

Retail Banking

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

Who are we?

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

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

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

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

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

Challenges

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

These cost increases have coincided with a low interest rate environment which adversely impacts banks' interest income generating capabilities. This environment is unlikely to change in the foreseeable future. Add to that slow economic growth, a new competitive landscape and changes in customer behaviour, and it becomes apparent that all banks will need to re-think

their business models. To address these challenges, banks need to cut costs, for example through increased digitalisation and efficiency. They also need to look to relevant new offers for customers that can generate new revenue streams, such as fee income.

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

Providing a differentiating customer experience

Our customer promise

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial empowerment

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

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

Think Forward Initiative (TFI)

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

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

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

Notifying overdrawn customers

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

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

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

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

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



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

Austria goes full service

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

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

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

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

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

Earning the primary relationship

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

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

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

Knowing our customers

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

Data is an important asset – along with people, processes and systems – underpinning ING's ambition to become a next-generation digital bank. The bank's efforts in this area include:

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

Thinking beyond traditional banking

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

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

On top of your balance with “Look Ahead”



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

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

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

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

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

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

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

Accelerating Think Forward

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

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

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

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

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

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

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

Socially responsible investment

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

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

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

Sustainable assets under management

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

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

ING Groenbank

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

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

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

Financial inclusion

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

**Trophy cabinet**

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

Results**Total Retail Banking**

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

Compared with 2015, underlying income increased 4.7 percent to EUR 11,791 million. This was mainly due to higher income in the Other Challengers & Growth Markets, while the increase in the Benelux and Germany was limited. Income growth was supported by a EUR 200 million gain on the sale of Visa shares and higher revenues from Bank Treasury, while 2015 included a EUR 127 million non-recurring charge related to the Italian and Belgium mortgage portfolios. Interest results

increased two percent, mainly due to volume growth in most countries and higher margins on consumer and business lending. This was partly offset by margin pressure on current accounts due to lower reinvestment yields. Commission income rose 5.1 percent, particularly in the Challengers & Growth Markets.

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

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

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

Market Leaders Retail Netherlands

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

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

Underlying operating expenses increased 3.4 percent on 2015, mainly due to higher regulatory costs and an additional provision for Dutch SME clients with interest-rate derivatives, while 2015 included some smaller

restructuring provisions. These factors were partly offset by the benefits from ongoing cost-savings initiatives. From the existing cost-savings programmes announced since 2011, which aim to realise EUR 657 million of annual cost savings by the end of 2017, EUR 562 million has already been realised.

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

Retail Belgium

Retail Belgium includes Record Bank and ING in Luxembourg.

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

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

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

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

Challengers & Growth Markets Retail Germany

Retail Germany includes Interhyp and ING in Austria.

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

Underlying income rose 0.7 percent to EUR 1,923 million, from EUR 1,910 million in 2015, supported by a gain on the sale of Visa shares. The interest result increased 3.4 percent following continued business growth, partly offset by lower margins on most products. Net inflow in customer deposits (excluding Bank Treasury) was EUR 9 billion in 2016. The net production in customer

lending (excluding Bank Treasury and movement in the mortgage hedge) was EUR 3.8 billion, of which EUR 3 billion was in mortgages and EUR 0.8 billion in consumer lending. Commission income rose 6.4% to EUR 183 million. Investment and other income was EUR 53 million lower, due to lower gains on the sale of bonds and less positive hedge results, which was partly compensated by a EUR 44 million gain on the sale of Visa shares.

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

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

Retail Other

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

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

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

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

Conclusion

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

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

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

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

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

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