

Wholesale Banking

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

Who are we?

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

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

International network

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

Delivering a differentiating customer experience

WB aims to be the bank of choice for its clients. In

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

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

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

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

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

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

Wholesale Banking – continued

adapting these to include a single set of banking conditions across 18 countries.

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



Trophy cabinet

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



Green Bond recognition

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

Accelerating the financing of sustainable transitions

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

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

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

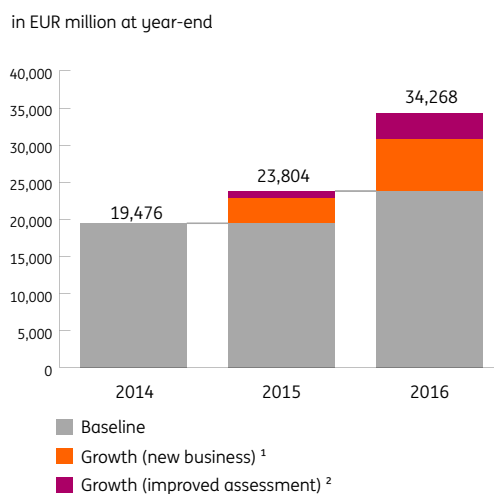
Our financing and investment policies and practices include strict social, ethical and environmental risk criteria. We also aim for our financing activities to have a positive impact on the environment and society. Our approach to positive impact initially concentrated on the positive environmental impact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



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

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

Sustainable transitions financed




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

Total sustainable transitions financed ¹

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

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

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

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

 **Beatrice Offshore Windfarm**

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

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

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

**Landmark green bond transactions**

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

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



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

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

**Shanks**

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


ING for a sustainable future



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

Accelerating Think Forward – moving towards 2020

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

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

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

Wholesale TOM Transformation programme

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

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

Financial Markets' (FM) strategic measures

FM will continue to develop its client-driven franchise, delivering a differentiating experience by offering multiple market and trading products efficiently and effectively. At the same time, FM is adjusting to changing market circumstances, higher regulatory costs and more rigorous regulatory standards. Following the ING Investor Day in October, we announced our intention to strengthen FM's focus on areas in the business that are best aligned to its core clients and WB strategy, to converge functions into one location and to consolidate certain business lines. Some products will be

discontinued, including the equity derivatives offering to financial institutions. These changes will not reduce our continued commitment to Benelux cash equities, global commodity derivatives and linear equity derivative financing franchises.

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

Putting our strategy into practice – our business activities in 2016

Industry Lending

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

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



Nagi PV GK

Nagi PV GK, a Japanese incorporated company, a subsidiary of BCPG Japan (BCPGJ), is developing a 14 MW solar photovoltaic farm in the Okayama Prefecture, on Honshu island, in Japan. The solar PV farm is expected to produce up to 16,300 MWh of electricity per year, the equivalent of powering over 4,500 homes. Nagi PV GK can prevent up to 12,500 tonnes of CO₂ emissions per year. The project will help Japan to reach its goal to meet a 25 percent renewable energy target by 2030. ING acted as sole Mandated Lead Arranger, IRS Swap Arranger, Facility and Security Agent and Account Bank in the JPY 3.86 billion project financing. For ING, being involved in this project means that we can build upon our experience and best practices with financing green projects.

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



WestConnex

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

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



Trailstone Group

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

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

Real Estate is one of the sectors where improvements in energy efficiency in existing buildings can have a large impact on lowering CO₂ emissions. Our international transactions increasingly involve high-grade sustainable real estate collateral. In the Netherlands for example we support clients through our innovative Sustainability App and with the transition to a sustainable portfolio. At year-end, Sustainable Real Estate Finance totalled EUR 7.2 billion, making up 23 percent of the total REF portfolio.

General Lending and Transaction Services General Lending

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



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

Transaction Services

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

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

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

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

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

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



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

Financial Markets

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

Through FM we also provide our clients with a gateway to global institutional markets. A multi-product global sales force offers a full range of products and services across three main business lines: FX, Rates and Credit Trading; Global Equity Products; and Global Capital Markets. We provide clients with hedging solutions to mitigate financial risk in all markets. We also provide investment solutions to meet specific investment objectives, as well as financing solutions through clients' public or private debt or equity issuance, or through securities financing. In Debt Capital Markets we continue to transform the business into a consistent

top-10 European player in our chosen areas of focus. These areas of focus include supporting existing clients, maintaining our position as Dutch bank of choice for issuers, and capitalising on our continued balance sheet support for Russia, Turkey, Poland and Romania.

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

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

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

Key challenges

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

Business, market and regulatory environment

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

In the current low interest rate environment deposits placed at the ECB are earning negative interest. This makes it important to sustain lending returns and develop client propositions that generate fee income. For some time, we have been charging a negative interest


rate to both financial institutions and corporate clients who maintain high cash balances in their euro current accounts. We may need to consider further action and expand the scope of clients that will be charged should the low interest environment and negative rates continue.

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

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


Country portfolios

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

 Read more in "The world around us" chapter.

Climate change

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

 Read more on the challenges and opportunities related to CO₂ impact measurement, including next steps, in the "Non-financial appendix".

Results

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

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

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

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

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

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

Conclusion

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

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

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

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

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