US'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 US 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 US government or a default by the US 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.

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 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 comparable rate paid 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 and enforcement capabilities 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 ('US') 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 or persons 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 rules and levels of regulatory oversight, as well as limitations on which and, if permitted, how certain business activities may be carried out by financial institutions.

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 US 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 US 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. Changes in tax laws could also make certain ING products less attractive, which could have adverse consequences for our businesses and results.

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, we face the risk of non-compliance 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 December 2017, the Basel III revisions were formally announced by the Basel Committee on Banking Supervision (BCBS). These new prudential rules for banks consist of a revision to the standardised approach to credit risk, the introduction of a capital floor based on standardised approaches, the use of internal models, limitation of options for modelling operating risks, and new rules for the establishment of risk-weighted items and unused credit lines at the banks. With a long implementation phase and the transposition into EU regulation still pending, some question marks remain on how this will shape up.

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.

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 order to make capital levels more comparable and to reduce variability in banks' internal models, the European Central Bank (ECB) introduced the Targeted Review of Internal Models (TRIM) in June 2017 to assess reliability and comparability between banks' models. The TRIM aims to create a level playing field by harmonising the regulatory guidance around internal models, and the ultimate goal is to restore trust in the use of internal models by European banks. The operating consequences of the TRIM exercise have been significant. The TRIM is expected to finalise in 2019, and could impact ING through more stringent regulation on internal models. 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 US The Dodd-Frank Act effects comprehensive changes to the regulation of financial services in the US and has implications for non-US financial institutions with a US presence or that transact with US 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 created a new framework for regulation of the over-the-counter derivatives markets and certain market participants which has affected and could continue to 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 US Commodity Futures Trading Commission ('CFTC') as a swap dealer. The SEC is expected to adopt regulations establishing registration and 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 US Other CFTC regulatory requirements, already implemented, include registration of swap dealers, business conduct rules imposed on swap dealers, requirements that some categories of swaps be centrally executed on regulated trading facilities and cleared through regulated clearing houses, and initial and variation margin requirements for uncleared swaps. In addition, new position limits requirements for market participants that have been proposed and 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 US FDIC insured depository institutions and non-US banks with branches or agencies in the US that become subject to the US 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 trading and 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 US If ING Bank were to establish a US 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 US 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 2017, the US Secretary of Treasury issued several reports, after consultation with other financial regulatory agencies, evaluating the current financial regulatory framework against core principles set out by the new US administration. The reports have recommended some revisions to 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 US tax law commonly referred to as FATCA, non-US financial institutions are required to provide certain information on their US account holders and/or certain US investors to the US Internal Revenue Service ("IRS"). A 30% withholding tax is imposed on 'withholdable payments' made to non-compliant non-US financial institutions. In addition to FATCA, non-US financial institutions are required to comply with other US withholding and reporting requirements on certain payments. The Group intends to take all necessary steps to comply with FATCA and other US 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 US 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 US 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 US 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 US 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, more than 100 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) occurred in 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 'ING's Restructuring' 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). 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 26 '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 of the AT1 Securities is EUR 90 million for the year 2015, EUR 135 million for 2016 and EUR 170 million for 2017. For 2015, 2016 and 2017 the amounts were treated by ING as a deductible interest expenses 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 (for the years 2015, 2016 and 2017 the total amount of payment in this respect could be EUR 158 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 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 certain corporate borrowers active in the oil and oil related services industries.

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 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 for 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.

ING may be exposed to business, operational, regulatory, reputational and other risks in connection with climate change.
Climate change is a challenge which may expose ING to significant risks. The perception of climate change as a risk by civil society, shareholders, governments and other stakeholders continues to increase, including in relation to the financial sector's operations and strategy, and international actions, such as the Paris agreement on CO2 emissions, may also result in financial institutions coming under increased pressure from such stakeholders regarding the management and disclosure of their climate risks and related lending and investment activities. Additionally, rising climate change concerns may lead to additional regulation that could increase our operating costs or negatively impact the profitability of our investments. There may be substantial costs in complying with current or future laws and regulations relating to climate change. Any of these risks may result in changes in our business activities or other liabilities or costs, including exposure to reputational risks, any of which may have a material and adverse impact on our business, results of operation or financial condition.

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. We are currently in the process of replacing our IT/operational systems in some of our subsidiaries as contemplated by our Think Forward strategy and 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 efficiently serve our clients, process, store or transmit information as well as 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, particularly threats from Distributed Denial of Service (DDoS), targeted attacks (also called Advanced Persistent Threats) and Ransomware intensify worldwide, 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 direct compensation for the Executive Board members has been slightly increased, however, it remains below the median of our EURO Stoxx 50 benchmark, which is made up of similar European financial and non-financial institutions. The total direct compensation of the CEO is significantly below the median of the CEO benchmark.

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 'Financial Economic Crime' paragraphs in the 'Risk categories' 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 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, investigations 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 2,603 million, or EUR 0.67 per ordinary share, over the financial year 2017. This is subject to the approval of shareholders at the Annual General Meeting in May 2018. Taking into account the interim dividend of EUR 0.24 per ordinary share paid in August 2017, the final dividend will amount to EUR 0.43 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 primarily 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, investors may not be able to serve process on those persons within the United States or to enforce in the United States judgments obtained in US courts against us or those persons based on the civil liability provisions of the US securities laws.

Investors also may not be able to enforce judgments of US courts under the US 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 US federal or state court based on civil liability, even if the judgment is not based only on the US federal securities laws, unless a competent court in the Netherlands gives binding effect to the judgment.

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 and on 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 analysis 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 ING Non-financial Data Reporting Protocol www.ing.com/ar2017. This provides the definitions on performance indicators and describes the internal data collection process.

Progress report

Following is a summary of non-financial performance highlights for 2017.

Progress highlights	
Our goals	**Our performance in 2017**
Accelerating financial empowerment	**Accelerating financial empowerment**
▪ We aim to achieve a 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 seven of our 13 major retail markets. Ⓐ
▪ We achieved our 2020 target to reach 25 million people and our new ambition is to reach 34 million people by 2022.	▪ Financial empowerment interactions with customers and non-customers increased in 2017 to 25.4 million (23.9 million in 2016). Ⓐ
▪ Through our 'Power for Youth' partnership with UNICEF, we aim to reach 335,000 adolescents in six developing countries by 2018, helping them to develop the social and financial knowledge and skills needed to build a brighter future.	▪ By year-end 2017, the Power for Youth partnership reached over 206,000 adolescents in six developing countries.
Responsible Finance	**Responsible Finance**
▪ We aim to increase our sustainable assets under management (SAuM).	▪ At the end of 2017, sustainable assets under management (SAuM) for customers were EUR 4,752 million, up from EUR 3,306 million in 2016.
▪ We set an ambition to increase lending twofold to Industry ESG Leaders, Climate Finance and Social Impact Finance each by 2022 compared to 2017.	▪ As at year-end 2017, our baseline reporting year, we recorded lending outstandings of EUR 5.5 billion to Industry Environmental, Social and Governance (ESG) leaders, EUR 14.6 billion to companies and sectors in our Climate Finance portfolio and EUR 0.5 billion in Social Impact Finance.
People	**People**
▪ Our employee engagement score is above 70% (bi-annual).	▪ ING achieved an overall engagement score of 77% in 2016. The next employee engagement survey will take place in 2018.
▪ We aim to invest further in the personal and professional development of our employees.	▪ EUR 76 million was spent on training and development in 2017
Improving environmental performance	**Improving environmental performance**
▪ We will reduce our global CO2e emissions by 30% by 2017 and 50% by 2020 (compared to 2014).	▪ The total extrapolated amount of carbon emissions decreased to 64 kilotonne CO_2e from 74 in 2016 and has reduced 37% since 2014.
▪ We will procure 100% renewable electricity for all ING buildings where we have management control worldwide by 2020.	▪ Our share of renewable electricity increased to 95% of our total global electricity use, compared to 91% a year earlier.

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 Reports. Climate resilience is one of our two main strategic focus areas within our new Sustainability Direction. Within this focus area, we are addressing both climate-related risks and opportunities across our business and have set various related ambitions. One such ambition which addresses climate-related opportunities is to double our climate finance portfolio by 2022 against 2017 totals. Responsibility for this ambition falls with the Board member responsible for Wholesale Banking and is cascaded throughout the organisation in the form of KPIs for deal teams. Another ambition, which addresses climate-related risk, is to reduce our exposure to coal to close to zero by 2025. Our Management Board is responsible for ensuring that this target is translated to policy and is adhered to within our risk processes. The Board's responsibility for social and/or environmental risks and opportunities is also formalised in our Executive Board Charter, available on www.ing.com/17ar11.

Understanding what matters the most

Our materiality analysis approach combines quantitative and qualitative research which provides for a holistic understanding of stakeholder expectations and more effective engagement. Ⓐ We used a three-year cycle with a quantitative assessment involving 1,500 respondents across five countries and six stakeholder groups in 2015, and qualitative assessments in 2016 and 2017 across business units. The results of this analysis guide us in our strategic decision-making, stakeholder engagement agenda and reporting framework.

In 2017, ING chose to update its materiality outcomes by external stakeholder dialogue in Belgium and Germany and internal stakeholder validation. ING reached out to senior management and seven stakeholder groups: business and retail customers, NGOs, academics, shareholders, employees and regulators. All were asked to rank the importance of material topics and to find consensus on one or two action points for ING. They were also asked to comment on emerging topics suggested by ING and to propose new topics.

The results of stakeholder dialogues were complemented with a global media, trend and peer analysis. The final results were validated by experts from ING's Global Sustainability department and approved by Management Board Banking.

Our work this year builds on analysis of a long list of issues that either can impact or can be impacted by our business and strategy, as well as an external stakeholder dialogue conducted in the Netherlands a year earlier. The long list of issues and our engagement approach align with ING's risk assessment framework as well as guidelines from the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB).

Our materiality work in 2017 helped us achieve focus by reducing the number of material topics. In a 'hygiene' first step, we removed the topics 'regulatory development and compliance' and 'anti-competitive behavior prevention', both relating to regulatory compliance. Furthermore, the topic 'trust' was removed, as we believe we gain trust through our performance on other topics. We then increased the materiality threshold to create more focused and balance in our reporting. As a result, 'responsible lending and debt prevention' and 'remuneration of ING employees' were removed. The former still forms a prominent part of our reporting under the key performance indicator Responsible Finance of our reporting under the material topic 'Enhancing customer financial capabilities'.

'Remuneration of ING employees' is captured within the remuneration chapter of this Annual Report, GRI content index and Capital Requirements Regulation (CRR) 2017 Remuneration Disclosure ING Bank N.V disclosure. Disclosures are similar to previous years. Lastly, we have clustered the topics of 'Fair communication of products and services' and 'Transparency' as their definitions overlapped. The boundaries of the material topics remain unchanged.

> *More information on the process can be found at www.ing.com/17ar17*

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) Standards.

Economic value generated and distributed from continuing operations

in EUR million				Economic value
Stakeholder group	**Indicator**	**2017**	**2016**	**2015**
Suppliers	Operating cost[1]	2,382	2,280	2,274
Employees	Staff expenses[2]	5,202	5,039	4,972
Shareholders	Net result from continuing operations[3]	4,905	4,210	4,466
Governments	Corporate income tax and bank taxes[4]	2,661	1,970	1,881
Community	Total donations	14.9	13.6	12.7

1 Refer to note 26 of the ING Group Consolidated Annual Accounts 2017. Includes: IT-related expenses, 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 25 of the ING Group Consolidated Annual Accounts 2017.
3 Refer to the P&L of the ING Group Consolidated Annual Accounts 2017 in the Annual Report 2017.
4 Refer to note 26 and 36 of the ING Group Consolidated Annual Accounts 2017.

Business

Most of ING Bank's activities serve the financing and investment needs of households and companies, other financial institutions and governments. We allocate 39.8 percent of our credit risk portfolio to private individuals in the form of mortgages and other types of loans; this exposure has minimal environmental risk implications. Some 35.7 percent 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 the applicability of our Environmental and Social Risk Framework.

Credit risk portfolio per client segment[1]

in percentage	2017		2017		2017
ING Bank		**Governments**		**Financial institutions**	
Governments	9.1%	Bonds – Germany	1.3%	United Kingdom	2.0%
Financial institutions	14.2%	Bonds – Netherlands	1.0%	Germany	1.0%
Corporates	35.7%	Bonds – ROW[3]	4.3%	Spain	1.1%
Consumer lending	39.8%	Other[4]	2.4%	China	1.3%
Other[2]	1.3%			Netherlands	0.3%
				United States	1.3%
				ROW[3]	7.2%
Total	100%	Total	9.1%	Total	14.2%
Corporates		**Consumer lending**			
Netherlands	6.7%	Residential mortgages – NL	15.1%		
Belgium	4.9%	Residential mortgages – ROW[3]	21.8%		
United States	3.5%	Other consumer lending	3.0%		
Poland	1.8%				
United Kingdom	1.6%				
Turkey	1.4%				
ROW[3]	15.9%				
Total	35.7%	Total	39.8%		

1 Category totals may deviate from the sum of sub-categories by margins of 0.1 due to rounding-up.
2 Other segments such as securitisations.
3 Rest of the world.
4 Other financial instruments such as term loans and derivatives.

In response to what stakeholders and society ask of us with regard to transparency, the table below provides insight into the different sectors we finance and the applicability of our Environmental and Social Risk Framework.

ING Bank credit risk portfolio per economic sector and application of ESR framework[1] & Responsible Finance strategy

in percentage	Total O/S 2017 (%)	ING Values	Human rights	Environmental compliance	Animal testing	Defence	Equator principles	Forestry and Agrocommodities	Mining and Metals	Fur	Gambling[2]	Generic engineering	Manufacturing	Chemicals	Energy (oil and gas, power generation)	Nuclear energy	Pornography[2]	Ship breaking	Fisheries	Responsible Finance strategy[3]
Consumer lending	39.8	▪																		
Financial institutions	14.2	▪																		
Governments	9.1	▪																		
Other	1.3	▪																		
Corporates	35.7	▪	▪	▪																
- Real estate	5.7	▪	▪	▪			▪													▪
- Natural resources	6.7	▪	▪	▪			▪		▪						▪					▪
- Transportation & logistics	3.9	▪	▪	▪		▪	▪						▪					▪		▪
- Services	2.6	▪	▪	▪		▪	▪				▪		▪							
- Food, beverages & personal care	2.5	▪	▪	▪	▪		▪	▪		▪		▪							▪	
- General industries	2.3	▪	▪	▪		▪	▪	▪					▪							
- Builders & contractors	1.8	▪	▪	▪			▪						▪							
- Chemicals, health & pharmaceuticals	1.8	▪	▪	▪	▪		▪					▪		▪						
- Other	1.4	▪	▪	▪			▪													
- Utilities	1.8	▪	▪	▪			▪								▪	▪				▪
- Media + telecom	1.3	▪	▪	▪		▪	▪				▪						▪			▪
- Retail	1.0	▪	▪	▪			▪													
- Automotive	1.1	▪	▪	▪		▪	▪						▪							▪
- Technology	0.6	▪	▪	▪		▪	▪						▪	▪						▪

1 The symbols above each column represent our different ESR framework policies.
2 Gambling and Pornography are excluded activities only and not sector policies.
3 A Responsible 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.

Policy into practice

Energy policy

In December 2017, ING decided to accelerate the reduction of our financing to coal power generation, reducing our exposure to close to zero by 2025. This decision sharpens ING's coal-financing policy in support of society's transition to a low-carbon economy. In practice this means that ING supports new clients in the utilities sector only when their reliance on coal is 10 percent or less and they have a strategy to reduce their coal percentage to close to zero by 2025. By that year, we expect to no longer finance clients in the utilities sector that are over 5 percent reliant on coal-fired power in their energy mix. We will however continue to finance non-coal energy projects for these clients in support of their energy transition.

Overall, given our sharpened policy, we expect to continue to report annual reductions in our overall credit exposure to thermal coal-related businesses. In terms of exposure to thermal coal we define the categories in the following table:

Thermal coal category

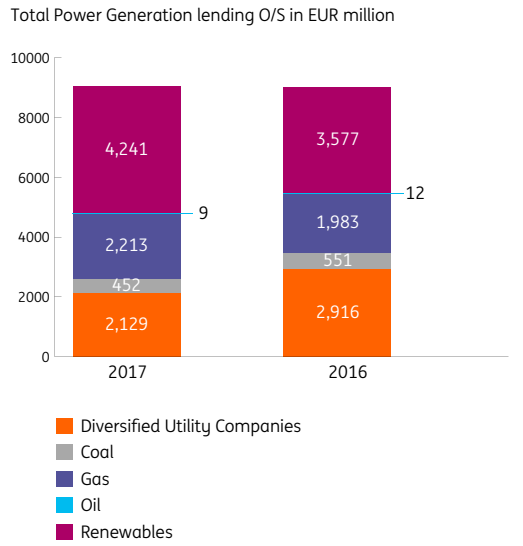
Lending O/S in EUR million	Dec 2017	Dec 2016	% change
Mining (including coal terminals)	316	455	-31%
Power generation, coal-fired power plants	452	551	-18%

In addition, we acknowledge coal being used in the energy mix of Diversified Utility Companies (DUCs) 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 currently not known to ING. ING's power generation lending portfolio to DUCs reached EUR 2.1 billion at YE2017.

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 6.9 billion at YE 2017. Within this category, coal-fired power EUR 452 million represents some 6.6 percent of total.

Overall, ING's power generation lending portfolio (DUCs and SES) is EUR 9.0 billion at YE 2017, an overview of the distribution in sources being reflected in the chart below.

Power generation portfolio



Applying the Equator Principles (EP)

As an Equator Principles (EP) Financial Institution, we have embedded the EP in our environmental and social policies, procedures and standards. We do not 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 which reached financial close in the reporting period are published annually on the Equator Principles website. All project names are disclosed only if ING has received the related client's consent. See http://www.equator-principles.com/index.php/members/ing. 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.

The table below provides an overview of EP transactions in accordance with EPIII reporting requirements, which refer to funded deals or advisory roles that have been mandated to ING in 2017.

EP Application Table 2017

	Project Finance				Project-Related Corporate Loans			
	EP risk category[1]				EP risk category			
Sector	A	B	C	Total	A	B	C	Total
Infrastructure		2	1	3	1			1
Oil & Gas	3	2		5				
Other		1	2	3	1	3		4
Power & Utilities	1	7	11	19				
Total	4	12	14	30	2	3	0	5
Region	A	B	C	Total	A	B	C	Total
Americas		7		7		2		2
Asia Pacific	2	1	1	4	1			1
Europe Middle East & Africa	2	4	13	19	1	1		2
Total	4	12	14	30	2	3	0	5
Country Designation[2]	A	B	C	Total	A	B	C	Total
Non-Designated Country	3	4		7	2	1		3
Designated Country	1	8	14	23		2		2
Total	4	12	14	30	2	3	0	5
External Independent Review	A	B	C	Total	A	B	C	Total
No		1	3	4	1	2		3
Yes	4	11	11	26	1	1		2
Total	4	12	14	30	2	3	0	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.
2 Equator Principles definition of Designated Country available at http://equator-principles.com/designated-countries/.

Project Finance Advisory

ING was mandated on one Project Finance Advisory service in the sector 'Other' for a project located in the 'Europe Middle East & Africa' region.

Implementing the TCFD Recommendations

Climate change risks and opportunities

ING is committed to working with clients and stakeholders to support a smooth, orderly and just transition. We recognise that the projects and businesses we finance could potentially have a negative impact on the environment. That is why we employ strict ESR policies, where climate-related risks are embedded, and have set the ambition to grow our climate finance portfolio. We have also taken a firm role in advocating for change and transparency, for example via endorsement of the recommendations of the Taskforce on climate-related Financial Disclosures (TCFD), set up by the Financial Stability Board.

The TCFD structured its recommendations around four core elements of the way in which organisations operate: governance, strategy, risk management, and metrics and targets. The voluntary guidance applies to large corporates in all sectors, with supplemental guidance for the financial sector including banks, insurance, asset managers and owners, and non-financial but potentially high-impact sectors including energy, transportation, materials and buildings, and agriculture, food and forestry. The recommendations are intended to encourage transparent disclosure of current and potential climate-related risks in organisations' annual statements. The disclosure of forward-looking indicators will better inform financial markets of short-, medium- and long-term risks related to climate change.

Our climate change governance

Climate resilience is one of our two main strategic focus areas within our new Sustainability Direction, which is overseen by the Vice Chairman/CFO of ING. Within this focus area, we are addressing both climate-related risks and opportunities across our business and have set various related ambitions. One such ambition which addresses climate-related opportunities is to double our climate finance portfolio by 2022 against 2017 totals (see p. 35). Responsibility for this ambition falls with the Board member responsible for Wholesale Banking and is cascaded throughout the organisation in the form of KPIs for deal teams. Another ambition, which addresses climate-related risk, is to reduce our exposure to coal to close to zero by 2025. Our Management Board, chiefly the CRO, is responsible for ensuring that this target is embedded in risk processes and achieved. The Board's responsibility for social and/or environmental risks and opportunities is also formalised in our Executive Board Charter available on www.ing.com/17ar11.

The Board provides approval of new ING policies and/or targets based on the advice from ESR and Group Sustainability. Further, the board mandates action on external developments, including the TCFD recommendations, and engages external stakeholders on climate-related risks and opportunities.

Our climate change strategy

ING is committed continuously to review and monitor its policies and strategies as new risks and opportunities emerge, for example related to energy transition. For this reason, our ESR policies are updated regularly and our ESR framework is reviewed every three years. As a result of transition risk and our commitment to combat climate change, ING further sharpened its coal policy in 2017, pledging to a strategy for reducing thermal coal exposure to close to zero by 2025. (Read more on p. 47)

Transition risk is not the only concern facing the market. The physical risks inherent to climate change must be avoided. That is why ING supports the goals of the Paris Agreement. ING is continuing the effort to measure the climate impact of its lending portfolio. In 2016, we ran a pilot with an external consultant to calculate the emissions related to two specific lending portfolios and to estimate the emissions related to our total lending services portfolio within Wholesale Banking. As reported in our 2016 annual report, the results were not accurate enough to be published and there is still no market standard for measuring financed emissions . ING therefore intensified the search for the right metrics and methods and has decided to partner with the 2° Investing Initiative to test a new approach that could allow science-based target setting in the years to come. Furthermore, ING is one of the main sponsors of the Science-based Targets Initiative working group to support the development of methods for the Financial Sector in partnership with the World Resources Institute (WRI), World Wildlife Fund (WWF) and CDP.

Improving our climate-related disclosures

We believe transparency will encourage investors and banks to shift to more low-carbon and climate-smart options as companies become more open about reporting on the current and potential financial implications of climate change – an important step towards delivering on the commitments of the Paris Agreement to keep global warming below two degrees Celsius.

As such, ING will be a user of the data that will come online as our clients start implementing the recommendations. However ING is also committed to aligning its own disclosures with the final TCFD recommendations as a 'preparer'. It is estimated that it will take several years for companies like ING and its clients to be able to align fully with the recommendations. In fact, it is only as our clients start to disclose more completely that we can use that data for our own analyses and disclosures. However, we are not waiting for a perfect world before we take action.

The table below outlines how ING has addressed climate-related risk and opportunity disclosures in its 2017 Annual Report and where you can read more about this.

In the coming year, we will work to strengthen the governance, processes, and ambitions and disclosures surrounding climate-related risk and opportunity management, but are well-positioned to take this forward given our past and current efforts to integrate the ESR framework and Climate Finance approaches within the business.

FSB TCFD Recommendations

		TCFD Recommended Disclosures	ING 2017 Annual report and other Public Disclosure
Governance	A	Describe the board's oversight of climate-related risks and opportunities.	*Non-financial appendix, Sustainability governance, p. 337* *Non-financial appendix, Climate change governance, p. 343* > *Executive Board Charter, www.ing.com/17ar11*
	B	Describe management's role in assessing and managing climate-related risks and opportunities.	*Non-financial appendix, Sustainability governance, p. 337* *Non-financial appendix, Climate change governance, p. 343*
Strategy	A	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	*The world around us, Societal challenges, p. 10* *The world around us, What matters most to our stakeholders, p. 11*
	B	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	*The world around us, Financing energy vs climate change, p. 14* *Non-financial appendix, Climate change strategy, p. 343*
	C	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	*Analysis is in development.*
Risk Management	A	Describe the organisation's processes for identifying and assessing climate-related risks.	*Risk and capital management, Environmental and Social Risk management, p. 46* *Non-financial appendix, Applying the Equator Principles (EP), p. 342* *Financial risk analysis is in development.*
	B	Describe the organisation's processes for managing climate-related risks.	*Risk and capital management, Environmental and Social Risk Management, p. 46* *Non-financial appendix, Environmental and Social Risk framework and Equator Principles, p. 346* > *www.ing.com/17ar18*
	C	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	*Risk and capital management, Environmental and Social Risk management, p. 46*
Metrics and Targets	A	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	*In development, see Non-financial appendix, Climate change strategy, p. 343*
	B	Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	*Non-financial appendix, Environment, p. 349*
	C	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	*Our business, Responsible finance, p. 35* *Risk and capital management, Environmental and Social Risk management, (Thermal Coal Policy) p. 47* > *Non-financial appendix, Environment, p. 349* *www.ing.com/17ar19*

Responsible Finance

Responsible Finance is a set of strengthened ambitions replacing our Sustainable Transitions Financed (STF) portfolio ambition. We aim to double our funding to companies and sectors that are making a significant contribution to the low-carbon and self-reliant society of the future. We will do this by increasing our Climate Finance portfolio twofold by 2022 compared to 2017. We will also double our Social Impact finance by lending to projects that lead to, for example, basic infrastructure or essential services. And we will double lending to environmental, social and governance (ESG) Industry Leaders by 2022 compared to 2017. The tables below provide a breakdown of our Environmental and Social Impact Finance as of December 2017.

Climate Finance[1]

in EUR million as of Dec 2017	2017
Energy transition	4,071
Low-carbon buildings	9,283
Energy efficiency	161
Transport	745
Waste management	50
Information Technology and Communications	89
Water (including climate adaptation)	62
Other climate finance	154
Total	14,619

1 Circular Economy is also one of the sub-categories under Climate Finance, however, as of year-end 2017, our exposure to Circular Economy was nominal. For a complete overview of our definitions and methodology for our Climate Finance indicator and sub-categories, please see our Non-Financial Data Reporting Protocol available on ING.com.

Social Impact Finance[1]

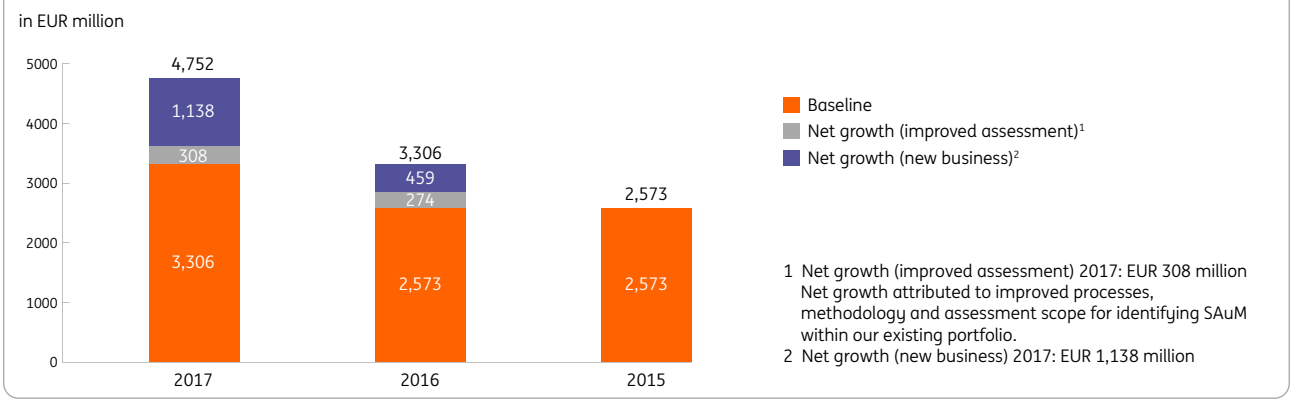
in EUR million as of Dec 2017	2017
Basic Infrastructure	239
Essential Services	228
Total	468

1 Affordable Housing, Food Security, Community Development and Financial Access and Microfinance are additional sub-categories under Social Impact Finance, however, as of year-end 2017, our exposure to these sub-categories was nominal or zero. For a complete overview of our definitions and methodology for our Social Impact Finance indicator and sub-categories, please see our Non-Financial Data Reporting Protocol available on ING.com.

Sustainable Investments

ING has provided customers with sustainable investment (SI) solutions since 1999. These can be dedicated portfolios, structured products or investment funds, and cover all asset classes. SI is available to customers in Belgium, Luxembourg, Germany and the Netherlands.

Sustainable Assets under Management



1 Net growth (improved assessment) 2017: EUR 308 million Net growth attributed to improved processes, methodology and assessment scope for identifying SAuM within our existing portfolio.
2 Net growth (new business) 2017: EUR 1,138 million

Total Investments ING Groenbank

In EUR million as of Dec 2017	2017	2016	2015
ING Groenbank N.V.	772	745	875

Our people

In the past three years we have been making progress in our Human Capital return on investment (HC ROI), which 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. In 2017, our HC ROI indicator totalled EUR 2.51, compared to EUR 2.59 in 2016, EUR 2.48 in 2015 and EUR 2.30 in 2014.

The following data tables provide a performance overview across key Human Resource-related topics. Further information is available in 'Our people' chapter.

Budget training and development employees[1]

	2017		2016		2015	
	In EUR million	Per FTE	In EUR million	Per FTE	In EUR million	Per FTE
ING	76[1]	1,335	70	1,325	68	1,279

1 Refer to note 25 of the ING Group Consolidated Annual Accounts 2017.

Training

	2017	2016	2015
	Number of trainings completed x 1,000	Number of trainings completed x 1,000	Number of trainings completed x 1,000
in numbers of trainings completed			
Classroom	61.9	73.2	133.2
On-the-job training	0.2	0.6	5.4
Online	245.2	327.8	339.6
Program	20.2	23.1	33.3
Other	10.9	31.1	14.9
Total[1]	338.4	455.9	526.4

1 The decline in the number of trainings is attributed to the increased use of learning content portals. These portals support single sign-on for multiple trainings.

Leavers and turnover rate[1] (headcount)

	2017	2016	2015
Leavers			
Voluntary	3,141	3,265	2,945
Involuntary	2,654	3,446	3,042
Not recorded	1	5	1
Total	5,796	6,716	5,988
Turnover rate %	10.6	12.0	11.0

1 Total leavers headcount in 2017 divided by headcount on 1 January 2017.

Percentage of employees covered by Collective Bargaining (headcount)

in percentage of employees	2017	2016	2015
ING Bank	59.0	60.7	59.5

Percentage of employees that have undergone a performance management process (headcount)

in percentage of employees	2017	2016	2015
ING Bank	99	99	97

Total workforce gender breakdown (headcount)

	2017		2016		2015	
in percentage of employees	Female	Male	Female	Male	Female	Male
ING Bank	49.1	50.8	49.5	50.5	49.7	50.3

Total workforce breakdown (headcount)

	2017	2016	2015		2017	2016	2015
Gender				**Age group**			
Female	26,644	27,055	27,266	< 30	9,785	9,603	9,673
Male	27,605	27,655	27,566	30 – 50	35,365	35,339	36,148
				> 50	9,122	9,096	9,042
Not recorded	53	27	41	Not recorded	30	699	10
Total	54,302	54,737	54,873	Total	54,302	54,737	54,873
FT / PT status				**Perm / Temp on ING contract**			
Full-time	48,397	48,309	48,109	Permanent	52,324	53,218	53,454
Part-time	5,874	6,390	6,750	Temporary	1,978	1,519	1,419
Not recorded	31	38	14				
Total	54,302	54,737	54,873	Total	54,302	54,737	54,873
Geographical region							
Asia	6,650	6,827	6,842				
Australia	1,182	1,122	1,059				
Belgium	8,812	9,551	10,005				
Netherlands	14,087	14,614	15,080				
North America	579	539	500				
Rest of Europe	22,891	21,996	21,323				
South- and Mid-America	101	88	64				
Total	54,302	54,737	54,873				

Total number of employees by ING employment contract (permanent and temporary), by gender (headcount)

2017

Number of employees	Female	Male	Not recorded	Total
Permanent	25,529	26,747	48	52,324
Temporary	1,115	858	5	1,978

Total number of employees by ING employment contract (full-time and part-time), by gender (headcount)

2017

Number of employees	Female	Male	Unknown	Total
Full-time	21,695	26,657	45	48,397
Part-time	4,940	932	2	5,874
Not recorded	9	16	6	31

Total number of employees by ING employment contract (permanent and temporary), by region (headcount)

2017

Number of employees	Permanent	Temporary	Total
Asia	6,615	35	6,650
Australia	1,138	44	1,182
Belgium	8,503	309	8,812
Netherlands	13,382	705	14,087
North America	579	0	579
Rest of Europe	22,006	885	22,891
South- and Mid-America	101	0	101

Sickness and absenteeism (headcount)

in percentage of employees	2017	2016	2015
ING Bank	3.96	3.90	3.69

Community Investment

The tables below provide an overview of charitable donations by ING and volunteering of ING employees.

Total donations ALL

in EUR thousands		2017	2016	2015
ING Bank				
Direct business donations	Donations business	12,323	11,248	10,325
	Donations business in-kind	721	847	615
Facilitated by ING	Donations customers	1,091	740	964
	Donations employees	785	728	806
Total		14,921	13,563	12,710

Total donations (incl. business, customer and employee) and volunteering hours

	Total donations incl. business, customer and employees (in EUR thousands)			Volunteering hours (in hours)		
	2017	2016	2015	2017	2016	2015
Arts & Culture	844	845	686	225	365	347
Education[1]	2,322	2,150	5,235	15,756	8,087	14,614
Emergency relief	222	159	246	42	0	473
Environment	167	136	543	7,710	5,484	6,848
Financial Empowerment[1,2]	6,939	4,881	1,777	5,775	13,209	6,129
Health	1,593	1,911	1,964	3,136	1,979	990
Social welfare	2,020	1,725	1,095	7,777	18,999	11,259
Other	812	1,757	1,164	738	161	552
Total	14,921	13,563	12,710	41,158	48,284	41,212

1 In 2015, the category 'education' included the donations and volunteering hours for UNICEF. In 2016 and 2017, this is reported under the 'Financial empowerment' category.
2 In 2015, this category was reported as 'Financial Education and Entrepreneurship'.

Charitable donations to UNICEF

in EUR thousands	2017	2016	2015
Donation	4,419	2,988	3,059
Cumulative total since 2005	39,918	35,499	32,511

Reach through UNICEF programmes[1]

	2017	2016	2015
Adolescents reached[2]	79,061[3]	80,020	47,417[4]
Cumulative Total	206,498	127,437	47,417

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 The reported number consists of adolescents reached from January 2017 to June 2017.
4 The reported number consists of adolescents reached from July 2015 to December 2015.

Environmental Performance

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 and resource-efficient economy of the future. Our Environmental Approach describes how we are managing our direct and indirect environmental impacts as well as how we mitigate risks and create and seize opportunities. Our approach also outlines our 2020 targets for improving our operational eco-efficiency, namely:

- We will reduce our CO2e emissions by 50% by 2020 (base year 2014).
- We will reduce global residual waste by 20% by 2020 (base year 2014): achieved in 2017.
- We will reduce our water footprint by 20% by 2020 (base year 2014).
- We will remain carbon neutral by off-setting operational 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 2017, ING maintained its 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 37% in 2017 as a result of increasing our renewable electricity consumption to 95% of total electricity consumption and by reducing global energy consumption by 23% compared to 2014. Our residual waste was reduced by 45% in 2017 relative to our base year meaning we achieved our 2020 residual waste reduction target. This was achieved through a 25% increase in recycling activities and a 37% reduction in paper consumption since 2014.

We also maintained carbon-neutral operations in 2017 by offsetting emissions caused by business travel and grey energy use. We offset 100% of our operational carbon emissions through the purchase of Voluntary Carbon Units (VCUs), with the majority originating from a high impact REDD+ project in Borneo. This project preserves carbon-dense tropical peat swamp by helping to halt deforestation of roughly 47,000 hectares of forest which were originally slated for conversion to palm oil plantations. The project focuses on both community development and biodiversity conservation, particularly the protection of the endangered Borneo orangutan. In order to deliver on its goals, the project actively engages local communities to improve food security, water conservation, income opportunities, health care and education. In addition to conservation, the project also engages in land enrichment activities with a goal to plant one million trees. The Rimba Raya project is verified and validated to the Verified Carbon Standard (VCS), and has achieved Gold Level status under the Climate Community and Biodiversity (CCB) Standard.

Breakdown of energy consumption

	2017		2016		2015	
Coverage (% of employees)		98		96		95
In MWh and kilotonne CO_2e	MWh x 1.000	Kilotonne	MWh x 1.000	Kilotonne	MWh x 1.000	Kilotonne
Electricity	12	5	23	9	38	28
Renewable electricity	214	0	236	0	240	0
Natural gas	65	15	83	19	88	20
Fuel oil	2	1	3	1	4	1
District heating	22	5	22	5	15	3
Total energy	315	25	367	34	385	53
Total energy per FTE in MWh and in tonne	6.0	0.5	6.9	0.6	7.3	1.0

Kilometers and carbon emissions through business travel[1]

	2017		2016		2015	
Coverage (% of employees)		98		98		89
In kilometres and kilotonne CO_2e	KM x 1 million	Kilotonne	KM x 1 million	Kilotonne	KM x 1 million	Kilotonne
Total travel	246	30	227	29	215	29
Total travel carbon per FTE in tonne	-	0.6	–	0.5	–	0.5

1 Business travel comprises travel by air and by road for business purposes only.

Carbon emissions extrapolated			
in kilotonne CO_2e	2017	2016	2015
Coverage (% of employees)	96	96	95
Total carbon	55	63	82
Total carbon per FTE in tonne	1.0	1.2	1.5
Total extrapolated carbon	64	74	94
Total carbon Scope 1[2]	16	20	22
Total carbon Scope 2[2]	103	14[3]	32[3]
Total carbon Scope 3[2]	30	29	29

1 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 here and in other tables due to the fact that we only display figures rounded to the nearest kilotonne.
2 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 accurately to measure and disclose this figure. See section on Climate Strategy above.
3 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 significant decrease since 2015 results from a decrease in electricity consumption and an increase of renewable electricity purchased. Using the Location-based method outlined within the Scope 2 Guidance, our scope 2 CO_2e emissions for our base-year (2014) were 123 kilotonnes and for 2017 were 100 kilotonnes. This means that we have reduced our location-based scope 2 emissions by 19% since 2014. For more information on our calculation methodology and scope, please see our reporting protocol on www.ing.com/ar2017.

Paper consumption			
in tonnes	2017	2016	2015
Coverage (% of employees)	99	98	95
Eco-labelled paper	1,414	1,664	1,434
Non-eco-labelled paper	50	64	316
Total	1,463	1,729	1,750

Residual waste[1]			
in tonnes	2017	2016	2015
Coverage (% of employees)	99	98	95
Total residual waste	1,576[2]	3,032[3]	2,870

1 Residual waste is total waste minus the waste that is recycled.
2 In 2017 we recorded a dramatic decrease in waste compared to 2016 in the absence of the one-off office relocation and archive dumps and due to a 25% increase in our recycling efforts and a 37% decrease in our paper consumption compared to 2014.
3 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	2017	2016	2015
Coverage (% of employees)	96	92	91
Total water consumption	563	578	574

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[1]. Once suppliers pass the SQ process, they are qualified to become ING suppliers and the ING Procurement Sustainability Standards (IPSS) apply. Adherence to IPSS 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 procure 100% green electricity for all ING buildings worldwide by 2020.
- We will pilot 20 circular purchasing projects.
- We will conduct sustainability performance assessments for 450 suppliers by end of 2017[2].

Environmental Programme - other facts and figures

	Unit	2017	2016	2015
Business Travel				
Fully Electric Vehicles	# Vehicles	105	82	75
Hybrid Vehicles	# Vehicles	302	301	485
Sustainable Procurement				
Renewable Electricity	% of total electricity consumption	95	91	86
Supplier Sustainability Performance Assessments	# of Suppliers Engaged	877	647	596

Stakeholder engagement

On a day-to-day basis we actively engage with our customers and other stakeholders, including investors, government officials and NGOs, on relevant topics, issues and challenges, both at an expert level and at a (senior) management and Board level. Our Global Head of Sustainability is actively engaged in dialogue with stakeholders both internally and externally. In revising our ESR policies, we follow a structured consultation process 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. In 2017, ING in Turkey, along with six other banks who are signatories of the UN Global Compact signed the Declaration on Sustainable Finance. The Declaration, prepared under the leadership of Global Compact Network Turkey, aims at amending the credit processes with the evaluation of the environmental and social risks and integrating these assessments to relevant policies. An up-to-date overview of partnerships, memberships and endorsements can be found on www.ing.com/17ar28.

We define stakeholders as individuals or organisations who may be directly or indirectly impacted by ING's activities or individuals or organisations who may have an impact on ING's activities or ability to provide products and services. ING continually monitors who our stakeholders are and identifies and selects our stakeholders. Stakeholders who temporarily manifest themselves on certain topics can also have a relevant input. Throughout the year, challenges and issues are discussed with and brought to our attention by various stakeholders. In the table below, we provide a snapshot of the key issues from 2017.

1 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 published its first statement in 2017, available at www.ing.com/17ar22.
2 As of year-end 2017, 412 suppliers were assessed.

Issue table

Topic of discussion	ING's point of view	Stakeholder(s) involved
Dakota Access Pipeline Being part of a syndicate of 17 banks, ING financed the DAPL pipeline project. Controversy arose as native American Standing Rock Sioux Tribe disagreed with the processes utilised in the granting of licences/permits.	In 2016, we reported on this issue, which was resolved in 2017. We continually tried to use our influence to resolve this issue in a way that all parties could be satisfied with. We met with members of the Standing Rock Sioux Tribe on 10 February 2017 and we shared our willingness to either continue trying to positively influence the course of the project, or to distance ourselves by selling our stake in the loan. In the months after, ING reached an agreement for the transfer of its loan to the Dakota Access pipeline. The sale has the full support of the Standing Rock Tribe.	Various stakeholders globally
Financing coal-fired power plants Throughout the year, NGOs and newspapers reported on the involvement of ING in financing coal-fired power plants being: • Cirebon Electric Power II, a coal-fired power plant in Indonesia • Punta Catalina, a coal-fired power plant in the Dominican Republic	In December 2017, we announced the ambition to stop our lending (project finance) to individual coal-fired power plants by the end of 2025. In 2015 we said that we wouldn't finance any new coal-fired power plants, excluding standing commitments. As a result, lending to individual coal-fired power plants has already decreased by 9% in 2016. Both Cirebon II and Punta Catalina are projects we commited to before publication of the previous coal policy publication in 2015.	Various stakeholders globally
Impact transformation on workforce On 3 October 2016, ING announced its plans to accelerate the Think Forward strategy. This involved moving to an integrated banking platform, leveraging the combined strenghts of the Netherlands and Belgium. Employees in Belgium expressed strong misgivings about the implications, which were expected to result in a reduction of ING's workforce in Belgium by around 3,500 FTEs. Society at-large also expressed its concern, including the highest Belgian political institutions.	We have been working to counter this over the past 12 months with pro-active communication, openness, transparent procedures and discussions with unions, several contacts at the highest political level, as well as regular internal updates. ING offered generous packages to employees affected.	Various stakeholders in Belgium
Fair Finance Guide report In 2017, Fair Finance Guide (FFG) Belgium published an update of the guide for Belgium. The results for ING Belgium were based on research conducted by FFG Netherlands a year earlier. FFG's annual update benchmarks banks' policies against a set of expectations. FFG concluded that ING had made improvements.	ING saw its scores increase from 41% to 52% and received again the highest score of the so-called big five retail banks on the Belgian market.	Fair Finance Guide (FFG) in Belgium
Banking fee A number of banks started charging for services which used to be free of charge. These included services like basic bank accounts, withdrawals, transfers and printed bank statements.	ING announced, that the bank will use its growth and cost advantage to avoid charging customers for opening new accounts or other services as long as it can.	Various stakeholders in Germany
Financial literacy The 2017 ING International Survey shows: More than 50% of Germans call themselves financially illiterate.	ING provides compact financial knowledge – suitable for everyday use and very easy to understand. It covers all areas – from saving to investing to retirement plans. New video lessons offer help on financial questions and helpful tips on how to make more of one's money. These tips are from independent financial experts, the consumer advocate H. J. Tenhagen and the renowned ZEIT Academy.	ING International Survey in Germany
Low interest rate Many banks are offering virtually no interest on savings deposits - a huge challenge for consumers who want to save and set money aside for major purchases and retirement.	ING has started a partnership with Scalable with a highly attractive and comfortable way of investing. Together, we will offer a fully digital investment solution to ING's retail customers in Germany. German customers with over EUR 10,000 will now be able to get easy access to a well-diversified investment portfolio online.	Various stakeholders in Germany
Nuclear weapons and cluster munitions PAX issued two reports. The first was on investments made in companies producing cluster munitions and the second on banks' 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 incuded in the runners-up category.	ING does not provide any services whatsoever to companies that produce cluster munition. ING also does 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 munitions in particular can be found on our webpage Our Stance: www.ing.com/17ar23*	PAX Netherlands

Issue table - continued

Topic of discussion	ING's point of view	Stakeholder(s) involved
Barn fires Various NGOs publicised barn fires where thousands of animals died and suggested that banks should act to prevent a recurrence.	ING has entered into a dialogue with several concerned NGOs and the clients where the barn fires occurred. ING is in general keen to help create safer living conditions for animals by supporting our clients in this endeavour. › *More information can be found on our webpage Our Stance: www.ing.com/17ar24*	Various NGOs in the Netherlands
Tax transparency Since 2015, all banks based in the European Union have been obliged to report on their operations on a country-by-country basis. The 'Opening the vaults' report tried to illustrate in what way banks are involved in tax havens.	The Oxfam Netherlands conclusion was that, based on their international research, some international banks seem to use tax havens for tax reasons. However, they explicitly mentioned ING was not one of those banks. ING pays taxes at the normal rates in the countries where we're active, which is reported as a global effective tax rate of about 27,4%. We don't have any entities in 'tax havens' to reduce our total tax bill and we don't provide customers with tax advice. › *More information on income taxes can be found at: www.ing.com/17ar25*	Oxfam International/ Oxfam Netherlands
Climate change In partnership with 28 organisations around the world, BankTrack, Rainforest Action Network, Sierra Club and Oil Change International published their annual Fossil Fuel Finance Report Card for 2017 reporting on 32 banks and their involvement in specific types of fossil fuels.	We recognise climate change is an unparalleled challenge for our world, one where banks also have a role to play. We play our part in various ways. One way is the strenghtening of our coal policy. We announced in December 2017 the ambition to stop our lending to individual coal-fired power plants by the end of 2025. ING continued to be commended for its ESR policy framework, restrictions of controversial activities and due diligence processes.	Banktrack in the Netherlands
Palm oil Greenpeace zoomed in on the palm oil portfolios of international banks and compared policies of banks to one another in their report called 'Dirty Bankers'.	We provided input for the questionnaire used in the Greenpeace report about, among others, our RSPO membership, having policies in place for no-deforestation (natural forests/HCV), no forced/child labour, no burning of forests etc. Out of the 18 banks whose policies were compared and have decent policies in place we ranked 3rd. › *More information on ING's stance on Palm Oil can be found at: www.ing.com/17ar26*	Greenpeace in the Netherlands
NCP complaint 8 May 2017, Oxfam Novib, Greenpeace, BankTrack and Milieudefensie (NGOs) requested the Dutch National Contact Point for the OECD Guidelines (the notification) make a statement on ING's climate policy regarding the following: measuring its indirect carbon footprint, disclosure of said carbon footprint and alignment of the bank's lending portfolio with a the 1.5-degree scenario.	Climate change is an tremendous unparalleled challenge for the world and it is one in which banks, including ING, have a role to play. The attribution of carbon emissions to a global warming scenario is important. We currently lack an international standard for reliable and comparable data. For this reason, ING is unable to deliver or disclose the requested data. On 14 November 2017, the National Contact Point (NCP) ruled the notification made by the NGOs admissible. In accordance with its procedures, the Dutch NCP has therefore offered to facilitate a dialogue between ING and the NGOs. ING has accepted the NCP's offer and will take part in that dialogue. › *More information can be found on our webpage Our Stance: www.ing.com/17ar27*	National Contact Point (NCP) for the OECD Guidelines in the Netherlands

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 Banking 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 2017 are:

- Tax charge of EUR 121 million at ING Australia Holdings Ltd related to the years 2007-2013, for which a full reimbursement is expected to be received from NN Group. Although the bottom-line impact for ING Group was nil, it affected both the 'taxation' and 'other income' lines.
- Result of Insurance Other, reflecting the result on the warrants on Voya and NN Group shares, amounting to EUR –52 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

		2017	2016	2015
Net result attributable to ING Group's shareholders	(a)	4,905	4,651	4,010
-/- Net result attributable to ING Group's shareholders from discontinued operations			441	–456
Net result attributable to ING Group's shareholders from continuing operations		4,905	4,210	4,466
-/- Net result from divestments				367
-/- Net result from special items			–799	–58
-/- Net result insurance other and eliminations ING Bank/NN Group		–52	33	–63
Underlying net result Banking	(b)	4,957	4,976	4,219
Shareholders' equity ING Group (year-end)		50,406	49,793	47,832
Shareholders' equity ING Group (average*)	(c)	48,412	49,038	49,259
ING Group's total return on equity	(a/c)	10.1%	9.5%	8.1%
ING Group's underlying return on equity	(b/c)	10.2%	10.1%	8.6%
Total income (continuing operations)	(d)	17,773	17,491	16,845
-/- Income from divestments/special items		121		367
-/- Income from insurance other and eliminations ING Bank/NN Group		–53	33	–73
Underlying income	(e)	17,704	17,458	16,552
Staff expenses (continuing operations)		5,202	5,039	4,972
Other operating expenses (continuing operations)		4,627	5,575	4,354
Total operating expenses (continuing operations)	(f)	9,829	10,614	9,326
-/- Operating expenses from divestments/special items			1,157	77
-/- Operating expenses Insurance Other and eliminations ING Bank/NN Group				3
Underlying operating expenses	(g)	9,829	9,456	9,246
Cost/income ratio (continuing operations)	(f/d)	55.3%	60.7%	55.4%
Underlying cost/income ratio	(g/e)	55.5%	54.2%	55.9%

* average shareholders' equity calculated based on quarter-end figures after excluding 'interim profit not included in CET1 capital' as from 31 March 2017

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 2017 in their original language (English).

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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 related to the integration of Record Bank in Belgium are still subject to regulatory approval.

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